Better Work Indonesia

Project Brief

OBJECTIVE

Better Work looks to create an industry where garment and footwear factories provide safe, inclusive, and profitable opportunities to women and men who seek employment, and where factory owners and buyers design their policies in a way that respects workers' rights as a mechanism to grow and expand their businesses. In this vein, Better Work's long term goals are improved worker health and wellbeing (particularly women workers), as well as spill over to improve workers families' welfare, while at the same time growing national industry via increased productivity and profitability in factories.

KEY PARTNERS

- Ministry of Manpower
- Ministry of Trade
- Ministry of Industry
- National Development and Planning Agency (Bappenas)
- Indonesian Employers' Association (Apindo)
- Indonesian Textile Association (API)
- Trade Union Confederations
- International Buyers

GEOGRAPHICAL COVERAGE

The apparel industry in Greater Jakarta, West Java, Central Java and Yogyakarta.

DURATION

- Phase I (July 2010 – June 2012, 2 years)
- Phase II (July 2012 – July 2015, 3 years)
- Phase III (January 2016 – December 2018, 3 years)

BUDGET

- USD 670,000 for Phase I Implementation
- USD 4,054,596 for Phase II Implementation
- USD 8.943,937 for Phase III Implementation

DONOR

Australia (Department of Foreign Affairs and Trade/DFAT)

Germany (Federal Ministry for Economic Cooperation and Development/BMZ)

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

Netherlands (Ministry of Foreign Affairs)

Switzerland (State Secretariat for Economic Affairs/SECO)

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Background

Indonesia is shifting away from an economy dominated by the agricultural sector towards an economy with a greater share of activities within the industrial and services sectors in urban areas. Agriculture is still the sector with most people employed, employing 40.8 million people, followed by trade (25.8 million) and the social and government services sector (18.5 million) in February 2014. The manufacturing sector employed 15.4 million people or 13 percent of total employment in the same period. Employment in manufacturing has been growing rapidly in recent years and is now higher (in terms of sectoral share and absolute numbers) than its pre-1998 status.[1] In 2015, the manufacturing sector is contributing to 22 percent of Indonesia's GDP.[2]

As per the 2015 labour survey, a total of 2.2 m[3] people work in the apparel sector. However the large majority of 1.6 m works in small enterprises which are rarely linked to the export market. Following the latest survey from the Indonesian Statistics Institute (BPS) from 2013, the apparel sector (ISIC 141) employs 516,352 workers in 1,749 large and medium enterprises.[4] Of these enterprises 89.38 percent of the produced goods are exported.[5] Whereas there has been a decline in the number of workers, compared between 2012 and 2013 due to a general decline in the industry, the productivity of workers and the percentage of goods exported have been steadily increasing over the last years.

Without free trade agreements, Indonesian textile and garment producers are currently being charged duties ranging from 11 to 30 percent to main export destinations, including the EU and USA. The country is holding talks on a long-delayed comprehensive economic partnership agreement with the EU, which is expected to boost the competitiveness of its products to the 28-member bloc. In 2015, by country/region of destination, the largest market for Indonesian textiles and textile products exports is the US, which accounts for 31 percent, followed by the EU with 16 percent, Japan on 10 percent, Turkey on 5 percent and ASEAN on 7 percent.[6]

The industry also faced a number of new challenges in recent years, including automatic electricity-price adjustments. Power prices fluctuate each month depending on the rupiah exchange rate, crude oil price and inflation. Depreciation of the local currency against the US dollar has been pushing up electricity rates, which contributes between 18 -26 percent to costs in the textile and garment industry.

Furthermore half of the sector's raw materials are imported and are therefore strongly affected by the Rupiah devaluation. Another challenge of the sector is insufficient infrastructure with ailing roads and ports. Should the political reforms be implemented as planned, it is expected that costs for electricity and logistics will decrease over time.

While the garment industry offers many countries, including Indonesia, the opportunity to grow their economies, support inclusive development, and promote women's empowerment and participation in the labour market, there are still challenges to turning these opportunities into realities. Issues at the level of implementation of occupational safety and health regulations, and human resources practices (including verbal abuse of workers), are all major challenges in the industry. Factories may perceive good working conditions as a business cost as opposed to a benefit, and investment in improved safety regulations or better industrial relations is still underway.

The Indonesian labour inspectorate, part of the Ministry of Manpower, is still working towards enforcing legislation that is in place and promoting a culture of better working environments. Though factories should have a certified labour expert on staff, this is still in the process of being fully implemented. In addition, the labour inspectorate continues facing capacity issues, making it difficult to enforce legislation and standards.[7] As the inspectorate continues to ramp up efforts to improve its capabilities and integrate labour experts into all qualifying workplaces, garment factories are still struggling to comply with minimum standards related to working conditions.

