INDONESIA[1]

MINIMUM WAGE

There is no national minimum wage in Indonesia. Government Regulation No. 8 of 1981 sets forth procedures for setting regional minimum wages. All workers in the formal sector are covered by minimum wage regulations. The Minister of Manpower determines minimum wage levels based upon recommendations made by the National Wage Research Board, and the 27 Provincial Wage Research Boards. Area wage councils working under the supervision of the National Wage Council establish minimum wages for regions and individual income requirements to meet basic-needs in each province—a monetary amount considered sufficient to enable a single worker to meet the basic needs of nutrition, clothing, and shelter. The government has increased the average minimum wage 70 percent (when adjusted for inflation) over the past 5 years; however, the high inflation rate in 1998 has depressed sharply the purchasing power of the minimum wage.[2] A table at the end of this country summary contains the regional minimum scale that will go into effect April 1, 1999 as well as those that were in effect 1994-98.

Companies may apply for postponements or exemptions from minimum wage levels, but must obtain the agreement of workers at the concerned company in order to obtain Department of Manpower approval for a postponement. Postponements are granted for a period of three to twelve months. The number of postponements granted by the government has declined from over 200 in 1997 to 43 in 1998.

Minimum wage regulations provide that up to 25 percent of the wage may be provided in the form of permanent in-kind benefits such as food, lodging, or transportation. The Labor Law establishes 7- or 8-hour workdays and a 40-hour workweek, with one 30-minute rest period for each 4 hours of work; the law also requires one day of rest weekly.[3]

PREVAILING OR AVERAGE WAGE

The minimum wage is generally the prevailing wage in the apparel and footwear industries, although for some footwear companies in the export sector, the prevailing wage is up to 25 percent higher than the current minimum wage.

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[1] Unless noted otherwise, information presented here is from American Embassy—Jakarta, unclassified telegram No. 1015 (March 2, 1999).

[2] U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 936.

[3] U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 937.

No data were available for Indonesia from the International Labor Organization (ILO) on average wages or hours worked in the manufacturing sector or in the apparel or footwear industries.

NON-WAGE BENEFITS

There are no government-mandated non-wage benefits or tax credits especially for workers in the apparel and footwear industries.

A U.S. Social Security Administration survey[4] elaborates on three non-wage benefit programs which employers in Indonesia must participate in for their employees: (1) old age, disability, and death benefits are made through a provident fund, begun in 1951, in which the insured person pays 2 percent of their earnings and employers pay 3.7 percent of the payroll; (2) sickness and maternity benefits are part of a social insurance system that began in 1957 in which the employer pays 6 percent of the payroll for married employees and 3 percent for single employees; and (3) work injury benefits, now part of the social insurance system, began in 1939 and the employer pays the entire cost, ranging from 0.24 percent to 1.74 percent of the payroll.

ASSESSING BASIC NEEDS: THE POVERTY LINE

The Indonesian concept of a poverty line is based on a daily minimum requirement of 2,100 calories per capita, with additional non-food requirements for clothing, schooling, transportation and other living costs, according to the Central Bureau of Statistics' (CBS) *Statistical Yearbook of Indonesia, 1997*. The table below shows the decline in the percentage of the population below the poverty line from the mid-1970s until 1996. The recent Asian economic crisis has led to an increase in the number of Indonesians below the poverty line, however.

Poverty Statistics for Indonesia, 1976-96

Year	Percentage of Population in Poverty	Number in Poverty (millions)
1976	40.1	54.2
1980	28.6	42.3
1984	21.6	35.0
1987	17.4	30.0
1990	15.1	27.2
1993	13.7	25.9
1996	11.3	22.5

Source: Based on data from CBS provided to U.S. Embassy

[4] Social Security Administration, *Social Security Programs Throughout the World - 1997* (Washington: U.S. Government Printing Office, August 1997), pp.173-174.

