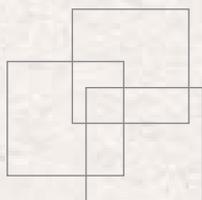




International
Labour
Office

JOBS AND SKILLS FOR YOUTH:

REVIEW OF POLICIES FOR YOUTH EMPLOYMENT OF INDONESIA





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REVIEW OF POLICIES FOR
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TABLE OF CONTENTS

Foreword

Executive summary

1. Overview of the economic and social context

- 1.1 Macroeconomic framework
- 1.2 General labour market trends
- 1.3 Poverty

2. The youth labour market

- 2.1 Demographic outlook
 - 2.1.1 Demographic bonus
 - 2.1.2 Trends in education
- 2.2 The youth labour market
 - 2.2.1 Youth activity status
 - 2.2.2 Youth employment
 - 2.2.2.1 Status and sector of employment
 - 2.2.3 Young workers in the informal economy
 - 2.2.4 Wages and conditions of work of young people
 - 2.2.5 Youth unemployment
 - 2.2.6 Underemployment
 - 2.2.7 Youth inactivity and discouragement

3. Transition from school to work

- 3.1 Education levels and transition
- 3.2 Struggling with transition: underemployment, informality and inactivity
- 3.3 Struggling with transition: unemployment and job search periods

4. Policies and institutions for youth employment

- 4.1 Macroeconomic and sectoral policies
 - 4.1.1 Linking macroeconomic policies with employment outcomes
 - 4.1.2 Adjustments in Indonesia's macroeconomic indicators in the current period
 - 4.1.3 Indonesia's national development frameworks

- (i) DWCP 2012-2015
- (ii) National Mid-Term Development Plan 2010-2014
- (iii) Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI)
- (iv) The Vice Presidents Job Creation Action Plan
 - 4.1.4 Agricultural policies
 - 4.2 Education and training policy
 - 4.2.1 Vocational training and lifelong learning
 - 4.2.1.1 Vocational training: Ministry of Manpower and Transmigration
 - 4.2.1.2. The National Professional Certification Board
 - 4.2.1.3. Apprenticeships
 - 4.2.1.4 Entrepreneurship
 - 4.3 Labour market policies and institutions
 - 4.3.1 Wage policy
 - 4.3.1.1 Gender wage gaps
 - 4.3.1.2 Minimum wages
 - 4.3.2 Employment protection legislation
 - 4.3.3 Labour migration policies
 - 4.3.4 Passive labour market policies
 - 4.3.5 Active labour market policies
 - 4.3.6 Social dialogue on youth employment

5. Conclusion and Policy implications

- 5.1 Conclusions
- 5.2 Recommendations

References

Annex

List of Tables, Figures and Boxes

Table 2.1 Decomposition of population, persons aged 15–24 years, by residence, sex and age range

Table 2.2 Aggregate labour market indicators, persons aged 15–24 years, by residence and sex

Table 2.3 Decomposition of labour force, persons aged 15–25, by region

Table 2.4 Status in employment, percentage of employed persons aged

15–24 years, by residence and region

Table 2.5 Sector of employment, percentage of employed persons aged 15–24 years, by residence and region

Table 2.6: Employment formality,(a) percentage of employed persons aged 15–24 years, by residence and region

Table 2.7 Employment formality by sector,(a) percentage of employed persons aged 15–24 years

Table 2.8 Average monthly wages(a) (in Rp) and employment formality,(b) employed persons aged 15–24 years, by residence and sex

Figure 2.1: GDP per capita and annual GDP growth

Figure 2.2 Employment by sector (% of total employment)

Figure 2.3 Decomposition of youth population by activity status

Figure 2.4: Decomposition of youth employment

Figure 2.5: Changes in the sectoral composition of youth employment (% of employment youth), 2007–2012

Figure 2.6: Changes in status in employment (% of employed youth), 2007–2012

Figure 2.7 Education level and job quality

a) Proportion of employed youth(a) in salaried employment

b) Proportion of employed youth(a) in formal sector employment

Figure 2.8 Trends in unemployment (% of active population), 2007–2012

Figure 2.9 Underemployment rate^(a) (percentage of employed population aged 15–24 years), by residence, sex and age

a) By residence, sex and age

b) By region

Figure 2.10 Underemployment rate by sector^(a) (percentage of employed population aged 15–24 years), by sector

Figure 2.11 Inactivity (% of 15–24 years population), by status and sex

Figure 2.12 Inactivity and human capital (decomposition of inactive and out of education youth population by education level), by sex

Figure 3.1 Education level and job quality

a) Proportion of employed youth^(a) in salaried employment

b) Proportion of employed youth^(a) in formal sector employment

Figure 3.2 Unemployment rate, young persons aged 15–24 years not in education, by level of education attained

Figure 3.3 Wage premium by sex, youth aged 15–24, with respect to total without schooling

Figure 3.4: Long term unemployment^(a) as a proportion of total unemployment, young persons aged 15–24 years

a) By residence, sex and age

b) By region

Box 2.1: Definitions

Box 2.2: School-to-work transition surveys

Box 2.3 The minimum wage process in Indonesia

FOREWORD

The review of policies and institutions for youth employment in Indonesia is part of the ILO work that supports its member States in analysing the effectiveness of country policies and programmes, including those undertaken through voluntary, multi-country peer reviews.

This work is the result of a joint undertaking of the Youth Employment Programme of the ILO (YEP) and the Project “Understanding Children’s Work” (UCW). The policy review was conducted during the period 2013 – 2014 with the financial support of the Swedish International Development Cooperation Agency (Sida), the Government of Japan and the United States Department of Labor.

This report was prepared by Sriani Ameratunga Kring (ILO expert) and Maria Gabriella Breglia (UCW expert). It benefitted from the technical support and valuable inputs of Valentina Barcucci (ILO Youth Employment Programme) and Matthieu Cognac (ILO Youth Employment Coordinator for Asia and the Pacific). Gratitude is expressed to Gillian Dowie (ILO Jakarta) for the backstopping support, as well as to Theo van der Loop (ILO expert) for his helpful comments. Milagros Lazo Castro and Marie-France Boucher (ILO Youth Employment Programme) provided timely support in the design, layout and editing of the final report.

Appreciation is expressed to the staff of the Ministry of Manpower (MOM), the Ministry of National Development Planning (BAPPENAS) and other government institutions, the employer organization (APINDO) and trade unions of Indonesia for their collaboration during the preparation of this report.

