

Labour and Social Trends in Indonesia 2009

Recovery and beyond through decent work

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First published 2009

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ISBN 978-92-2-022753-4 (print)
ISBN 978-92-2-022754-1 (web pdf)

ILO

Labour and social trends in Indonesia 2009: recovery and beyond through decent work / International Labour Office – Jakarta: ILO, 2009
vi, 54 p.

Also available in Bahasa Indonesia: Tren ketenagakerjaan dan sosial di Indonesia 2009: pemulihan dan langkah-langkah selanjutnya melalui pekerjaan yang layak / Kantor Perburuhan Internasional – Jakarta: ILO, 2009
vi, 59 p

ILO Cataloguing in Publication Data

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Printed in Indonesia



Foreword

The second issue of the *Labour and Social Trends in Indonesia* report analyses the impact of the global financial, economic and jobs crisis on Indonesia's labour market and draws attention to some key policy challenges posed by the crisis. In many respects, Indonesia has weathered the crisis better, in relative terms, than many countries around Asia and across the world. Nonetheless, it has not escaped the crisis. We are, for example, already seeing an expansion in informal employment, where earnings and productivity are low, there is little or no social protection, and channels for representation and voice are limited. The impact of the crisis is manifesting itself in Indonesia not in a quantitative decline in employment, but rather in the deterioration of employment quality.

At the same time, the crisis provides an opportunity to undertake necessary reforms not only as immediate crisis responses but also for other, longer-term needs. Building on last year's report, the present report also examines some of the key opportunities and challenges present in Indonesia's labour market even before the crisis. Such an analysis is aimed at informing the development and implementation of the next Medium Term Development Plan (2010–2014) and the roadmap for achieving the Millennium Development Goals (MDGs).

The report was produced by Kazutoshi Chatani and Kee Beom Kim. It draws in part on a working paper co-authored by one of the authors of this report.¹ The report benefited substantially from technical support and valuable comments provided by ILO Jakarta colleagues; the Regional Economic and Social Analysis Unit of the ILO Regional Office for Asia and the Pacific; and ILO Headquarters in Geneva.

We hope that the report will contribute to informing both a recovery path and Indonesia's sustainable and inclusive development, based on decent work.

Alan Boulton
Director
ILO Jakarta Office

1 P. Huynh, S. Kapsos, K. B. Kim and G. Sziraczki : "Impacts of the Current Global Economic Crisis on Asia's Labour market", Asian Development Bank Institute Working Paper (ADBI, forthcoming).

List of Acronyms and Indonesian Terms

ADB	Asian Development Bank
<i>Apindo</i>	<i>Asosiasi Pengusaha Indonesia</i> (The Employers' Association of Indonesia)
ASEAN	Association of Southeast Asian Nations
<i>BAPPENAS</i>	<i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency)
BI	Bank Indonesia
<i>BNP2TKI</i>	<i>Badan Nasional Penempatan dan Perlindungan Tenaga Kerja Indonesia</i> (National Agency for the Placement and Protection of Indonesian Overseas Workers)
<i>BOS</i>	<i>Bantuan Operasional Sekolah</i> (School Operational Assistance Programme)
<i>BPS</i>	<i>Badan Pusat Statistik</i> (Statistics Indonesia)
EB	Equipment-based
EU	European Union
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
<i>Jamsostek</i>	<i>Jaminan Sosial Tenaga Kerja</i> (National Social Insurance Fund)
<i>KADIN</i>	<i>Kamar Dagang Dan Industri Indonesia</i> (The Indonesian Chambers of Commerce and Industry)
KILM	Key Indicators of the Labour Market
LFS	Labour Force Survey
LRB	Local resource-based
MDG	Millennium Development Goal
OAW	Own-account worker
OECD	Organisation for Economic Co-operation and Development
<i>PNPM</i>	<i>Program Nasional Pemberdayaan Masyarakat</i> (National Programme for Community Empowerment)
PPP	Purchasing power parity
Rp.	Rupiah
SMEs	Small and medium enterprises
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization

Note: Throughout the report the following exchange rate is applied: 1 USD=Rp. 10,000

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Overview

The first part of the report examines key economic trends, the impacts of the current global economic crisis on the labour market and on vulnerable groups, the likely protracted recovery of the labour market and the policy responses and implications.

Indonesia's economy has continued to grow despite the crisis, achieving 6.1 per cent growth in 2008. The economy has been cushioned by, among other factors, strengthened macroeconomic management and oversight of the financial sector; the large share of household consumption in GDP compared to exports; and the boost to domestic consumption brought by the 2009 legislative and presidential elections.

Although growth has slowed in 2009, it is nevertheless expected to reach 3 to 5 percent. However, this subdued expansion may not be sufficient to absorb all the new entrants to the labour force.

The crisis has impacted Indonesia most severely through falling exports, with oil and gas exports declining by 55.4 per cent and manufactured goods by 26.9 per cent. While investment has continued, credit availability for SMEs has been restricted due to conservative sentiment in the lending sector. Given the important role of SMEs in the labour market, this could hamper a stronger economic rebound and labour absorption.

Slowing economic growth has prompted a steep fall in the growth of wage employment, which grew just 1.4 percent between February 2008 and February 2009, compared to 6.1 percent in the previous period. The global crisis has also resulted in widespread job losses, with subcontracted, casual and temporary workers in export-orientated industries being hardest hit. However, the downward trending unemployment rate suggests that many of the displaced workers have been absorbed into other jobs, including in the informal economy, which has seen a marked expansion, in contrast to previous years. This growth of employment in the informal economy has been the most significant impact of the crisis on Indonesia's labour market.

The crisis has increased vulnerability for many in the labour market. With a large number of persons clustered around the poverty line, even small impacts on incomes can drive some households into poverty, forcing them to cut back on long-term investments such as education. Overseas migrant workers are also facing increasing vulnerability as they are often the most expendable in times of crisis. Some destination countries have reduced their quotas for foreign workers, while many of those already abroad have been laid off. Youth employment is also likely to have been severely hit by the crisis. Women, who are already at a disadvantage in the labour market, are in some cases increasingly under pressure to shoulder the double burden of family care and income generating activities to compensate for men's reduced wages.

While urban labour markets have been the most severely affected, the loss of jobs has also prompted a reverse migration to rural areas, where many of the returnees are likely to be engaged in the informal economy.

The global recession is showing early signs of bottoming out. However, the consequences for Indonesia's labour market may be protracted; following the Asian financial crisis of 1997-98, it took several years for indicators such as unemployment, productivity, poverty and numbers of workers in vulnerable employment to return to pre-crisis levels.

Indonesia's government has responded rapidly and strongly with a USD 7.3 billion stimulus package aimed at boosting aggregate demand. However, the bulk of this is in the form of tax rebates, which, given Indonesia's large informal economy, may have limited reach. The government has also invested in labour-intensive infrastructure development, poverty alleviation and in programmes to improve labour skills and competitiveness, as well as measures to green the economy.

The trends outlined above highlight a number of policy implications, including the need to place decent and productive jobs at the centre of the crisis response: the critical need for unemployment insurance, especially for those who do not quite qualify for social assistance schemes for the poor; and the need for social dialogue between the tripartite partners in designing policy responses. The crisis has also highlighted the importance of labour market information and statistics in detecting early signs of change and informing appropriate policy responses.

The second part of the report looks beyond the crisis to examining how the foundations for job-rich development can be strengthened—by establishing a social floor, assessing the structural shifts that have taken place in employment, improving the quality of the workforce, ensuring gender equality and ensuring that job creation is pursued in parallel with sustainable development.

The crisis has highlighted the need for a social protection floor that includes improved access to employment opportunities; basic health care;

protection and education for children, the elderly and people with disabilities; and social assistance for the poor, the unemployed and those engaged in the informal economy. The 2004 National Social Security System Law represents progress but is still awaiting implementation.

Strong economic growth between 2004 and 2008 allowed employment growth to surpass labour force growth. The same period also saw a significant drop in youth unemployment, partly as a result of increased enrolment in secondary and tertiary education. The economic expansion was supported in particular by service sector growth, which now employs the majority of Indonesia's population.

This shift to higher productivity, value-added activities—which can drive poverty reduction and higher living standards—highlights the need for investment in agriculture to boost productivity in this sector as well. This in turn will call for investment in high-growth-potential industries to absorb excess agricultural labour, as well as investment in training and skills development to facilitate labour mobility across sectors.

Education and training play a critical role in preparing the workforce to effectively adjust to structural shifts, changing technologies and volatile economic landscapes. Although the primary net enrolment rate now exceeds 95 per cent, at secondary level it is only 59 per cent and only 6.5 per cent attain any tertiary education. Rising returns to education could provide an incentive to stay in school: the wage ratio between workers with a primary education and those with a degree was 1 to 4.4 in 2008. However, educational quality is still a key concern. Better collaboration between government, social partners, educational institutions and training providers would ensure a better match between workers' skills and jobs.

Significant progress has been made in the last five years towards gender equality in terms of labour market participation, employment and wages. Female employment grew by 16.6 per cent between 2004 and 2008, supported by the growth in the service sector and progress in women's educational attainment, among others. Gender wage gaps narrowed between 2004 and 2008 in most sectors, but widened in others (professional, technical and related workers). While women in administrative and managerial jobs are now actually earning more than their male counterparts, they are still under-represented at the managerial level. However, continued support is required to ensure equal opportunities to access education and training, labour markets and benefits.

In the long term, the sustainability of Indonesia's development will depend on the country's ability to protect its diverse environment and effectively address the challenges posed by climate change. There is still considerable scope for improvement in terms of energy use efficiency. This will not only conserve resources but also reduce vulnerability to commodity price volatility and provide opportunities to create "green" jobs. Achieving the transition to a green economy, however, will require

investment in skills development and new technologies as well as tripartite dialogue and action.

Trends in the labour market

1.1 Economic trends

In the present global financial, economic and jobs crisis, Indonesia has avoided the recession and turmoil that engulfed the country a decade ago during the Asian financial crisis. The Indonesian economy grew by 6.1 per cent in 2008, and it continued to expand in the first half of 2009, although at a much slower pace than in recent years. In the first quarter of 2009, the economy grew by 4.4 per cent and slowed further to 4.0 per cent in the second quarter of the year. The economy is forecast to expand by between 3 and 5 per cent in 2009 (Table 1.1). While the economy has continued to expand in all recent quarters, in contrast to the experience of other East and Southeast Asian countries, it remains to be seen whether the subdued rate of growth will be sufficient to absorb all the new entrants to the labour force.

Economy expands but at much slower pace

Table 1.1:
Economic growth forecasts (as of 25 May 2009)

	2009	2010
ADB	3.6	5.0
Bank Indonesia	4.0	4.0–5.0
Economist Intelligence Unit	2.4	3.2
Goldman Sachs	3.5	4.5
Government of Indonesia	4.0–4.5	5.0
IMF	2.5	3.5
<i>Source: Respective organizations</i>		

Various factors have contributed to cushioning the Indonesian economy from the volatile global environment, including prudent management of macroeconomic conditions by the government and the strengthened oversight of the financial sector. Another is the relatively “closed” nature of the economy. Exports represent about 30 per cent of Gross Domestic Product (GDP) – a low figure compared to many East and Southeast Asian

Relatively “closed” nature of economy protects Indonesia

economies. With a population of over 225 million, household consumption, on the other hand, accounts for about 60 per cent of GDP (Table 1.2).

Table 1.2:
Percentage Distribution of Gross Domestic Product at Current Market Prices
(per cent)

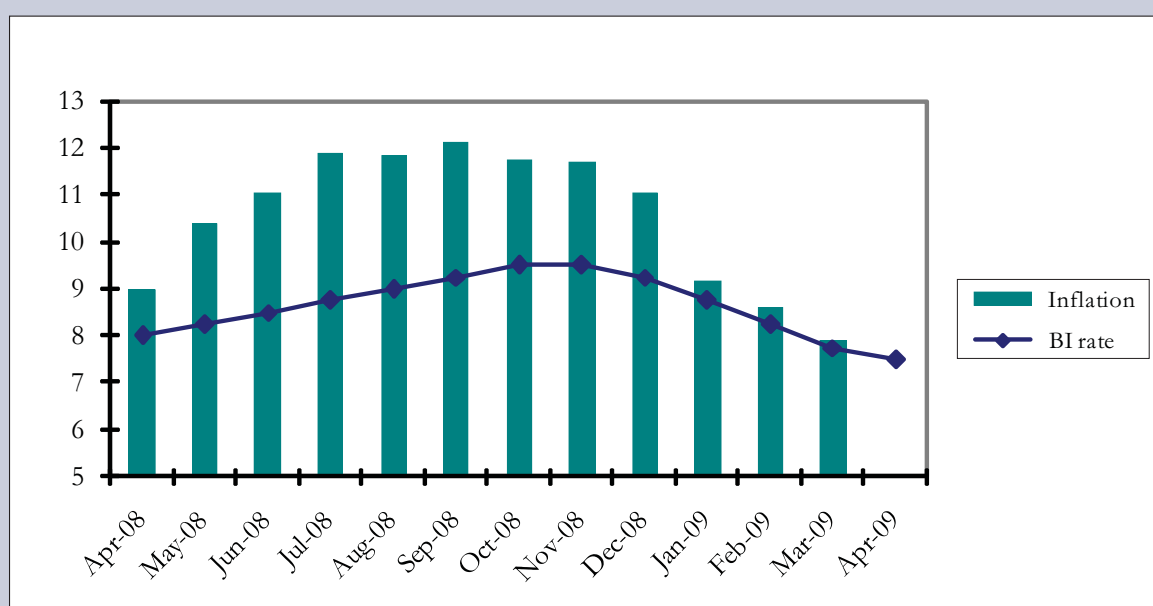
Type of Expenditure / Year	2000	2004	2008
Private consumption expenditure	61.7	66.8	61.0
General government consumption expenditure	6.5	8.3	8.4
Gross domestic fixed capital formation	19.9	22.4	27.7
Change in stock	2.4	1.6	0.1
Statistical discrepancy*	-0.9	-3.8	1.6
Export of goods and services	41.0	32.2	29.8
Less import of goods and services	30.5	27.5	28.6

* The difference between GDP by industry and GDP by expenditure

Source: BPS

In fact, while consumer sentiment in developed countries deteriorated during the global crisis, consumer confidence in Indonesia showed signs of slight improvement in the first quarter of 2009 because of subsiding inflation (Figure 1.1) and expectations of higher household income for the year. In addition, political campaigns for the legislative election that took place in April 2009 and the presidential election in July 2009 served to support domestic consumption.

Figure 1.1:
Inflation and interest rates (year-on-year CPI and BI rate, %)



Source: Interest rate: BI; Inflation: BPS

One of the key mechanisms through which the current global crisis has been transmitted to Indonesia is tumbling exports. Exports declined by 28.9 per cent in the first half of 2009 compared to the first half of 2008. While oil and gas exports saw the largest decline (down 55.4 per cent) during this period, manufactured exports also declined by 26.9 per cent. Exports of electronic equipment, for example, fell by 30.9 per cent in the first half of 2009 compared to the same period in 2008, vehicles by 57.0 per cent and iron and steel by 61.8 per cent.

