

**Consultative Forum on a Strategy for
Employment-Led Recovery
and Reconstruction in Indonesia**

CONCLUSIONS

ILO / DEPNAKER / BAPPENAS

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International Labour Organization
February 2000

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FOREWORD

The Tripartite Consultative Forum on a Strategy for Employment-led Recovery and Reconstruction held in Jakarta at the end of last year sharply focussed on the findings of the ILO Employment Strategy Mission to Indonesia undertaken in the spring of 1999.¹

This report of the Employment Forum not only highlights the issues debated but also prioritizes the future needs of the country to ensure Indonesia's recovery is based on employment creation.

In this respect the important role of micro-finance and the need for an "Employment Fund" for wage-employment, self-employment and retraining for deployment is initially being considered as the two areas for priority action.

A follow-up mission to deal with the above is expected from ILO, Geneva in April 2000 which will work closely with the ILO employment specialist in Jakarta attached to the UNDP/United Nations Support Facility for Indonesian Recovery (UNSFIR).

February 2000

Iftikhar Ahmed
Director
ILO Jakarta

¹ ILO: *Indonesia: Strategies for Employment-Led Recovery and Reconstruction – Main Report* (Geneva/Jakarta, October 1999).

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THIS VOLUME WAS COMPILED BY:

INDAH A. PUTRI

EVA TRISIANA

RINI SAID

POPY NOVITA

IT WAS EDITED AND FINALISED BY:

SUAHASIL NAZARA

IYANATUL ISLAM

LIST OF ABBREVIATIONS

BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Planning Board)
BLK	Balai Latihan Kerja
BPS	Badan Pusat Statistik (Central Board of Statistics)
CGI	Consultative Group on Indonesia
CSME	Cooperative, Small and Medium Enterprise
DEPNAKER	Departemen Tenaga Kerja (Ministry of Manpower)
DEPDIKBUD	Departemen Pendidikan dan Kebudayaan (Ministry of Education and Culture)
DEPDIKNAS	Departemen Pendidikan Nasional (Ministry of National Education)
ILO	International Labour Organization
JAMSOSTEK	Jaminan Sosial Tenaga Kerja
KLK	Kelompok Latihan Kerja
NGO	Non-governmental Organization
NTCB	National Tripartite Cooperation Body
SAKERNAS	Survei Angkatan Kerja Nasional (National Labour Force Survey)
SSN	Social Safety Net
SUSENAS	Survei Sosial Ekonomi Nasional (National Socio-economic Survey)
UNSFIR	United Nations Support Facility for Indonesian Recovery

I

Introduction

Chapter 1

INTRODUCTION

At the request of the Government of Indonesia, the ILO fielded an Employment Strategy Mission in April 1999. The mission was undertaken against the backdrop of severe adverse social effects of the economic crisis that the country experienced over the course of 1998. The main purpose of the mission was to recommend strategies, policies and programmes for responding to the challenge of job creation posed by the economic crisis in Indonesia.

The ILO, in collaboration with DEPNAKER and BAPPENAS, held a Consultative Forum on *A Strategy for Employment-led Recovery and Reconstruction* in Jakarta on the 23rd to 25th of November, 1999. The purpose of the Forum was to present the findings and recommendations of the Employment Strategy Mission of the ILO and to critically review and assess the strategies for employment-led recovery and reconstruction of Indonesia. The Forum emphasized the special efforts needed to tackle the adverse labour market consequences of the economic crisis in Indonesia as the basis for follow-up activities with the ILO constituencies.

The Forum was organized in two plenary sessions and four clusters. Representatives of DEPNAKER and BAPPENAS chaired the clusters. The speakers were mainly members of the Mission, together with recognized national scholars, international experts and high-ranking civil servants. Presentations were made on respective thematic findings/recommendations. These were evaluated by discussants and buttressed by deliberations from the floor.

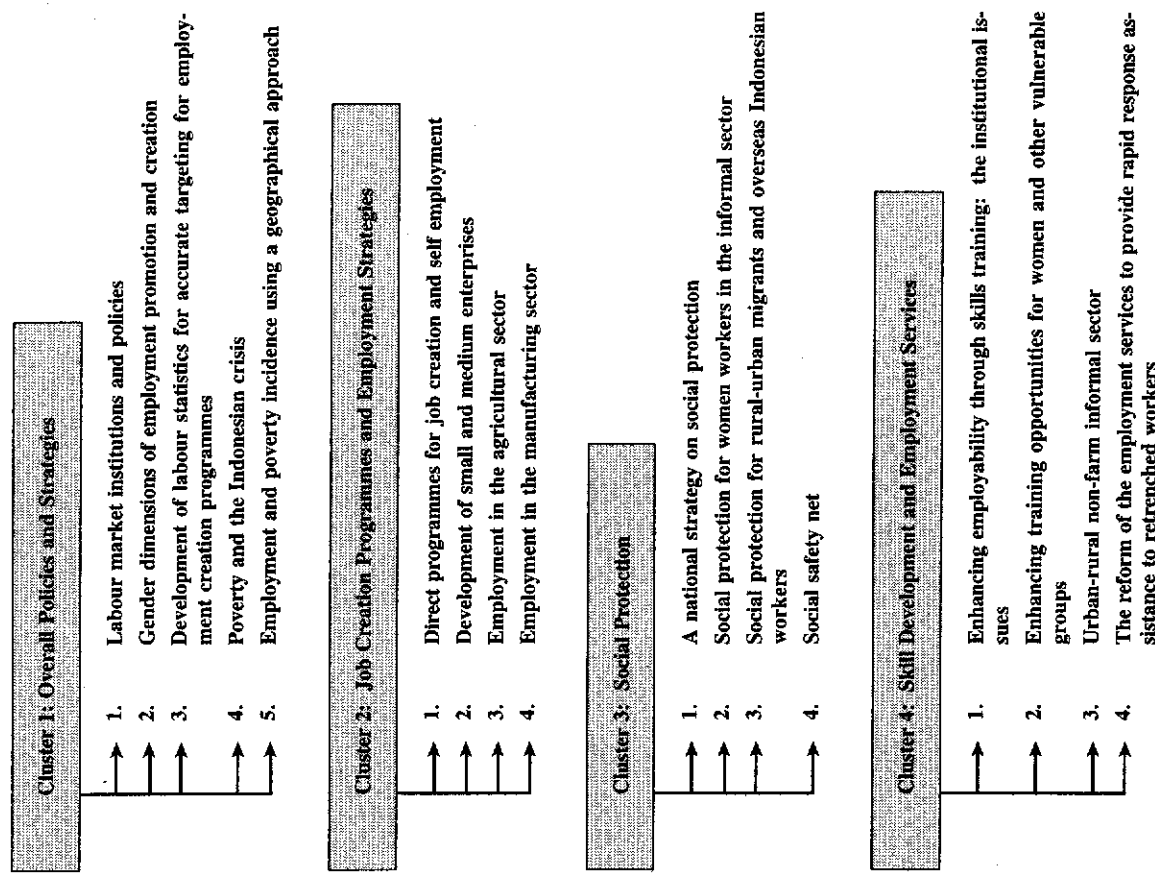
The first plenary session was presided by Mr. Yudo Swasono, the Head of Manpower Planning and Development Board, DEPNAKER and Mr. Tirta Hidayat, the Head of Manpower Bureau,

BAPPENAS, followed by welcoming remarks by Mr. Iftikhar Ahmed, Director of ILO Jakarta. Mr. Goran Hultin, Executive Director of the Employment Sector, ILO Geneva, delivered the opening speech. His Excellency Mr. Bomer Pasaribu, Minister of Manpower, gave the keynote speech. The Main session was held by Mr. Rizwanul Islam, the team leader of the Strategy Mission and consisted of the presentation of the broad findings and recommendations of the Mission. The inauguration of the Forum was followed by a press conference.

The second and final plenary sessions were concerned with the presentation of the key conclusions and were adopted by the Forum participants. The four cluster sessions were organized along the following topics: (1) Overall policies and Strategies, (2) Job Creation Programmes and Employment Strategies, (3) Social Protection, (4) Skill Development and Employment Services.

The recommendations and report of the consultative forum are anchored in sub-topics in each cluster – please refer to the details in Figure 1. For each cluster, recommendations are highlighted at the beginning of the discussion, classified into those that need immediate and supplementary actions.

Figure 1



2

Recommendations and Summary of Clusters

RECOMMENDATIONS AND SUMMARY OF CLUSTERS

2.1. Cluster Group 1: Overall Policies and Strategies

Guiding principles

The strategies on employment-led recovery and reconstruction in Indonesia rely on the following guiding principles:

- *The integration of intersectoral macro economic policies entailing the consistent configuration of monetary, fiscal and exchange rate policies. Reinforcing these policies is the appropriate pace and sequencing of bank restructuring as well as the dismantling of various market distortions. At the crux of this policy configuration is a change in the role of the government from being a highly centralized and hierarchical institution to an institution that engages in a genuine partnership with the private sector and civil society to foster a coherent strategy of equitable, gender-sensitive and employment-friendly growth.*
- *A two-track approach is necessary for employment-led recovery: one focuses on macroeconomic measures to promote labour intensive growth, the other focuses on direct job creation programmes, employment services and labour market training.*
- *A close interaction is vital between agencies responsible for formulating policies (e.g., ministries of finance, commerce, agriculture, industry, etc.) and those concerned with employment (e.g., ministries of manpower, and the planning agency). Likewise, such an interaction is also needed between*

central and local manpower offices, especially in light of the impending decentralization agenda in Indonesia

- *Agriculture, informal and self-employment sectors have acted as the safety valve during the crisis and hence deserve special attention in terms of their labour absorptive capacity. Over the long run, a sustainable development strategy has to aim at transferring underemployed workers from agriculture to higher productivity jobs in the modern sector, as well as relocating those in the informal to the formal sector.*
- *The importance of improving productivity is central to increasing efficiency and competitiveness of the Indonesian economy. This can be achieved by knowledge and skill-based growth entailing an enabling macroeconomic environment and judiciously designed interventions in the realm of education and training.*

Specific Recommendations on:

1. Labour market institutions and policies

- Recommendation requiring immediate action**
 - DEPNAKER should establish a pilot scheme on decentralized manpower offices as a means of drawing lessons for larger scale institutional reforms.
 - DEPNAKER should initiate capacity building of local manpower offices on programme design, targeting and implementation.
- Recommendation requiring supplementary action**
 - The role of National Tripartite Cooperation Body (NTCB) needs further review in order for the Body to become a key agent in the formulation and monitoring of employment policies.

2. Gender dimensions of employment promotion and creation

- Recommendation requiring immediate action**
 - The government is recommended to establish a gender awareness programme directed at government officers in policy planning and programme implementation.
- Recommendation requiring supplementary action**
 - The government should explore the option of setting a target percentage for women's share in all public-funded programmes in order to ensure that women benefit from various education, training, and employment programmes. This intervention should primarily be targeted to the poor.

