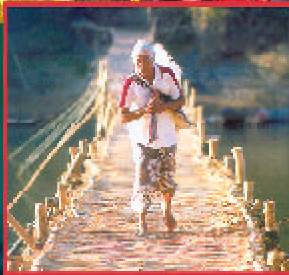




International
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Jakarta

Indonesia: Working out of Poverty



**Skills development for
economic growth and
sustainable livelihoods**

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In Preparation for the ILO's submission to the Poverty Alleviation Committee in Indonesia, a series of 12 (twelve) Technical Briefing Notes (TBNs) have been prepared which serve two purposes; first, as background documents, on issues and policy choices critical to poverty reduction and secondly, as building blocks towards a comprehensive report: "*Working Out of Poverty: an ILO submission for the Indonesia PRSP*".

This briefing note address ***Skills development for economic growth and sustainable livelihoods***. Other themes in series include the following:

- Employment dimensions of macro and sectoral policies;
- Decentralization and decent work: making the connection to the MDGs;
- Job creation and enterprise development (SMEs and local economic development);
- Youth employment: pathways from school to work;
- Rural development: access, employment and income opportunities;
- Promoting the declaration on fundamental principles and rights at work;
- Eliminating the worst forms of child labour;
- Social protection for all;
- Promoting good governance in the labour market by strengthening tripartism and social dialogue;
- Migration: opportunities and challenges for poverty reduction;
- Gender and poverty.

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SKILL DEVELOPMENT FOR ECONOMIC GROWTH AND SUSTAINABLE LIVELIHOODS

Education in Indonesia has advanced relatively well which is reflected in the increasing literacy and enrolment rates in all levels of education. Yet the 1997 economic crisis has somewhat disrupted this human capital investment process. The economic crisis has affected not only current but future income earning capacity of the Indonesians especially the poor by impeding their education. The literacy rate in Indonesia was 87 percent in 2000, which placed Indonesia in the group of countries of medium human development index.¹ Almost 59 percent of the Indonesian labour force had either no schooling, or not completed elementary school, or completed elementary school in 2002. Those of the labour force with diploma or university certificates were only 5 percent.

Protecting humancapital

The significant aftermath of the crisis is that poor families tend to withdraw their children from school due to falling incomes and inability to afford school fees or other necessary costs. Working-age children confront immediate opportunity costs of education versus income generating activities. There has been substantial number of those who leave school before they qualify even a basic level (9 years). They are likely to become unqualified workers and will be a major determinant of overall productivity in the economy for decades to come. Realizing that it is important to at least sustain investment in particularly basic education, the Indonesian government has provided crisis relief programs.

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¹ Human Development Report 2002, Oxford University Press, Inc.

During the time of economic crisis the Government of Indonesia has increased basic education spending primarily due to the allocation for the crisis-relief programs providing scholarships and school block grants. This was in order to preserve its long term investment in human capital. Public spending on education in Indonesia has always been low (see Table 1). The government with the assistance from the World Bank launched a five-year national program to provide scholarships for poor children in junior secondary school, to provide block grants to schools servicing poor communities, and to mobilize the community to support education of their children. The program is still functional at present, hopefully by next year the government, using its state budget, will continue with this program.

Regarding those who had been retrenched from their works, the government provided programs for both skilled and unskilled workers. Labour intensive public works is the common remedy for unskilled workers. Regarding skilled workers some retraining programs were introduced to lead them to be self employed or setting up own businesses, which were based on local natural resources.

Table 1: Public Spending on Education (as % of GDP)

Country	HDI Rank in 2003	%	%
Indonesia	112	1.0 (1990)	1.43 (1998)
Malaysia	58	5.2 (1990)	4.62 (1997)
Thailand	74	3.5 (1990)	4.70 (1998)
Cambodia	130	5.54 (1998)
Singapore	28	3.07 (1995)