*Export sector
tumbles*

Investment (gross domestic fixed capital formation) managed to maintain a firm tone between 2000 and 2008 and increased its share of the contribution to GDP. Investment also held up reasonably well in 2009, expanding by 6.5 per cent in the second quarter compared to the previous quarter. Nonetheless, small and medium-sized enterprises, which play an important role in the economy and in the labour market, are being adversely impacted and credit-rationed. With 70 per cent of commercial financing relying on bank lending, credit availability is vital for the survival and growth of SMEs². Although Bank Indonesia lowered the policy rate to 7.25 per cent from its recent peak of 9.5 per cent in October 2008 (Figure 1.1) in an attempt to reduce the cost of capital in support of business, average bank lending rates remained as high as 14.5 per cent at the end of March.³ Moreover, banks are being extremely conservative in lending due to the perception of higher risks of nonperforming loans amid the adverse business environment.⁴ Although Bank Indonesia has eased loan approval criteria to boost lending, continued low credit availability to SMEs could hamper a stronger economic rebound and labour absorption.⁵

SMEs are hurting

1.2 Labour market impacts of the global crisis

The declining pace of economic growth has manifested itself in the labour market in various ways. The first has been a steep fall in the rate of growth of wage employment compared to previous years. Wage employment grew by 1.4 per cent between February 2008 and February 2009, compared to 6.1 per cent in the previous period (February 2007 to 2008). Reflecting the fact that falling exports have been one of key transmission mechanisms of the crisis in Indonesia, employment in the tradable sectors grew by a mere 1.1 per cent between February 2008 and February 2009. In comparison, employment in the non-tradable sectors grew by 4.0 per cent. Given that the economy still expanded by 5.2 per cent in the last quarter of 2008 and by 4.4 per cent in the first quarter of 2009, during which the labour force survey

*Employment expands
but the rate of
growth in wage
employment falls
sharply*

² The Jakarta Globe: "Banks' stubborn rate freeze will stall growth: BI", 13 May 2009.

³ *ibid.*

⁴ See Bank Indonesia: *Financial stability review*, No.12, March 2009.

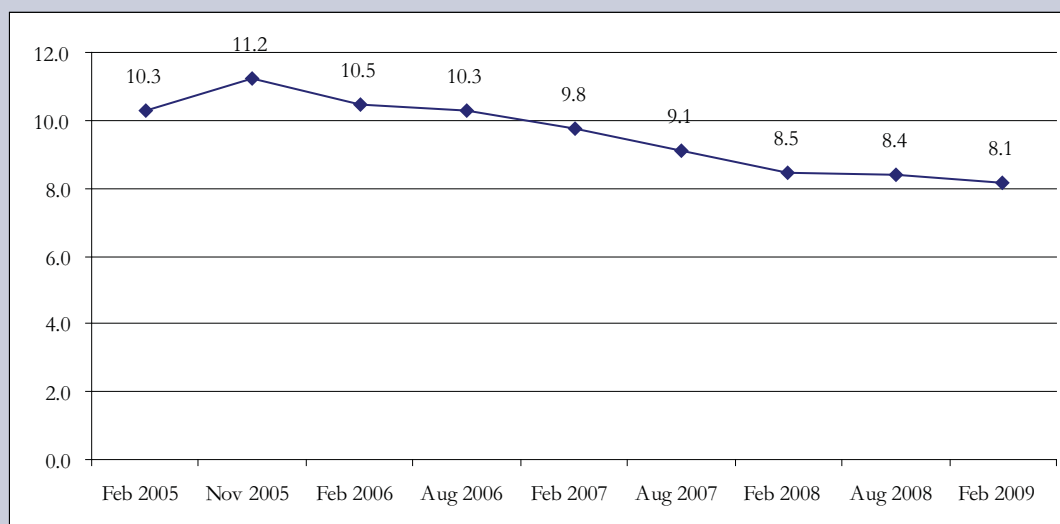
⁵ The Jakarta Post: "BI eases ruling to boost lending", 02 February 2009.

was conducted, and subsequently fell to 4.0 per cent growth in the second quarter of 2009, wage employment growth and/or employment growth in the tradable sector may have declined further or even contracted.

*Job losses
particularly for
subcontract workers
but unemployment
rate falls*

The second means through which the global crisis is manifesting itself in Indonesia's labour market is through job losses. The Ministry of Manpower and Transmigration reported that job reductions exceeded 51,000, while the Indonesian Employers Association (APINDO) reported over 237,000 layoffs between October 2008 and March 2009, with the textile and garments sector accounting for 100,000 of the retrenchments; palm oil plantations 50,000; the automotive and spare parts industry 40,000; construction 30,000; and the footwear sector, 14,000. Subcontracted, casual and temporary workers in export-orientated industries have borne the brunt of the initial job cuts as shedding these workers is often easier and less costly than laying off permanent staff. According to APINDO, 90 to 95 per cent of those who lost jobs were casual or subcontract workers.⁶ Nonetheless, despite the job losses, many of the displaced workers appear to have been absorbed into other jobs as the unemployment rate continued its downward trend, falling to 8.1 per cent in February 2009 from 8.4 per cent in August 2008 (Figure 1.2).

Figure 1.2:
Unemployment rate, 2005–2009 (percentages)



Source: BPS

6 The Jakarta Post: "Total workers laid off reach over 200,000: Apindo", 12 March 2009.

While the unemployment rate fell in February 2009, employment in the informal economy expanded, reversing precious gains made in recent years. This is the third and most salient impact of the crisis on the Indonesian labour market. The number of casual workers, for example, increased by 5.2% between February 2008 and February 2009, the number of unpaid workers increased by 4.0 per cent and the number of own-account workers increased by 3.6% (Table 1.3). This compares to the growth in wage employment of 1.4% over the same period and a 0.1 per cent growth in the number of employers.

More salient is the rise of informal employment

Table 1.3:
Trends in employment status, 2008–2009

	Feb. 2008 (millions)	Feb. 2009 (millions)	% change
Employees	28.52	28.91	1.4
Employers	24.58	24.61	0.1
with permanent workers	2.98	2.97	-0.3
with temporary workers	21.60	21.64	0.2
Own account workers	20.08	20.81	3.6
Casual workers	10.93	11.50	5.2
In agriculture	6.13	6.35	3.6
Not in agriculture	4.80	5.15	7.3
Unpaid workers	17.94	18.66	4.0
Total	102.05	104.49	2.4
<i>Source: BPS</i>			

The seemingly paradoxical fall in unemployment corresponding with a rise in informal employment is not surprising. In situations of high levels of poverty and inadequate social safety nets, workers who are cut from formal wage employment or other employment are frequently left with few alternatives except to turn to lower productivity and informal economic activities.

Box 1.1

Impact of the crisis on informal workers: Cases from Jakarta

A 25-year-old male worker with high school education was one of the 3,000 employees dismissed from a Greek company in September 2008. He lost a stable income, social security (*Jamsostek*), overtime pay and his holiday bonus. With his small severance pay, he moved to Jakarta and started his own business as a street food vendor in order to support his father, his wife and his 4-year-old child. He works 10 hours a day, seven days a week. His net income is around USD 4 a day. There is no affordable social insurance for low income earners. Since he was not recognized as a citizen of Jakarta, his access to the direct cash transfer programme (BLT) and to the health insurance facility for the poor (*Jamkesmas*) was denied by the sub-district government. Sickness and medical bills are emergencies for his family.

A 39-year-old male motorcycle taxi driver used to be a security officer of a formal enterprise until he was dismissed in December 2008. Working from 8 a.m. to 9 p.m. six days a week, he earns roughly USD 117 a month (his former net monthly income was USD 170) after paying for fuel, with which he supports his wife and a 7-year-old child. For his family, the monthly school tuition fee of USD 15 is not a small expense. While his family was covered by health insurance when he was a formal employee, they are now left unprotected for health risks despite the fact that he is running much higher risks of injury as a motorcycle taxi driver. His family is not considered poor, thus they receive no aid. With his scant savings, he manages to pay for school tuition and medical bills, but he thinks he will have to rely on relatives for support one day.

A 46-year-old mother of four children runs a small restaurant. Her husband works on construction sites on an irregular basis, bringing additional income to the household. When her husband lost his job in 2006, she used his severance pay and started to serve ready meals in the space in front of their house. Her day starts at 5 a.m. when she goes to the market and ends at 8 p.m. One of her relatives helps her. Most of her customers are workers living in her neighbourhood. Since last fall, sales started to decline to between two-thirds and half of what they used to be due to customers now opting for cheaper meals. With this sharp drop in income, she had to curtail family expenses: giving up socializing, consuming much cheaper food (i.e. soybean cake and tofu instead of fish and chicken), reducing milk for her 15-month-old grandchild, and avoiding using her mobile phone as much as possible, among others. But these sacrifices were not enough. Recently, she had no other choice but to reduce the cost of medical care for her 65-year-old mother who suffers from acute asthma.

Source: ILO-commissioned interviews in Jakarta

Alternative cost-cutting measures implemented

With companies facing falling demand, some enterprises have resorted to making adjustments to their workforce without shedding jobs. Such adjustments have included reducing working hours, including overtime, reducing daily shifts (in the case of factory workers), and placing workers on standby at home with base pay (without transportation allowances).⁷ These measures are often necessary in crisis circumstances but a key challenge lies in finding a balanced path that ensures enterprise sustainability with worker protection and respect for labour rights.

⁷ Information obtained through discussions with employer organizations. For example, the Business Tendency Survey (BTS) of the last quarter of 2008 revealed a declining trend in working hours among large and medium-sized enterprises in manufacturing and mining/quarrying sectors.

Box 1.2

Investing for the recovery: Workers and productivity

The management of a large clothing factory in West Java views the current global crisis as an opportunity to invest in its workforce and raise productivity. After consultations with the union, the management decided to reduce overtime as order volumes had fallen by between 10 and 15 per cent. While committing to maintain employment, the company has initiated a lean manufacturing movement and continuously tests and implements suggestions from employees regarding productivity enhancement. The management expects order volumes to rise at the end of 2009 or in 2010. It expects to be in a stronger position in the market once the global economy begins to recover. The company believes keeping their workers and investing in their productivity during the slow time makes business sense.

Source: Case interview

For some workers however, such adjustments can be particularly detrimental and push themselves and their families into poverty. With vulnerability to poverty being high in Indonesia even prior to the crisis, reduced working hours for example can lead to a reduction in household income and in some cases a fall into working poverty.⁸ Lower incomes can also force poor households to cut back on longer-term investments such as education and send children to work to supplement household income, exacerbating the challenge of child labour. In poor families with a number of children, it is often the girls that risk being taken out of school and entering the workforce at an early age, as was witnessed during the Asian financial crisis of 1997/98.⁹ Strengthening industrial relations regimes and supporting social dialogue at the enterprise, sectoral and national levels is critical to ensure negotiated and sustainable solutions to enterprise restructuring and in mitigating any broader social impacts.

Social dialogue key to finding solutions and limiting other negative social impacts

8 For example, 16.7 per cent of Indonesians surveyed were poor in 2004, but more than 59 per cent had been poor at some time during the previous year and over 38 per cent of workers who were poor in 2004 were not poor in the previous year, which illustrates a high degree of vulnerability to poverty in Indonesia. See World Bank: *Making the New Indonesia work for the poor* (Jakarta, 2006).

9 ILO: *Give Girls a Chance: Tackling child labour, a key to the future* (Geneva, 2009). See also: A. Priyambada: "What Happened to Child Labor in Indonesia during the Economic Crisis? The Trade-off between School and Work", Labor Economics Working Paper No. 87 (East Asian Bureau of Economic Research 2002) and G. Thijs and H. van de Glind: "The Asian Economic Crisis and Child Labour with a particular focus on Thailand and Indonesia", ILO Regional Office for Asia and the Pacific Working Paper (ILO, 1998).

1.3 Vulnerable groups

Many overseas migrants have returned home

It is important to bear in mind that the impacts of the crisis on Indonesia's labour market have differed by households, groups and localities. One group whose vulnerability has increased as a result of the current crisis is overseas migrant workers. This group of workers is often among the first to be dismissed during downturns. The Indonesian Minister of Manpower and Transmigration indicated in December 2008 that 250,000 overseas migrant workers had been laid off and had returned home before their contracts had expired.¹⁰ On the other hand, newly arrived migrants in particular have invested heavily in getting recruited, travelling and establishing themselves in a foreign country. Returning to Indonesia is often not an option and they may accept almost any condition in order to retain their jobs. At the same time, potential migrant workers see their hopes diminishing as various foreign countries have stopped issuing work permits to foreign workers or have reduced quotas.

Box 1.3

Indonesian overseas migrant workers

The number of Indonesian workers abroad had been on an upward trend until the global crisis deepened. In 2007, 697,000 workers legally emigrated in search of employment, while there may have been at least twice that number of undocumented migrants. With geographical proximity, cultural and linguistic similarities, and existing Indonesian migrant networks, Malaysia hosts a sizable number of undocumented Indonesian workers. The National Agency for the Placement and Protection of Indonesian Overseas Workers (BNP2TKI) estimated that the number of Indonesian overseas migrant workers, including undocumented migrant workers, stood at 5.8 million¹¹ in December 2008. Around 65 per cent of the Indonesian overseas migrant workers, including many of the female migrants, were domestic workers, deployed in 41 countries.¹² About half of overseas migrant workers are employed in Malaysia. The others work in the Middle East, Singapore, Hong Kong (China) and Taiwan (China). Plantations and construction sites are common workplaces for Indonesian migrant workers. Some Indonesian workers are employed in the manufacturing sectors in other Asian countries. Remittances by Indonesian workers abroad have increased in the past few years and are estimated to have reached USD 12 billion in 2008.¹³

10 The Jakarta Post: "250,000 migrant workers sent home", 18 December 2009.

11 *ibid*

12 *ibid*

13 Indonesia Trade and Investment News, 6 October 2008. Available at: http://www.indonesia.go.id/en/index.php?option=com_content&task=view&id=7713&Itemid=718).

Enhanced regulation of recruitment agencies and a more efficient labour migration administration would serve to ensure better management of labour migration and protection of the rights of migrant workers. Furthermore, it will be necessary for the government to negotiate new migration channels through bilateral agreements, while also providing safeguards of labour rights, ensuring consular protection, and reducing the cost of migration. Another challenge is to maximize the impact of remittances on sustainable poverty alleviation and development by reducing the cost of sending remittances and by encouraging productive investment. This could be organized by sector, for example, with the active participation of relevant employers' and workers' organisations.

Box 1.4

Human stories: Returned overseas migrant workers

Returned migrant worker #1

A female factory worker, aged 30, with vocational high school education, was prematurely repatriated in March 2009 after being laid off from a factory of an electronics company in Malaysia. This was six months prior to the actual end of her contract, but she received no compensation for its early termination. She has been looking for a job, any legal job, through her network of family and friends. Although the local Manpower office listed some vacancies, the educational requirements and age limit excluded her. With low prospects of finding a job, she conceived her own business as a sewing shop operator, for which she needs to buy a sewing machine. Borrowing money from a bank or a microfinance institution, however, is difficult for her since she cannot provide the necessary collateral. She intends to work and save for the future business. Her family lives on income from a food kiosk that her mother runs and a monthly widow's pension (around USD 70) since her late father served the army. She used to send home around USD 150 per month to support her family.