3. Development of labour statistics for accurate targeting for employment creation programmes

- Recommendation requiring immediate action**
- DEPNAKER should establish a task force identifying specific programmes and data required for an appropriate reporting system.
 - A comparison and reconciliation of the administratively generated data by DEPNAKER with those collected by BPS is necessary as a means of developing a consistent statistical framework for gathering Indonesian labour market data.

- Recommendation requiring supplementary action**
- Strengthening the well-established SAKERNAS is necessary. In particular, there is a need to consider adding questions on place of work and residence, and on intersectoral mobility and migration.
 - BPS should gradually extend the coverage of its establishment-based quarterly wage surveys to other major sectors of the economy: construction, transport, wholesale and retail trade, and services.

4. Poverty and the Indonesian crisis

- Recommendation requiring immediate action**
- The monitoring and regular analysis on Indonesia's poverty conditions from the perspective of labour market indicators (real wages, unemployment, underemployment, etc.) should be strengthened.
 - The above exercise should make a distinction between transient and chronic poverty, with a view to identifying appropriate policy actions.

5. Employment and poverty incidence using a geographical approach

- Recommendation requiring immediate action**
- DEPNAKER should conduct a thorough analysis of functioning of regional labour markets, especially in the light of the impending decentralization agenda in Indonesia.

→ → → Next set of recommendations on page 20 → → →

2.1.1. *Labour market institutions and policies*

Indonesian labour institutions suffer from four main shortcomings. They are: (1) lack of effective coordination across and within government agencies; (2) overcentralized decision-making process; (3) under-staffing and poor staff quality; and (4) the limited involvement of stakeholders in policy formulation and implementation.

There is a lack of effective coordination between government institutions, both in planning and implementation stages. Divisions within the DEPNAKER tend to work separately. The future reform of public administration in the realm of labour market institutions requires an integration of different sections within DEPNAKER.

Greater integration between the offices in the central and local government is also highly recommended. The decentralization of the decision making process is inevitable in Indonesia. The current decentralization agenda not only gives greater autonomy and accountability to the regional governments, but at the same time transfers a bulk of resources to those levels. The process will certainly change the central-local relationship, including that for manpower decision making. This implies that a well-defined elaboration of responsibility and authority of different levels of government entrusted with employment policies should be chartered. In addition, greater integration is also required among manpower offices in different regions. In this framework, the central-level manpower offices may serve as coordinators and facilitators of such integration.

The middle management of manpower offices suffers from insufficient number of staff who are fully trained in the design and operation of programmes. There is a need for capacity building. This can be accomplished by training programmes to upgrade technical knowledge in the field of programme design, targeting and implementation. While this problem is felt at the central level, the need is much greater at local offices.

The National Tripartite Cooperation Body (NTCB) as a forum of consultation, communication and cooperation among social partners exists at national, sectoral, regional and district levels. It is the responsibility of the NTCB to provide advice to the Minister of Manpower on employment and industrial relation issues. Further, the Body needs to forge closer links with various councils such as the National Productivity Council, National Training Council, National Wage Council and also the Regional Manpower Council. When more labour unions are more likely to appear in the future, the NCTB should take initiatives to establish links with them.

2.1.2. *Gender dimensions of employment promotion and creation*

Women in Indonesia have been increasing their participation in the labour force. During the 1990-1996 period the annual growth rate of the number of women workers was 2.3 percent per year. That rate is only 0.3 percent lower than that of men during the same period. Moreover, the self-employed women workers during that period grew at the rate of 8.2 percent per year. All of this is an indication that an increasing number of women were actively engaged in productive work even before the crisis.

Despite their important economic role, women workers are employed at wages lower than those earned by men (female wages are 69 percent of men's wages). Furthermore, more women tend to be unemployed than men. In 1996, the unemployment rate for men and women was 4.2 and 6.0 percent, respectively. Specifically for workers aged 15-29 years old, the 1997 unemployment rate was 27.4 and 21.2 percent, respectively. Women also tend to suffer a higher incidence of underemployment than men. In 1996, the underemployment rate for women was 54.0 percent which was almost twice that of men. Two factors contribute to this. First, women have more time household responsibilities. Second, women have less employment and economic opportunities due to traditional perceptions of women's and men's role.

In general, women in the working age have lower levels of education and skills than men: 12.8 percent of working-age women have no schooling (men are 5.9 percent), 35.1 percent have a maximum of primary education (men are 35.6 percent), and only 16.6 percent have completed secondary education (men are 19.3 percent).

The statistics show that women have been more economically active during the economic crisis. During the crisis period, between 1997-1998, the female participation rates increased by 18.4 percent which is far higher than that of men which was only 6.25 percent. In urban regions, where the crisis is believed to have hit the hardest, the female participation rate increased by 13.4 percent as compared to 9.47 percent for men. In fact, there are abundant anecdotal examples of women working during the crisis in order to offset the loss of income suffered by male members of the household.

There are two distinct groups of vulnerable women workers. Women home workers represent the first. Women tend to be typically employed as home workers and in home-based productions. Unfortunately, appropriate statistics are not available to document this feature of the Indonesian labour market. During the economic crisis many of these home and home-based workers suffered from the loss of income and employment opportunities. Policy needs to respond to this phenomena, especially since home-based workers are over-represented in poor households. Another vulnerable women's group is migrant workers, especially those working overseas. There are a plethora of reports on how Indonesian overseas women workers are subject to exploitation and both emotional and physical harassment and abuse. The government should take greater responsibility in protecting this valuable asset of the country.

The policy options that emerge from the above discussion also fall within the realm of social protection for women workers. The reader is referred to Policy Recommendations pertaining to Cluster III on Social Protection. However, it would be useful to emphasize two types of intervention that the government can undertake in making

future Indonesian growth more gender sensitive. One is to establish a gender awareness programme directed at government officers in policy planning and programme implementation. The other is to consider affirmative action by setting a target percentage for women's share in all public-funded programmes. The aim is to ensure that women benefit from various education, training, and employment programmes. This intervention should primarily be targeted to the poor.

2.1.3. Development of labour statistics for accurate targeting for employment creation programmes

BPS maintains well-established labour statistics. The data are obtained by a series of surveys conducted by the agency, especially its household-level surveys: SUSENAS and SAKERNAS. The well-established annual labour force survey SAKERNAS has become an indispensable tool for monitoring employment, unemployment, underemployment and wages in Indonesia.

The other potential source of labour data in Indonesia is the administrative recording system maintained by the DEPNAKER. Just as in other developing countries, this method of data gathering has not been well-developed. There are three advantages of using this administrative data. First, they are low cost as they are by-products of the bureaucratic system. Second, the data set is basically formed by a reporting system that is updated on a regular basis. Third, the labor-related administrative data should be exhaustive since reporting to the government is mandatory.

A process is needed to reconcile the survey-based data with administrative data. It is very likely that the definition and scope of certain concepts may differ between the two data collection methods. While the former would rely on the statistical and theoretical background of the labour market literature, the latter would reflect the actual situation in the real world. The reconciliation process does not necessarily mean that publications are centralized. Each agency may independently publish data generated by its own method.

It is just that the definitions and concepts need to be the same.

Useful guidelines for minimizing the drawbacks and capitalising on the advantage of administrative systems for generating labour statistics in developing countries can be found in *Labour statistics based on administrative records: Guidelines on compilation and presentation*, ILO East Asia Multidisciplinary Advisory Team (ILO/EASMAT), ILO Regional Office for Asia and the Pacific, Bangkok, 1997.

2.1.4. Poverty and the Indonesian crisis

The increase in nationwide poverty over 1996-1998 was moderate, which was contrary to the initial fears. On the other hand, overall inequality fell during the crisis period, reflecting the fact that the crisis primarily affected the well-off in urban-based activities, such as the financial sector. The rural economy fared better than urban areas. Indeed, parts of the rural economy experienced a windfall gain because of the massive exchange rate depreciation-driven increase in the competitiveness of export crops and the enhanced profitability of farming in general.

It is necessary to make a distinction between transient and chronic poverty in understanding the social consequences of the Indonesian crisis and its policy implications. It appears that there was a sharp, but transient, jump in poverty during the crisis. Tentative evidence for mid-1999 suggests that the crisis-induced increase in poverty has subsided to pre-crisis levels. This is largely because the increase in the numbers of the poor during the crisis was driven by a sudden surge in prices relative to historical norms.

On policy issues, there is a growing awareness that an anti-inflation strategy, if it is effectively enforced and helped by a greater degree of stability in the exchange rate, is an effective tool for fighting inflation-driven increases in poverty. In fact, a two-track policy, one focusing on aggregate price stability and the other on subsidizing prices of key goods and services consumed by the poor, may be

effective in mitigating the effects of exogenous shocks – such as the Indonesian crisis – on the poor. In the long run the regeneration of sustainable, labour-intensive growth holds the key for reducing poverty in Indonesia.

One *lacuna* in the regular monitoring of poverty analysis is the lack of any systematic link to the use of labour market indicators – such as trends in real wages and underemployment. The focus seems to be consumption-based indicators of poverty. Future work on poverty monitoring and analysis should invest greater efforts in forging a closer link between the behaviour of consumption-based poverty and labour market indicators.

2.1.5. Employment and poverty incidence using a geographical approach

In poverty monitoring and analysis as well as in tracking labour market indicators, there is a tendency to take a 'macro view' and focus on the aggregate dimensions of the problem. This obviously ignores Indonesia's geographical heterogeneity along with its urban-rural differential.

For the purpose of macroeconomic analysis, one can always see the whole country as an undifferentiated labour market, but careful inspections at the regional level highlight interesting and significant patterns. For example, the 1998 unemployment rates for the provinces in Indonesia range from 1.9 percent in Bengkulu to 12.3 percent in DKI Jakarta. Taking urban-rural differentials into consideration reveals that urban areas generally have higher unemployment than rural areas. This feature is evident both at the national as well as at the provincial level. For example at the national level in 1998, the urban unemployment rate was 9.3 percent while in rural areas it was 3.3 percent. This is basically the reason why a regional approach to the analysis of Indonesian employment and poverty is a pressing concern. It also makes sense to adopt such an approach in view of the impending decentralization agenda in Indonesia.

2.2. Cluster Group 2 : Job Creation Programme and Employment Strategies

Specific Recommendations on:

1. Direct programmes for job creation and self employment

- Recommendation requiring immediate action**
- The immediate assessment and evaluation of the *Padat Karya* programme is necessary as a basis for further improvement so that the activity can attain its key goals.
 - The establishment of an employment fund to assist wage-employment and self-employment activities is strongly recommended. International organizations will play an important role as the source of the fund in the short-run. In the longer run, however, the fund should be a part of labour market institutions in Indonesia where the public, as well as private, institutions in the country are required to contribute.
 - The government is recommended to review the existing micro-finance scheme and to explore ways of enhancing their effectiveness by tracking international best practice (e.g., the Grameen Bank model in Bangladesh).