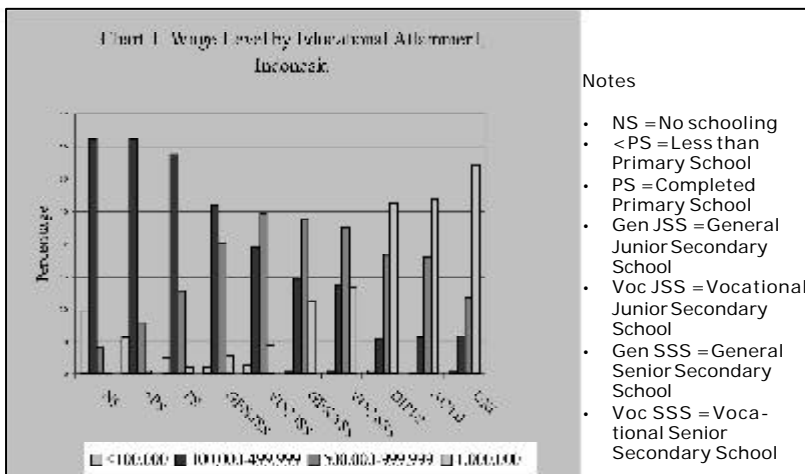
Sources: World Development Indicators 2002 and Human Development Reports 2003

Building human capital

One indication of a market failure in the education and training system is reflected by the fact that labour market demand does not create its own supply. In other words, the labour market requires types of workers that the education and

training system does not provide. Responding to this persistent fact the government particularly the Ministry of National Education and Ministry of Manpower and Transmigration introduced “*link and match*” and “*demand-driven training*” policies respectively aiming to integrate the education and training system with the labour market, increasing the employability of graduates and meeting the needs of employers.

Human resources policies in Indonesia have been broad based. The government has been focusing on the expansion of primary education which has now become nearly universal. The expansion of junior secondary education has not increased as much and serves significantly as an avenue to senior secondary education rather than to immediate employment. This is partly related to the expected increasing income with educational achievement. Data show that employees who had no schooling and did not complete primary school have a monthly income below the poverty threshold; it was US\$28 (Rp. 237 thousand) and US\$37 (Rp. 313 thousand) respectively in 2002. In contrast, the average monthly income of employees with a university degree was US\$154 (Rp. 1,306 thousand).² The linkage between wage level and educational attainment is depicted in Chart 1.



² Employees Situation in Indonesia 2002, Central Bureau of Statistics of Indonesia

Senior secondary education and university education have mushroomed due to increasing social demand for education, and the labour market at one stage continued to absorb more educated graduates. The overwhelming existence of such educational institutions is partly due to government policies, which allow for an unrestricted expansion in private education, and have contributed to a vigorous supply response to the rising social demand for education.

Education system in Indonesia consists of pre-school and basic education, junior secondary, senior secondary and higher education (polytechnics, diploma, academy, and university) as well as out of school education. Starting at secondary education level vocational and technical education is also offered.

Out of school education is run by the Ministry of National Education (MONE), it is aimed toward those who, for different reasons, are not able to participate in formal education. This informal education is delivered in the forms of Package A (equals to primary education), Package B (junior secondary education), Package C (senior secondary education) and other skill training packages including entrepreneurship training. The later is based on the regional resources and community's needs. Out of school education are commonly served in community learning centres which exist throughout the country.

The government (MONE) in line with the decentralization process has made some education reforms such as the following.

*School council/
committee*

This body is to replace the BP3 (parent-teacher body). School council is established in *kabupaten*/district level and school committee is in schools. The difference between the previous (BP3) and current body (school committee and council) is in its membership. The membership of school council/committee, apart from teacher and parents, also comes from community elements (industry, NGOs, academia and others). This is one of the mechanisms to get inputs for "link and match" education system.

*School-based
management*

This is a reflection that school have autonomy in managing their school affairs.

National final examination was formerly implemented by the central government, it is now done by school, with guidance from the central government. This also applies to syllabus development, however competency standards remain the authority of the central government.

National final examination

Skill formation may be acquired through vocational education and vocational training.

Vocational education and training

Vocational education in Indonesia is provided by public, private and company training centres. Vocational education in Indonesia covers mainly commercial fields (administration, accounting, marketing, management, and so on). Technical education includes drawing, surveying and mapping, building construction, water works, electrical installation, electricity usage, machining, communication electronics, automotive mechanics, general mechanics and ship maintenance.

Vocational education

A survey in 2000 showed that the number of government vocational schools and its students stood at 4,522 schools and 2,027,464 students respectively. Meanwhile, the number of government general schools and its students were 7,785 and 3,024,176 subsequently.³ As state earlier, vocational education mainly consists of commercial (*SMEAs*) and technical trades (*STMs*). Both trades comprise of 89 percent of the total secondary vocational students, most of whom attended private schools. Vocational education is considered more expensive than general education. Public expenditure on vocational education has been relatively low compared to general secondary education.