Returned migrant worker #2

A 36-year-old worker migrated to Taiwan (China) to work as a construction worker. To pay the recruitment agency fee of USD 3,900, he had to sell his car and hand over USD 100 monthly from his wages for one year. Upon arrival in Taiwan, he learned that his wage would be further deducted by about USD 54 every month for a fee charged by the receiving agency in Taiwan. His wages of about USD 480 therefore had to cover the agency fees, taxes and his own expenses for living

and food. He barely saved anything for a year. After his contract was terminated in December 2007, he was repatriated and became a farmer again. He also helps in his father's shop. He has been looking for any job, preferably in an area near home, but so far has been unsuccessful. His primary job search channel is his social network, since his skills do not meet the requirements of the jobs advertised in newspapers. After his past struggle and feeling that he had been exploited, he has no desire to migrate overseas again.

Returned migrant worker #3

A 35-year-old female worker was employed as a housemaid in Hong Kong (China) from 2004 until she was dismissed in July 2008 because her employer's company went bankrupt. She used to send home around USD 300 every month. Now, she produces cookies and cakes and sells them in a nearby school in order to supplement the family income. Her husband engages in agriculture and husbandry. She plans to open a grocery store but access to capital is a problem. Furthermore, she has a high school education but no real experience in business. She wishes that the local government would provide management skills training and capital to start a business. Despite her plan to start a business, she would prefer to be in wage employment if it paid more than USD 100 a month, yet for this couple, the reality is that employment opportunities are scarce.

Returned migrant worker #4

A 36-year-old worker with primary education migrated to Malaysia and worked for a construction subcontractor between 2003 and September 2008. His employer did not pay wages for two months. When the workers claimed their wages, the company's response was to return their passports. For this worker, receiving his passport back meant the expiration of his work permit. Although he found an informal job in another construction site, he had to work without health insurance and without the protection of agencies that prevent potential exploitation. He left Malaysia because he was concerned about his legal status. While in Malaysia, he earned USD 9 a day and sent USD 800 a year back home. He is the breadwinner of his family, supporting his wife and three children. After coming back home he became a farmer again. He is also a board member of a cooperative that produces crackers. Although he has income from farming and the cooperative, he is willing to take a factory job that pays at least USD 90 per month with board and lodging. Income stability is what he seeks.

Source: Case interviews by authors in Malang, East Java

The impacts of the global crisis on Indonesia also raise additional concerns for youth and women. Even before the crisis, young women and men in Indonesia (aged 15–24) were almost 4.9 times likely as adults to be without work, and the youth unemployment rate stood at 23.3 per cent in 2008. The global crisis is likely to have exacerbated the already severe youth employment problems in Indonesia, as inexperienced young workers are likely to be among the first to be let go by firms and among the last to be recruited.

Situation of young women and men in the labour market has likely worsened

Women also faced a difficult situation in the labour market previous to the crisis: not only was the female unemployment rate—at 9.7 per cent in 2008—significantly higher than for men (7.6 per cent), but women were also more likely to be in vulnerable employment than men. Furthermore, they are likely to shoulder the intensified double burden of family care and income-generating activities, as was experienced in the Asian financial crisis. For example, women's labour participation in the agriculture sector increased between 1997 and 1998, either as own-account workers (an increase of 803,600) or as unpaid family workers (670,700). This was to compensate for men's reduced take-home wages and high inflation during the crisis. While men's working hours were reduced, women recorded a net increase in working hours, since they worked overtime and took on side jobs.¹⁴

Many women bearing an increased double burden of family care and work

With exports being one of the key transmission channels of the crisis in Indonesia, urban labour markets have been most severely affected. Nonetheless, the impact on the rural economy cannot be understated. Job losses in urban areas have contributed to a process of reverse migration and many of these returnees are likely to be involved in lower-productivity, informal activities. Such urban-to-rural migration was also already being witnessed in 2008 as the global food and fuel crisis likely induced some migrants to return to rural areas as the cost of living is often lower there.

Primary impact is on urban labour markets but impacts on rural areas cannot be understated

1.4 A protracted recovery in the labour market

At the time of writing, the global economy was showing some early signs of “bottoming out.” While this is a welcome development for Indonesia, it is important to bear in mind that the full impact of the global recession in Indonesia's labour market may have yet to be realized and that the consequences for its workers could be deep and protracted. In the previous Asian financial crisis, it took a long time for various labour market

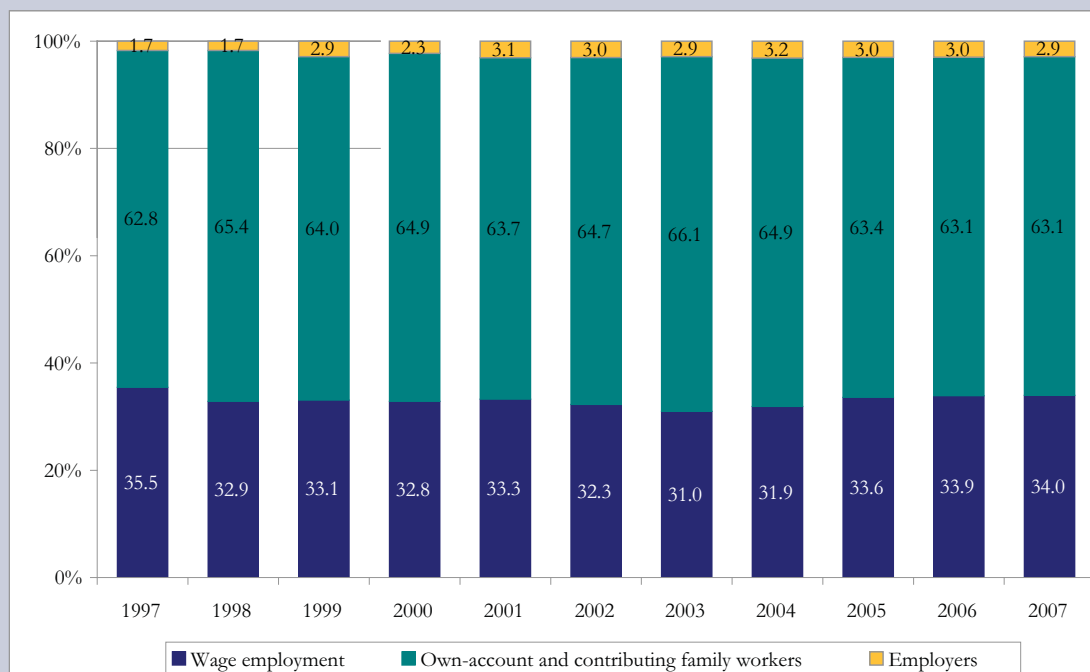
Labour market indicators take many years to return to pre-crisis levels

14 R. Islam et al: “The economic crisis: labour market challenges and policies in Indonesia”, in G. Betcherman and R. Islam, eds: *East Asian labour markets and the economic crisis: Impacts, responses and lessons* (The World Bank and the International Labour Office, 2001).

indicators to return to pre-crisis levels. For example, the unemployment rate in Indonesia in 1996 was 4.9 per cent, which increased subsequently as a result of the crisis and only fell to a near pre-crisis level of 5.1 per cent in 2001.¹⁵

Moreover, the Asian financial crisis impacted not only the level of unemployment in Indonesia but more importantly the number of workers in vulnerable employment: in one year alone, from 1997 to 1998, formal wage employment shrank by 1.5 million (4.9 per cent), while the number of workers categorized as own-account or contributing family workers increased by 3.7 million (6.8 per cent) (see also Box 1.4). While Indonesia's economy began to recover in 1999, the share of own-account and contributing family workers continued to increase, and this share only approached pre-crisis levels in 2006 (Figure 1.3).

Figure 1.3
Employment by status, 1997–2007 (percentages)



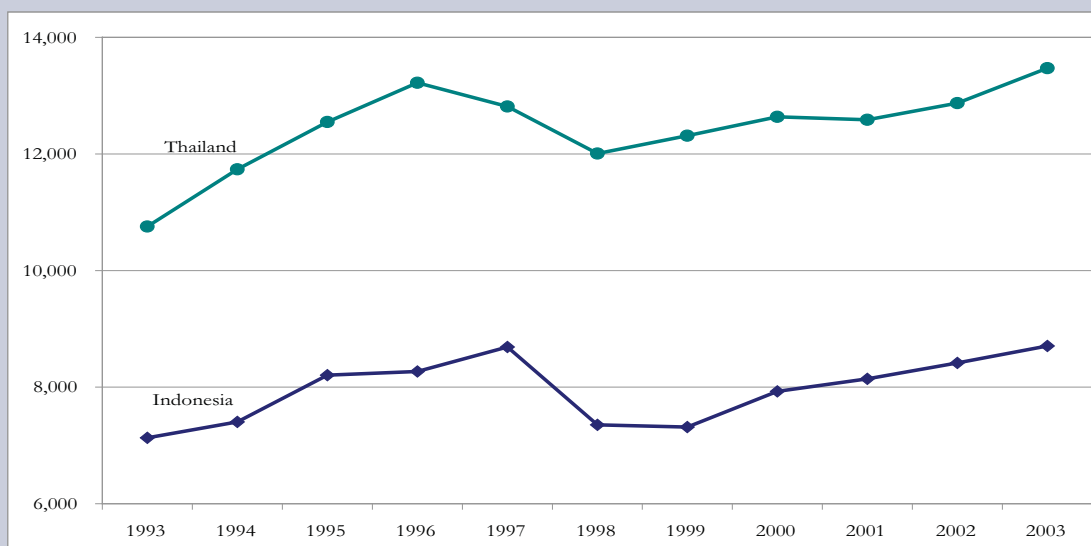
Sources: ILO: *Key Indicators of the Labour Market (KILM)*, 5th Edition; ILO: *Laborsta*, 2008

Labour productivity in Indonesia was also affected by the Asian financial crisis, dropping by 15.4 per cent and only reaching pre-crisis levels in 2003 (Figure 1.4). Such a protracted recovery was witnessed not only in Indonesia but also in other Asian countries such as Thailand. Another large concern was the increase in poverty and working poverty levels. Despite Indonesia's tremendous progress in reducing poverty in the decades prior

¹⁵ The 5.1 per cent unemployment rate is adjusted for the definitional change in unemployment that occurred in 2001. Without the adjustment, the official unemployment was 8.1 per cent in 2001 but this figure would not be comparable to any previous year figures.

to the crisis, the national poverty level increased by over one-third during the crisis and also recovered to pre-crisis levels only in 2003.¹⁶

Figure 1.4
Output per worker (1990 USD), Thailand and Indonesia, 1993–2003



Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database (January 2009)

Box 1.5

Labour market response during the Asian financial crisis

An examination of changes in employment during the Asian financial crisis reveals a considerable drop in formal employment: paid non-agricultural employment contracted by 2.1 million (of which 0.3 million were women) between May 1997 and 1998 (Table 1.4). Notable job losses occurred for men in the manufacturing (1.3 million jobs) and construction sectors (678,000 jobs). For women, job losses were most pronounced in the manufacturing sector (575,000) and in the wholesale, retail, restaurant and hotel industries (247,000). The agricultural sector absorbed most of these displaced workers at the cost of labour productivity. Male employment in primary industry charted an 8.7 per cent increase between 1997 and 1998, and female employment, 11.9 per cent. Consequently, agricultural labour productivity measured by GDP per person employed in the sector declined from USD 1,066 in 1997 to USD 953 in 1998 (1997 constant USD, source: ILO, KILM 5th ed.).

16 World Bank: *Making the New Indonesia Work for the Poor* (Jakarta, 2006).

During the Asian financial crisis, the Indonesian labour market attracted even more participants. When a family sees declining income due to the job loss of family members or a cut in working hours, a typical coping strategy is to send additional family members to the labour market in the hope of supplementing the household income (additional workers effect). This effect further exacerbated labour market conditions, adding downward pressure on working conditions. As a result, Indonesia experienced a remarkable increase in the working poor. The share of working poor at USD 1 a day in total employment nearly doubled between 1996 and 1998; the shares were 17.9 per cent and 33.7 per cent respectively*.

* Source: ILO: *Key Indicators of the Labour Market (KILM)*, 5th Edition.

Table 1.4:
Employment by sector and gender, 1997–1998 (thousands)

	Total		Men		Women	
	May 97	May 98	May 97	May 98	May 97	May 98
Total	87,050	87,674	53,971	53,901	33,079	33,773
of which paid employment in non-agricultural sectors	25,677	23,595	17,963	16,210	7,714	7,385
Agriculture, Hunting, Forestry and Fishing	35,849	39,415	21,960	23,871	13,889	15,544
Mining and Quarrying	897	675	710	574	186	101
Manufacturing	11,215	9,934	6,189	5,482	5,026	4,451
Electricity, Gas and Water	233	148	214	131	19	17
Construction	4,200	3,522	4,050	3,386	150	136
Wholesale and Retail Trade and Restaurants and Hotels	17,221	16,814	8,404	8,245	8,817	8,570
Transport, Storage and Communication	4,138	4,154	4,023	4,024	115	130
Financing, Insurance, Real Estate and Business Services	657	618	447	412	209	206
Community, Social and Personal Services	12,637	12,394	7,972	7,775	4,666	4,619
<i>Source: Authors' calculations using data from Laborsta, ILO</i>						

1.5 Policy responses

A strong government response

Given the impact of the global crisis on Indonesia's economy and its labour market, the government of Indonesia has responded rapidly, announcing, *inter alia*, a stimulus package aimed at boosting aggregate demand worth Rp. 73.3 trillion (USD 7.3 billion, about 1.4 per cent of the

GDP). The biggest component of the package by far is a tax rebate (Table 1.5) through which the government hopes to prevent massive layoffs by easing the burden on companies. The government also expects the package to bolster private consumption and achieve private consumption growth of between 4 and 4.7 per cent. An expected three million jobs will be created.

Table 1.5:
Components of the stimulus package

Tax cut	
- Tax cut for companies, workers and individuals	Rp. 43.0 trillion
- Tax subsidies and import duties exemption	Rp. 13.3 trillion
Infrastructure projects and empowerment programmes for people living in rural areas	Rp. 12.2 trillion
Diesel and electricity subsidies as well as loans for rural empowerment	Rp. 4.8 trillion
Total	Rp. 73.3 trillion (USD 7.3 billion)
<i>Source: Government of Indonesia</i>	

The stimulus package also includes up to Rp. 12.2 trillion for infrastructure development, including the improvement of highways, ports, bridges and irrigation systems, through which the government estimates up to 1.1 million workers will be absorbed.¹⁷ This sum also includes an allocation of Rp. 430 billion to a housing development programme, which is expected to employ at least 500,000 workers, according to the Ministry of Manpower and Transmigration.

Response has included labour-intensive infrastructure projects

Box 1.6 **Employment-intensive approaches to infrastructure development**

An analysis carried out by the International Institute for Labour Studies revealed that the greater the emphasis on employment creation in policy responses, the stronger the impact on the real economy.¹⁸ When the labour market is slack, employment-intensive public infrastructure investment not only absorbs surplus labour but also provides a form of social protection to the poor. Public work schemes have a proven track record in absorbing labour in Indonesia during the Asian financial crisis.¹⁹

17 The official website of the Republic of Indonesia. Available at: www.indonesia.go.id

18 ILO: *The financial and economic crisis: A Decent Work response* (Geneva, 2009).

19 See G. Betcherman and R. Islam, eds.: *East Asian labour markets and the economic crisis: Impacts, responses and lessons* (World Bank and the ILO, Washington, DC, 2001).