EXECUTIVE SUMMARY

This report is the fruit of collaboration between the International Labour Office (ILO) and the Understanding Children's Work (UCW) Programme. The aim of the report is to support Indonesia's ongoing efforts to address the difficult transitions into the labour market experienced by various segments of young people in Indonesia. Indonesia has displayed strong commitment to tackling youth employment and was one of the first countries to sign on as a lead country to the United Nations Youth Employment Network (YEN) in 2002. Lead countries commit to prioritizing policy development to support positive youth employment outcomes and as a result are often hothouses of policy innovations and policy breakthroughs. Indonesia has clearly been benefiting from placing youth employment firmly on the national agenda since 2002. But enormous challenges remain. Despite an overall long-term trend of a reduction of youth unemployment, poverty and youth informality, many segments of youth remain behind: young women continue to be more disadvantaged than young men, and other groups such as new entrants to the labour market, rural youth, youth from disadvantaged regions and low income communities are among those most likely to experience difficult transitions to the labour market.

This report provides fresh data and insights into the diverse labour market situations of young people in Indonesia and reviews existing policies and programmes in order to offer recommendations on measures for consideration by the Government and social partners. The main messages stemming from the review are briefly highlighted in this executive summary.

Previously high growth rates and a commitment to pro-employment policies have seen a decline in youth unemployment, poverty and informality, but progress has been uneven across regions. Youth unemployment has declined from 30 per cent in 2006 to around 18.6 per cent. Poverty has also decreased from around 24.2 per cent in 1998 to 12 per cent in 2012 and 11.4 per cent in 2013. But these trends mask large variations across regions and groups. Some provinces have much higher poverty rates than others. For instance, in 2012, the poverty rate was over 30 per cent in Papua Province, 27 per cent in West Papua Province

compared with poverty rates of below 4 per cent in capital city district of Jakarta (3.7 per cent) and in Bali Province (3.9 per cent). Similarly there is a clear difference between urban and rural poverty at 8.6 per cent and 14.7 per cent respectively. Rates of young people in informal work situations are around 50 per cent, but again, with clear differences between urban and rural as well as between regions. For example 25 per cent of employed urban young people (aged 15–24 years) are in informal work compared to 71 per cent of employed rural youth; and 80 per cent of employed young people in Eastern Indonesia are informally employed compared to 9.9 per cent in Jakarta. Clearly inequality still remains a problem and may indeed be growing. This is borne out by Indonesia's Gini coefficient, which went up from 35 in 2010 to 41 in 2012.

The current slow-down in economic growth is endangering the gains made during the strong growth period. Indonesia has been quick to respond to economic downturns, which accounts for its remarkable resilience. Nonetheless the current strains on the economy such as pressures on the rupiah, declining investment spending and output growth, tighter external financing and fluctuating commodity prices and declining terms of trade, have seen growth dip below 6 per cent. Projections for 2014 are estimated at 5.2 per cent growth. The question remains whether this will be high enough to maintain the positive trends in declining unemployment, poverty and informality for young people. Moreover regional disparities need to be overcome. Economic activities continue to be concentrated in areas such as Java and Sumatra while other provinces lag behind, and some such as Aceh and Papua have actually stagnated or contracted.

Positive measures such as the increased investment in education are paying off. Young Indonesians are staying in education longer and entering the labour force later. The evidence in the report shows clear positive gains in employment outcomes as a result of increased educational access. Higher education is associated with a greater likelihood of a salaried job and of formal sector employment generally. Returns to education are also apparent in terms of earnings at all levels of educational attainment. However, Indonesia also has a problem with graduate unemployment. This may be seen as a perverse outcome to the previous evidence of returns to education. Indonesia is not the only country to experience this phenomenon and it is likely attributed to both supply side problems such as skills mismatch, poorly functioning labour market information systems, as well as demand side problems in that there has not been sufficient structural

transformation in the economy to absorb the very highly educated. Despite some structural shifts, agriculture still employs around 35 per cent of the labour force in Indonesia.

Difficulties in labour market transitions are revealed by the levels of unemployment, inactivity, informality, underemployment and long periods of job search for young people. Over 47 per cent of young Indonesians aged 15–24 were in the labour force in 2012. Unemployment affects close to 19 per cent of young people, which, while on an overall downward trend, is still very high. The unemployment rate for young women is slightly higher than that of young men. Long-term unemployment as a share of total youth employment indicates that 42 per cent of all unemployed youth have been unemployed for at least 12 months, rising to 52 per cent for young people aged 20–24 and to 55 per cent for young people in Eastern Indonesia. The period of job search is also longer. It rose from an average of 6.9 months in 2001 to 14.7 months in 2009.

A large share of young Indonesians (19 per cent) are neither in the labour force nor education, with young women three times more likely than men to be inactive. About one in three employed youth is underemployed, pointing to a substantial underutilized productive capacity in the youth labour force. Despite a slight decline in informality, half of young workers still work in the informal economy, with its attendant problems of poor job quality, low income, low productivity and lack of enforcement of rights and protections. Levels of informality are especially high in rural areas and regions outside Java. The high levels of youth emigration also give an indication of the poor employment prospects they face in the domestic labour market. Young people account for as much as 25 per cent of temporary employment migrants, though numbers of undocumented migrants may be even higher.

There is a strong commitment to employment outcomes through some macroeconomic policies and national development frameworks but less so in others. Improving youth employment outcomes requires more than just high rates of growth, though this is an essential prerequisite. A policy mix supporting inclusive and job-rich growth is needed. Indonesia has displayed strong commitment to employment through some of its policy frameworks. Nonetheless there is great potential to strengthen this further and to also establish a mainstreaming approach to youth employment. Such an approach would need to take into account,

in particular, regional and rural-urban disparities among young people, and would be greatly boosted by the development of specific targets and indicators on youth outcomes.

Vocational training and educational institutions are undergoing reforms as well as benefiting from increased resource allocation.

However problems of poor coordination between institutions, lack of access for disadvantaged groups, concentration of resources in urban areas and dominant provinces, as well as mismatches in supply and demand of skills continue to pose problems. Stronger links with the private sector are needed to overcome the supply-side orientation of these institutions. Public-private partnerships and tripartite monitoring mechanisms could help ensure that there is better balance between the supply and demand for skills. Given the clear evidence of better employment outcomes with increased education, the Government could also consider measures to continue to reduce gaps in educational access and participation, including expanding scholarships, incentives to improve the quality of teaching in rural areas and other measures to improve quality in remote locations.

Weak labour market information systems are holding back many young people in rural areas and disadvantaged regions.

Capacity building of employment services and better coordination between them, particularly in the regions, can ensure a better flow of information on work opportunities for young people and better meet the needs of employers. Stronger linkages need to be developed with enterprises in order to improve their knowledge on training requirements. A specifically designed capacity building programme for employment services staff could be developed, which enables them to better target and provide more efficient services for young people. This could include developing profiling techniques and support to develop outreach programmes. Partnerships between employment services, the business community and other local actors will significantly improve the services currently provided to young people. Involving the social partners in the design and evaluation of these measures can enable these institutions to be more responsive to labour market demand.

Expanding work experience opportunities would greatly benefit young people, particularly those who leave education early.