In 1996, the monthly expenditure level per person to meet the poverty line was 38,246 rupiah (Rp) (or 16.32 U.S. dollars (US$) at the average 1996 exchange rate) for urban areas, and Rp27,413 (US$11.70) for rural areas. These levels are quite low in relation to the internationally-comparable poverty cut-off lines of US$1 per person per day in urban areas and US$0.80 in rural areas, in 1985 purchasing power parity adjusted US$. Using these internationally-comparable levels, an International Labor Organization (ILO) and United Nations Development Programme (UNDP) study[5] estimated that the number of Indonesians living in poverty in 1996 would have been 113.8 million (31.8 million in urban areas and 82.0 million in rural areas), or 57.4 percent of the national population (43 percent of the urban population and 66 percent of the rural population) compared to the official 1996 estimate of 22.5 million (7.2 million in urban areas and 15.3 million in rural areas), or 11.3 percent of the national population (9.7 percent of the urban population and 12.3 percent of the rural population). The same ILO/UNDP study also made estimates of the number of poor and the poverty rate for 1998 (98.8 million or 48.3 percent of population) and 1999 (137.8 million or 66.4 percent of the population) by adjusting the 1996 official poverty lines for inflation (16.6 percent in 1997, 80 percent in 1998, and 25 percent in 1999) and using interpollation methods.

In June 1998, CBS estimated that 79.4 million, or 39.1 percent of the population, was below the poverty level. The figure for 1998 is a matter of controversy. Many analysts say that this figure overestimated the number in poverty by taking into account price increases (raising the poverty line expenditure levels to Rp52,470 for urban areas and to Rp4l,588 for rural areas, but both are lower than the 1996 levels in U.S. dollar terms because of the depreciation of the rupiah) but not accounting for income increases. Other preliminary estimates have put the 1998 poverty rate at about 14 percent, but this remains an area for further investigation. The CBS chairman told the press in February 1999 that CBS will survey 65,000 households for the annual National Socioeconomic Survey (*Survey Sosial Ekonomi Nasional*, referred to as *SUSENAS*)[6] starting in February 1999, which may lead to a revision of the government's poverty estimate.

A compendium of poverty and income distribution statistics prepared by the International Labor Organization[7] reports several sets of measures of a national poverty line for Indonesia:

- For 1980, 44 percent of the rural Indonesian population was below the rural poverty line (annual per capita income of US$106) and 26 percent of the urban Indonesian population was the urban

[5] International Labour Organization, Jakarta Office, and United Nations Development Programme, *Employment Challenges of the Indonesian Economic Crisis* (Jakarta: International Labour Organization, Jakarta Office, June 1998), pp. 45; 100.

[6] SUSENAS is a household consumption survey rather than an expenditure survey.

[7] Hamid Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data* (Geneva: International Labour Office, 1996), pp. 34-36.

poverty line (annual per capita income of US$124), with a national poverty rate of 39 percent.[8]

- For 1980, 28.4 percent of the rural Indonesian population was below the official rural poverty line (Rp4,449 per capita per month) and 29.0 percent of the urban Indonesian population was below the official urban poverty line (Rp6,831 per capita per month), with a national poverty rate of 28.6 percent;

  for 1990, 14.3 percent of the rural Indonesian population was below the official rural poverty line (Rp13,295 per capita per month) and 16.8 percent of the urban Indonesian population was below the official urban poverty line (Rp20,614 per capita per month), with a national poverty rate of 15.1 percent.[9]

- For 1984, 38.7 percent of the Indonesian population was below the poverty line of US$ 30.42 per capita per month (i.e., US$1 per day) in 1985 purchasing power parity adjusted US$;

  for 1990, 21.7 percent of the national population was below this poverty line.[10]

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[8] The estimates are referenced as originating from the World Bank, *Social Indicators of Development 1988* (Washington: World Bank, 1988). The poverty estimates are based upon an estimated absolute poverty income level below which a minimal nutritionally adequate diet plus essential non-food requirements are not affordable. According to the UN's Food and Agriculture Organization (FAO), *The Impact of Development Strategies on the Rural Poor* (Rome: FAO, 1988), p. 7, the poverty lines were determined by: (1) identifying the food basket consumed by low-income groups in the country (taken to be the 20th percentile of the household income distribution); (2) estimating the quantities of that food basket necessary to provide the minimum calories and proteins required for nutritional needs; (3) costing the minimum food basket at appropriate retail market prices; and (4) adding the estimated monetary equivalent of essential non-food needs (clothing, shelter, etc.). See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 139.