Employment-intensive approaches to infrastructure development are key policy tools for job creation, poverty alleviation, local economic development and agricultural growth. These approaches are also known as local resource-based (LRB) approaches, given the optimum and flexible use of locally available workforce, materials, skills and capacities. The methods can attain the same quality standards as equipment-based (EB) approaches in developing infrastructure in a more cost-effective manner. Employment-intensive approaches have various comparative advantages over equipment-based approaches:

- more productive job creation;
- improvement in income distribution;
- reduction in environmental load by using renewable materials;
- high multiplier effects on the local economy;
- promotion of gender equity and local ownership.

These advantages depend on the (sub)sector, the type of activities and other factors, including the availability of labour and local construction materials. EB and LRB approaches can be used in a complementary way.

According to an ILO estimate*, Rp. 12.2 trillion worth of investments in infrastructure, as envisaged in the government stimulus package, would create up to about 1.2 million more jobs if LRB approaches were adopted instead of EB methods. LRB approaches to infrastructure development maximize the employment effects of public spending.

In addition, employment-intensive rural economic development provides a solution to the persistently high open unemployment in the urban formal economy, as predicted by the Harris-Todaro model of multisector labour market analysis and its variants. Where wage differentials exist between the two sectors, a policy that creates employment in the urban formal economy simply attracts more workers to the sector and fails to reduce unemployment. Alternatively, rural development that improves informal economy wages would reduce urban unemployment. Therefore, LRB approaches to infrastructure development in rural areas can address the high unemployment in the urban formal economy.

The ILO has been collaborating with the Indonesian government and its social partners in the utilization of job-rich methods for infrastructure improvement for 15 years.

Source: B. Athmer: "Sector approaches to employment: Lessons and recommendations for Indonesia", Unpublished policy document (ILO, Jakarta, 2009).

The government has also significantly increased the state budget allocation for poverty alleviation programmes. For fiscal year 2009, it allocated Rp. 66 trillion to lower poverty, up from Rp. 58 trillion disbursed in fiscal year 2008. Of that total, Rp. 15 trillion is to go to the National Programme for Community Empowerment (*PNPM*), Rp. 12 trillion to the rice for the poor programme (*Raskin*) and Rp. 11 trillion to the School Operational Assistance Programme (*BOS*). The *PNPM* programme is expected to cover 6,408 sub-districts and 78,000 villages in 2009, absorbing 3 to 4 million workers.²⁰

Strengthened support for the poor

The Indonesian government is also seeking to upgrade workers' competitiveness, and has allocated Rp. 369 billion (USD 33 million) for job training, Rp. 110 billion for training in labour-intensive sectors and Rp. 30 billion to bolster labour networking. More vocational schools will be established in 2009, prioritizing information and technology programmes. The government is also seeking to strengthen ties with industries ranging from banking to airlines with a view to enhancing programme effectiveness and employment outcomes. Moreover, the Ministry of Manpower and Transmigration is supporting the skills and knowledge levels of workers seeking opportunities overseas so that Indonesian overseas workers can fill more vacancies in the formal sectors such as in medical and business administration.²¹ The Overseas Work Training Centres (*Balai Latihan Kerja Luar Negeri*) are expected to play a key role to this end by providing skills as well as language and culture training to workers before going abroad.

Skills upgrading programmes

The government has undertaken some measures to gear up its efforts towards greening the economy. These include the provision of loans to industry at lower interest rates than market rates so that old machines can be replaced with newer and more efficient ones. Given the high cost of capital in Indonesia, this initiative will narrow the much-needed investment gap. The government is also streamlining state-owned enterprises in the emerging geothermal industry with the intention of attracting more donor funding to tap the world's largest geothermal potential.

Green investments

1.6 Policy implications

The analysis of the impact of the global crisis on Indonesia's economy, the labour market, the protracted adjustment in the labour market and policies undertaken by the government in response to the crisis highlights a number of policy implications.

²⁰ The official website of the Republic of Indonesia. Available at: www.indonesia.go.id

²¹ *ibid.*

*A stronger focus
on productive and
decent employment*

The first of these is a need to place decent and productive jobs at the centre of the crisis response and in day-to-day economic and social policies. A recent assessment of the estimated employment effects of different fiscal measures, for example, has revealed that “the greater the employment orientation of the measure, the stronger the stimulus for the real economy”.²² Indonesia’s stimulus package has been a strong response but the large share of tax breaks in the stimulus package (around 60 per cent) suggests that a greater focus on liquidity-constrained SMEs and vulnerable groups such as the unemployed, poor and near poor would have an even greater effect in raising aggregate demand and enhancing the country’s growth potential in the medium and long term. This is because tax reductions often have no direct output or employment effect, and their indirect impact depends on how firms and households react to an increase in their income. In the current environment, firms face not only a sharp fall in demand, but also unprecedented uncertainty in the future. In such a situation, they often take a ‘wait-and-see’ attitude with respect to their investments, and households are likely to exhibit similar behaviour in their consumption decisions.²³ Therefore, across-the-board incentives aimed at businesses or households (such as subsidies to firms, reductions in corporate and income tax rates) are likely to have only a moderate short-term effect on growth and jobs. Moreover, in countries with a large informal economy, such as Indonesia, the benefits of tax breaks will have limited reach and are likely to be captured by the relatively well-off, who have lower propensities to spend than liquidity-constrained businesses, poor households and unemployed individuals. On the other hand, if fiscal stimulus measures target such liquidity-constrained groups who are likely to spend more, then the short-term multiplier effect of the stimulus is likely to be higher.

Furthermore, in undertaking fiscal stimulus policy measures, it is also critical to take into account both the short-term impact on aggregate demand and measures to enhance economies’ growth potential in the medium and long term. In this respect, a focus on maintaining productive employment, income and household purchasing power combined with supply-side measures including education and skills training and other active labour market policies crisis provide for more comprehensive crisis response and recovery measures.

*A critical need
for unemployment
insurance*

The second key policy implication is the critical need for unemployment insurance in Indonesia. The government’s strong policy response has included infrastructure development, which is critical for providing jobs, in particular for the unskilled. The government has also put in place various social assistance programmes for the poor, which have been strengthened as a result of the crisis. What is missing, however, is protection for the semi-skilled, in particular for women and the near-poor.²⁴ They do not

22 ILO: *The Financial and Economic Crisis: A Decent Work Response* (Geneva, 2009), pp. 30-31.

23 Antonio Spilimbergo *et al*: *Fiscal Policy for the Crisis*, IMF Staff Position Note SPN/08/2008 (Washington, DC, IMF, December 2008).

24 Job creation through infrastructure works might result in a gender-specific job creation effect as they traditionally attract male workers.

qualify for the social assistance programmes for the poor and, given their relatively higher skill levels, the lower skilled jobs in infrastructure often do not represent appealing alternatives. Furthermore, as infrastructure works typically attract mainly male workers, they cannot sufficiently absorb the large number of women who have been laid off in export-oriented industries. For these groups, unemployment insurance can function as an automatic stabilizer that may cushion the impact of the economic shock and help maintain aggregate demand. Unemployment insurance could also slow down the transmission of the crisis from urban to rural areas, especially in countries where large numbers of rural migrants have lost jobs in export-oriented industries.

The initial introduction of a basic unemployment insurance scheme in Indonesia would be an important step both toward protecting workers and supporting domestic demand during crisis. Progressively, the basic system could be strengthened and its responsiveness strengthened during downturns and unemployment peaks, for example by extending the period of cover, or relaxing the qualifying requirements on a temporary basis. Furthermore, linking unemployment insurance with active labour market policies including training, job search assistance and career guidance can provide both a cushion and a bounce to vulnerable groups.

Indonesia has instead relied on severance payments for providing income security in case of job loss. Severance payments, however, may fail to provide sufficient income security, especially when companies become insolvent, and are seldom linked with active labour market policies.²⁵ Furthermore, severance payments are often not honoured. Unemployment insurance is an important element of a social floor, an issue that is discussed in the next chapter.

The third key policy implication is the critical need for social dialogue in designing policy responses. During a crisis, social dialogue can help improve the design of the crisis response measures at enterprise, industry and national levels, as well as provide political support for the fiscal packages and other government policies. Dialogue between the tripartite partners can also serve to identify negotiated solutions to key challenges for the long term. Such dialogue and collective bargaining can help avoid social unrest, steer clear of damaging industrial disputes, reduce inequalities in income distribution, and forge social cohesion.

Social dialogue is essential

Article 107 of Act No. 13 of 2003 concerning Manpower calls for the formation of Tripartite Cooperation Institutions (*LKS Tripartit*) at the district, provincial, and national levels. These institutions serve as the forum for communication, consultation, and deliberation between the government

25 D. MacIsaac and M. Rama: *Mandatory Severance Pay in Peru: An Assessment of its Coverage Using Panel Data* (World Bank, Washington, DC, 2006).

and social partners. As of May 2009 there were 29 such institutions at the national level and 195 at the district level. However, both the Tripartite Cooperation Institutions and the industrial relations regime in general require further support and strengthening.

*Better labour market
information and
statistics needed*

The crisis has also highlighted the importance of labour market information and statistics. Such up-to-date and gender- and age- specific information is critical for informed decision making and in social dialogue between the government, employers and workers. They serve in the close monitoring of the labour market, in detecting early signs of changes and in adequately designing and allocating resources for policy responses. Furthermore, they assist employers in their operational decisions and job seekers in their labour market choices.

Box 1.7
A Global Jobs Pact

In the wake of the global financial, economic and jobs crisis, the tripartite constituents of the ILO in June 2009 adopted a Global Jobs Pact, designed to guide national and international policies aimed at stimulating economic recovery, job preservation and creation and providing protection to workers and their families. The Global Jobs Pact provides for a range of crisis response measures that countries can adapt to their specific needs and situations. Such measures include:

1. Devoting priority attention to protecting and growing employment through sustainable enterprises, quality public services and building adequate social protection for all as part of ongoing international and national action to aid recovery and development;
2. Enhancing support to vulnerable women and men hit hard by the crisis, including youth at risk, and low-wage, low-skilled, informal economy and migrant workers;
3. Focusing on measures to maintain employment and facilitate transitions from one job to another as well as to support access to the labour market for those without a job;
4. Establishing or strengthening effective public employment services and other labour market institutions;
5. Increasing equal access and opportunities for skills development, quality training and education to prepare for recovery;
6. Avoiding protectionist solutions as well as the damaging consequences of deflationary wage spirals and worsening working conditions;

7. Promoting core labour standards and other international labour standards that support the economic and jobs recovery and reduce gender inequality;
8. Engaging in social dialogue, such as tripartism and collective bargaining between employers and workers, as constructive processes to maximize the impact of crisis responses to the needs of the real economy;
9. Ensuring that short-term actions are coherent with economic, social and environmental sustainability;
10. Ensuring synergies between the state and the market and the effective and efficient regulation of market economies, including a legal and regulatory environment that enables enterprise creation, sustainable enterprises and promotes employment generation across sectors; and
11. The ILO engaging with other international agencies, international financial institutions and developed countries to strengthen policy coherence and to deepen development assistance and support for least developed, developing and transition countries with restricted fiscal and policy space to respond to the crisis.

For further information, see: ILO: Recovering from the crisis: A Global Jobs Pact (Geneva, 2009)

Beyond the crisis: Strengthening the foundations for job-rich development

The current global crisis has accentuated some of the labour and social opportunities and challenges identified in last year's *Labour and Social Trends in Indonesia* report.²⁶ It has also revealed a number of other emerging drivers of a more inclusive, sustainable and job-rich growth in Indonesia. This section takes a look at these issues.

2.1 A social floor

The impacts of the global crisis in Indonesia have highlighted the importance of supporting workers and their families through well-designed social protection policies. Section 1.5 examined the immediate need for unemployment insurance, and this section looks at other aspects of social protection mechanisms with a view to gradually developing an effective social protection floor over time. Such a social protection floor includes improved access to employment opportunities; affordable access to basic health care, protection and education for children, the elderly and people with disabilities; social assistance for the poor or the unemployed and other features that vary according to country needs and stages of development.

*Progressively
building a social
floor*

²⁶ See ILO: *Labour and Social Trends in Indonesia: Progress and Pathways to Job-rich Development* (Jakarta, 2008).

*Protection for those
in the informal
economy*

While the recent expansion in the informal economy as a result of the global crisis has highlighted the need to extend social protection to the informal economy, such a need existed even before the crisis. Prior to the crisis, Indonesia had made modest gains in reducing the share of workers in informal employment in recent years, but around 61 per cent of those employed are still engaged in the informal economy (Table 2.1) Women saw a larger decline in the share of informal employment than men between 2004 and 2008, down by 3.7 percentage points, while the share of male informal employment declined only by 1.2 percentage points.

Table 2.1:
Share of informal employment by gender (per cent)

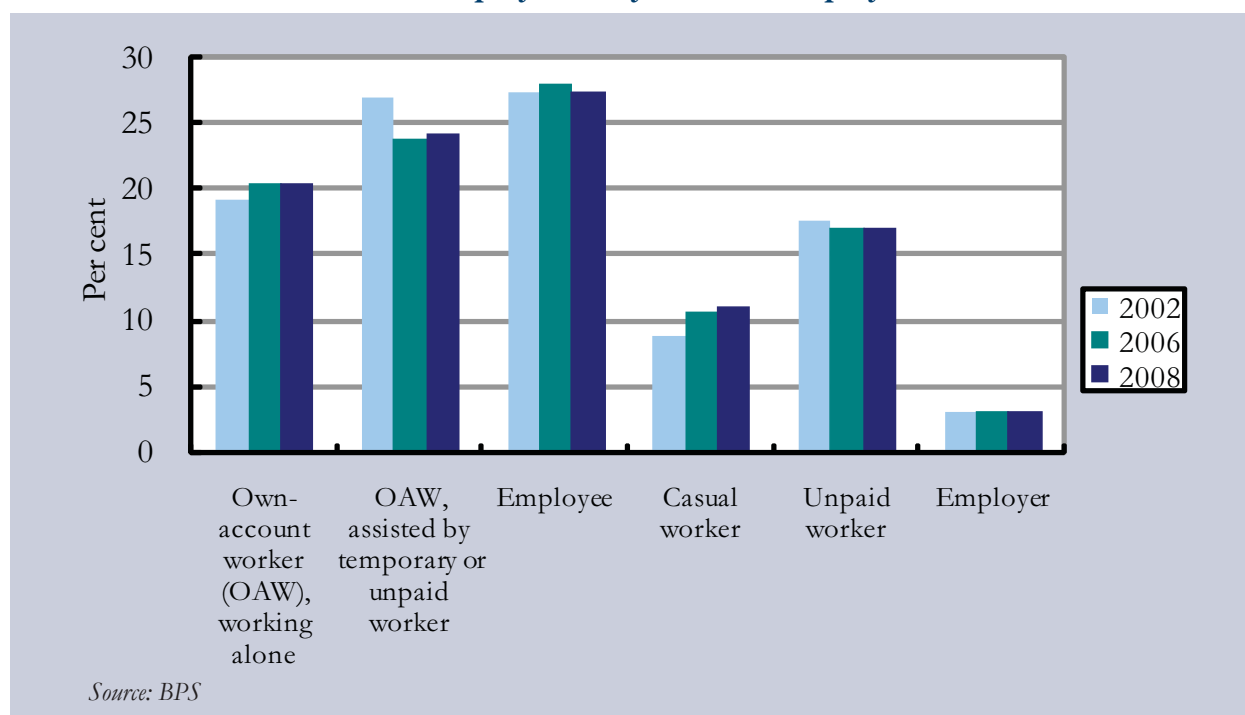
	year	2004	2005	2006	2007	2008
Gender total		63.2	63.2	62.8	62.1	61.3
Men		60.5	61.4	61.4	59.9	59.3
Women		68.2	66.6	65.4	65.9	64.5
<i>Source: BPS</i>						

*Rapid growth in
casual employment*

Of particular concern are casual workers, whose share of the workforce is expanding. While the share of employees remained more or less stable between 2002 and 2008, the share of casual employment (both non-agricultural and agricultural) recorded a constant increase (Figure 2.1).²⁴ Although the share of casual employment in total employment is still small, standing at 11.0 per cent in 2008, the annual growth rate of casual employment, at 8.4 per cent, is alarming. Non-agricultural casual employment grew on average by 9.1 per cent every year between 2004 and 2008.