Less than 40 per cent of young Indonesians have had opportunities for gaining work experience training. Where apprenticeships exist, they are often in informal micro, small and medium enterprises (MSMEs), with a lack of

written contracts, no established criteria for training and job quality, a lack of standardization and certification, and few linkages with regulatory agencies such as the Ministry of Manpower and Transmigration (MOMT). Developing an incentives-based approach to MSMEs including offering opportunities for capacity building to enterprises, access to training, business services and credit could be explored to encourage MSMEs to engage with regulatory authorities on apprenticeship training.

The Indonesian Government could further investigate the potential for providing employers with relevant subsidies to hire young people in internships and apprenticeship programmes as stepping stones towards stable employment. Employers' organizations have a key role to play in encouraging their membership to take on more young people and ensure better working conditions for those they hire. The lack of a single coordinating body on quality apprenticeships and the sometimes contradictory regulatory framework hampers its potential to provide work experience and skills to young people.

Not enough young people see entrepreneurship as a viable employment option. The Government has established a number of measures to support private sector growth, yet many young people remain wary to start a business. Further including entrepreneurship in career counseling, within schools and skills training institutions, as well as business incubation programmes in universities could help change this mindset. When accompanied by incentives such as credit opportunities, access to market information, mentoring support, technology and other productive resources, this could significantly boost the numbers of young people generating businesses, and help them avoid informality traps.

Helping young Indonesians transition out of the informal economy will require integrated and comprehensive approaches. With around 50 per cent of young Indonesians workers in the informal economy, there is much that can be done to facilitate their transition towards better quality work in the formal economy. ILO experience has shown the importance of developing multiple policy pathways out of informality, as well as establishing capacity building, incentives and social dialogue as the key mechanisms for genuine transitions. Incentives for young people include opportunities to access finance, markets, technology, information, further training, business advisory services, as well as access to social protection to manage risks. Streamlining regulatory frameworks and removing barriers to business entry are also essential. Capacity building

of young entrepreneurs can encourage compliance with regulations and improve occupational health and safety. Indonesia's decentralized form of governance can be a strong vehicle for taking integrated policy approaches to support transitions towards formality, include employment creation through infrastructural development, target vulnerable communities, and open access to productive resources. Effective implementation of minimum wage policies and better enforcement of existing rights at work can ensure that young people are not subject to discriminatory practices as well as provide immediate benefits for those currently in the informal economy.

Social dialogue mechanisms have been established to ensure youth employment is at the forefront of the national agenda, yet there is great potential to better utilize this platform and ensure that it does not fall into periods of inactivity. The Indonesian Youth Employment Network (IYEN) was formed in 2003 as part of Indonesia's participation as a YEN lead country. This is a vital mechanism since it brings together diverse actors to ensure policy attention and resources are directed towards the needs of young people in the labour market. However periods of inactivity have led to missed opportunities to push the youth employment agenda forward. Currently IYEN is going through a process of revitalization under the auspices of the Ministry of National Development Planning (BAPPENAS), and stakeholder meetings have been re-established. Among the potential strengths of IYEN, apart from identifying entry points within national policy formulation, there could be partnerships with universities and research bodies to expand the knowledge base on the problems facing young people as they make the journey towards the labour market.

1

OVERVIEW OF THE ECONOMIC AND SOCIAL CONTEXT

1.1 Macroeconomic framework

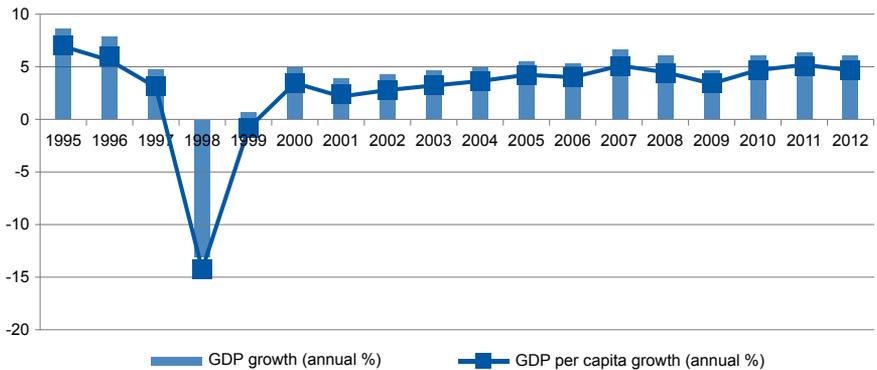
In the current 2014 period Indonesia is facing a slow-down in its growth rate. The rate dropped below 6 per cent in 2013 to around 5.78 per cent and is likely to continue this weaker rate of growth in 2014, with projections of around 5.4 per cent (World Bank, December 2013). Nonetheless Indonesia's economy has shown a remarkable resilience over the last 20 years even in the face of economic crisis. Prior to the Asian financial crisis in 1997, it was considered to be one of the best performing East Asian economies, with a growth rate of 7.1 per cent between 1985 and 1995. The 1997 financial crisis led to a rapid decline in Gross Domestic Product (GDP) growth, but since then the country has recuperated its growth momentum. GDP growth declined from 6 per cent in 2008 to 4.6 per cent 2009 as a result of the global financial crisis, but subsequently recovered to 6.1 per cent in 2010 and 6.5 per cent in 2011 (World Bank, 2014).

GDP per capita growth has also been impressive: GDP per capita in real per capita terms increased 160 per cent over the last two decades (World Bank, 2010). This robust performance was supported by solid public finance, healthy financial sector balance sheets and strong domestic demand. Indonesia has managed to fulfil many of its fiscal targets, including a significant drop in debt-to-GDP ratio from 61 per cent in 2003 to 24 per cent in 2012 (World Bank, 2013).

Indonesia accounted for 1.2 per cent of global GDP in 2012 and is one of the world's top 20 economies. It is also the largest economy in the Association of Southeast Asian Nations (ASEAN) in terms of GDP. It accounts for 30 per cent to 40 per cent of regional income within ASEAN in any given year (ILO, 2013).

The current slow-down is linked to a number of factors including pressures on the rupiah, which dropped significantly in 2013, declining investment spending and output growth, tighter external financing, fluctuating commodity prices and declining terms of trade. Policies have responded to these conditions and have been broadly positive in terms of continued macroeconomic stability, including by helping to lower the current account deficit.

Figure 1.1 GDP per capita and annual GDP growth



Source: *World Bank Development Indicators*.

Indonesia’s exports, focused on commodities, benefited from the international commodity price increase and strong demand for raw materials from China and other emerging economies, though there have been recent fluctuations in demand. Policymakers also took proactive measures during the crisis, including a fiscal stimulus package, supportive monetary policy and a significant contingent support package from development partners whilst managing to bring the fiscal deficit that was below target in 2009-2011. Along with strong GDP growth, this contributed to a decrease in Government debt to below 24 per cent of GDP, healthy leveraging of the private sector balance sheets and sovereign ratings that are back at investment grade for the first time since 1997 (World Bank, 2012).