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The supply of skills of senior secondary level is dominated by private institutions: the number of senior secondary graduates from private schools is almost equal to that of graduates from public schools and even greater, (if religious schools are excluded). The number of graduates from private post-secondary institutions and universities has more than double then those from public institutions.

³ Statistical Year Book of Indonesia 2002. Central Bureau of Statistics of Indonesia

To follow up the link and match policy, “*dual education system*” has been introduced by the Ministry of National Education that started in 1994. Under the scheme, apprenticeships will run for three to four years, which is the duration of studies in a senior secondary vocational education. The scheme provides students the chance to work in the real world of work. This program is carried out in partnership with private companies. However, the success of the system remains to be evaluated.

Vocational training

With respect to training, it can be provided by the government, private training centre or company. Publicly provided training is only a fraction of that supplied by the private sector. Private training centres should register with the Ministry of Manpower or with the Ministry of Education. Company provided training is also extensive but mainly provides training for their own employees.

Public training is provided by many Ministries such as the Ministry of Manpower, Industry and Trade, and Agriculture. The activities of different agencies involved in training are covered by Presidential decree No. 34/1972 that stipulates that (a) the Minister of Education and Culture is in charge of and responsible for the management of general education and vocational education; (b) the Minister of Manpower for vocational training to the non-government sector; and (c) National Agency for State Administration (*Lembaga Administrasi Negara/ LAN*) for the training and education of government officials. With the introduction of Act No. 22 of 1999 on regional autonomy, some functions are transferred to the regions. Central government is responsible only to formulate standards and guidelines but most implementation should lie on the regions. This is the case with education and training. In the case of training, for example, the originally MOMT-owned vocational training centres (VTCs) are now under the regional government ownership; except for 6 VTCs, which remain in control of MOMT and function as the centres for excellence.⁴

⁴ There were 153 vocational training centres (VTCs, locally referred to as *Balai Latihan Kerja (BLK)/Kursus Latihan Kerja (KLK)*, around 50 in urban areas and the rest were in rural areas. Initially, the orientation of vocational centres was intended to provide fully subsidized courses in the trades (mechanical, agriculture, welding and so on) leaving upon private training centres and employers the responsibility “to meet the demand of the labour market.” However, due to budgetary restrictions, training is provided in less expensive areas (such as computers, tailoring, dressmaking, tourism, and driving) that are already served by private training institutions. Cost recovery measures have been introduced.

These VTCs however were considered to have weak linkages towards employers' demand, since the labour market outcomes of graduates (earnings, job search duration and unemployment) were more or less the same to those of other job seekers.

Mobile Training Unit (MTU) have been used to provide training in basic knowledge and skills to dispersed rural communities, with management and support provided by the Ministry of Manpower and Transmigration's smaller vocational centres.

The training programs under the MOMT covered a wide range of groups and areas. In practice, programs are targeted at mainly jobseekers (school drop outs but increasingly secondary school graduates) who receive training in vocational training centres (*BLKs/KLKs*) and self-employed workers in small business or agriculture who receive training either through *Dinas Tenaga Kerja* or a mobile training unit attached to a vocational training centre. The Directorate of National Productivity at the Ministry of Manpower and Transmigration is responsible for the development, administration and delivery of management skills training and consultancy services to mainly private companies.

The MOMT has developed a further three programs to develop job opportunities that are labour intensive, use appropriate technologies, and apply to both educated manpower and manpower in the informal sector. The three programs are "the Educated Volunteer Program", "Training in Appropriate Technology", and "Training for Self-Employment and the Informal Sector". In addition, the MOMT also run apprenticeship training. Meanwhile, the Ministry of Trade has a program for Economically Weak Traders.

Other training

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Educated Volunteer Program provides training and creates job opportunities for educated unemployed graduates and stimulates university graduates to join voluntary work to serve as pioneers for developmental reform. The training part of the program intends to impart skills appropriate in running a small business and the employment part assigns graduates to villages for volunteer work. The target group is unemployed polytechnic and

university graduates. Though the program is managed by the Ministry of Manpower the participants were from other ministries too. In the past, volunteer graduates may find their way to government employment and undergo additional training to acquire skills required for work in the public sector.

Appropriate Technologies Training aims to create employment for people with limited education in poor rural areas by utilizing local resources. The program is administered by Ministry of Manpower regional office throughout the provinces. Capable individuals are identified from government, banks and NGOs and are given a six-week training course in technology appropriate to the community. The transfer of these skills and knowledge is expected to increase the ability of individuals and groups to produce local items for sale.