2. Development of small and medium enterprises

- Recommendation requiring immediate action**
- The government should facilitate marketing and business networks aimed at improving the capability of small and medium enterprises.
 - The government should promote human resource development in the small and medium enterprises.
 - The government should provide a good conducive environment to SMEs to provide linkages between urban and rural markets, between large and small firms and between domestic and international firms.
 - Steps should be taken to improve access to credit faced by small and medium enterprises.

3. Employment in the agricultural sector

- Recommendation requiring immediate action**
- Public sector investment in rural economic and social infrastructures should be increased.
 - Policies should ensure that farmers get adequate supplies of internationally competitively priced inputs (seed, fertilizers, etc.)
 - Support is needed for the further development of commercially-based lending to small-scale rural borrowers.
- Recommendation requiring supplementary action**
- Steps should be taken to encourage the diversification of agricultural sector into new forms of export-based activities

4. Employment in the manufacturing sector

Recommendation requiring immediate action

- Policies should reinforce the role of labour intensive export-oriented manufacturing sector to generate employment and promote overall growth.
- Consistent macro economic policies (exchange rates, monetary and fiscal) should be adopted to establish a conducive business environment for the manufacturing sector to regain its dominance in the economy.
- There should be continued commitment to the dismantling of various entry and exit barriers as a means of promoting a dynamic manufacturing sector.

Recommendation requiring supplementary action

- Policy measures should be implemented to promote backward linkages aimed at reducing import dependency. Large firms need to explore possible benefits of greater linkage with small suppliers.
- Policy measures should be implemented to promote the development of resource-based export-oriented industries requiring low skills, technology and capital content.
- A review should be undertaken to formulate and implement policy measures in enhancing the technological capability of the manufacturing sector.

→ → → Next set of recommendations on page 32 → → →

2.2.1. Direct programmes for job creation and self employment: Padat karya and self employment

There are four reasons why direct job creation programmes (DJC) represent an essential component of an employment-led growth strategy for Indonesia:

- 1). Indonesia has been a labour surplus economy even before the crisis;
- 2). Pre-crisis GNP growth in Indonesia has been employment inelastic;
- 3). Segmented labour market, with a clear division between the primary and secondary segments of the labour market;
- 4). Persistence of poverty in spite of creditable advances in the social sectors.

There are two main activities in the DJC programmes. The first is the *Padat Karya*, and the other is the self-employment program.

Padat Karya, a labor-intensive job creation programme, is actually a reappearance of a government programme first initiated in the 1970s. It aims to build public infrastructure in rural Indonesia such as village roads, school buildings, etc. The MOM in cooperation with relevant ministries implemented the activities. In 1994 the programme was discontinued and was substituted by other poverty alleviation measures. In the wake of the crisis, the *Padat Karya* was resuscitated, with the target of providing employment and income to retrenched workers in construction and manufacturing sectors, two sectors which were most hit by the crisis. That first round of the programme, called PK1, was launched in December 1997. The second generation, PK2, was initiated in April 1998 with a larger scope of activities. As PK2 had an added objective to build public infrastructure, a range of relevant ministries were involved in the programme. There were sixteen sub-programmes altogether,

involving the Ministry of Forestry, Ministry of Public Works, BAPPENAS, and Ministry of Home Affairs.

The wider scope of the *Padat Karya* programme, especially PK2, made it very complicated and unfocused. The programme was designed to target a whole group of beneficiaries. Some sub-programmes were targeted to the new and the old poor, some to the retrenched workers, some to cover specific regions, etc. By and large, they were non-participatory and uncoordinated efforts. Programme monitoring was inadequate, if there was any, and significant leakages have been frequently reported.

In conclusion there are two key reasons that contribute to the failure of the recent *Padat Karya* programme. First, in the design phase, the programme suffered from inadequate preparation, inadequate information on local labour markets and inadequate targeting. Second, during the implementation phase, the programme suffered from inadequate community involvement, inadequate monitoring and excessive centralization.

On the other hand, self-employment has been successful in absorbing the surplus labour in the agriculture sector that had not been able to get into the fast growing modern sector. However, a range of policy measures, including fiscal and regulatory interventions have been systematically geared against the interest of the self-employed segments at the bottom ends of the market. Among those measures are regulatory monopolies affecting production and trade in a wide variety of agricultural products, faulty pricing and fiscal policies, indiscriminate taxes and levies raised by local governments, etc.

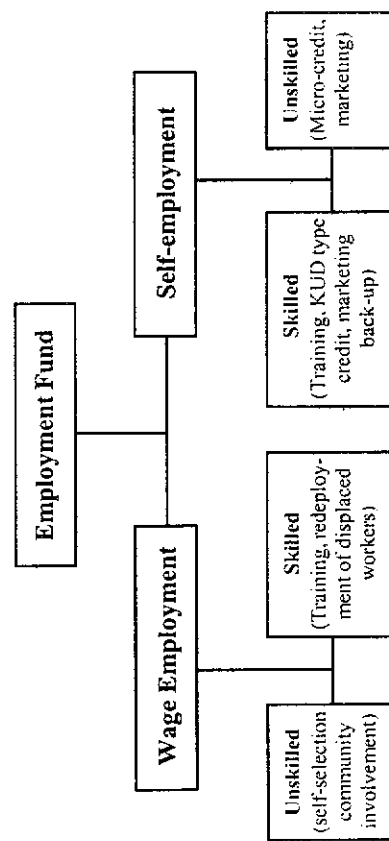
From the employers side, working capital is a major constraint for self-employment activities. It is therefore essential to develop comprehensive micro finance policies as a fundamental element of promoting self-employment strategy, especially for the poor. There is an immediate need to rationalize the Indonesian micro finance

scheme, as it is very large and complex. In addition, the availability of micro finance to the poor without assets with minimum collateral and attractive interest rates should form the crux of the future rationalization efforts. A useful start in this direction can be made by studying international best practice in this area such as the Grameen Bank.

Employment Fund

The proposed employment fund is intended to enhance employability of Indonesians in the wage and self-employment sectors. This fund, functioning as a supplement to other macro and labour market policy reforms, should be specifically directed to the needy, i.e., the poorer segments of the population. The key features of the proposed employment fund are depicted in Figure 2.

Figure 2



The employment fund has two main strands: the first is for wage-employment and the second focuses on self-employment. Both skilled and unskilled workers can make use of the fund.

In the case of wage-employment, the fund should be available to the unskilled. Wages for this group should be kept low to make it unattractive for those with higher reservation wages. Geographical targeting of the poor, as well as drought-afflicted areas, can be the priority of the fund. On the other hand, the proportion of the employment fund meant for the skilled and retrenched workers should involve retraining and redeployment programmes. Clearly the success of such programmes would depend greatly on the correct and adequate information of the labour market especially at the local and regional levels. The quality and timely availability of the labour information system is thus vital to these programmes.

The second strand of the fund, catering to the self-employed, can operate on Grameen Bank principles of micro-finance as is being currently done under the PHBK or P4K programmes. On the other hand, the fund for the skilled segment could be managed using the same principles as the KUD programme that relies on the commercial banking system for getting its loan finance.

2.2.2. *Development of small and medium enterprises*

A small enterprise is currently defined as an establishment employing five to nineteen workers, and medium enterprise is that employing twenty to ninety nine workers. A firm employing a hundred or more workers is defined as a large enterprise, while an establishment employing less than five workers is called a cottage enterprise.

The importance of small enterprises in the Indonesian economy can be seen in their magnitude and also the employment effect that they create. In 1994, there were approximately 34 million small enterprises which accounted for 99.8 percent of all enterprises in the country. The majority of the small enterprises are engaged in the agricultural sector (64 percent), followed by trade (17 percent) and manufacturing (8 percent). As a whole, the small enterprises contributed about 39 percent of 1994 GDP.

The significance of the small and medium enterprises stems from three characteristics: efficient use of resources of production, creation of employment and their impact in promoting a more equitable distribution of income. The importance of these small and medium enterprises is enhanced by the fact that a significant part of increases in the share of employment and value added originating in large establishments actually stems, not from establishments that were already large to begin with, but from small and medium enterprises that grew rapidly and became large.

Usually consisting of several small or medium enterprises that have a common interest, the cooperative is another type of small and medium enterprises which has received considerable attention from the government. Driven by the 'People's Economy Movement', the government has expended vast sums to finance both the cooperatives as well as small and medium enterprises. However, it is widely noted that those various credit and financing scheme are driven by political considerations thus hindering their capacity to succeed economically.

The consultative forum for employment-led Indonesian recovery notes that, together with the cooperatives, there are five areas of concern in CMSE (cooperative, small and medium enterprises) development. First, the promotion of institutional arrangement for CMSE to help individual producers and consumers to improve their productive capacity and welfare. Second, the improvement of production technology to accelerate growth of CSME in order to compete in an era of globalization. Third, the promotion of marketing and business network aimed at improving the capability of CSME to set up efficient market outlets. Fourth, the promotion of financing arrangements to support CSME for their working capital and investment. Finally, the promotion of human resource development in CMSE.

Related to the above issues on job creation and self-employment, CSME also faces credit access problem. Therefore

developing better access to credit and financial services ought to be a priority. This kind of scheme is also feasible within the proposed employment fund as previously discussed. Once this matter is dealt with, there is a need to ensure that the credit provided will be put to optimal productive use. Technical assistance will be of great benefit to these firms. It is also suggested that the government provide a conducive environment for the CSME to develop innovative links between urban and rural markets, relevant inter-sectoral linkages, backward and forward linkages among large and small domestic firms, and between domestic and international firms to stimulate demand.

2.2.3. Employment in the agricultural sector

Agriculture has proven to be a safety valve during the economic crisis enabling millions of households to use it as a coping mechanism during the crisis. Farmers of exportable agricultural products have indeed benefited significantly due to the depreciation of the rupiah. Despite tremendous escalation of prices in general, for these farmers the crisis has become a blessing in disguise. This is the major reason why this sector, in general, is regarded as the least affected by the crisis.

As a coping mechanism, the agricultural sector is always an alternative to workers displaced from jobs in the modern industrial sector. The data show that this is the sector with positive labour growth during the 1997-1998 period, in spite of decreases in other major sectors in the economy. Between 1997 and 1998 the agricultural labour increased by 4.6 million people, while the industry, trade, and service sectors decreased by 2.2, 0.4 and 0.2 million, respectively. The same statistics suggest that more than 80 percent of new annual entrants of the labour force are absorbed by the agriculture sector.