One notable feature of the Indonesian economy is the share of household consumption: 58.1 per cent of the GDP in 2012¹. The high level of household consumption suggests that demand remained high, which can provide a possible stimulus for domestic production and employment. Demand was maintained even in the face of the global financial crisis through the fiscal stimulus package. The policy response is reflected in the high growth rate of Government consumption in 2008 and 2009, which increased to 10.43 per cent and 15.67 per cent per year². Gross domestic fixed capital formation is expected to rise in the coming years as the Government and private sector accelerate infrastructure spending (ILO, 2012).

While economic growth has been stable at the national level (albeit at a slower rate), significant differences exist among provinces, reflecting a concentration of economic activities in Java and Sumatra (for instance about 61 per cent of value added to the GDP was originated in Java in 2010) and the eastern provinces lag far behind. Some provinces with industrial hubs or natural resource exploitation recorded two digit annual growth rates between 2006 and 2010, while others contracted sharply. For example Aceh contracted annually by 2.3 per cent on average during the same period and the economy has been stagnant in the province of Papua since 2006 (ILO, 2012).

1.2 General labour market trends

The patterns of growth have resulted in improved overall labour market indicators. Employment growth (age 15 and above) rates have been surpassing the growth rates of the labour force since 2006. Employment grew annually by 3.2 per cent on average between 2006 and 2010, while the labour force expanded at 2.3 per cent per year during the same period (ILO, 2013). Unemployment rates have been on the downtrend since 2005; however time-related underemployment³ has been high: 14.1 per cent of total workers were underemployed in 2010, and the share was higher among women at 16.2 per cent (ILO, 2012). The share of employment in formal and informal economies has also been shifting in recent years. In 2010 informality was around 59 per cent, dropping to 53 per cent in 2013 (ILO, 2013).

¹World Bank Development Indicators database.

²World Bank Development Indicators database.

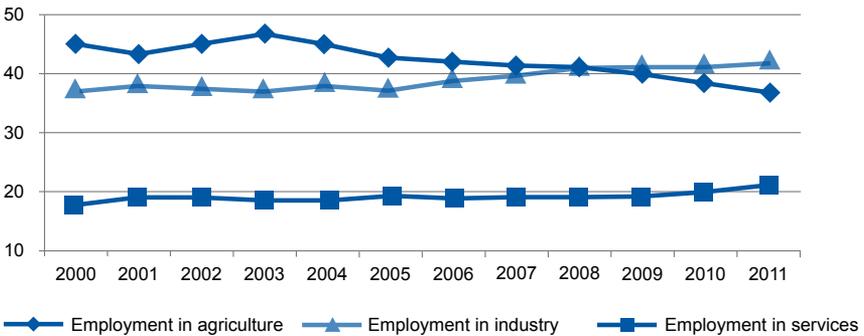
³A worker is classified as being in time-related underemployment when he/she works less than 35 hours per week and is looking for a job, or is available for more work.

Gender disparities exist in the labour market. The labour force participation rate for men in 2013 was 85 per cent, while it was 53 per cent for women. In the same year men accounted for 62 per cent of the employed, while women accounted for 38 per cent. And the employment-to-population ratio also displayed significant variation by gender, with 80.3 per cent for men and 50 per cent for women in 2013 (ILO, 2013).

The current downturn is starting to negatively impact the labour market. There are also indications of significant labour market churning. Between 2012 and August 2013 close to one million workers left rural areas (ILO, 2013). Although the numbers of workers in urban areas has increased there is also significant overseas migration for temporary work in Indonesia. Every year around 700,000 documented workers leave Indonesia to seek employment abroad. The number of undocumented workers may be as much as two to four times higher. Young people may account for as much as 25 per cent of emigration, giving an indication of the poor employment prospects facing youth in the domestic labour market.

The agricultural sector is still one of the largest employers in Indonesia, accounting for 35 per cent of employment of all working people in 2013 and just over 30 per cent of employed youth (see section 2.2.2.1). Surprisingly there has been little increase in spite of the current downturn, which is often the case. Structural shifts in the economy have therefore continued to unfold, though there has been a slight decline in both manufacturing and construction during 2013 (ILO, 2013).

Figure 1.2 Employment by sector (% of total employment)



Source: *World Bank Development Indicators*.

1.3 Poverty

Data from Statistics Indonesia indicates that in March 2013, 11.4 per cent of the population was below the poverty line (set at IDR 271,626 per month). This is a drop from 12 per cent in 2012 and, over the longer term, a drop from 24.2 per cent in 1998.

Poverty continues to be geographically concentrated in rural areas with 14.3 per cent of the rural population and 8.4 per cent of the urban population falling below the poverty line. Regional disparities are also striking, with eastern Indonesia lagging significantly behind the other parts of the country. Regional variation in poverty rates can be seen in the following figures: in 2013, the poverty rate was over 31.5 per cent in Papua Province, 27.1 per cent in Papua Barat Province and almost 20 per cent in Maluku Province compared with poverty rates of below 5 per cent in DKI Jakarta Province (3.7 per cent), and Bali Province (4.4 per cent) (Statistics Indonesia, BPS).

There are also major differences geographically in terms of relative and absolute poverty. While in absolute terms over half of the total Indonesian poor population lives in Java, in relative terms the provinces of Eastern Indonesia show far higher numbers of poverty. The Indonesian provinces with the highest rates of absolute poverty are East Java, Central Java, West Java and North Sumatra.

Another salient feature of poverty in Indonesia is the many Indonesians living just above the poverty line. There is a large group of “near-poor” people – variously estimated at between one-third and one-half of the population – who are vulnerable to aggregate and idiosyncratic shocks such as food price increases or health shocks. This is also illustrated through a high rate of households falling below the poverty line despite an overall declining poverty rate. Over half of the 2010 poor fell into poverty that year, and a quarter of the population had been in poverty at least once in the last three years. However, a high degree of new entry into poverty combined with a falling overall poverty rate means that there is also a high degree of exit out of poverty for many households in any particular year (World Bank, 2012a).

While there has been a trend towards a decline in poverty, overall inequality has been increasing. The Gini index reached a peak of .41 in 2011 and 2012. The recent slow-down is also likely to impact the rate of

poverty reduction, making it very difficult to reach the Government's target of 6 per cent to 10 per cent poverty rate in 2014 (World Bank, December 2013). While the up-scaling in social protection to mitigate the decreased fuel subsidies to vulnerable households may alleviate poverty in the short term, such programmes as the conditional cash transfer programme are only temporary. The Government has also laid out a comprehensive medium-term strategy for reducing poverty in its National Medium Term Development Plan (RPJMN) in an effort to meet its Millennium Development Goal (MDG) in the area of poverty reduction.

2 THE YOUTH LABOUR MARKET

2.1 Demographic outlook

2.1.1 Demographic bonus

Indonesia is currently riding the crest of demographic dividend/bonus where it has a high working age population and low dependency ratio. Indonesia has 50 per cent of its population under age 29⁴, and 60 per cent under age 39. Some 52 per cent of the population live in urban areas (Indonesia Investment Coordinating Board, 2014).