[9] The estimate is referenced as originating from the Central Bureau of Statistics (CBS)–Indonesia, *Kemiskinan dan Pemerataan Pendapatan di Indonesia, 1976-1990* [Poverty and Income Inequality in Indonesia, 1976-1990] (Jakarta, 1992). According to the World Bank, *Indonesia: Poverty Assessment and Strategy Report*, Report No. 8519-CR (Washington, 1990), official poverty lines for rural and urban areas are based on the minimum daily intake of 2,100 calories per person and an allowance for non-food basic necessities. In calculating the expenditure level necessary to reach the recommended daily dietary allowance, the CBS divides lower income households into several expenditure categories for both rural and urban households. Then, the implicit "calorie price" is calculated by dividing food expenditures by the actual calories consumed. The calorie price for that group in which total expenditures are just sufficient to purchase the recommended daily dietary allowance is then used to calculate the food component of the poverty line. The allowance for other basic necessities is the percentage of expenditure by households in the selected expenditure category on a set of non-food basic needs. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 149.

[10] The estimate is referenced as originating from Shashou Chen, Gaurav Datt, and Martin Ravallion, "Is Poverty Increasing in the Developing World?" *Policy Research Working Paper* WPS 1146 (Washington: World Bank, 1993). This study uses essentially the same methodology as the World Bank's *World Development Report 1990*, but with updated purchasing power parity rates. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 137.

The World Bank reports[11] that, in 1990, 15.1 percent of the Indonesian population was below the country-specific poverty line, with 16.8 percent of the urban population and 14.3 percent of the rural population living below the poverty line; corresponding figures for 1987 were 17.4, 20.1, and 16.4 percent, respectively. In terms of an international poverty line, the same source reports that, in 1996, 50.4 percent of the Indonesian population was below the standard of US$2 per person per day and 7.7 percent of the population was below the standard of US$1 per person per day, both in 1985 purchasing power parity adjusted US$.

MEETING WORKERS' NEEDS

There is little conclusive evidence on the extent to which wages and non-wage benefits in the footwear or apparel industries in Indonesia meet workers' basic needs. Some information from U.S. Department of State or U.S. Embassy reports indicates more generally that Indonesian studies have tended to focus on employment and income levels, as measured by expenditures on basic needs, rather than on wage levels. The U.S. Embassy provided the U.S. Department of Labor a study commissioned by the International Labor Organization which touches on these issues.[12]

The Indonesian government has developed an index called the "minimum living need" based on a basket of foodstuffs needed for a 3,000 calorie per person per day diet, as well as other expenditures such as rent, clothing, basic utensils/furnishings, and utility expenditures. The minimum living need is used as a benchmark against which the minimum wage is compared. In 1997, the average minimum wage was 95 percent of the average minimum living need. In 1998, the average minimum wage fell to 76 percent of the minimum living need due to high inflation (78 percent in 1998). According the government, the minimum wage schedule that goes into effect April 1, 1999 (see table at the end of this section) will be 70 percent of the current average minimum living need.

Several other studies have addressed the living wage issue in Indonesia. Ruth Rosenbaum of the U.S.-based Center for Reflection, Education and Action has estimated a living wage for Indonesia for 1996 using the Purchasing Power Index method.[13] Dartmouth College's Amos Tuck Business School has estimated

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[11] World Bank, *World Development Indicators 1999* (Washington: World Bank, 1999), p. 67.

[12] International Labour Organization, Jakarta Office, and United Nations Development Programme, *Employment Challenges of the Indonesian Economic Crisis* (Jakarta: International Labour Organization, Jakarta Office, June 1998); see also, International Labour Office, South-East Asia and Pacific Multidiciplinary Advisory Team (ILO/SEAPAT), *Indonesia: Social Adjustment through Sound Industrial Relations and Labour Protection* (Manila: International Labour Office, 1995; second revised edition, 1997).