As expected, underemployment is rife in the agricultural sector. Defined as working less than 35 hours per week, the

underemployment rate in the agriculture sector since 1994 was in the range of 56-58 percent. That rate is more than twice the level prevailing in the non-agriculture sectors. The proportion of agricultural non-wage workers does not show significant change during the crisis. In 1998 the proportion was 87 percent, while a year earlier it was 86.6 percent. In fact the 1998 level was exactly the same as that in 1994.

Trends in labour requirements in agriculture depend on the interactions of two counteracting sets of factors: labour saving and labour using factors. The former includes the introduction of farm machinery, the spread of chemical fertilizers and the use of chemical weed killers. On the other hand, the labour using factors include the expansion of multiple cropping, the change from non-irrigated farmland to irrigated farmland, and the construction of infrastructure on farmlands.

In its specific relation to the employment, it is suggested that the agricultural sector be assigned the role of a lead sector in the recovery from the crisis. In a sense, the crisis does provide an attractive environment for renewed agricultural development. The rupiah depreciation can enhance the competitiveness of existing export crops and open new possibilities for other exportables.

2.2.4. Employment in the manufacturing sector

Manufacturing was the engine of growth in Indonesian development before the crisis. However, in the last two years, it is the sector that has suffered the most. From a growth of 7.8 percent in 1996, it plunged to a contraction of 12.9 percent in 1998. A further inspection reveals that the experience varies considerably among sub-sectors within manufacturing. Two sub-sectors have the worst contraction, i.e., the transport equipment, machinery and apparatus (59 percent), and construction-related sub-sector (29 percent). A completely different story is seen in the oil and gas sub-sector that

recorded a positive growth of 2 percent. This clearly is due to the effect of export demand. Exports, at least in volume term, is also the key to the relatively low contraction of food, beverages and tobacco manufacturing sub sector (2.14 percent).

At the micro level, firms were forced to cut back production, thus experiencing considerable excess capacity. A BPS survey on 295 large and medium-size establishment reveals that the percentage of firms operating below 50 percent of production capacity in the first half of 1998 was 45.8 percent, almost twice that in 1997. Further, there is evidence that sub-sectors with significant dependency on importable inputs suffer more than others, suggesting the fact that market orientation and import content do matter.

Contraction in output during the crisis obviously led to reductions in employment absorption. The 1998 SAKERNAS data show that employment in manufacturing declined by 10 percent in that year. Compared to the 6.6 percent annual growth during the 1990-1996, such an employment reduction is indeed quite severe. The largest employment reduction happened in the construction-related sub-sectors, of more than 23 percent. A modest reduction was in the wood and wood product sub-sector that declined by less than 7 percent.

During the crisis period the manufacturing has shown evidence of a transition from an import dependent manufacturing sector to natural resource-based production. This is reflected in changing patterns of employment. Many workers were laid-off from the import-dependent sector and moved to other resource-based activities, both manufactures and non-manufactures. Therefore, the immediate recovery of the Indonesian manufacturing sector should foster export growth in the resource-based industries which require a low skill, technology and capital content, or where use can be made of indigenous skills and technology acquired through handicraft production.

In the long run, however, a mastery of more sophisticated technology is necessary for sustained growth. An evaluation of the technological activities in Indonesian manufacturing sector reveals a weakness of technological capability. That the economy is lacking in requisite skills can be seen in the educational level of the labour force. About 30 percent of the total paid workers only has primary or lower education, about 25 percent has junior high level degree, and less than 5 percent of the workforce has university or diploma education.

2.3. Cluster Group 3: Social Protection

Specific Recommendations on:

1. A national strategy on social protection

- Recommendation requiring immediate action**
- The government should undertake the review of existing social protection measures, with a view to formulating a comprehensive national strategy on social protection.
 - The reform of the JAMSOSTEK programme is strongly recommended. Included in this reform is the change of legal status to a public social security institution operating under a Trust Fund supervised by a special Board whose members are appointed by the President.

2. Social protection for women workers in the informal sector

- Recommendation requiring immediate action**
- Government should establish a system to provide social protection to women in the informal sector, especially women home workers. Efforts should also be made to identify the possibility of direct income support for such a group through a social safety net programme organized by the government.

3. Social protection for rural-urban migrants and overseas Indonesian workers

- Recommendation requiring immediate action**
- DEPNAKER should simplify the official procedures and provide correct information to all prospective workers about overseas deployment.
 - It is necessary to increase the effectiveness of current regulations of firms recruiting prospective migrant workers in order to reduce the burden of invisible costs on such workers.
 - It is necessary to intensify efforts to protect overseas deployed labor, especially female workers.
- Recommendation requiring supplementary action**
- Encouraging migrant workers who are going to work overseas to use legal channels is highly desirable. This would require the provision of accurate, timely and appropriate information about migration and return procedures and the decentralization of the approval process for migrants.
 - The government should regularly approach receiving countries of Indonesian workers to provide appropriate protection to these workers. Bilateral as well as multilateral agreement and arrangement should be proposed by the government in dealing with Indonesians working overseas.
 - The government is recommended to pay special attention to the case of Indonesian irregular workers abroad, especially in Malaysia and also in the Middle Eastern countries.

4. Social safety net

- **Recommendation** requiring immediate action To establish a trust fund for the social safety net programmes covering food security, social development, and employment creation.
- To set up an unemployment insurance scheme to protect formal sector workers from unanticipated and temporary job losses.

→ → → Next set of recommendations on page 42 → → →

2.3.1. A national strategy on social protection

Broadly defined, a strategy of social protection has two main objectives. The first objective is to ensure regular access to basic social services as a means of reducing poverty. The second objective is to provide a certain amount of income security that can maintain a reasonable standard of living when earning opportunities are disrupted. Therefore, three tiers of the social protection system need to be recognized:

- 1) A social safety net providing basic protection such as primary health care and subsistence level income security. This would ordinarily be provided by the State and thus financed from taxes.
- 2) Social insurance systems financed by contribution from employers and workers providing income maintenance benefits during periods of interruption of employment and a broader range of health care to those insured and their families with some redistributive element within and between generations.
- 3) Supplementary provision from employers, occupational schemes, private pensions and savings as the responsibility of individuals and their employers.

These three concepts of social protection underpin the roles and responsibilities of government ministries and agencies, the private sector and individuals in providing social protection and also represent a planning framework for its reform and development.

In general, strategies for the development of employment, whether it is related to the crisis or not, need to be complemented by appropriate social protection measures. Broadly speaking, these measures should ensure income security during periods of interruption of employment, providing income support to the poor and ensuring access to adequate and affordable social services,

primarily in the realm of basic health and education. The current social security system is pretty much underdeveloped beyond the public sector. This makes, to some extent, the social impact of the crisis quite severe on certain groups.

On the social insurance system, there is a need to change the legal status of JAMSOSTEK under the Law no. 3/1992 from a limited liability company required to make profits and pay taxes into that of a public social security institution operating under a Trust Fund, supervised and controlled by a Board with equal tripartite representation. The improvement in the JAMSOSTEK programmes is overdue. The planning exercise should be guided by the findings of previous studies, standards laid down in ILO Convention no. 102 on Minimum Standards of Social Security, and the need to keep within the present expenditures of employers and workers on social security.

The proposed Board and the chief executive of JAMSOSTEK should be appointed by the President. The strong insistence on effective tripartite control on the compulsory social security system rules out any chance to allow private companies to compete with JAMSOSTEK in this sphere. The immediate task of the Board would be to overhaul JAMSOSTEK's organizational structures and operating systems, and to achieve effective enforcement, as well as to ensure better performance in the investment of reserve funds. In the medium term, the Board also needs to seek ways of encapsulating smaller enterprises and the self-employed within its purview.

2.3.2. Social protection for women workers in the informal sector

It is estimated that there are over 50 million people in Indonesia working in the informal sector and many women are working in unprotected and unsafe environment.

Women home workers constitute a substantial number of female workers in the informal sector in Indonesia, although a national estimate is not available. They are typically invisible both in the statistics as well as in physical terms, being inside homes and isolated. The working hours tend to be long and irregular. Exploitation by both middle-men and employers is rife. It is important to pay attention to this group of workers as they typically have no access to social protection. The ILO has adopted Convention no. 177 on Home Work in 1996. There are also a number of recommended measures included in the Recommendation no. 184 on Home Work in 1996.

Where women workers are employed in large numbers, such as in domestic services or as home workers, the priority of social protection is likely to be health care and maternity care rather than pensions. Any scheme devised would need to take account of this. In particular, the following steps should be taken:

Through research and analysis, to categorize the informal sector according to occupations, type of works and the ability to contribute to the scheme.

- Identify which categories could be covered by social protection through some form of public social security scheme or a modified version of such a scheme.
- Identify those categories likely to remain outside the scope of a restructured social security scheme and encourage, through research and development, mutual support and micro-insurance schemes that are owned and operated by the community and based on established customs and traditions.
- Identify the most vulnerable groups who need direct income support through a social safety net organized by the State.

2.3.3. Social protection for rural-urban migrants and overseas Indonesian workers

Labour mobility is a key aspect of a well-functioning economy. During the crisis, the spatial movement of workers has been one of the coping mechanisms. Many permanent, and also non-permanent, movements have been adopted by a significant number of workers and their family to survive displacement from employment in the formal sector.

Movement to rural areas is identical to movement to the agricultural sector. The capacity of rural agriculture to support urban displaced workers is limited and in many cases there is not much that the village can offer to the returning migrants. Two factors contribute to the fact. First, the adoption of new technology, machinery and agricultural practices has resulted in the displacement of workers from agriculture itself despite a substantial increase in production. Second, the adoption of a more commercially-based labour hiring system, replacing the traditional arrangement for harvesting and other agricultural works. There is also some evidence that many male workers still live in the urban areas and send only their family back to the village. This way the worker can substantially reduce urban living costs as he would live as a single person. There are at least two factors causing this behaviour. The first is the fact that many workers came to the city because they did not like participating in agricultural activities. There is a widely held perception that urban jobs are more prestigious than rural jobs. The second reason is that many of the workers have accumulated some wealth in the urban area. For them it is difficult to suddenly divest such material possessions.

The data from 1998 SAKERNAS confirm that there was a stream of migrants returning to rural areas. A rapid assessment conducted at the sub-district (*kecamatan*) level has confirmed that there was a greater than normal inflow of males returning because they lost their jobs elsewhere.

Another specific movement between urban and rural areas which was also prompted by the crisis is male workers circulating between the two areas trying to find whatever jobs they can get in both places. These workers stay at rural areas especially in the harvesting time, while keeping their engagement with the urban informal sector. The available evidence show that the majority of these workers participate in the construction or construction-related sectors, usually as daily labourers.