This demographic dividend offers a tremendous opportunity for Indonesia to effectively utilize its working age population and maximize economic productivity. However in order to reap the benefits from this dividend, it is essential that effective policies for employment creation be put in place, especially for its young people and also to overcome gender and regional disparities. This challenge remains high since there are indications that Indonesia's birth rate continues to grow at a high rate and may soon cut into some of the benefits of the demographic bonus.

2.1.2 Trends in education

Indonesia's strong commitment to education (as exemplified by its increased resource allocation, as discussed in Section 4.2) has been showing a positive impact, with educational participation increasing from

⁴According to the Youth Law of Indonesia (Law No. 40/2009), youth are defined as being between 16 and 30 years old, though this bracket is not consistently used or applied. The United Nations (UN) age bracket for youth (15 to 24 years) is also used, including for data gathering.

32 per cent to 37 per cent. Labour force participation of young people has also decreased, indicating that young people are remaining in school longer and joining the labour force later. The biggest improvements have been in increasing access to basic education.

The net enrolment rate (NER) in 2012 for primary school education stands at 92 per cent (while the gross enrolment rate (GER) is around 104 per cent).⁵ For junior secondary school, the NER reached 71 per cent in 2012 (with a GER of 89 per cent). The important overall educational expansion has also reduced the education gap by gender. Gender parity at almost all education levels is achieved since boys and girls are enrolled in equal proportion at the primary level while at the junior secondary level, girls' GER exceeds that of boys (UIS, 2010).

Despite these improvements there are still large educational gaps and many supply side problems such as high teacher absenteeism, particularly in rural areas, poor teacher quality and weak educational infrastructure. Although participation in primary school has been nearly universal since the 1990s, and continued even during the 1997 Asian financial crisis, there are still a number of children out of school. According to UNICEF “2.5 million Indonesian children who should be in school are not — 600,000 of primary school age and 1.9 million of junior secondary school age (13-15 years)” (UNICEF Indonesia).

With regard to senior secondary school, the participation rates, while gradually expanding, still remain relatively low, reaching only 52 per cent in 2012. Tertiary education also remains low at around 13 per cent. Key constraints to enrolment in senior secondary and tertiary level education include high costs, particularly for the poor, the perceived low quality of schooling and lack of benefit from attaining higher degrees.

Relatively favourable enrolment figures mask some discrepancies. Indonesian children's opportunities to participate in the education system differ significantly between the richest and the poorest children. Disparities in education between the lowest and highest income groups remain important, especially in the advanced levels of education (junior and senior secondary education). The share of 15 year olds from the poorest

⁵The NERs are significantly different from the GERs, indicating a high percentage of underage (under seven years of age) and over-age (over 12 years of age) pupils. According to the UNESCO Institute for Statistics (UIS), in 2008, 12.8 per cent and 3.8 per cent of primary school students are underage and overage respectively.

consumption quintile who enrolled in school increased from 60 to 80 per cent between 2006 and 2010. However, beyond the age of 15, the share of children enrolled from the poorest quintile drops dramatically, and by higher education, falls to less than 2 per cent. Only 40 per cent of 19 year olds from the richest quintile were enrolled in school in 2010, a share that, worryingly, has not change since 2006 (World Bank, 2013a).

The gap in educational participation between provinces is still quite large. In 2012, Papua lagged behind significantly for primary education, with a school participation rate of around 75.3 per cent at primary level. The differences among provinces in net enrolment ratios become wider at higher levels of education. For instance, at the junior secondary level, a higher number of provinces lag, most notably Papua (43.6 per cent) and Nusa Tenggara Timur (55.9 per cent) (Statistics Indonesia, BPS) .

Moreover, the success in increasing school attendance in both primary and secondary education has not yet been accompanied by satisfactory graduation rates. In 2008 only 80 per cent of children enrolled in primary school reached the final grade of primary school (UIS, 2010). This may be a result of high dropout rates and the large number of students who have to repeat classes.

2.2 The youth labour market

Box 2.1 Definitions

Labour force participation rate: The labour force expressed as a percentage of the working age population. The labour force is, in turn, the sum of the number of persons employed and the number of persons unemployed.

Employment: A person is considered to be in employment if he/she has worked during the week prior to the survey for at least one hour for pay (or without pay), profit, in kind, or family business. A person is also considered to be in employment if he/she had not been working but had a job to go back to.

Unemployment: A person is in unemployment if he/she did not work during the week prior to the survey but is actively seeking and available for work.

The “relaxed definition” of unemployment: In many national contexts there may be persons not currently in the labour market who want to work but do not actively seek work because, for example, they view job opportunities as limited (often called “discouraged workers”). In this case, the “seeking work” and

Box 1.1 Definitions (continued)

“available for work” criteria are “relaxed”, and the definition of unemployment is expanded to include discouraged workers.

Underemployment: The underemployed are persons working less than a set number of hours (set at national level) per week but wanting and available to work more hours. The underemployment rate is the number of underemployed expressed as a percentage of the total employed population.

Inactive: The inactive population is the population that is not in the labour force. When combined, the inactivity rate and labour force participation add up to 100.

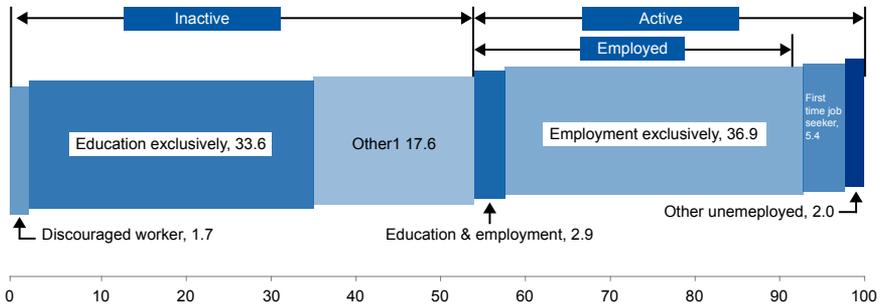
NEET: Refers to youth who are not in education, employment or training. It therefore reflects both youth who are inactive and out of education as well as youth who are unemployed.

2.2.1 Youth activity status

In order to have a comprehensive picture of the youth employment challenge in Indonesia, Figure 3 and Table 1 provide details of the activity status of the youth population. Subsequently, Table 2 focuses on their status in the labour market.

Over 47 per cent of young Indonesians aged 15–24 years were in the labour force in 2012. Figure 3 below, which summarizes the activity status of persons in this age group, indicates that while the largest share of inactive youth (almost 34 per cent of all youth) is in education exclusively, the group that is inactive and out of education is also very high (over 19 per cent of all youth). Only a small share of the latter group is made up of discouraged workers (less than two per cent of all youth), indicating that most young people desiring work are in the labour market and actively seeking it. Among active youth, the largest proportion (37 per cent of all youth) is in employment exclusively. Finally, Figure 3 indicates that employment and education are largely mutually exclusive activities: only a small share (three per cent) of youth combines the two.