Given these challenges, many international buyers have developed their own social auditing programmes. However, these audit programmes create duplication for factories and often take an in-and-out, checkbox audit approach that does not dig deep to invest in longer-term, sustainable changes. Few programmes look to address compliance, systems, and policy and practice issues at all levels in the supply chain.

1 Labour and Social Trends update August 2014

2 Source: BPS 2015 http://bps.go.id/linkTableDinamis/view/id/827

3 Source: BPS (2015) National accounts, Badan Pusat Statistic, Jakarta

4 According BPS a small firm has 5 to 19 workers, a medium firm has 20 to 99 workers and large firms have 100 or more workers. This definition differs from ILO's definitions (medium 50 to 250 workers and small 10 to 50 employees).

5 Source: BPS (2012) Manufacturing Industrial Indicator, Indonesia 2012, Badan Pusat Statistik

6 The Jakarta Post, July, 29th 2015

7 As discussed in the grant Better Work Funding Proposal for Workplace Improvement Projects, subproject "Creating Stronger Partnerships with Local Labour Ministries" to be funded by Disney. This project aligns with the ILO project entitled "Strengthening Workplace Compliance through Labour Inspection."

In the Indonesian context, the unpredictable costs of running a textile factory because of unclear costs in related industries (for example, the cost of electricity)[8] and challenges related to high import/export duties mean that an approach that deals with all stakeholders is especially necessary. As such, a push towards sector level changes in practice and policy, including a strengthened labour inspectorate as mentioned above, are necessary steps to ensure wider-scale impact. Working with factories, but also with international institutions, the government, and buyers means that factories who are not currently exporting may also receive some positive gains as a result of spill over from better policies and practices.[9] [10]

Better Work looks to address the problem above on an international scale by moving away from sweatshop conditions and replacing them by a model that is good for workers and good for business. Better Work wants to inspire changes in mentalities of factory managers, governments and workers in order for them to take ownership in driving change. At a practical level, this means working directly with factories, the government, unions, and buyers to determine concrete actions to improve working conditions, productivity, and industry stability.

Better Work Programme

Better Work Indonesia is a partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC). The programme aims to improve compliance with labour standards and promote competitiveness in global supply chains. Better Work focuses on scalable and sustainable solutions, through strengthening cooperation between governments, employers' and workers' organisations and international buyers. The protection of workers' rights and entitlements helps distribute the benefits of trade to promote human, social and economic development. Compliance with labour standards can assist enterprises to be more competitive, by improving access to new markets and buyers.

The Better Work programme builds on the experience gained the ILO's Better Factories Cambodia project, which has not only successfully improved working conditions and compliance with labour standards, but has also increased competitiveness through monitoring factory-level remediation and training.

Better Work Indonesia combines independent enterprise assessments with advisory and training services to support practical improvement through workplace cooperation. Using a specially designed online information management system, factories can share assessment and remediation information with their buyers. This in turn allows buyers to reduce their own auditing and redirect resources to fixing problems and focusing on sustainable solutions.

One of the distinguishing features of the Better Work programme is its emphasis on solving compliance challenges at the factory and sectoral level through dialogue between workers and management, as well as between stakeholders in the sector. In addition to core service delivery and social dialogue, Better Work Indonesia also plays a catalytic role for labour market governance by up-scaling and sharing the knowledge that the programme gains through its operations .in order to influence national policies, international buyers and practices.[11]

8 Costs of running a factory have become difficult to calculate given unpredictable electricity costs, a push for a higher minimum wage, depreciation of the local currency against the US Dollar.

9 According BPS a small firm has 5 to 19 workers, a medium firm has 20 to 99 workers and large firms have 100 or more workers. This definition differs from ILO's definitions (medium 50 to 250 workers and small 10 to 50 employees).

10 Source: BPS (2012) Manufacturing Industrial Indicator, Indonesia 2012, Badan Pusat Statistik

11 Examples include capacity building for local labour inspectors, particularly in terms of OSH; and advising the Ministry of Manpower on the labour standards compliance program and assisting in development of the compliance self-assessment tool.

A Range of Beneficiaries

Ultimate beneficiaries include government, workers,factories and buyers in global supply chains. Benefits gained through participation in Better Work Indonesia may include:

- **Factories** - Increased market access through demonstration of labour standards compliance to international buyers, enhanced reputation, reduced worker turnover, fewer social audits, reduced audit burden, improved productivity and competitiveness.

- **Workers** - Better protection of worker rights, improved working and living conditions, and increased opportunities for decent employment.

- **Government** - Export growth through increased market access, increased employment, a more competitive industry, business-enabling environment reforms, improved capacity in labour administration, and recognition for promoting decent work; and

- **International Buyers & Vendors** - Reduced audit burden and a secure, ethical source of supply, combined with an enhanced reputation amongst consumers and a demonstrable contribution to better working conditions, more effective management at factory level for buyers and vendors to work with, increased stability of relationships and alignment across the global supply chain.

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