²⁴ A casual employee is defined by BPS as a person who works on a non-permanent basis for other people/employers/institutions (more than 1 employer during the last month) and gets money or goods as a wage or salary based on either a daily or a contracted payment system. Please note the differences between the terms regarding employment status used in this report and the ones used in the Labour Force Survey (LFS) of Indonesia. The Indonesian LFS has the following categories of workers by employment status: 1. Self-employed, 2. Employer, assisted by a temporary/unpaid worker, and 3. Employer, assisted by permanent workers. According to the International Classification by Status in Employment (ICSE) of 1993 (see <http://laborsta.ilo.org/applv8/data/icsec.html#ICSE-93>), employers engage one or more persons to work for them in their business on a *continuous* basis. It also defines employees as workers who hold the type of job defined as paid employment jobs (*italics by the author*). These definitions exclude “employers, assisted by temporary/unpaid workers” from the category of employers. According to ICSE-93, self-employment includes own-account workers, employers, contributing/unpaid family workers, and members of producers’ cooperatives. If one aligns the categories of workers in the Indonesian LFS with the international definitions, then the categories would read: 1. Own-account worker, working alone (instead of “Self-employed”); 2. Own-account worker, assisted by temporary/unpaid family workers (instead of “Employer, assisted by temporary/unpaid worker”); and 3. Employer (instead of “Employer, assisted by permanent workers”). In order to avoid confusions, this report adopts the appellation recommended in the ICSE-93 throughout the report.

Figure 2.1
Share in employment by status in employment



Some progress has been achieved in building a social floor in Indonesia. The National Social Security System Law (Law No. 40/2004) in particular represents a landmark milestone. The Law overhauls the existing social protection programmes in view of creating a universal coverage social security system and seeks to protect against risks associated with old age, illness, work-related injury and death. The Law, however, is awaiting elaboration and implementation. Its implementation, particularly for workers in the informal economy, coupled with other elements of a social floor, including social assistance programmes for the vulnerable, employment-intensive approaches for infrastructure development and unemployment insurance and/or employment guarantee schemes, will play a vital role in providing the necessary reassurance for innovation and the foundation for productivity growth in Indonesia.

Box 2.1 Flexicurity

The debate on the balance between security and flexibility has a long history, and mainstream views have vacillated between the ‘institutionalist’ view and the ‘(neo-)liberalist’ view. The former emphasizes the role of the state and social partners in correcting market failures, while the latter underscores the market mechanism. The post-war welfare states were built on the former view and developed labour market institutions. Corporatism supported the function of welfare states. As the welfare state model stumbled over high unemployment and

rising public expenditure after the two oil crises, neo-liberalism gradually dominated the mainstream economic ideology. Indeed, the OECD's Job Study was motivated by the conviction that labour market rigidity reduced labour market performance. Deregulation of the labour market became a popular line of policy. The strong economic performance of the United States was often used as evidence in advocating greater reliance on the market mechanism. After a decade-long debate over employment protection legislation, researchers—including the OECD itself—came to the conclusion that labour market rigidity had little to do with the overall unemployment.

Flexicurity is a concept that promotes an optimal balance between the two demands; security for workers against various risks in the labour market and flexibility of the labour market that fosters an enabling business environment. The question is where the equilibrium lies. The ILO, the European Union (EU) and academia have already initiated research on the balance. Research findings unanimously pointed out that constructive social dialogue can seek an optimal balance of security and flexibility in the labour market since the equilibrium is country-specific, depending on existing labour market institutions, tax regimes, and other factors. In fact, cooperative industrial relations and higher coverage of collective bargaining are conducive to flexicurity. European countries aim to combine social security and active labour market policies (e.g. employment services and training) with dynamic labour markets, which entails the shift from job/employment protection to labour market protection that relies on a broader shoulder of the society. Denmark and the Netherlands are often cited as model countries for flexicurity.

Source: P. Auer and K. Chatani: "Negotiating flexicurity" in S. Hayter, ed.: *Negotiating for Social Justice* (ILO, forthcoming).

Box 2.2

Social Protection in Indonesia: A glimpse²⁸

The employees' social insurance fund (*Jamsostek*), launched in 1992, covers the risks of old age, work-related disability and injury, sickness and death.²⁹ The scheme is intended to cover employees in companies with more than 10 employees or employees earning more than Rp. 1 million (USD 100) in the private sector. Nonetheless, it covers only a small proportion of workers in the formal economy. Similar but obligatory arrangements were installed for public sector employees (*Taspen*) and the police and personnel in the armed forces (*Asabri*).

28 See GTZ: *Options for Social Protection Reform in Indonesia* (Jakarta, 2008) for a comprehensive overview of the social protection system in Indonesia.

29 For details see: Act No. 3 of 1992 concerning employees' social security.

Various social assistance programmes also exist in Indonesia. The Hopeful Family Programme (*PKH*) targets poor families that are expecting a child or have children aged up to 15. The programme provides conditional cash assistance, requiring twelve health and education conditions including at least four medical check-ups during pregnancy and a minimum of 85 per cent of school attendance per year. A beneficiary family receives a transfer of between Rp. 0.6 million (USD 60) to 2.2 million (USD 220) per year, depending on the age and the number of children. The National Programme for Community Empowerment (*PNPM*) is another poverty alleviation programme, targeting poor communities rather than households. The programme covered 3,999 sub-districts and 47,954 villages in 2008. With the programme's expansion in 2009, it is estimated to benefit 8 to 9 million people and absorb 3 to 4 million work forces.³⁰ Meanwhile, the Health Insurance for Poor Families (*Askeskin*) provides more than 36 million poor people with free health care, while the School Operational Assistance Programme (*BOS*) subsidises elementary and junior high school students.

Box 2.3 The working poor in Indonesia³¹

A considerable number of workers lifted themselves and their families out of poverty in the last decade. In 1999, the share of workers living under the poverty line of USD 1.25 per day stood at 41.2 per cent; by 2007, the figure had fallen to 22.4 per cent.

The working poor are concentrated in rural areas and in the agricultural sector (Table 2.2). The incidence of working poverty is highest among casual workers (Figure 2.2).

Table 2.2:
Distribution of working poor by sector, geographical area and gender (2007, %)

	Urban	Rural	Male	Female	TOTAL
Agriculture	5.2	60.3	39.3	26.2	65.5
Industry	4.1	9.1	8.8	4.4	13.3
Services	8.5	12.7	12.8	8.4	21.2
TOTAL	17.9	82.1	60.9	39.1	100

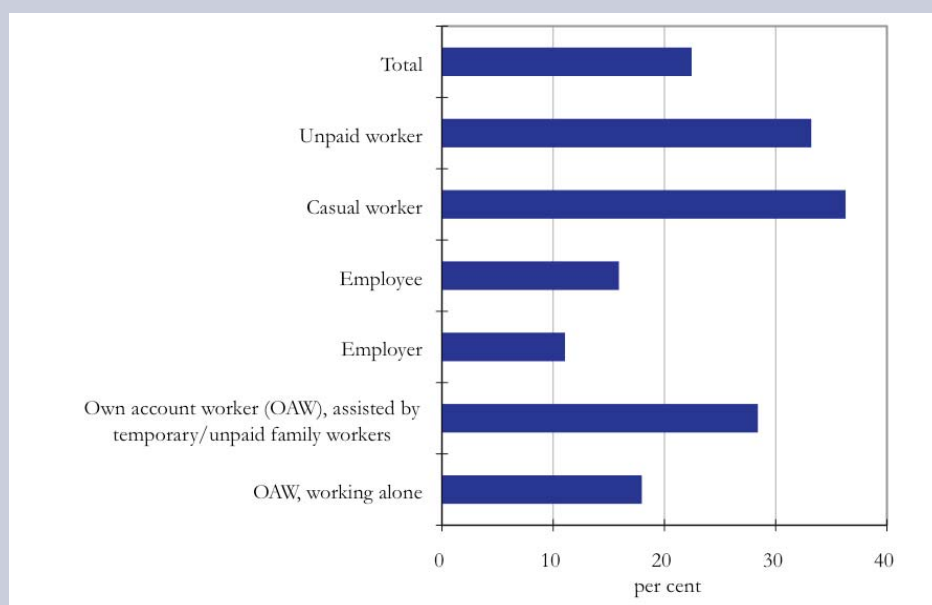
Source: BPS, *National Social Economic Survey (SUSENAS)*

Note: The poverty line: USD 1.25 a day

30 http://www.mediaindonesia.com/read/2009/03/03/64673/4/2/Peningkatan_PNPM_Mengembangkan

31 Working poor is defined as persons who work yet still live in a household whose members are estimated to be below a poverty line. See ILO: *The Key Indicators of the Labour Market (KILM)*, 5th Edition (Geneva, 2007).

Figure 2.2
Incidence of working poor by employment status
 (poverty line: USD1.25 per day, 2007)



Source: BPS, SUSENAS

2.2 Structural shifts in employment

Employment boosted by economic growth

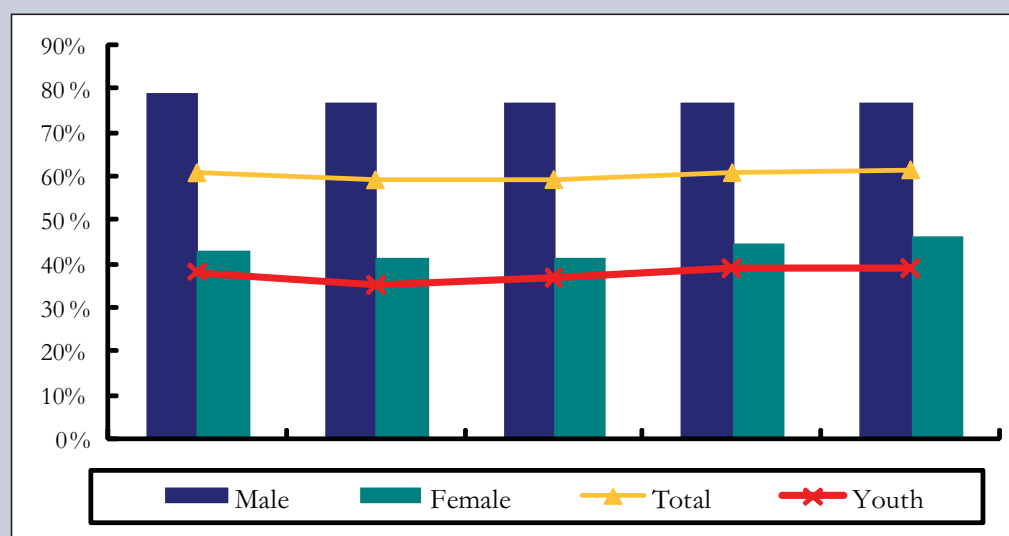
Favourable economic conditions fostered employment growth between 2004 and 2008. During this period, employment growth (total 9.4, men 5.5 and women 16.6 per cent) surpassed labour force growth (total 7.7, men 4.9 and women 12.5 per cent), creating room for the absorption of new labour market entrants and lowering the open unemployment rate (Annex II).³² Recent years have also seen success in creating jobs for youth (aged 15 to 24 years). The youth unemployment rate charted a remarkable drop between 2004 and 2008, from 29.6 per cent to 23.3 per cent (men 26.9 to 21.8, women 33.5 to 25.5). This success was partly due to an increase in the enrolment rate in secondary and tertiary education.³³ Had the labour participation rate in 2008 been the same as it was in 2004, the drop in the youth unemployment rate would have been modest.³⁴ Overall, the youth employment-to-population ratio remained largely stable (Figure 2.3).

³² Unemployment represents only one aspect of labour market performance. Attention should be paid to multiple facets of the underperforming labour market (e.g. long working hours, low female labour participation, high underemployment, the large share of informal employment in total employment). See I. Islam and A. Chowdhury: "Enunciating a national employment strategy for Indonesia – what do we know and what should we do?" ILO Jakarta Working Paper (Jakarta, 2008).

³³ See ILO: Labour and Social Trends in Indonesia: Progress and Pathways to Job-rich Development (Jakarta, 2008).

³⁴ If one assumes the same labour participation rates in 2004 and 2008, youth unemployment rates in 2008 would have been as follows: gender total 27.9, men 26.9 and women 30.0 per cent.

Figure 2.3
Employment-to-population ratio



Source: BPS

Strong economic growth in the years prior to the global economic crisis was supported in particular by the service sector (Table 2.3). For example, the communication sector recorded a remarkable expansion at the annualized rate of 27.6 per cent between 2004 and 2008, owing largely to the diffusion of mobile phones. Business services enjoyed a high average annual growth rate of 9.0 per cent. The agriculture and manufacturing sectors remain important, contributing 42.3 per cent of GDP; yet their growth rates in the last five years were slower than the average growth rate of all sectors.