Figure 2.1 Decomposition of youth population by activity status (all youth, aged 15–24 years)



Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Table 2.1 and Table 2.2 below, report the activity status decomposition and the main aggregate labour market indicators, respectively, for young Indonesians. They highlight the significant variation in the labour market situation of young persons by their age, sex, residence and location.

- Age.** The overall labour market indicators mask large variations in labour market status by age. This is not surprising, as the 15–24 age range is a period of transition. A comparison of teenagers (15–19 year-olds) and young adults (20–24 year-olds) reveals large differences in involvement in education, with relatively few people continuing education beyond their teens into young adulthood. Young adults are more much represented in the labour force (although teenagers in the labour force are more likely to be without work), and are also more likely to be inactive and out of school.
- Sex.** The largest difference between young men and women is the extent of their participation in the labour force. Young men are much more likely to be economically active, while a much larger share of young women are inactive and out of education, presumably undertaking domestic responsibilities typically assigned to women in Indonesian society. Other differences in the status of young men and women are not so significant. The share of young men and women in education is roughly equal, and

for economically active young men and women, labour market outcomes do not vary markedly (young women face a slightly greater risk of unemployment).

- Residence.** Labour market status varies considerably by place of residence, reflecting important underlying differences in the nature of the urban and rural labour markets. Youth participation in the labour market is lower in urban areas than in rural areas, and active urban youth face a significantly greater risk of unemployment. Unemployment in rural areas, however, is also relatively high. Differences in the status of rural and urban youth outside the labour market are even greater. Inactive urban youth are much more likely to be continuing their education, while their rural peers are more likely to be both outside the labour market

Table 2.1 Decomposition of population, persons aged 15–24 years, by residence, sex and age range

<i>Decomposition of labour force (% population)</i>									
<i>Category</i>		<i>Inactive</i>			<i>Active</i>				<i>Total</i>
		<i>Discouraged worker^(a)</i>	<i>Student</i>	<i>Other Inactive</i>	<i>Employed</i>		<i>Unemployed</i>		
					<i>Estudent</i>	<i>Not Student</i>	<i>In search of first job</i>	<i>Previously employed</i>	
Residence	Urban	1.4	39.6	13.7	2.6	34.1	6.2	2.3	100
	Rural	1.9	27.7	21.5	3.1	39.6	4.6	1.7	100
Sex	Male	2.0	33.8	7.8	3.2	44.4	6.2	2.5	100
	Female	1.3	33.5	27.4	2.5	29.2	4.6	1.5	100
Age range	15-19	1.5	51.7	14.3	3.6	21.8	5.6	11.3	100
	20-24	1.8	10.5	21.7	1.9	56.1	5.1	3.0	100
Total		1.7	33.6	17.6	2.9	36.9	5.4	2.0	100

Notes: (a) Definition is based on the concept of the informal sector in the Indonesia National Labour Force Survey (Sakernas). For details, see BPS-Statistics Indonesia, Indonesian Country Paper on Informal Sector and its Measurement, May 2008.

(b) Formal employment includes the following categories: (1) own-account workers who are in professional, technical and related, administrative and managerial, clerical and related occupations; (2) employers assisted by temporary or unpaid workers who are in professional, technical and related, administrative and managerial, clerical and related, sales, services, production and related, transport equipment operators and labour-intensive occupations; (3) all employers assisted by permanent workers; (4) all employees and casual employees in agriculture who are professional, technical and related workers, administrative and managerial workers, clerical and related workers, sales workers, production and relative workers; transport equipment operators and labourers; (5) casual employees in non-agriculture who are in professional, technical and related, administrative and managerial, clerical and related occupations.

(c) Non-formal employment includes the following categories: (1) own-account workers who are not in professional, technical and related; administrative and managerial, clerical and related occupations; (2) employers assisted by temporary or unpaid workers, who are not in professional, technical and related, administrative and managerial, clerical and related, sales, services, production and related, transport equipment operators and labour-intensive occupations; (3) all employees and casual employees in agriculture, who are in agricultural, animal husbandry, forestry, fishery and hunting occupations; (4) casual employees in non-agriculture who are not in professional, technical and related, administrative and managerial, clerical and related occupations; (5) all unpaid workers.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Table 2.2 Aggregate labour market indicators, persons aged 15–24 years, by residence and sex

Population Category		Labour mkt. participation (% pop.)	Education participation (% pop.)	Inactive and out of school (% pop.)	Employment rate (% active)	Unemployment rate (% active)	Relaxed unemployment rate ^(a) (% expanded active)
Residence	Urban	45.3	42.5	15.1	81.2	18.8	21.3
	Rural	49.0	30.9	23.3	87.1	12.9	16.1
Sex	Male	56.4	37.2	9.8	84.5	15.5	18.4
	Female	37.8	36.0	28.7	83.9	16.1	18.8
Age range	15-19	32.4	55.5	15.8	78.6	21.4	24.9
	20-24	66.0	12.6	23.5	87.8	12.2	14.6
Total		47.1	36.7	19.2	84.2	15.8	18.6

Notes: (a) Relaxed unemployment considers both unemployed workers and discouraged workers who are available to work. The relaxed unemployment rate is the sum of unemployed workers and discouraged workers available to work expressed as a percentage of the expanded active population. Discouraged workers are defined as those who are not working, report to not looking for a work and not preparing for a business because they feel discouraged about their prospects for success, but would accept a job if offered. The expanded active population comprises discouraged workers and the active population.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Regional differences in the activity status of young persons are also important in Indonesia (Table 2.3 below). Jakarta stands out as the region where young people are most likely to be both economically active and to be continuing with education, and as the region where youth are least likely to be inactive and out of education. Among active youth, West Java stands out as having by far the highest level of youth unemployment.

Table 2.3 Decomposition of labour force (% population)

Decomposition of labour force (% population)								
	Inactive			Active				Total
	Discouraged worker ^(a)	Student	Other Inactive	Employed		Unemployed		
				Estudent	Not Student	In search of first job	Previously employed	
Jakarta	0.5	38.3	6.8	5.1	39.5	7.1	2.7	100
West Java	2.3	32.8	17.5	1.6	34.9	7.6	3.3	100
Central and East Java	0.9	35.1	15.6	2.8	38.6	4.7	2.2	100
Sumatra	2.1	36.1	16.7	3.5	35.3	5.0	1.2	100
Kalimantan	1.3	29.5	20.1	2.1	41.1	4.5	1.4	100
Suwalesi	1.5	23.0	32.6	2.4	35.5	3.9	1.1	100
Eastern Indonesia	2.2	34.5	17.4	4.8	36.9	3.5	0.6	100
Total	1.7	33.6	17.6	2.9	36.9	5.4	2.0	100

Notes: (a) Discouraged workers are defined as those who are not working, reported to not looking for a work and not preparing for to launch a business because they feel hopeless discouraged about job prospects., but However, they would accept a job if offered.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), 2012.