International labour migration has also been a coping mechanism to confront the crisis. In fact, overseas deployment has been used for a long period as an alternative way of easing excess supply pressures in the domestic labour market, especially for the low and unskilled labour. During the period of crisis, overseas deployment was even more attractive due to the fall of the local currency.

Female workers form the bulk of Indonesians working overseas. The major destinations are the Middle-East countries, as well as neighbouring countries such as Malaysia and Singapore. Indonesian female workers mainly engage as domestic servants, while male workers typically engage in 3D (dirty, difficult, and dangerous) jobs. The crisis has increased the number of deployed workers from Indonesia. It is reported that the number of Indonesian deployed overseas in 1998 was about 180,000 higher than that in 1997 (after taking out around 300,000 regularized Indonesians in Malaysia in 1997). In addition, a field study conducted in Indramayu, West Java has confirmed this phenomena, i.e. the adoption of international labour migration as a way to cope with the economic crisis.

The evidence shows that non-regular channels seem to be a key choice of labour migrating out of Indonesia. In recent years the use of such channels has increased. For example, about 3,000 undocumented migrants (70 percent of which were Indonesians) were detected arriving in Malaysia in the first two weeks of February 1998 alone, compared to 8,833 in 1997. Further, between February 20,

1998 and March 1 of the same year, 3,971 prospective undocumented migrants were detained compared to 5,432 migrants throughout 1997. In general, the outflow of undocumented migrants also affects other countries in the region such as Singapore, Brunei and the Philippines. These irregular workers should be a primary source of concern to the government for two reasons. First, there is a need to maintain good international relations, especially with neighbouring countries. Second, these irregular workers are essentially Indonesian citizens overseas without proper legal documents, thus receiving no protection whatsoever. This is something that the government should be concerned about.

2.3.4. Social safety net

As mentioned earlier, the Social Safety Net (SSN) programmes can be seen as a means to provide immediate income assistance to the needy in the crisis period. Prompted by the crisis, the government launched SSN programmes in a range of areas in health, education, and subsidized rice distribution, as well as providing emergency employment creation for workers. However, these programmes have been much criticised both for their poor design and also for being a source of waste and downright corruption.

SSN programmes face the usual problems of targeting. A broadly covered geographical targeting is associated with some degree of leakages as some ineligible groups may also benefit, although this scheme may be associated with lower administrative costs compared to more precise targeting methods. The latter, where targeting is specifically aimed only at the eligible groups, requires high administrative expenses. In general, the more narrow the geographical targeting, the more expensive the scheme is. Therefore the aim is to find a balance between narrow and broad targeting.

A trust fund is needed in order to implement the long-term programmes under the SSN. The priority programmes are food

security, social development (health, education, etc.), and employment creation. Initially, these programmes can be built on the basis of extended family and community-based values and tradition. However, while it is necessary to build the programmes on such bases, they are not sufficient for the impact of SSN programmes to be sustainable.

A major problem facing the implementation of SSN programmes is stifling bureaucratic procedures. It is noted that BAPPENAS has in the past failed to disburse billions of rupiah meant to fund SSN programmes. BAPPENAS should let the NGOs work out the SSN programmes to speed up the procedures.

Within the purview of a social safety scheme, some form of unemployment insurance merits consideration. This type of insurance would have significantly reduced existing social impacts of the crisis. The target for this scheme are formal sector workers who are insured through the payment of contributions. Benefits can be paid for a limited period of time as a percentage of previous earnings. The cost of such a scheme would be fairly moderate. However, given the complexity of Indonesia's situation, it would need good administrative arrangements for effective implementation.

2.4. Cluster Group IV : Skill Development and Employment Services

Specific Recommendations on:

1. Enhancing employability through skills training: the institutional issues

- Recommendation requiring immediate action**
 - The establishment of the National Employment and Training Council as proposed by DEPNAKER which will have a clearly defined mandate, sufficient authority and autonomy to coordinate technical and vocational training.
- Recommendation requiring supplementary action**
 - Encouraging private training providers to contribute further to national training efforts. This can be done in line with creating adequate facilities for skill testing and certification in collaboration with employers' and workers' organization.

2. Enhancing training opportunities for women and other vulnerable groups

- Recommendation requiring immediate action**
 - A review of the national training system from a gender perspective is strongly recommended. This includes review of the training programmes, material, accessibility of training, in particular for women. This will identify the gender bias in the overall national vocational training systems, and measures to improve the participation of women in the national training programmes, in particular those under public funding.
- Recommendation requiring supplementary action**
 - The government can prioritise the enrolment of women in public-funded training programmes.
 - Priority for girls in the scholarships and education support programmes, particularly for the secondary education and above is recommended.

3. Urban-rural non-farm informal sector

- Recommendation requiring immediate action**
 - BPS is recommended to conduct a special survey covering the informal sector in the economy.
- Recommendation requiring supplementary action**
 - Encourage bottom-up associations of informal sector enterprises in order to inculcate more independent informal sector enterprises and a means of representing their interests to authorities.

4. The reform of the employment services to provide rapid response assistance to retrenched workers

- Recommendation requiring immediate action**

 - The establishment of Dislocated Worker Units to assist dislocated workers in the readjustment process.
 - The improvement of technical and analytical skill of employment service staff. This would include the reorientation of employment services toward proactive and user-oriented activities.
- Recommendation requiring supplementary action**

 - DEPNAKER to establish an electronic system of labour market information. This would include putting an on-line communication network in all regional manpower offices.

2.4.1. Enhancing employability through skills training: the institutional issues

Education is the backbone of an economy's skill accumulation process. However, business sectors often regard formal education as insufficient for prospective workers. Vocational training is usually needed. Institutionally, vocational training in Indonesia is provided through a number of different mechanisms. This includes the formal education system, special vocational training centres, public and private training providers, and some informal training venues. There are as many as 19 government departments which regulate 815 vocational training programmes.

The DEPDIKNAS is an important party in training activities. It organizes vocational and technical education at the secondary level through the Directorate of Secondary Vocational Education. It is noted that in 1994 the then DEPDIKBUD introduced the concept of the 'dual education system' to implement the 'link and match' policy. This is an effort to link vocational and technical education and training system to the labour market.

The other important public training provider is DEPNAKER through the many public training institutions under the Directorate General of Training and Productivity. The training itself is conducted by BLKs and KLKs with aims to enhance productivity, promote self-employment and train overseas workers. These training centres exist in almost every sector, i.e., engineering, electricity, automotive, construction, marketing, agriculture, and various vocations.

The private sector is an important source of vocational training in Indonesia as there are many private sector providers engaged in producing educated as well as skilled workers for the economy. There are also many private firms that require their workers to undertake training specific to the needs of such firms. Any proposal to reform the education and training system in Indonesia thus must take account of the synergy that exists between public and private sector providers.

It is also noted that DEPNAKER has recently proposed the setting up of a National Employment Training Council. Such a body requires a clearly defined mandate, sufficient authority and autonomy to coordinate technical and vocational training.

2.4.2. Enhancing training opportunities for women and other vulnerable groups

As noted earlier in Cluster I, Indonesian women workers have played an important role during the crisis period. They have come forward to bear family burdens when their husbands lost jobs due to widespread lay-offs. Some have to engage in longer working hours, while other have to let go the luxury of unemployment.

Special efforts would, therefore, be needed to enhance women's access to education and training opportunities so that they are better prepared to extricate themselves from their current predicament. Serious efforts would also have to be made for reorienting women workers to the benefits of training since demand for training among poor women is likely to fall when poverty and economic pressures on households increase.

One immediate way of enhancing women's access to education, training and employment opportunities can be done by the public sector. Gender awareness programs for policy planners and programme implementers, including training centre management, should be conducted. Likewise, priority should be given to women to take advantage of public-funded training programs. In addition, the government can establish a target rate of women's participation in such programs. Such a priority and target rate can also be applied to public sector recruitment policy.

Another important mode of women's training is through the community based training and production units. This will provide the much-needed training and employment opportunities to women especially in rural areas.

Skills training for women should be geared to meet evolving labour market demand. Among those skills are non-traditional sales, entrepreneurship development, and setting up micro and small enterprises.

2.4.3. Urban-rural non-farm informal sector

The term informal sector encapsulates a broad spectrum of activities. It supposedly includes all small farmers, along with a wide range of very small non-farm enterprises, both urban and rural. However a more stringent definition usually only includes those enterprises, mainly urban and in non-farming sectors, which are not registered and do not operate from settled premises or have any kind of official recognition.

The following discussion will briefly elaborate the informal sector situation before the outbreak of the crisis, provided by the 1996 Economic Census in the documentation entitled 'Profile of Enterprises Without a Legal Entity (EWOLE)'.

The Report reveals that there were 16.81 million EWOLEs in 1996, with a total of 28.94 million people employed. The majority of these enterprises engages in the trade sector (including catering establishments), followed by manufacturing, services and transport. The average worker per establishment was only 1.72 people (including the owner), with the largest in manufacturing (2.31 people), and the lowest in services (1.56 people). Considering the whole EWOLEs, only 3.5 percent of them had workers more than 5 people, and in only two sectors (construction and financial sectors) did this proportion exceed 10 percent.

About 37 percent of these EWOLEs are without a fixed location and only 7 percent of them had business licenses (*izin usaha*). Furthermore, about 85 percent of them did not have any formal loan from any financial company. Finally, these enterprises were working full-time or nearly full-time, as 76 percent of them had 21 or more

working days in a month and 16 percent had between 11 and 20 working days per month.

Recent trends suggest a growing importance of the informal sector. Although no Economic Census was conducted after 1996, the decline of the share of wage employment in total employment between 1997 and 1998 was a sign of the importance of the informal sector. At the same time, however, an analysis of the income surveys indicates that the average income in the informal sector has declined from Rp 101,000 per month in 1997 to a mere Rp 80,000 per month in 1998.

From the policy point of view, there are several issues that need careful attention. First, there is a need for a more focused attention from the government about the existence of the informal sector. At the very least, there is a need to adopt a standard definition about the sector among several related government agencies. It is a fact that different agencies, such as BPS, Bank Indonesia, MIT, have different definitions about the small enterprises. Furthermore, a better coordination is needed between the central and local government. Third, closely related to the first issue, there is a need for a clear and consistent policy approach to the informal sector. It is found that the most pervasive contact between government and the informal sector is through the regulatory framework. Together with varying but generally costly and frustrating overlapping regulations, licenses, fees, official and unofficial tax and exaction, domestic trade barriers, etc. the government has resulted in a negative influence on the operation of the informal sector.

The policy-related attention to the informal sector should be accompanied by the availability of statistics related to the sector. As mentioned above, the Economic Census is commonly used as the data source, but unfortunately the latest of such census was in 1996. It is, therefore, important to conduct such a survey again in the near future. Ideally, a specific survey should be designed for the small and informal sector. This survey can supplement a similar survey

for the medium and large enterprises.