Service sector has driven economic growth

Table 2.3:
Growth rate and shares in GDP by sector

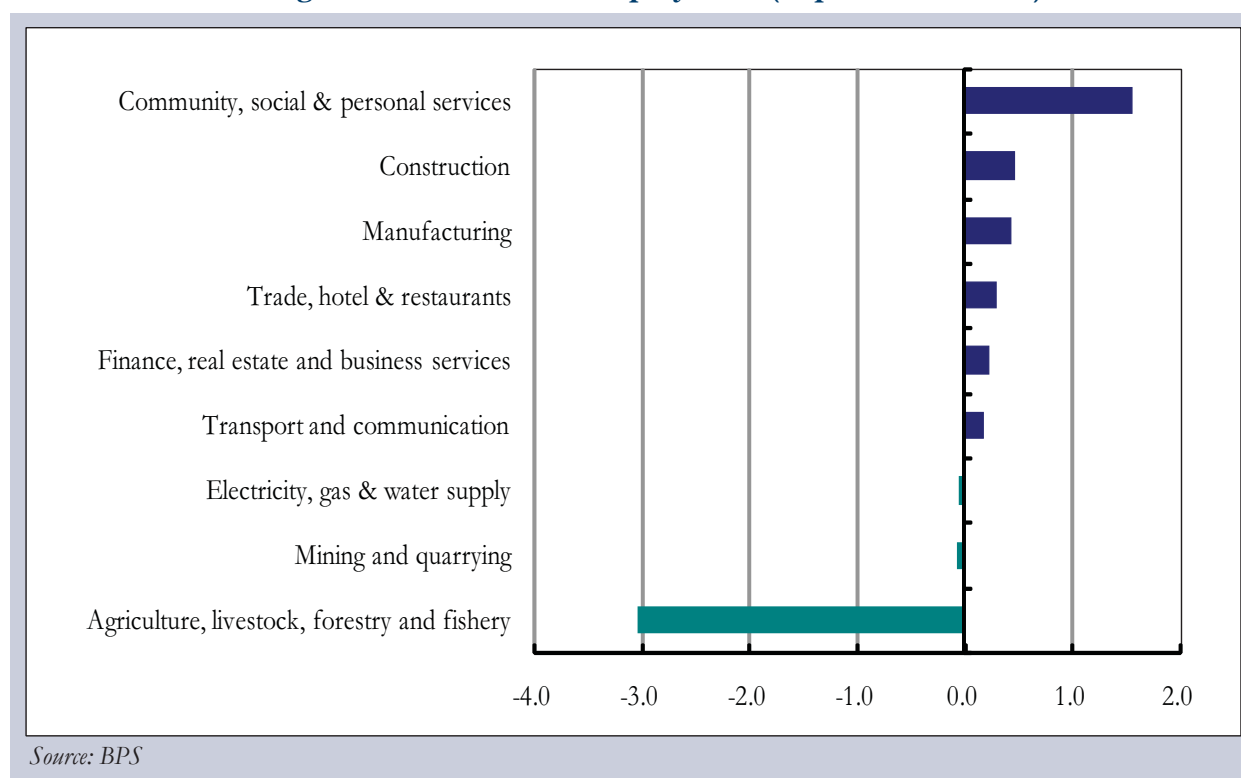
	Annual growth rate (2004–2008, %)	Share of GDP (2008, %)
Transport and Communication	14.4	6.3
Electricity, Gas & Water Supply	8.3	0.8
Construction	7.9	8.5
Trade, Hotel & Restaurants	7.6	14.0
Finance, Real Estate and Business Services	7.1	7.4
All sectors excluding oil and gas	6.5	89.4
Services	6.1	9.8
All sectors	5.9	100.0
Manufacturing Industry	4.4	27.9
Agriculture, Livestock, Forestry and Fisheries	3.6	14.4
Mining and Quarrying	1.9	11.0

Source: BPS

*Services now account
for largest share of
employment*

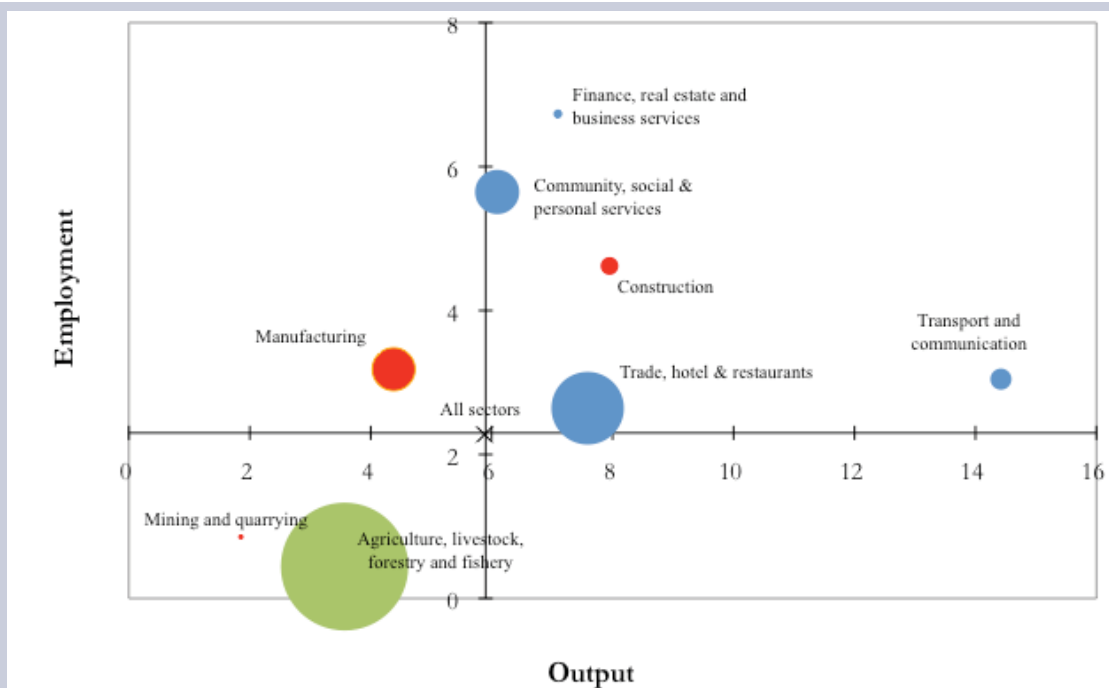
With the strong growth of services in recent years, the majority of Indonesia's population is now engaged in these sectors. Figure 2.4 illustrates this sectoral shift in employment. The agriculture, livestock, forestry and fishery sector saw its share of total employment drop by three percentage points between 2004 and 2008. The service sectors, particularly community, social and personal services and trade, hotel and restaurants and the manufacturing industry, on the other hand, increased their shares of total employment.

Figure 2.4
Changes in share of total employment (% points, 2004-08)



Within the service sector, however, the employment intensity of output growth is diverse (Figure 2.5). Annual employment growth rates during the period between 2004 and 2008 were highest in the finance, real estate and business services sector (6.7 per cent), followed by the community, social and personal services sector (5.6 per cent). On the other hand, job creation in the transport and communication sector was quite modest, despite the outstanding output growth of the sector. The trade, hotel and restaurant sector also did not experience a high labour intensity of output growth.

Figure 2.5
Output and employment growth (2004-08, annual %)



Source: BPS

Box 2.4 Sectoral approaches to employment

A number of countries around the globe, including both developed and developing countries, utilize a sector-based approach to skills development and employment creation. Adopting such an approach has been proven to bring about various advantages:

- Policymakers are able to focus resources on priority sectors in a cost-effective and strategic manner;
- It creates an organic nexus between trade and investment strategies and skills development and employment strategies, creating synergy among public policies;
- Stakeholders are able to collaborate in developing a vision for their sector, including an identification of their own roles in the process;
- The shared vision for the sector helps social partners and public authorities to anticipate skills demand in the near future, which encourages appropriate skills development planning and a commitment to investment in human capital through lifelong learning; among others.

Experiences from other countries show that a sectoral approach to employment removes growth constraints and fosters a faster expansion of the sectors, raising employment levels.

Source: M. Powell and R. Damayanti: "Sector approaches to employment: Lessons and recommendations for Indonesia" (ILO, Jakarta, forthcoming).

Investment in agriculture and growth sectors is required to drive structural change and productivity growth

The structural shift in employment away from agriculture to higher value-added services can be a key driver in increasing labour productivity, raising living standards and poverty reduction. In this regard, facilitating labour mobility across sectors should be a key policy concern. This can be accomplished through increased investment in the agriculture sector with a view to raising productivity in agriculture. Government expenditures on energy subsidies in Indonesia are approximately six times larger than public investment in agriculture, indicating scope for reallocation of investment that could promote agricultural productivity and beneficial structural change.³⁵ At the same time, even if increased investment in agriculture leads to increased productivity, freeing up additional agricultural labour, structural change will not take place unless there are employment opportunities in higher productivity industries. As such, policies to channel domestic savings and attract investment into industries with high potential for economic growth and employment generation are also required. Furthermore, such structural change can only take place if the workforce is equipped with the relevant skills to move across sectors, an issue that is examined next.

2.3 Improving workforce quality

Skills development critical in supporting a structural shift

As the sectoral composition of employment changes, the skills demanded in the labour market are shifting accordingly. For example, the growing service sectors demand specific sets of skills such as computer literacy and customer-oriented mindsets. In addition, as a middle-income economy, Indonesia is losing its labour cost advantage, and industries are requiring an increasingly skilled workforce to perform more capital-intensive and value-added production.³⁶ Matching the skills of the workforce to the needs of these industries has emerged as both an opportunity and a challenge in the labour market. In this regard, the education and vocational training system play a critical role in preparing the workforce to effectively adjust to structural shifts, changing technologies and volatile economic landscapes.

³⁵ “Fuel subsidies overseas take a toll on US”, in *The New York Times*, 28 July 2008.

³⁶ For example, the hourly labour cost in the garment sector: Indonesia USD 0.50, Vietnam USD 0.38, Pakistan USD 0.37 and Cambodia USD 0.33. Source: *The Jakarta Post* “Radical changes needed in RI garment industry”, 06 May 2009.

Significant progress has been made in enhancing access to primary education (Table 2.4), with the primary net enrolment rate now exceeding 95 per cent. There is, however, much scope to ensure that children remain in primary school and then subsequently make the transition to secondary school. Furthermore, the net enrolment rate at the secondary level is only around 59 per cent. This raises concerns as it is at this point in the education system that young people can acquire the skills, training and knowledge required to meet the demands of a labour market shorting towards services-based employment.³⁷ Tertiary education is also critical in ensuring a workforce with the advanced and specialized skills needed for a knowledge economy. In Indonesia, however, only 6.5 per cent had attained some level of tertiary education. This compares to 14.2 per cent in Thailand and 33.6 per cent in the Republic of Korea.³⁸

Focus on retention, secondary school and beyond required

Table 2.4:
Key education indicators (percentages)

Net enrolment rate, primary (2006)	Survival rate to grade 5 (2005)	Transition from primary to lower secondary (2005)	Net enrolment rate, secondary (2006)	Technical vocational enrolment as share of secondary enrolment (2005)
95.5	84.4	88.5	59.0	13.6
<i>Source: UNESCO Institute for Statistics</i>				

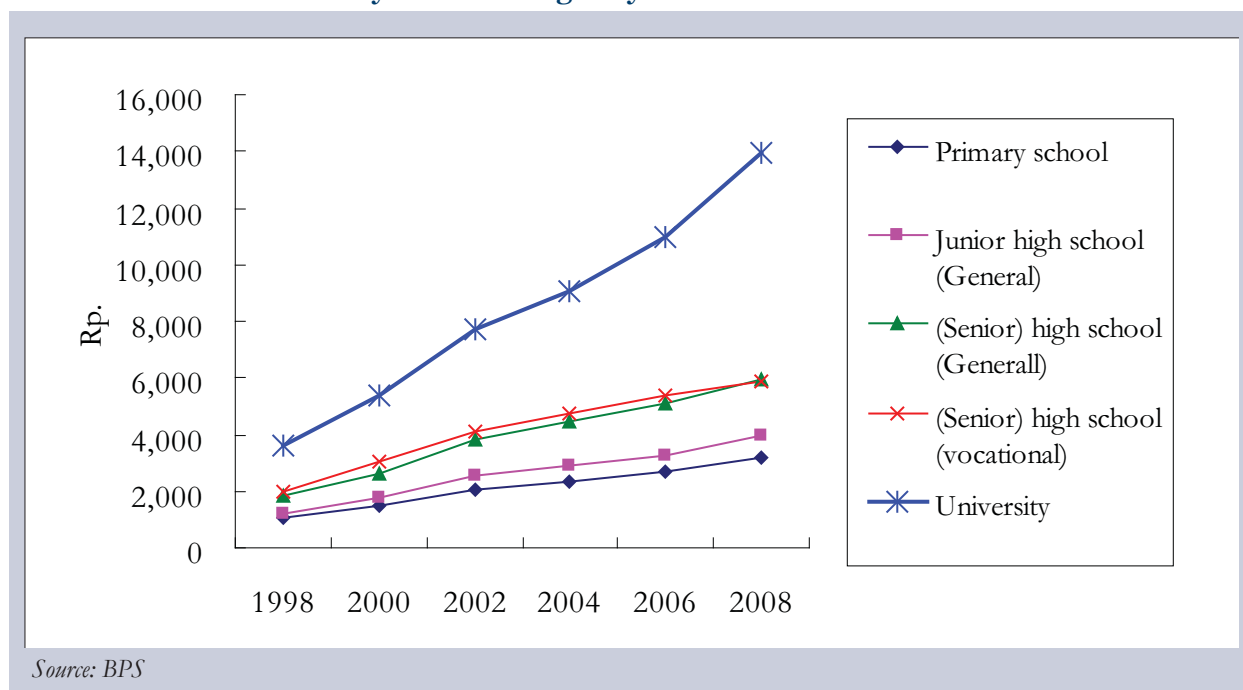
Educational attainment is becoming all the more essential as the returns on education are on the rise. This is evidenced by the widening gap in hourly average wages between workers with a primary education and those with a university degree (Figure 2.5). The wage ratio between the two categories of workers was 1 to 3.5 in 1998; it reached 4.4 in 2008. Such a trend can provide a strong incentive to pursue higher education, but can also be a potential threat to social cohesion if income inequality expands further.

Rising returns to education

37 ILO: *Labour and Social Trends in ASEAN 2008: Driving Competitiveness and Prosperity with Decent Work* (ILO, Bangkok, 2008).

38 *Ibid.*

Figure 2.6
Hourly nominal wages by educational attainment



*Quality of education
is also key*

While increasing educational attainment at all levels is essential, it is also critical to improve the quality of education and training. In this regard, as highlighted in last year's report, a substantial number of Indonesian students may not be acquiring the knowledge and skills needed in adult life and for the labour market.³⁹ Among those who enrol in secondary education in Indonesia, around 14 per cent are estimated to be pursuing technical and vocational training. The vocational education and training (TVET) system, however, is also struggling with the problems of ineffective curriculums, weak capacity, shortage of qualified training instructors, outdated training equipment and inadequate links between training providers and private-sector demand for skilled labour.⁴⁰ With weak competency standards and an inadequate national qualification framework in Indonesia, employers are finding it difficult to assess the competencies and skill levels of job seekers. Effective employment services backed by modern and efficient labour market information systems would also serve to better match the workers' skills with jobs.

With collaboration between the government, social partners, educational institutions and training providers, there is scope for further support to education and vocational training systems in Indonesia in order to unleash the country's growth potential.

³⁹ For a discussion on learning outcomes in Indonesia based on the Programme for International Student Assessment (PISA) surveys of the Organization for Economic Cooperation and Development (OECD), see ILO: *Labour and Social Trends in Indonesia 2008: Progress and Pathways to job-rich development* (Jakarta, 2008).

⁴⁰ ILO: *Labour and Social Trends in ASEAN 2008: Driving Competitiveness and Prosperity with Decent Work* (ILO, Bangkok, 2008).