2.2.2 Youth employment

Youth employment outcomes overall have been improving in Indonesia and the pattern of growth between 2006 and 2012 has likely played an important role in this. Formal employment has been growing in the last number of years and young people have been able to access formal work opportunities. An analysis of the status in employment by age reveals that young people (15–24 years) are, on average, more likely to be on employee contracts than older workers, with 49.8 per cent of workers aged 15–24 and 36.4 of all workers on wage employment contracts (ILO, 2013). The positive employment trends can also be seen through the decline in the unemployment rate from around 30 per cent in 2006 to close to 19 per cent in 2013 (ILO, 2013). However, these gains were driven by high rates of growth and the policy mix surrounding growth. It remains to be seen what impact the current slow-down will have.

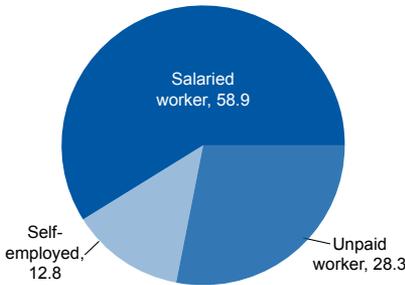
2.2.2.1 Status and sector of employment

The proportion of young workers who are salaried employees, one important proxy of job quality, is relatively high in Indonesia. Figure

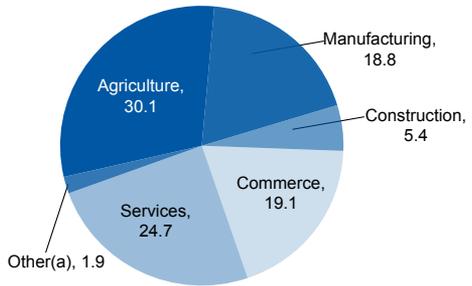
2.2, which shows the employed youth population by employment status, indicates that about 60 per cent of employed youth are paid employees, a share somewhat higher than that of adult workers. A little less than one-third of employed youth, on the other hand, still work in low productivity non-wage labour, typically within the family unit. But national averages mask a clear dichotomy by residence. While salaried employment predominates in urban areas, non-waged employment accounts for about 43 per cent of employed youth in the countryside. Salaried employment is also much more predominant in Jakarta and West Java than in other regions.

Figure 2.2 Decomposition of youth employment

(a) *By employment status*



(b) *By sector*



Notes: (a) The category “Other” includes mining and quarrying, electricity, gas and water supply and extraterritorial organizations and bodies.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Table 2.4 Status in employment, percentage of employed persons aged 15–24 years, by residence and region

Category	Residence			Region					
	Urban	Rural	Jakarta	West Java	Central and East Java	Sumatra	Kalimantan	Suwalesi	Eastern Indonesia
Salaried employee	79.9	40.8	87.8	75.9	59.5	51.3	49.8	46.2	28.6
Unpaid Worker	11.6	42.8	4.3	12.8	28.3	35.1	36.7	39.1	53.6
Self-employed	8.5	16.4	7.9	11.4	12.2	13.6	13.6	14.8	17.8
Total	100	100	100	100	100	100	100	100	100

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Involvement in tertiary sector employment is also relatively high among young workers. In all, about 44 per cent of employed youth are either in the services (25 per cent) or commerce (19 per cent) sectors, while about 30 per cent are in agriculture (as compared to 35 per cent rate of all employed) and about 19 per cent are in manufacturing (Figure 2.4). Again, however, there are pronounced differences depending on region and place of residence. While, unsurprisingly, agriculture predominates in rural areas, the services and commerce sectors are the most important source of youth employment in cities and towns, accounting for three out of every five employed youth. By region, Jakarta stands out for the relative importance of its services sector, and all three Java regions stand out for the relative importance of the manufacturing sector. Young people living outside of Java, by contrast, are much more likely to be found working in agriculture.

Table 2.5 Sector of employment, percentage of employed persons aged 15–24 years, by residence and region

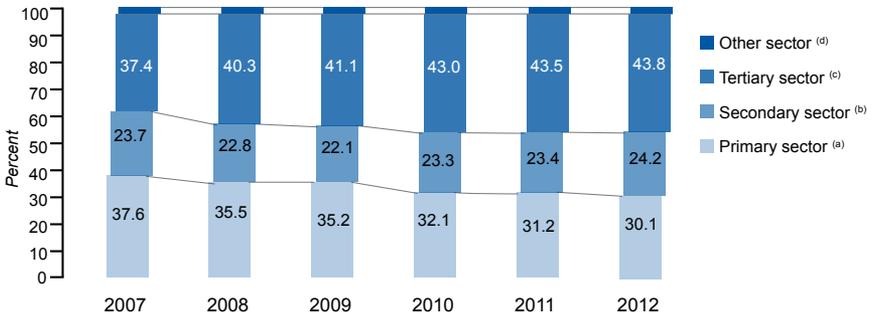
Category	Residence			Region					
	Urban	Rural	Jakarta	West Java	Central and East Java	Sumatra	Kalimantan	Suwalesi	Eastern Indonesia
Agriculture	6.0	50.9	0.2	11.6	24.4	44.3	44.2	43.7	62.9
Manufacturing	26.3	12.3	15.7	34.7	24.2	8.2	5.4	6.9	5.6
Construction	5.6	5.2	1.7	4.8	6.8	5.5	4.2	7.0	3.1
Commerce	27.7	11.7	26.8	22.4	19.8	16.9	18.6	16.7	10.4
Services	33.3	17.2	55.3	25.6	24.2	22.5	19.4	22.8	15.9
Other ^(a)	1.1	2.6	0.3	0.9	0.8	2.5	8.3	2.9	2.1
Total	100	100	100	100	100	100	100	100	100

Note: (a) The category “Other” includes mining and quarrying, electricity, gas and water supply and extraterritorial organizations and bodies.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Trend data shows a gradual shift away from employment in the primary agricultural sector towards employment in the tertiary sectors. A comparison of the results of the national labour force surveys for the 2007 to 2012 period reveals how the sectoral composition of youth employment has changed over time. These changes, reported in 0, show a gradual shift away from employment in the primary agricultural sector towards employment in the tertiary sectors over that period. These shifts have been matched by similar changes in employment arrangements: the share of young people in salaried employment rose, and the share of youth in self-employment fell, over the 2007–2012 period (0).