Finally, it would be useful to consider the possibility of encouraging bottom-up associations of informal sector enterprises in order to inculcate more independent informal sector enterprises and as a means of representing their interests to authorities.

2.4.4. The reform of employment services to provide rapid response assistance to retrenched workers

Act no 25/1997 prescribes that the mandate for employment service is the placement of manpower at appropriate work places in accordance with the skill, expertise and capability of prospective workers. Public Employment Services provide job seekers for domestic placement, while Private Employment Agencies provides services for domestic and overseas placement.

Institutionally, the agency in charge for employment services in Indonesia is the Directorate General of Manpower Development and Placement (BINAPENTA). At the provincial level, the main duty of employment service officers is to collect, process and analyze data on job seekers and job vacancies, to prepare periodical employment reports sent to BINAPENTA, to disseminate manpower information, to administer working permits for overseas workers, foreign workers and domestic interregional workers. At the district level, the main duty of employment service officers consists of registering job seekers and job vacancies (mainly formal sectors). Such offices also provide registration cards for job seekers, interview job seekers to assess their aptitude, interests and abilities, provide them with details concerning suitable vacancies and other relevant information and place them whenever there is a suitable vacancy via a system of interregional labour placement.

The major strength of the current employment services stems from the fact that they are spread throughout the country. Also, about fifteen local employment service offices in Java have been

computerized to register job seekers and job vacancies. Another strength of the service is the standardized treatment and protection of workers for interregional and overseas placement.

However, the current services have many weaknesses. They are generally perceived as bureaucratic and highly regulatory. The services offered by this institution should be more user-oriented. The current employment services also tend to be passive rather than proactive. The manual system is indeed a major weakness resulting in limited capacity for job search assistance services. Together with lack of appropriate hardwares, the services also lack softwares such as operational labour market information systems, occupational reference guides, technical booklets and guidelines, etc. The technical and analytical competency of employment service staff would certainly benefit significantly from skill and knowledge improvement activities.

During the economic crisis, employment services became more and more important. It is hoped that such services can assist retrenched workers with basic readjustment services such as orientation meeting for all affected employees, testing and assessment of dislocated workers' skills, survey of employees' needs, relocation assistances, support services for job search and job placement. In that light, it is recommended that DEPNAKER establishes a mobile Dislocated Worker Units in the most affected region of Java, particularly in urban areas. The existing Mobile Training Units can possibly be transformed into the Dislocated Worker Units.

3

Appendices

APPENDICES

3.1. Speeches

**Responding to
Indonesia's Unemployment Crisis**

Address by
Iftikhar Ahmed
Director

International Labour Organization, Jakarta

Delivered to

**ILO/DEPNAKER/BAPPENAS Consultative Forum on
Strategy for Employment-led Recovery and Reconstruction
(Hotel Borobudur, Jakarta, 23 November 1999)**

Honourable Minister of Manpower, Mr. Bomer Pasaribu,
ILO Executive Director, Mr. Göran Hultin,
Colleagues from DEPNAKER, BAPPENAS and ILO,
Distinguished Participants
Ladies and Gentlemen,

The organization of this ILO/DEPNAKER Forum jointly with BAPPENAS reflects the cross-sectoral character of the employment-creation strategies under consideration.

The special effort made by the ILO Executive Director of the Employment Sector from Geneva, Mr. Göran Hultin, to address this

gathering reflects the high importance attached by the ILO to this issue as one of its four strategic programme objectives.

The keen personal interest of the Minister of Manpower in this Forum demonstrates the high priority attached to job creation by the newly elected democratic government.

Unfortunately, the employment challenge is more gigantic and the employment outlook more bleak than is currently assumed.

I would like to caution this Forum that there is no reason to rejoice at the official statistics of open unemployment of only 5 million. If we take into account the 10 million unemployed workers excluded from the labour force, the actual open unemployment affects 15 million Indonesian workers. Furthermore, the number of work-seekers jumps to 24 million if we include the 9 million underemployed who are eager to accept additional work.

In the year before the financial crisis, the annual growth rate of employment overtook the annual growth rate of the labour force. The crisis reversed this trend, with the annual growth rate of employment (2.7 per cent) trailing way behind the annual growth rate of the labour force (3.5 per cent).

The elasticity of employment based on historical data suggests that a meagre 400,000 jobs can be created by one per cent increase in GDP.

Therefore, GDP growth rate predicted for the year 2000 is 3 per cent, could create a meagre 1.2 million jobs which is insignificant compared to the employment required for the 2.2 million new entrants to the labour force and the massive backlog of 25 million work-seekers from past years.

Although nominal earnings of employees increased by about 20 per cent during the first year of the crisis, the 100 per cent increase in consumer prices led to a 40 per cent decline in real earnings.

Before we formulate any blue print of action programmes for job creation, it is important to be aware of the profiles of the unemployed.

- I. Open unemployment has always been an urban phenomenon in Indonesia. Nearly 20 per cent of the urban labour force were unemployed as compared to about 11 per cent of the rural work force being unemployed.
- II. The gap in open unemployment between men and women has been consistently wide while the gender gap among underemployed workers seeking extra work has widened during the crisis. Nearly 22 per cent of the women workers were unemployed as compared to about 6 per cent of the male labour force.
- III. The threat of enhanced social discontent from an explosive growth in youth unemployment is only a myth. Indeed, while the youth (16 to 29 years of age) unemployment rate dropped sharply, the unemployment rate of many adult workers tripled (from 11% in 1997 to 30% in 1998) on account of the crisis.
- IV. The proportion of workers with prior work experience among the total unemployed pool of workers more than doubled over the crisis period (from 18% in 1997 to nearly 40% in 1998) while the proportion of new entrants among the unemployed workers declined drastically from nearly 82 per cent of the total unemployed to about 60 per cent.
- V. The financial crisis has reversed past trends in the pattern of employment structure. The share of agriculture in total employment increased during the crisis (from 41% in 1997 to 45% in 1998). Job losses hit all sectors except agriculture.

Curiosity, naturally, arises about how the victims have so far managed to cope with the shock of the crisis.

During the initial phase of the shock, the workers, particularly women flooded the labour market to cope with the loss of income resulting from the crisis. However, when the unemployment situation worsened due to the continuation of the crisis, discouraged workers, specially women withdrew from the labour-market during the after-shock. Strong labour market flexibility permitted a massive shift of workers into the agricultural sector in addition to the huge numbers who took refuge in the informal sector.

Households spent a larger share of their total expenditure on food thereby compromising their standard of living. Population mobility has been another significant mechanism for coping with the crisis. This is evident in large increases in overseas migration, mainly by women workers, return migration from urban to rural areas, continued circular migration, to take advantage of the new opportunities that opened up in the agricultural sector.

Expert respondents from nearly 4 out of every 5 of the 4025 sub-districts (kecamatan) of Java reported sales of assets as a coping mechanism. While economic recovery provides the prospect of reviving jobs lost by modern sector workers, sales of productive assets (including drought animals) in rural areas may have an irreversible impact on the poor.

I now critically turn my own observations on the potentials for some future job creation proposals contained in the ILO Employment Strategy Mission report.

The two-pronged approach proposed for the employment-led recovery is a sound one namely (a) to increase the labour absorption capacity of the various economic sectors, and (b) to create additional employment through direct programme for job creation.

Firstly, I fully endorse the proposal for the creation of an

Employment Fund which could flexibly be channelled to create direct wage and self-employment generation as well as to cover the structural-adjustment induced requirements of retraining and redeployment of retrenched workers. I would urge this Forum to critically assess the scope, financing, functioning, operational modalities and feasibility of such an Employment Fund.

Secondly, I agree with the need for continued support to direct job creation schemes under the social safety net programme as the duration of the social consequences of the crisis will be prolonged. However, strengthening the institutions of governance deserves special attention. Plugging the holes in the social safety net to prevent leakages is as important as augmenting resources for the social safety net. It is estimated that only \$1 out of every \$5 programmes reach the intended target beneficiaries. This implies that without extra Dollars the coverage of the poor by such programmes could be enhanced 3 to 4 folds by preventing such leakages.

I might mention that the ILO is facilitating the Trade Unions participation in the Independent Civil Society Monitoring of the Social Safety Net programme for which we are collaborating closely with BAPPENAS and the World Bank.

Thirdly, I agree with the recommendation to strengthen institutional and policy support to agriculture as an engine of employment growth given its heroic role of job creation during the crisis when all other sectors suffered from severe job losses. Employment in agriculture increased by nearly 5 million during the crisis while 2.5 million jobs in the non-agricultural sector was lost on account of the crisis.

Fourthly, since the job losses in manufacturing was uneven and not linked to the size of the enterprise, policies of immediate economic recovery should foster export growth in resource based labour-intensive industries and to reduce the country's dependence on the import of industrial inputs by the manufacturing sector. Human

resources development and R&D should be geared to technological development, upgrading skills for product range expansion and diversification and to withstand the fierce competitive pressures of globalization.

Fifthly, I am glad that the role of small and medium scale industries in continued employment generation, provision of low cost goods and services to the consumer are fully recognized by the Mission report.

The Director-General of the ILO at the Enterprise Forum organized by the ILO in Geneva earlier in this month urged the linking of enterprise competitiveness with social progress.

In this connection, I would like to mention that the ILO in collaboration with BAPPENAS, the World Bank and the ADB is convening a national workshop on Small and Medium Enterprise policy in Jakarta during 8-9 December 1999 which will also focus on the above features of the SME sector.

Sixthly, the Forum should critically review the ways of improving the enabling environment for the survival and upgrading of informal sector jobs. This calls for a drastic change in numerous regulations and policies which stifle informal sector activities.

An ILO project funded by DANID is promoting the role of Trade Unions to extend an effective social protection to informal sector workers. This initiative demonstrated the cross-cutting linkages among ILO strategic programme objectives of employment creation, social protection and social dialogue.

Seventhly, the proposal for the establishment of a Tripartite National Employment and Training Council needs to be examined by the Forum.

Similarly, numerous short- and long-terms measures for strengthening employment services, I am sure will be reviewed critically.

Eighthly, the financial crisis fully exposed the weaknesses of the East Asian miracle economic growth rates when the traditional social protection mechanisms were unable to cope with the severity of the social consequences of the crisis. Only 42 per cent of those working as employees on regular basis in the private sector representing only 10 per cent of the total labour force are covered by any social security scheme.

The conclusions of the ILO/DEPNAKER Workshop on Reconstruction of the Social Security system in Indonesia held last week will provide valuable insights.

I could urge the Forum to critically, and constructively the proposal to restructure JAMSOSTEK as a tripartite supervised trust fund rather than a commercial company operating in competition.