2.4 Ensuring gender equality

One of the more remarkable developments of the past five years in the Indonesian labour market has been the significant progress toward gender equality in terms of labour market participation, employment and wages. While the educational attainment levels of Indonesia's workforce have risen progressively overall, the improvement is most pronounced in the young female workforce (Table 2.5). Furthermore, whereas the male workforce is slightly better educated than the female workforce if one considers all the age groups,⁴¹ women workers in their 20s are better educated than their male counterparts. While 16.1 per cent of female workers in the 25–29 age bracket had college education or above in 2008, only 8.3 per cent of male workers achieved that education level. This gap widened during the period between 2004 and 2008, from 3.9 percentage points to 7.8 percentage points.

Rising educational attainment among young women

Table 2.5:
Share of labour force by age group and educational attainment (age 15+)

	Junior high school or below		General high school		Vocational high school		Diploma academy (college)		University	
Men	2004	2008	2004	2008	2004	2008	2004	2008	2004	2008
20-24	61.7%	57.6%	22.8%	24.6%	13.1%	13.8%	1.5%	2.3%	0.9%	1.7%
25-29	63.2%	60.1%	20.2%	19.9%	10.2%	11.7%	2.5%	3.2%	3.9%	5.1%
Age total	72.4%	69.4%	14.8%	16.2%	7.5%	8.2%	2.2%	2.2%	3.2%	4.1%
Women	2004	2008	2004	2008	2004	2008	2004	2008	2004	2008
20-24	56.9%	49.9%	24.4%	27.5%	12.4%	11.9%	3.9%	6.7%	2.4%	4.0%
25-29	65.1%	57.6%	16.5%	17.9%	8.0%	8.3%	4.5%	7.1%	5.8%	9.0%
Age total	80.0%	72.4%	10.8%	13.2%	5.9%	5.9%	2.8%	4.1%	0.6%	4.5%

Source: BPS, authors' calculation

The gender gap in labour force participation has also narrowed by 4.4 percentage points between 2004 and 2008 (Table 2.6). Female employment grew by 16.6 per cent between 2004 and 2008 (or a net employment gain of 5.5 million jobs). This strong female employment growth was concomitant with notable changes in the distribution of female employment by status. While the share of unpaid family workers fell from 38.5 per cent in 2004 to 32.1 per cent in 2008 (or a decline of unpaid family workers of 341,000), the shares of the self-employed and employees increased from 16.5 per cent to 19.1 per cent (or a net gain of 1,921,000 self-employed workers), and 23.6 to 25.1 per cent (or a net increase of 1,869,000 employees), respectively. Growth in the service sector and the progress in women's educational attainment, among others, contributed to the considerable employment growth among women.

Narrowing gender gaps

41 30.6 per cent of the male workforce (age total) had a high school education or higher in 2008, whereas 27.6 per cent of the female workforce had at least a high school education.

Table 2.6:
Labour force participation rates

	2004	2005	2006	2007	2008
Gender total	67.5	66.8	66.2	67.0	67.2
Men	86.0	84.9	84.2	83.7	83.5
Women	49.2	48.4	48.1	50.2	51.1
<i>Source: BPS</i>					

Furthermore, gender wage gaps narrowed remarkably between 2004 and 2008. Female hourly wages as a percentage of male wages crept up from 77.8 per cent in 2004 to 82.8 per cent in 2008. This positive trend can be seen in all occupation groups except professional, technical and related workers, for which the gender pay gap widened by 5.4 percentage points (Table 2.7).⁴² It is noteworthy that the wage gap was reversed for administrative and managerial jobs: on average, women earned 8.9 per cent more than their male counterparts in 2008. On the other hand, it must be noted that only 0.46 per cent of female workers climb up the ladder to management posts, as opposed to 1.2 per cent of men.⁴³

Table 2.7:
Female wage as percentage of male counterpart wage by occupation type

	2004	2008
Professional, technical and related workers	84.5	79.1
Administrative and managerial workers	79.7	108.9
Clerical and related workers	81.1	87.3
Sales workers	67.4	69.9
Service workers	46.3	48.7
Agricultural workers	68.8	76.3
Production workers, operators and labourers	74.3	76
Occupation total	77.8	82.8
<i>Source: BPS, authors' calculation</i>		

Significant progress in gender equality has been accomplished in Indonesia but continued support is required to ensure that women have equal opportunities to education and training, are better able to access to labour markets and benefit from their work, and have better avenues for career development. Progress on gender is also an important avenue in realizing the Millennium Development Goals (MDGs).

⁴² During this five-year period, the number of working women in this occupational category increased by 57.1 thousand. This abrupt increase in the share of women in this occupation group may have affected the widened wage gap.

⁴³ Source: Authors' calculation based on BPS data.

Box 2.5**MDG Target 1b: Full, productive employment and decent work for women and men**

The eight Millennium Development Goals (MDGs) stem from the Millennium Declaration adopted by 189 nations at the UN Millennium Summit in September 2000. They consist of 21 quantifiable targets, and progress is monitored by 60 measurable indicators. Target 1b under MDG Goal 1 of eradicating extreme poverty and hunger challenges countries to achieve full and productive employment and decent work for all, including women and young people. The following four indicators are used to assess progress towards achieving the target.

- Growth rate in GDP per person employed;
- Employment-to-population ratio;
- Proportion of employed people living below USD 1 (PPP) per day;
- Proportion of own-account and contributing family workers in total employment.

As Table 2.8 indicates, women face particular challenges: they are less likely to be in employment and more likely to be in vulnerable employment than men.

Table 2.8:
MDG Target 1b

	Indicator	Year	Gender
Growth rate of GDP per person employed	2004–05	Total	5.4%
Employment-to-population ratio (age 15-24)	2007	Total	41.4%
	2007	Male	50.0%
	2007	Female	32.7%
Employment-to-population ratio (age 15+)	2007	Total	61.5%
	2007	Male	79.2%
	2007	Female	44.1%
Proportion of employed people living below 1 (PPP) per day	2002	Total	10.3%
Proportion of own-account and contributing family workers in total employment	2007	total	63.1%
	2007	male	60.3%
	2007	female	68.0%

Source: ILO, KILM 5th ed.

2.5 Greening the economy for sustainable growth and job creation

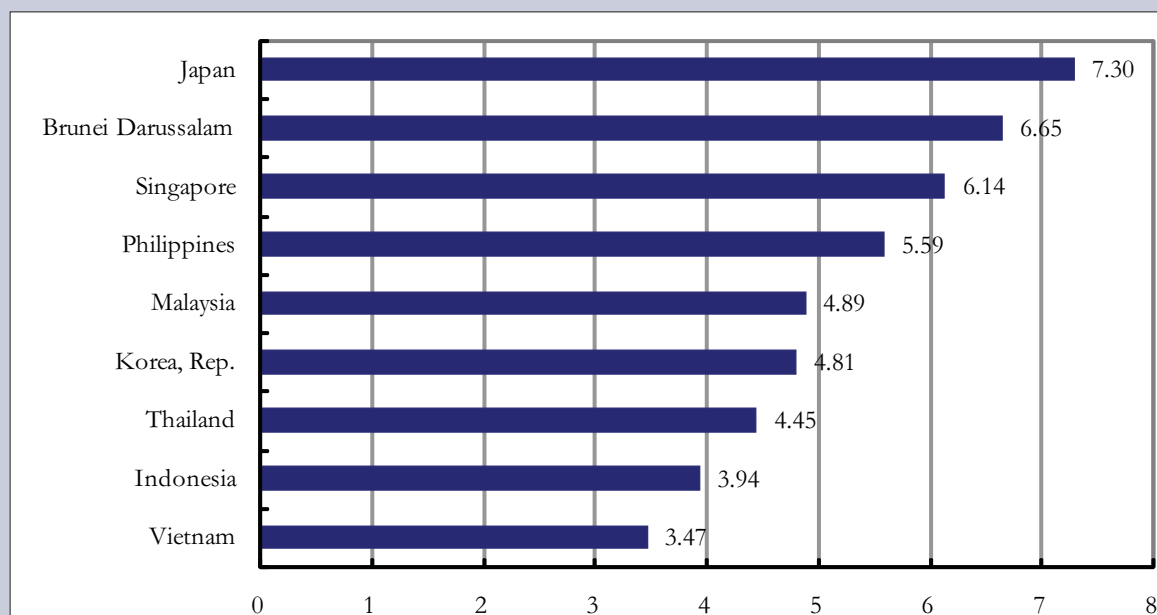
Greater energy efficiency needed

In the long term, the sustainability of Indonesia's development path will depend on the country's ability to protect its precious and diverse environment and effectively address the challenges posed by climate change. In particular, by improving energy use efficiency, or greening the economy, Indonesia would be better able to ensure a sustainable development path.⁴⁴ Although progress is being made on energy use efficiency in Indonesia, there is still considerable room for further improvement (Figure 2.6). Should Indonesia improve energy use efficiency to the same level as that of Thailand, its economic output could be significantly greater with the same amount of energy use. Conversely, it is estimated that not taking measures against climate change will cost around 6 per cent of the GDP every year by the end of the century.⁴⁵ Enhanced energy use efficiency also saves resources and reduces the country's vulnerability to sudden hikes in commodity prices.

Creating green jobs will require social dialogue

The transition to a greener economy can also provide opportunities to create "green jobs". This will also require upgrading skills and adopting new technologies as well as tripartite dialogue and action to make the transition.

Figure 2.7
Energy use efficiency



Source: World Bank

⁴⁴ Energy use efficiency is measured by GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent). Note that the differences in industrial composition also affect energy use efficiency. Source: World Bank, World Development Indicators.

⁴⁵ ADB: *The Economics of Climate Change in Southeast Asia: A Regional Review* (Manila, 2009).

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

Employment Status	Main Occupation									
	Professional, technical and related workers	Administrative and managerial workers	Clerical and related workers	Sales workers	Services workers	Agriculture, animal husbandry, forestry and fishing industry workers, and hunters	Production and related workers	Transport workers and equipment operators	Labourers	Others
Own account worker, working alone	F	F	F	INF	INF	INF	INF	INF	INF	INF
Own account worker, assisted by temporary worker/unpaid worker	F	F	F	F	F	INF	F	F	F	INF
Employer	F	F	F	F	F	F	F	F	F	F
Employee	F	F	F	F	F	F	F	F	F	F
Casual employee in agriculture	F	F	F	INF	INF	INF	INF	INF	INF	INF
Casual employee not in agriculture	F	F	F	INF	INF	INF	INF	INF	INF	INF
Unpaid worker	INF	INF	INF	INF	INF	INF	INF	INF	INF	INF
Source: BPS Note: F denotes formal and INF denotes informal										

Annex II. Statistical Annex

Table II.1.
Labour market indicators - 1990, 1995, 2000, 2004, 2005, 2006, 2007, 2008

	1990	1995	2000	2004	2005	2006	2007	2008
Population ('000s)	177,385	191,501	205,280	216,443	219,210	221,954	224,670	227,345
Men	88,886	95,910	102,675	108,153	109,513	110,863	112,200	113,518
Women	88,499	95,592	102,605	108,290	109,697	111,091	112,470	113,827
Working age population (15+)	113,540,758	128,801,764	141,170,805	153,948,922	158,491,396	160,811,498	164,118,323	166,641,050
Men	55,699,876	63,283,453	69,837,799	76,639,849	79,738,436	80,441,969	82,079,391	82,841,198
Women	57,840,882	65,518,311	71,333,006	77,309,073	78,752,960	80,369,529	82,038,932	83,799,852
Not in labour Force	38,189,135	44,575,774	43,366,311	49,975,535	52,633,743	54,422,563	54,176,964	54,693,785
Men	9,583,392	9,781,213	10,104,712	10,712,685	12,006,917	12,692,078	13,359,504	13,696,861
Women	28,605,743	34,794,561	33,261,599	39,262,850	40,626,826	41,730,485	40,817,460	40,996,924
Labour force	75,351,623	84,225,990	97,804,494	103,973,387	105,857,653	106,388,935	109,941,359	111,947,265
Men	46,116,484	53,502,240	59,733,087	65,927,164	67,731,519	67,749,891	68,719,887	69,144,337
Women	29,235,139	30,723,750	38,071,407	38,046,223	38,126,134	38,639,044	41,221,472	42,802,928
Labour force participation rate (per cent)	66.4	65.4	69.3	67.5	66.8	66.2	67.0	67.2
Men	82.8	84.5	85.5	86.0	84.9	84.2	83.7	83.5
Women	50.5	46.9	53.4	49.2	48.4	48.1	50.2	51.1

	1990	1995	2000	2004	2005	2006	2007	2008
Employment								
Men	73,437,376	78,318,036	89,837,730	93,722,036	93,958,387	95,456,935	99,930,217	102,552,750
Women	44,984,297	50,602,267	55,439,063	60,581,511	61,439,086	61,977,289	63,147,938	63,899,278
	28,453,079	27,715,769	34,398,667	33,140,525	32,519,301	33,479,646	36,782,279	38,653,472
Employment-to-population ratio (per cent)	64.7	60.8	63.6	60.9	59.3	59.4	60.9	61.5
Men	80.8	80.0	79.4	79.0	77.1	77.0	76.9	77.1
Women	49.2	42.3	48.2	42.9	41.3	41.7	44.8	46.1
Unemployment								
Men	1,914,247	5,907,954	7,966,764	10,251,351	11,899,266	10,932,000	10,011,142	9,394,515
Women	1,132,187	2,899,973	4,294,024	5,345,653	6,292,433	5,772,602	5,571,949	5,245,059
	782,060	3,007,981	3,672,740	4,905,698	5,606,833	5,159,398	4,439,193	4,149,456
Unemployment rate (per cent)	2.5	7.0	8.1	9.9	11.2	10.3	9.1	8.4
Men	2.5	5.4	7.2	8.1	9.3	8.5	8.1	7.6
Women	2.7	9.8	9.6	12.9	14.7	13.4	10.8	9.7
Source: Population: UN, World Population Prospects 2008 Revision Database; For all other indicators: BPS								

Table II.2.
Youth labour market indicators -1990, 1995, 2000, 2004-2008

	1990	1995	2000	2004	2005	2006	2007	2008
Working age population (15-24)	34,083,155	37,429,551	38,268,568	39,260,775	42,282,753	42,152,876	43,061,390	42,439,529
Men	16,775,258	18,309,565	18,806,152	19,579,338	21,094,391	21,500,254	21,960,724	21,511,842
Women	17,307,897	19,119,986	19,462,416	19,681,437	21,188,362	20,652,622	21,100,666	20,927,687
Not in labour Force (15-24)	16,705,890	17,279,702	17,297,885	18,024,335	19,969,234	19,872,306	20,548,852	20,855,631
Men	6,539,097	6,311,542	6,802,610	7,009,188	7,982,447	8,233,472	8,164,244	8,591,818
Women	10,166,793	10,968,160	10,495,275	11,015,147	11,986,787	11,638,834	12,384,608	12,263,813
Labour force (15-24)	17,377,265	20,149,849	20,970,683	21,236,440	22,313,519	22,280,570	22,512,538	21,583,898
Men	10,236,161	11,998,023	12,003,542	12,570,150	13,111,944	13,266,782	13,796,480	12,920,024
Women	7,141,104	8,151,826	8,967,141	8,666,290	9,201,575	9,013,788	8,716,058	8,663,874
Labour force participation rate (15-24, per cent)	51.0	53.8	54.8	54.1	52.8	52.9	52.3	50.9
Men	61.0	65.5	63.8	64.2	62.2	61.7	62.8	60.1
Women	41.3	42.6	46.1	44.0	43.4	43.6	41.3	41.4
Employment (15-24)	15,995,104	16,120,343	15,886,404	14,959,395	14,853,883	15,464,354	16,852,502	16,552,881
Men	9,437,955	9,995,182	9,186,013	9,192,238	9,166,087	9,578,277	10,518,143	10,100,765
Women	6,557,149	6,125,161	6,700,391	5,767,157	5,687,796	5,886,077	6,334,359	6,452,116