It is most likely that no sufficient evaluation of these training programs have been undertaken. Despite its high costs, the incentives to facilitators are generally deemed to be low. The scope of training that facilitators provide is limited, and there is no follow-up of what facilitators do.

Entrepreneurship Training and Other Self Employment Programs. Since the crisis the focus on micro and small and medium enterprises (SMEs) has been substantial. The government policies to develop this sector are overwhelming. Programs for micro and SME development exist in various government ministries such as in the Ministry of Industry and Trade, Ministry of Cooperative and SME, Ministry of Home affairs, and the Ministry of Manpower and Transmigration. Assurances to the micro and SME development are also provided by many NGOs, Civil Society Organizations (CSOs) and donor agencies such as CIDA, ILO, ADB, and World Bank. SME development is one of the prime focus of the APEC's working groups too. The entrepreneurship programs are often inter-ministerial (for example, undertaken jointly between MOMT with the Ministry of Industry and Trade). Some provide training that lasts for two months and offer training in basic skills necessary to run a small business; additional trainers are often contracted from private institutes and take place in temporary rented sites. Management training is also offered to secondary

and some university graduates to start a small business. There are also special programs for primary school leavers and secondary school drop-outs in basic skills that can be used in self-employment. In some cases, stipends are paid to participants.

Apprenticeship Training. With the aid of foreign funds (WB Loan 2705-IND) in late 1980s the Ministry of Manpower and Transmigration developed apprenticeship program that was designed by combining training on- and off-the-job and last for a period of one to two years. However, this particular program was never implemented but, another apprenticeship scheme was introduced in 1994.

Recently there is a proposal for the establishment of the Board of National Certification for Professions (*Badan Serifikasi Nasional Profesi/BSNP*). The approval is still in the process. The plan is the board will work together with professional associations as the later are believed to be key players in determining standards and certifications of their professions. It is believed that determining standards is not the governments role; it should be left to the professional association.

Skills certification

Young graduates who are mostly inexperienced need some information and counselling about the world of work and its various aspects. Schools and universities provide guidance and counselling services in the hope to help students with career perspectives. Although such programs (applies both to public and private institutions) have existed for some years, not all schools and universities have participated in it.

How to prepare graduates to enter the labour market

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On the demand side, the government (Ministry of Manpower and Transmigration) runs the registration of job seeker by issuing a yellow card to find employment.⁵ The success of job placement using this yellow card is questionable. A pilot project

⁵ This yellow card is a token that one has registered with the authority. To apply for government jobs requires a candidate to have a yellow card, an evidence of job seeking registration. However, this yellow card procedure is known for its uselessness.

on employment services around greater Jakarta had been carried out several years ago, lack of funds is the main reason for the non sustainability of this project. Recently, the MOMT has launched an on-line job exchange through the ministry's website.

In relation to this, the government (MOMT) obliges private sectors (private companies) to report job vacancy in their companies in accordance with the Act No. 7 of 1981 on Job Vacancies. Again the compliance rate is relatively low.

Lately there have been job fairs which were conducted either by the government (MOMT) or universities. A number of companies participated in these job fairs and the enthusiasm of job seekers was overwhelming reflecting high youth unemployment and high aspirations to seek good jobs.

Policy recommendations

There are many public training programs that are not designed in a way that clearly addresses failures in the provision of skills. Some were initiated and others expanded in an uncoordinated fashion with donor assistance. Overall, unit costs are high and create significant pressure on the public budget. Mobile training has usually high costs and is run below capacity levels. To make it fully operational at the current level of quality would require increasing the current allocation of public funds. Given that mobile training takes place primarily in rural areas, its usefulness should be examined against the costs of alternative investments in human capital (such as education and health) or infrastructure.

The coordination between the Ministries that are involved in the planning and implementation of training could also be improved: there is a need to have a single mechanism to develop private training to provide national guidance and encourage decentralized implementation.

There is a need to reevaluate the sustainability of the existing programs particularly the ones that are carried out on large scale basis, for example dual education system or apprenticeship program. For this reason, it is urgent that an effective mechanism of monitoring and evaluation on the

success of education/training programs in terms of linkage to labour market (cost effectiveness, job placement and other achievement indicators).

A review on the effectiveness of 'yellow card' needs to be undertaken in that way decision could be made whether to continue with this scheme or replace it with another.