Finally, I would like to point out that the fundamental principles and rights at work is being successfully promoted in Indonesia through a process of social dialogue. The Employment Strategy Mission by addressing the severest consequences of the financial crisis namely massive lay-offs, paved the way for the acceptance of the fundamental principles and rights at work.

This once again demonstrates the cross-cutting character of ILO strategic programme objectives of the simultaneous promotion of employment and of realizing fundamental principles and rights at work through a process of Social Dialogue involving not only the ILO traditional tripartite Constituents, but also other Civil Society groups including the military of the police.

I wish you all a fruitful deliberation.

Thank you.

**Jakarta Consultative Forum
Strategy for Employment-Led Recovery and Reconstruction
23-25 November 1999**

Opening Speech

By

**Goeran Hultin,
Executive Director, ILO**

Honourable Minister of Manpower, Mr. Pasaribu, Mr. Yudo of the Department of Employment & Manpower, Mr. Gunawan of the Central Planning Agency, my colleagues, Mr. Horiuchi and Mr. Ahmed, distinguished guests, members of the press and fellow participants; a very good morning to you all. It is indeed a pleasure and an honour to be back in this beautiful country. A pleasure, because the last time I visited [VERY SHORT ANECDOTE OF LAST VISIT]. And it is an honour to be back because it is in this consultative forum that we will define the strategies that will help us in our journey towards recovery and reconstruction.

Please allow me to backtrack just a little bit. The ILO itself has recently been thoroughly reorganized. This happened in the wake of the Asian financial and economic crisis when our new Director General Mr. Juan Somavia took office. The ILO has been retooled to become more effective and focussed with a clear set of four strategic objectives. These are; one: fundamental principles and rights at work; two: greater employment and income opportunities for men and women; three: social protection; and four: social dialogue and tripartism. Under these strategic objectives are 8 so-called InFocus programmes of which the one on Crisis Response and Recovery is of particular relevance today as it aims to respond to various kinds of crisis, which includes employment and labour market aspects of economic crisis.

I've been given the responsibility to direct the work towards

achieving the employment objective, but I'm mentioning the others as well because they are intimately related. For instance, the lack of adequate safety nets made it especially difficult for the crisis affected countries of Asia to provide protection to its poor. A quick look at today's tripartism and social dialogue in hammering out solutions for the future.

At the international level, one may recall that one of the commitments made at the World Summit for Social Development held at Copenhagen in 1995 was to work towards achieving full employment. Work is currently going on in preparation for a Special Session of the General Assembly of the United Nations in the year 2000 to conduct an overall review and appraisal of the outcome of the World Summit for Social Development. The main purpose of the Special Session (to be held in Geneva during 26-30 June, 2000) will be to reaffirm the Copenhagen Declaration on Social Development and Programme of Action, to review its implementation so far, and to recommend concrete action and initiatives to further efforts towards full and effective implementation. The ILO, along with other agencies, is working on such a review and will be preparing proposals for further action and initiatives to implement the outcome of the World Summit.

In response to the need for assistance in addressing the social impact of the economic crisis in Asia which started in mid-1997, the ILO convened a regional meeting in Bangkok in April last year. Country-level assistance and action programmes were recommended in that meeting. Just last month in Tokyo the Japanese government hosted a seminar with World Bank, and ILO on employment and the labour market in the region following the crisis. The reason for focussing particularly on the issues of employment and the labour market is that while most countries, including Indonesia, are showing an overall improvement in their economic situation, it is these problems that seem to take a longer time to overcome.

Indonesia, in the last year and a half has made remarkable

progress in addressing the concerns of core labour standards and guaranteeing the fundamental principles and rights at work. I understand that this is the only country in the Asia-Pacific region which has ratified all the seven core conventions of the ILO and is also considering ratification of the new convention on the worst forms of child labor. In our opinion, these efforts can only strengthen the nation.

The importance of Indonesia to ILO resulted in a high-level Employment Strategy Mission earlier this year. A copy of the report has been inserted into your workshop kits.

I understand that the ILO mission recommends that action towards employment-led recovery is needed on two fronts. On the policy front, action is needed to create an environment which will be conducive not only to a resumption of economic growth, but also to make the renewed growth process as employment-friendly as possible. This, however, will not be enough, given the precarious situation with regard to unemployment and underemployment. And hence the need for action on a second front – that one of direct programmes for job creation.

We are aware that the Government of Indonesia has not been sitting idle. Considerable efforts have been made to create jobs through labour-intensive infrastructure programmes – the *padat karya*. Although such programmes faced problems of various kinds, the concept itself was not wrong. We believe that with better targeting, better design of schemes, and greater involvement of communities, the job creation programmes can be made more effective. And given the precarious employment situation, such programmes will be needed for some more time.

The other important means of job creation is to promote the growth of small and medium enterprises. They already play an important role in Indonesia. And they can be particularly useful in making the recovery employment-friendly.

The present forum provides us with an opportunity to have more detailed discussion on the kind of action I mentioned above and the other recommendations provided by the ILO mission report. I understand that the Government of Indonesia is actively considering action to follow up on those recommendations. The ILO would stand ready to collaborate with the Government and other constituents in this important task.

A major goal of ILO Convention 122 is to design policies that promote full, productive and freely chosen employment. With the resolve of the Indonesian government this can become a reality. After the crisis we could have chosen to hang our heads, but we choose to see opportunities instead. Opportunities to strengthen the democratic mechanisms and social dialogues that will in turn strengthen the resilience of the country in facing the future challenge of globalization with more and decent work.

Thank you.

Strategies for Employment-Led Recovery and Reconstruction

Address by

**Mr. Bomer Pasaribu
Minister of Manpower
Republic of Indonesia**

Delivered to

ILO/DEPNAKER/BAPPENAS Workshop

On

**Consultative Forum of the Strategies for
Employment-Led Recovery and Reconstruction
(Jakarta, 23-25 November 1999)**

Honourable Executive Director of ILO, Mr. Goran Hultin,
Distinguished Guests and Participants,
Ladies and Gentlemen,

First of all, I would like to welcome and convey my appreciation to Mr. Hultin for attending this forum. Your participation in this forum indicates the seriousness of the ILO in assisting us to recover from the economic crisis. In this very important occasion, I also like to thank to all speakers and participants for your contribution in this consultative forum

Ladies and Gentlemen,

The meeting is very timely because we are in the stage of transitions into a new era of democratic state and a new era of economic recover from years of economic crisis. During this transition we need an appropriate strategy not only aims to recover the economy but also to develop long-term employment and labour policies. The new cabinet under the leadership of President Gus Dur puts employment creation as a prime strategic policy which

should be implemented successfully. We have to support this ideas. I, myself, express the new role of my ministry in employment creation and manpower development as a centre for services and centre for manpower empowerment.

The structural change in the economy from August 1997 as a result of the crisis had a major impact on the labour market. The most important change were a dramatic increase in employment in the agricultural sector, overall negative growth in non-agricultural employment, an increasing number of people work as informal employment, and a fall in real wages, reflect in a relative fall in the price of labour. The crisis has also caused a reduction in economic activities, especially in urban areas. This has caused many industries and other activities to rationalize their workforce, resulting in many lay-offs. In addition, the number of people entering the labour force continues to rise and this adding to unemployment.

Indonesia has entered a crucial stage in its development. After years of deep crisis, the Indonesian economy began to show a sign of recovery particularly during the first half of 1999. In addition, the total number of employment was raising, the industry employment slightly increase and the agriculture employment decrease. In late 1999, the macro economic indicators shows positive signs, including the GDP as expected to grow by 2-4 percent. This economic growth will be able to absorb between 800.000-1.2 million employments, even do not enough to give a job to new entrance of labour force.

The problem of unemployment become more severe if we take into account the indicators of employment problem cited by ILO, in which people who are looking for work was 14.5 million people in 1998. Our ministry estimates that by the year 2000, people who are looking for job will reach approximately 16 million people.

Based on the indication provided above that the expected economic growth in the medium term is likely to fall short of that required to generate sufficient employment, work intensively and

employment creation programmes are intended to provided the widest possible employment opportunities.

Ladies and Gentlemen,

I would like to take your attention to see content of ILO report, which the present mission is proposing a two-pronged integrated strategy of employment-led recovery and reconstruction. The elements of this strategy would be:

- Strategies and policies that will be needed to make the growth process more employment-friendly;
- Action needed to create additional jobs through direct employment programmes.

The mission indicates that there are three elements under the umbrella of direct employment programmes. The first, called "padat karya" is a programme of wage employment through labour intensive infrastructure construction which has been in existence in Indonesia since 1970s, and has been revived in the wake of the crisis. The other two elements, called fund for retraining and redeployment of retrenched workers, and the fund for self-employment are ideas being proposed by the present mission under the concept of a special employment fund.

While macroeconomic stability will be essential for returning to a sustainable growth path, therefore, the sectoral employment issues, in which context strategies and policies for employment in agriculture, manufacturing and the informal sector are examined, as well as employment generation in the medium term, small medium enterprises (SMEs) are expected to play a major role. In order to minimize job losses and facilitate the process of restructuring of the economy and redeployment of workers, it has been taken through adjustment and restructuring at the enterprise level, appropriate reforms in labour market policies and institutions, strengthening of employment services and retraining of workers for the purpose of redeployment.

DEPNAKER has adopted new strategy that the main content of the strategy, especially one year strategy, had proposed by the mission. The short run strategy, we will focus on developing and increasing the belief of the society in the employment sector, as well as to act the image building the capacity of the government in solving the unemployment problems, providing job, and also the effectiveness of industrial relationship system. DEPNAKER also believes that the macro economic policy should emphasis on the real sector, especially empowering the resources based economy as sources economic-led recovery.

I hope that this workshop will come up as expected, with concrete results for the formulation of a national strategies and policy options for the employment-led recovery and reconstruction which will involve the respective roles and responsibilities of the government, employers, individual workers, communities and private sector. Through all contributions and active participation I am confident that it will succeed in achieving that goal.

I wish you success. Thank you very much.

3.2. List of Session Chairmen and Speakers

Chair	
Cluster I	Hidayat, Tirta, Mr. National Planning Board, BAPPENAS
Cluster II	Swasono, Yudo, Mr. Ministry of Manpower, DEPNAKER
Cluster III	Hendro, Raldi, Mr. National Planning Board, BAPPENAS
Cluster IV	Suwarto, Mr. Syahra, Rusdi, Mr.