	1990	1995	2000	2004	2005	2006	2007	2008
Employment-to-population ratio)	46.9	43.1	41.5	38.1	35.1	36.7	39.1	39.0
(15-24, per cent								
Men	56.3	54.6	48.8	46.9	43.5	44.5	47.9	47.0
Women	37.9	32.0	34.4	29.3	26.8	28.5	30.0	30.8
Unemployment (15-24)	1,382,161	4,029,506	5,084,279	6,277,045	7,459,636	6,816,216	5,660,036	5,031,017
Men	798,206	2,002,841	2,817,529	3,377,912	3,945,857	3,688,505	3,278,337	2,819,259
Women	583,955	2,026,665	2,266,750	2,899,133	3,513,779	3,127,711	2,381,699	2,211,758
Unemployment rate (15-24, per cent)								
Men	8.0	20.0	24.2	29.6	33.4	30.6	25.1	23.3
Women	7.8	16.7	23.5	26.9	30.1	27.8	23.8	21.8
	8.2	24.9	25.3	33.5	38.2	34.7	27.3	25.5
Source: BPS								

Table II.3.
Status in employment - 1990, 1995, 2000, 2004-2008

	1990	1995	2000	2004	2005	2006	2007	2008
Total								
Own-account worker, working alone	14,810,823	19,892,221	19,501,330	18,309,288	17,296,006	19,504,632	20,324,527	20,921,567
Own-account worker, assisted by temporary/unpaid family workers	17,884,242	15,473,358	20,720,366	21,512,405	20,987,165	19,946,732	21,024,297	21,772,994
Employer	584,992	1,250,124	2,032,527	2,965,893	2,849,076	2,850,448	2,883,832	3,015,326
Employee	20,832,755	28,215,271	29,498,039	25,459,554	26,027,953	26,821,889	28,042,390	28,183,773
Casual employee in agriculture	n.a.	n.a.	n.a.	4,449,921	5,534,842	5,541,158	5,917,315	5,991,493
Casual employee not in agriculture	n.a.	n.a.	n.a.	3,732,838	4,325,365	4,618,280	4,458,857	5,292,262
Unpaid worker	19,323,358	13,487,062	18,085,468	17,292,137	16,937,980	16,173,796	17,278,999	17,375,335
Total	73,436,170	78,318,036	89,837,730	93,722,036	93,958,387	95,456,935	99,930,217	102,552,750
Men								
Own-account worker, working alone	9,965,441	13,537,146	13,222,375	12,844,876	12,358,294	13,551,397	13,557,406	13,536,283
Own-account worker, assisted by temporary/unpaid family workers	14,127,834	11,670,075	16,128,013	16,896,284	16,897,505	15,669,243	15,890,034	16,253,889
Employer	489,313	1,057,996	1,608,168	2,602,297	2,460,974	2,466,231	2,374,922	2,486,057
Employee	14,343,900	19,992,511	19,788,206	17,629,206	17,706,648	17,934,753	18,911,566	18,484,669
Casual employee in agriculture	n.a.	n.a.	n.a.	2,841,687	3,642,291	3,724,423	3,767,045	3,827,136
Casual employee not in agriculture	n.a.	n.a.	n.a.	3,228,822	3,635,460	3,868,884	3,713,920	4,348,290
Unpaid worker	6,057,151	4,344,539	4,692,301	4,538,339	4,737,914	4,762,358	4,933,045	4,962,954
Total	44,983,639	50,602,267	55,439,063	60,581,511	61,439,086	61,977,289	63,147,938	63,899,278
Female								
Own-account worker, working alone	4,845,382	6,355,075	6,278,955	5,464,412	4,937,712	5,953,235	6,767,121	7,385,284
Own-account worker, assisted by temporary/unpaid family workers	3,756,408	3,803,283	4,592,353	4,616,121	4,089,660	4,277,489	5,134,263	5,519,105

	1990	1995	2000	2004	2005	2006	2007	2008
Employer	95,679	192,128	424,359	363,596	388,102	384,217	508,910	529,269
Employee	6,488,855	8,222,760	9,709,833	7,830,348	8,321,305	8,887,136	9,130,824	9,699,104
Casual employee in agriculture	n.a.	n.a.	n.a.	1,608,234	1,892,551	1,816,735	2,150,270	2,164,357
Casual employee not in agriculture	n.a.	n.a.	n.a.	504,016	689,905	749,396	744,937	943,972
Unpaid worker	13,266,207	9,142,523	13,393,167	12,753,798	12,200,066	11,411,438	12,345,954	12,412,381
Total	28,452,531	27,715,769	34,398,667	33,140,525	32,519,301	33,479,646	36,782,279	38,653,472
Percentage shares								
Total								
Own-account worker, working alone	20.2	25.4	21.7	19.5	18.4	20.4	20.3	20.4
Own-account worker, assisted by temporary/unpaid family workers	24.4	19.8	23.1	23.0	22.3	20.9	21.0	21.2
Employer	0.8	1.6	2.3	3.2	3.0	3.0	2.9	2.9
Employee	28.4	36.0	32.8	27.2	27.7	28.1	28.1	27.5
Casual employee in agriculture	n.a.	n.a.	n.a.	4.7	5.9	5.8	5.9	5.8
Casual employee not in agriculture	n.a.	n.a.	n.a.	4.0	4.6	4.8	4.5	5.2
Unpaid worker	26.3	17.2	20.1	18.5	18.0	16.9	17.3	16.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Men								
Own-account worker, working alone	22.2	26.8	23.9	21.2	20.1	21.9	21.5	21.2
Own-account worker, assisted by temporary/unpaid family workers	31.4	23.1	29.1	27.9	27.5	25.3	25.2	25.4
Employer	1.1	2.1	2.9	4.3	4.0	4.0	3.8	3.9
Employee	31.9	39.5	35.7	29.1	28.8	28.9	29.9	28.9
Casual employee in agriculture	n.a.	n.a.	n.a.	4.7	5.9	6.0	6.0	6.0
Casual employee not in agriculture	n.a.	n.a.	n.a.	5.3	5.9	6.2	5.9	6.8
Unpaid worker	13.5	8.6	8.5	7.5	7.7	7.7	7.8	7.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	1990	1995	2000	2004	2005	2006	2007	2008
Female								
Own-account worker, working alone	17.0	22.9	18.3	16.5	15.2	17.8	18.4	19.1
Own-account worker, assisted by temporary/ unpaid family workers	13.2	13.7	13.4	13.9	12.6	12.8	14.0	14.3
Employer	0.3	0.7	1.2	1.1	1.2	1.1	1.4	1.4
Employee	22.8	29.7	28.2	23.6	25.6	26.5	24.8	25.1
Casual employee in agriculture	n.a.	n.a.	n.a.	4.9	5.8	5.4	5.8	5.6
Casual employee not in agriculture	n.a.	n.a.	n.a.	1.5	2.1	2.2	2.0	2.4
Unpaid worker	46.6	33.0	38.9	38.5	37.5	34.1	33.6	32.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Source: BPS</i>								

Table II. 4
Employment by sector - 1990, 1995, 2000, 2004-2008

	1990	1995	2000	2004	2005	2006	2007	2008
Total								
Agriculture	40,559,333	34,009,912	40,680,229	40,608,019	41,309,776	40,136,242	41,206,474	41,331,706
Mining & quarrying	512,270	633,224	451,931	1,034,716	904,194	923,591	994,614	1,070,540
Manufacturing	7,468,270	9,901,478	11,641,756	11,070,498	11,952,985	11,890,170	12,368,729	12,549,376
Electricity, gas & water	134,716	215,694	70,629	228,297	194,642	228,018	174,884	201,114
Construction	2,046,415	3,746,553	3,497,232	4,540,102	4,565,454	4,697,354	5,252,581	5,438,965
Trade, restaurant & hotels	10,837,931	13,684,652	18,489,005	19,119,156	17,909,147	19,215,660	20,554,650	21,221,744
Transportation, storage & communications	2,302,014	3,447,218	4,553,855	5,480,527	5,652,841	5,663,956	5,958,811	6,179,503
Financing, insurance, real estate & business services	477,765	658,497	882,600	1,125,056	1,141,852	1,346,044	1,399,490	1,459,985
Community, social & personal services	9,098,662	12,020,808	9,570,493	10,515,665	10,327,496	11,355,900	12,019,984	13,099,817
Total	73,437,376	78,318,036	89,837,730	93,722,036	93,958,387	95,456,935	99,930,217	102,552,750
Men								
Agriculture	24,637,241	21,931,497	24,603,835	25,819,512	26,891,514	26,369,336	25,983,403	25,913,925
Mining & quarrying	429,922	532,821	370,253	869,021	765,326	817,716	874,271	938,427
Manufacturing	4,124,470	5,713,677	6,722,850	6,660,143	7,033,757	7,005,482	7,119,262	7,128,631
Electricity, gas & water	123,870	188,928	65,020	207,955	179,174	202,721	153,669	183,913
Construction	1,987,777	3,646,520	3,356,604	4,428,668	4,465,861	4,574,450	5,119,560	5,311,318
Trade, restaurant & hotels	5,190,377	6,973,033	9,684,593	10,230,959	9,711,815	10,330,764	10,372,192	10,514,476
Transportation, storage & communications	2,249,749	3,373,662	4,364,293	5,285,517	5,480,334	5,373,961	5,586,530	5,465,585
Financing, insurance, real estate & business services	353,089	475,122	627,229	843,378	835,396	953,079	995,458	1,028,203

	1990	1995	2000	2004	2005	2006	2007	2008
Community, social & personal services	5,887,802	7,767,007	5,644,386	6,236,358	6,075,909	6,349,780	6,943,593	7,414,800
Total	44,984,297	50,602,267	55,439,063	60,581,511	61,439,086	61,977,289	63,147,938	63,899,278
Women								
Agriculture	15,922,092	12,078,415	16,076,394	14,788,507	14,418,262	13,766,906	15,223,071	15,417,781
Mining & quarrying	82,348	100,403	81,678	165,695	138,868	105,875	120,343	132,113
Manufacturing	3,343,800	4,187,801	4,918,906	4,410,355	4,919,228	4,884,688	5,249,467	5,420,745
Electricity, gas & water	10,846	26,766	5,609	20,342	15,468	25,297	21,215	17,201
Construction	58,638	100,033	140,628	111,434	99,593	122,904	133,021	127,647
Trade, restaurant & hotels	5,647,554	6,711,619	8,804,412	8,888,197	8,197,332	8,884,896	10,182,458	10,707,268
Transportation, storage & communications	52,265	73,556	189,562	195,010	172,507	289,995	372,281	713,918
Financing, insurance, real estate & business services	124,676	183,375	255,371	281,678	306,456	392,965	404,032	431,782
Community, social & personal services	3,210,860	4,253,801	3,926,107	4,279,307	4,251,587	5,006,120	5,076,391	5,685,017
Total	28,453,079	27,715,769	34,398,667	33,140,525	32,519,301	33,479,646	36,782,279	38,653,472
Percentage shares								
Total								
Agriculture	55.2	43.4	45.3	43.3	44.0	42.0	41.2	40.3
Mining & quarrying	0.7	0.8	0.5	1.1	1.0	1.0	1.0	1.0
Manufacturing	10.2	12.6	13.0	11.8	12.7	12.5	12.4	12.2
Electricity, gas & water	0.2	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Construction	2.8	4.8	3.9	4.8	4.9	4.9	5.3	5.3
Trade, restaurant & hotels	14.8	17.5	20.6	20.4	19.1	20.1	20.6	20.7
Transportation, storage & communications	3.1	4.4	5.1	5.8	6.0	5.9	6.0	6.0
Financing, insurance, real estate & business services	0.7	0.8	1.0	1.2	1.2	1.4	1.4	1.4
Community, social & personal services	12.4	15.3	10.7	11.2	11.0	11.9	12.0	12.8
Total	100	100	100	100	100	100	100	100

	1990	1995	2000	2004	2005	2006	2007	2008
Men								
Agriculture	54.8	43.3	44.4	42.6	43.8	42.5	41.1	40.6
Mining & quarrying	1.0	1.1	0.7	1.4	1.2	1.3	1.4	1.5
Manufacturing	9.2	11.3	12.1	11.0	11.4	11.3	11.3	11.2
Electricity, gas & water	0.3	0.4	0.1	0.3	0.3	0.3	0.2	0.3
Construction	4.4	7.2	6.1	7.3	7.3	7.4	8.1	8.3
Trade, restaurant & hotels	11.5	13.8	17.5	16.9	15.8	16.7	16.4	16.5
Transportation, storage & communications	5.0	6.7	7.9	8.7	8.9	8.7	8.8	8.6
Financing, insurance, real estate & business services	0.8	0.9	1.1	1.4	1.4	1.5	1.6	1.6
Community, social & personal services	13.1	15.3	10.2	10.3	9.9	10.2	11.0	11.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Women								
Agriculture	56.0	43.6	46.7	44.6	44.3	41.1	41.4	39.9
Mining & quarrying	0.3	0.4	0.2	0.5	0.4	0.3	0.3	0.3
Manufacturing	11.8	15.1	14.3	13.3	15.1	14.6	14.3	14.0
Electricity, gas & water	0.0	0.1	0.0	0.1	0.0	0.1	0.1	0.0
Construction	0.2	0.4	0.4	0.3	0.3	0.4	0.4	0.3
Trade, restaurant & hotels	19.8	24.2	25.6	26.8	25.2	26.5	27.7	27.7
Transportation, storage & communications	0.2	0.3	0.6	0.6	0.5	0.9	1.0	1.8
Financing, insurance, real estate & business services	0.4	0.7	0.7	0.8	0.9	1.2	1.1	1.1
Community, social & personal services	11.3	15.3	11.4	12.9	13.1	15.0	13.8	14.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BPS

Table II.5
Background indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross domestic product (annual growth rate)	4.9	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.1
<i>Source: ADB, Asia Economic Monitor 2007; For 2008: IMF, World Economic Outlook Database, April 2009</i>									
Gross domestic product per capita (constant 2000 US\$)	800	818	844	872	904	943	983	1,033	1,083
<i>Source: World Bank, World Development Indicators</i>									
Gross domestic product per capita, purchasing power parity (PPP) (constant 2005 US\$)	2,714	2,776	2,862	2,959	3,066	3,197	3,335	3,504	3,674
<i>Source: World Bank, World Development Indicators</i>									
Number of poor (millions)	38.7	37.9	38.4	37.3	36.1	35.1	39.3	37.2	35.0
Percent of poor	19.4	18.4	18.2	17.4	16.7	16.0	17.8	16.6	15.4
<i>Source: BPS</i>									