[13] Some information regarding Rosenbaum's study is reported on the Sweatshop Watch web page: <http://www.sweatshopwatch.org>.

a living wage for 1997,[14] and the U.S.-based non-governmental organization Global Exchange has determined a living wage for 1998.[15]

[14] Derek Calzini, Jake Odden, Jean Tsai, Shawna Huffman, and Steve Tran, *Nike Inc.: Survey of Vietnamese and Indonesian Domestic Expenditure Levels*, Field Study in International Business, Dartmouth College, Amos Tuck School, November 1997.

[15] Global Exchange, "Wages and Living Expenses for Nike Workers in Indonesia" (September 1998). See Global Exchange web site: <http://www.globalexchange.org>.

Indonesian Regional Minimum Wage Rates, 1994-99
(effective date; in rupiah per month)

Region	04/01/99	08/01/98	04/01/97	04/01/96	04/01/95	04/01/94
Aceh	171,000	147,000	128,000	115,500	87,500	78,750
North Sumatra	210,000	174,000	151,000	138,000	105,000	93,750
West Sumatra	160,000	137,000	119,000	108,000	81,250	62,500
Riau Province (except Batam)	218,000	174,000	151,500	138,000	103,750	77,500
Batam	290,000	270,000	235,000	220,500	183,750	168,750
Jambi	150,000	137,500	119,500	108,000	82,500	75,000
South Sumatra- mainland	170,000	146,500	127,500	115,500	87,500	75,000
South Sumatra – islands	181,000	155,500	115,500	135,000	87,500	75,000
Bengkulu	150,000	146,500	127,500	115,500	87,500	75,000
Lampung	160,000	145,000	126,000	114,000	87,500	75,000
Jakarta	231,000	198,500	172,500	156,000	115,000	95,000
Central Java	153,000	130,000	113,000	102,000	75,000	67,500
Yogyakarta	130,000	122,500	106,500	96,000	71,250	55,000
South Kalimantan	166,000	144,000	125,000	114,000	87,500	75,000
West Kalimantan	175,000	145,500	126,500	114,000	87,500	75,000
Central Kalimantan	195,000	158,500	138,000	124,500	92,500	68,750
East Kalimantan	194,000	176,000	153,000	138,000	105,000	81,250
South Sulawesi	148,000	129,500	112,500	102,000	77,500	57,500
Southeast Sulawesi	160,000	139,000	121,000	109,500	83,750	70,000
Central Sulawesi	150,000	122,500	106,500	96,000	70,000	57,500
North Sulawesi	155,000	135,500	118,000	108,000	81,250	67,500
Bali (southern districts)	187,000	162,500	141,500	127,500	97,500	82,500
Bali (northern districts)	166,000	162,500	141,500	127,500	97,500	82,500
West Nusatenggara	145,000	124,000	108,000	97,500	73,750	58,750
East Nusatenggara	143,000	122,500	106,500	96,000	72,500	62,500
Maluku	180,000	156,500	136,000	123,000	95,000	77,500
Irian Jaya	225,000	195,500	170,000	154,500	118,750	112,500
East Timor	183,000	158,500	138,000	126,000	95,000	75,000
West Java – I	230,000	198,500	172,500	156,000	115,000	95,000
West Java – II	210,000	181,000	157,500	142,500	115,000	95,000
West Java – III	200,000	167,500	145,500	132,000	115,000	95,000
West Java - IV	195,000	160,000	139,000	129,000	115,000	95,000
East Java – I (Surabaya area)	182,000	152,500	132,500	120,000	92,500	75,000
E. Java – I (south central area)	182,000	152,500	132,500	117,000	92,500	75,000
E. Java – I (city of Madiun)	182,000	152,500	132,500	111,000	92,500	75,000
East Java – II (scattered)	174,000	146,500	127,500	111,000	92,500	75,000
E. Java – II (Jember district)	174,000	146,500	127,500	108,000	92,500	75,000
East Java – III (northeast area)	166,000	139,000	121,000	111,000	92,500	75,000
E. Java – III (southwest area)	166,000	139,000	121,000	108,000	92,500	75,000
E. Java – III (northwest area)	166,000	139,000	121,000	105,000	92,500	75,000
East Java - IV	160,000	134,000	116,500	105,000	92,500	75,000