Speakers List of the Mission Strategy Report

Islam, Riswanul, Mr.	Team Leader, ILO, Geneva
Bailey, Clive, Mr.	ILO, Geneva
Bhattacharya, Gopal, Mr.	ILO SEAPAT, Manila
Galhardi, Regina, Ms.	ILO, Geneva
Mehran, Farhad, Mr.	ILO, Geneva
Mukhopadhyay, Swapna, Ms.	ILO, Geneva
Otobe, Naoko, Ms.	ILO SEAPAT, Manila
Sziraczki, Gyorgy, Mr.	ILO, Geneva
Swasono, Yudo, Mr.	Ministry of Manpower, Jakarta
Sutrisno Nor, Mr.	Ministry of Cooperative, Jakarta
Tambunan, Mangara, Mr.	
Salim, Emil, Mr.	
G. Tan, Mely, Ms.	
Prabowo, Dibyo, Mr.	UGM

Findings and Studies

Islam, Iyanatul, Mr.	UNSFIR
Team of PP-PSEM	BAPPENAS

3.3. List of Discussants

Cluster I	
Session I	Rachman, A. Sangaji, Mr. Feridhanusetyawan, Tubagus, Mr. DEPNAKER CSIS
Session II	Wiraktakusumah, Djuhari, Mr. Hendro, Raldi, Mr. UI BAPPENAS
Session III	Oey Gardiner, Mayling, Ms. Vitalaya, Aida, Ms. Mukasi, Sofiati, Ms. IHS IPS SPSI Reformasi
Session IV	Sigit, Hananto, Mr. Triaswati, Ninasapti, Ms. CBS LPEM
Cluster II	
Session I	Syamsudin, Dien, Mr. Priyono, Gembong, Mr. DEPNAKER, Binapenta MoPW, Cipta Karya
Session II	Dharsono, Poppy, Ms. Sianipar, Sahala, Mr. Asikin, Mukti, Mr. Kadin Asia Foundation PUPUK
Session III	Maimun, Mr. Tampubolon, Mangatas, Mr. Ministry of Agriculture PB
Session IV	Soeroso, Mr. Daulat, Djoko, Mr. Meneg PBUMN FSPSI
Session V	Sumarna, Mr. Eko, Lucky, Mr. Kadin BAPPENAS

Cluster III

Session I	Salim, Emil, Mr. Soeramsihono, Mr.	Gema Madani DEPNAKER
Session II	Somasundram, Mr. Sutaryono, Retno, Mr.	ILO Consultant UI
Session III	Saragih, Indomen, Mr. Sentanoe, Mr.	Ministry of Finance YTKT
Session IV	Suwarto, Mr. Ghifari, AB, Mr. Syamsuddin, Syaufil, Mr. Arhunal, Mr.	DEPNAKER Kadin DEPNAKER DEPNAKER

Cluster IV

Session I	Maxwell, John, Mr. Moedjiman, Mr.	SMERU, WB DEPNAKER, Binalattas
Session II	Tambunan, Tulus, Mr. Pajaman, Mr.	LP3E Kadin DEPNAKER
Session III	Kusyuniati, Sri, Ms. Luhulima, Archie, Ms. Aswati, Pudji, Ms.	NGO Conventional Watch ILO, Japan Project
Session IV	Ariyani, Fifi, Ms. Sado, Keniichi, Ms.	DEPNAKER JICA

3.4. Press Release

**CONSULTATIVE FORUM STRATEGY FOR
EMPLOYMENT - LED RECOVERY AND
RECONSTRUCTION;**

**“NEW ILO REPORT POINTS TO A DIFFICULT
EMPLOYMENT OUTLOOK DESPITE MODEST
ECONOMIC RECOVERY”**

The ILO, in collaboration with the Ministry of Manpower and BAPPENAS will hold a Consultative Forum on Employment between the 23rd to 25th of November 1999.

The Forum will be opened by the Minister of Manpower, H.E. Mr. Bomer Pasaribu. Mr. Goran Hultin, Executive Director of the Employment Sector ILO, Geneva will also address the Forum.

**STRATEGIES FOR EMPLOYMENT-LED RECOVERY
AND RECONSTRUCTION**

At the request of the Government of Indonesia, an Employment Strategy Mission was fielded by the ILO during 26 of April to the 7th of May 1999. The mission was undertaken against the backdrop of severe adverse social effects of the economic crisis that the country faced since the middle of 1997.

The main purpose of the mission was to formulate strategies, policies and programmes for responding to the challenge of job creation posed by the economic crisis in Indonesia.

Although Indonesia's economy is coming out of the deep recession it suffered in 1998, the rate of recovery will be rather modest compared to what is needed to meet the serious labour market

challenges posed by the economic crisis, according to the new ILO report.²

The ILO report points out that a GDP growth of over five per cent will be required just to absorb the 2.2 million new additions to the labour force each year - not to speak of the backlog of open unemployment and under-employment. With the forecasted GDP growth of three per cent for the year 2000, only 1.2 million additional jobs can be expected. "It is thus clear that unless special attention is devoted to it, the unemployment and underemployment situation is likely to get worse" says Rizwanul Islam, the leader of the team which has prepared this new ILO report. The ILO report proposes a two-pronged integrated strategy of employment-led recovery and reconstruction, the elements of which are: (i) strategies and policies to make the growth process more employment-friendly, and (ii) action needed to create additional jobs through direct employment programmes.

In the context of direct job creation, the ILO suggests the creation of an "Employment Fund" which could flexibly cater to wage- and self-employment generation needs of the economy during the recovery period as well as to take care of adjustment-induced requirements of retraining and redeployment of surplus workforce.

Impact of the economic crisis on the labour market

Although Indonesia's economic crisis has not led to a massive increase in open unemployment as was feared by many, it has resulted in a reversal of several positive trends in the labour market witnessed during the previous years, according to the ILO report. "This is not surprising. As the average level of household income is still rather low in Indonesia, and there is no unemployment benefit in place,

² Indonesia: Strategies for Employment-Led Recovery and Reconstruction. Report of an ILO Employment Strategy Mission. Geneva and Jakarta, 1999.

people usually try to find alternative means of livelihood either by sharing work with family or moving into different jobs (including self-employment)", says Rizwanul Islam.

The positive trends in the labour market that got reversed in the wake of the economic crisis in Indonesia include: a shift in the sectoral composition of employment away from agriculture, and declines in the degree of underemployment and dependence on the informal sector. As industry, construction, and trade were severely hit by the crisis, a large number of workers appear to have gone back to agriculture, thus substantially increasing both the number and percentage of people engaged in that sector. The degree of underemployment and the extent of reliance on informal sector have also increased. The real wages of workers in both urban and rural areas have declined sharply.

The rate of open unemployment increased from 4.7 per cent in 1997 to 5.4 per cent in 1998.

The number of people engaged in agriculture increased from 35.8 million (41 per cent of total employment) in 1997 to 40.4 million (45 per cent of the total) in 1998. The numbers and shares of industry, construction and trade declined correspondingly.

The percentage of workers working less than 35 hours a week increased from 36.6 in 1997 to 40.0 in 1998 - indicating an increase in the degree of underemployment.

The percentage of job seekers who are over 30 years old and who worked before increased several fold. Thus, in addition to the problem of youth unemployment, it will be necessary to address the issue of older workers who have been displaced by the crisis.

Real earnings of workers fell by 40 per cent between August 1997 and August 1998. Given the subsequent lid on pay rises, the real earnings now may still be 40 per cent lower than it was in mid-1997. The sharpest fall in real wages was experienced by workers

Sectoral employment issues

While the economic crisis induced an additional 4.6 million workers to join the agricultural sector, it also revealed the structural weaknesses in the operation of agro-input markets and the system of agricultural credit. Market oriented reforms are needed in agriculture to reduce the burden on public exchequer, to reduce high distribution costs, and improve allocative efficiency.

In manufacturing, the worst affected sub-sectors are those dependent on imported inputs and selling in the local market. The local resource based export-oriented industries (e.g., textiles, leather products and footwear, and paper and pulp, and palm oil) have performed better. The immediate recovery of the Indonesian manufacturing sector should take the opportunity to foster export growth in the resource-based industries which are less capital intensive and where use can be made of indigenous skills and technology. The sectors which exhibit these characteristics include: textiles, clothing and footwear, wood and paper products and non-metallic mineral products. In the medium- and long-run, the country will have to move towards exports of items requiring higher level skills and technology. The strategy of industrial growth will also need to include ways and means of reducing the import dependency of the manufacturing sector.

While small and medium enterprises play a significant role in the Indonesian economy and appear to have shown a degree of resilience and adaptability during the economic crisis, for continued growth they need a more conducive policy environment and more focussed and coordinated assistance through financial and other business development services.

As far as the informal sector is concerned, the ILO report is of the view that the overall policy environment has been, and remains, generally unfavourable for the growth of the sector. While the overall policy priority in facilitating growth of this sector is to reduce the

in the manufacturing sector, followed by those in construction, services and trade.

Women's participation in labour force increased in 1998 indicating the possibility that they had to join the labour force in order to supplement the dwindling household income. In some sectors, like manufacturing, finance and trade, the percentage of women among the retrenched workers exceeded their share in the respective sector's total employment.

As all the regions of Indonesia have not been affected by the crisis to the same extent, geographic mobility has been an important way in which people have adjusted to the crisis. This is evident in the large increases in overseas migration, return migration from urban to rural areas, continued circular migration, and intra-rural movements and migration to outer islands to take advantage of new opportunities that opened up in the agricultural sector.

Job creation programmes

The Government responded to the labour market problems by reviving the direct job creation programmes of labour intensive infrastructure construction. A large number of such programmes were undertaken, and various ministries were involved. However, targeting and monitoring of such programmes have reportedly been faulty and inadequate, and there have been reports of significant leakages. As a result, most of the programmes financed under the Social Safety Net initiative have been discontinued. The ILO report, however, is of the view that the efficiency of such programmes can be improved through better targeting, better identification and implementation of projects and increased community participation, and that they should be continued (with necessary modification) till the unemployment and underemployment situation improves.

regulatory burden and make the regulatory framework more transparent, technical assistance with respect to both product and factor markets as well as in evolving effective institutions of their own will also be useful.

Other findings and recommendations

Reforms are needed in the vocational education and training system in order to align it to the changing needs of the economy and prepare it to meet the challenges of retraining and redeployment of retrenched workers. Reforms are also needed in the employment services in order to increase their effectiveness. They need to develop more proactive approaches and initiate programmes of rapid assistance to dislocated workers. The inadequacy of social protection at times of economic crisis was brought to light by the present crisis. The ILO report points out the need for social assistance for the most vulnerable including the old and disabled and suggests that the feasibility of an unemployment insurance scheme be examined.

The Forum will bring together a selected group of tripartite Indonesian Policy Makers, Employment Practitioners and Academic and Non-Governmental Organizations.

The purpose of the Forum that will be organized by ILO, Minister of Manpower and Bappenas, is to present the findings and recommendations of the Employment Strategy Mission. The focus of the Forum is aimed at the special efforts needed to tackle the adverse labour market consequences of the economic crises in Indonesia, and to critically review and assess the strategies for Employment-Led Recovery and Reconstruction of Indonesia as the basis for follow-up activities.