Figure 2.5 Changes in the sectoral composition of youth employment (% of employment youth), 2007–2012



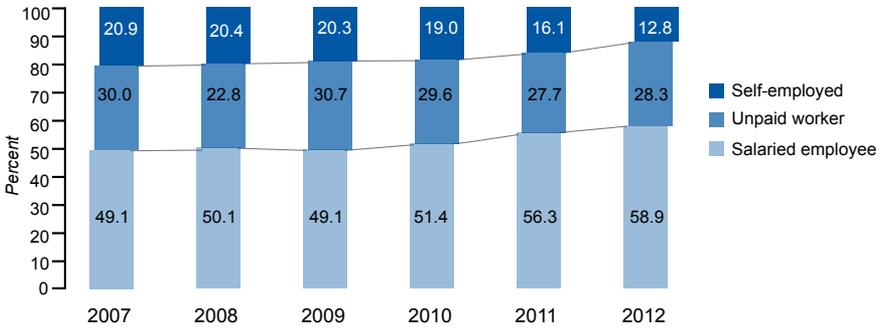
Notes: (a) “Primary” refers to agriculture sector;

(b) “Secondary” refers to manufacturing and construction sectors;

(c) “Tertiary” refers to services and commerce sectors; and (d) “Other” includes mining and quarrying, electricity, gas and water supply and extraterritorial organizations and bodies.

Source: UCW calculations based on Indonesia National Labour Force Survey, August 2012, August 2011, August 2010, August 2009, August 2008 and August 2007.

Figure 2.6 Changes in status in employment (% of employed youth), 2007–2012



Source: UCW calculations based on Indonesia National Labour Force Survey, August 2012, August 2011, August 2010, August 2009, August 2008 and August 2007.

2.2.3 Young workers in the informal economy

While there has been a positive trend in young people’s participation in formal work (from 42 per cent to just under 50 per cent over the period 2008 to 2012, this means that around half of young people still work in the informal economy. The formality of employment is perhaps the best proxy for job quality. Formality is generally associated with greater job stability, higher income and access to other benefits such as pensions and health care. Employment in the informal sector in Indonesia, on the other hand, is associated with significantly worse labour market outcomes on average (World Bank, 2009).

Table 2.6 below, decomposing youth employment by formality (as defined by Sakernas)⁶ indicates that 50 per cent of young workers are found in the informal sector. However, young people fare better in this regard than their adult counterparts.

⁶Definition is based on the concept of the informal sector in the Indonesia National Labour Force Survey (Sakernas). For details, see BPS-Statistics Indonesia, Indonesian Country Paper on Informal Sector and its Measurement, May 2008.

Table 2.6 Employment formality, ^(a) percentage of employed persons aged 15–24 years, by residence and region

Category	Residence				Region					
	Total	Urban	Rural	Jakarta	West Java	Central and East Java	Sumatra	Kalimantan	Suwalesi	Eastern Indonesia
Formal ^(b)	50.1	75.0	28.6	90.1	67.0	52.4	38.4	39.5	35.7	19.3
Informal ^(c)	49.9	25.0	71.4	9.9	33.0	47.5	61.6	60.5	64.3	80.7
Total	100	100	100	100	100	100	100	100	100	100

Notes: (a) Definition is based on the concept of the informal sector in the Indonesia National Labour Force Survey (Sakernas). For details, see BPS-Statistics Indonesia, Indonesian Country Paper on Informal Sector and its Measurement, May 2008.

(b) Formal employment includes the following categories: (1) own-account workers who are in professional, technical and related, administrative and managerial, clerical and related occupations; (2) employers assisted by temporary or unpaid workers who are in professional, technical and related, administrative and managerial, clerical and related, sales, services, production and related, transport equipment operators and labour-intensive occupations; (3) all employers assisted by permanent workers; (4) all employees and casual employees in agriculture who are professional, technical and related workers, administrative and managerial workers, clerical and related workers, sales workers, production and relative workers; transport equipment operators and labourers; (5) casual employees in non-agriculture who are in professional, technical and related, administrative and managerial, clerical and related occupations.

(c) Non-formal employment includes the following categories: (1) own-account workers who are not in professional, technical and related; administrative and managerial, clerical and related occupations; (2) employers assisted by temporary or unpaid workers, who are not in professional, technical and related, administrative and managerial, clerical and related, sales, services, production and related, transport equipment operators and labour-intensive occupations; (3) all employees and casual employees in agriculture, who are in agricultural, animal husbandry, forestry, fishery and hunting occupations; (4) casual employees in non-agriculture who are not in professional, technical and related, administrative and managerial, clerical and related occupations; (5) all unpaid workers.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Informality is much more common in rural areas and in regions just outside of Java. This again underscores the differences in the rural and urban labour markets and in labour market conditions across regions. Over 70 per cent of employed youth in the countryside are in informal work, while in the regions of Sumatra, Kalimantan, Sulawesi and Eastern Indonesia at least three out of every five young workers find themselves in informal work (see Table A1 in Annex). Gender-related differences in the formality of youth employment are also large. Young men are considerably worse off in this regard: overall, they are 14 percentage points more likely to be in informal work than their female peers. Whether this is the result of gender-based discrimination or a result of fewer females participating in the labour market is not clear.

Informality is closely linked to particular sectors of work (Table 2.7). Virtually all young people in agricultural employment are in informal work arrangements, highlighting the importance of expanding job opportunities in rural non-farm enterprises as part of broader efforts to improve youth employment conditions in rural areas. By contrast, almost 77 per cent of youth jobs in the service sector, the second leading youth employer in Indonesia, are formal in nature. Manufacturing jobs are also associated with a high degree of formality.

Table 2.7 Employment formality by sector,(a) percentage of employed persons aged 15–24 years

	Agriculture	Manufacturing	Construction	Commerce	Services	Other ^(b)
Formal	1.8	81.4	44.0	61.6	76.8	59.8
Informal	98.2	18.6	56.0	38.4	23.2	40.3
Total	100	100	100	100	100	100

Notes: (a) Definition is based on the concept of the informal sector in the Indonesia National Labour Force Survey (Sakernas). For details, see BPS-Statistics Indonesia, Indonesian Country Paper on Informal Sector and its Measurement, May 2008.

(b) Formal employment includes the following categories: (1) own-account workers who are in professional, technical and related, administrative and managerial, clerical and related occupations; (2) employers assisted by temporary or unpaid workers who are in professional, technical and related, administrative and managerial, clerical and related, sales, services, production and related, transport equipment operators and labour-intensive occupations; (3) all employers assisted by permanent workers; (4) all employees and casual employees in agriculture who are professional, technical and related workers, administrative and managerial workers, clerical and related workers, sales workers, production and relative workers; transport equipment operators and labourers; (5) casual employees in non-agriculture who are in professional, technical and related, administrative and managerial, clerical and related occupations.

(c) Non-formal employment includes the following categories: (1) own-account workers who are not in professional, technical and related; administrative and managerial, clerical and related occupations; (2) employers assisted by temporary or unpaid workers, who are not in professional, technical and related, administrative and managerial, clerical and related, sales, services, production and related, transport equipment operators and labour-intensive occupations; (3) all employees and casual employees in agriculture, who are in agricultural, animal husbandry, forestry, fishery and hunting occupations; (4) casual employees in non-agriculture who are not in professional, technical and related, administrative and managerial, clerical and related occupations; (5) all unpaid workers.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012

2.2.4 Wages and conditions of work of young people

Poor job quality is strongly linked with informality as discussed in the previous section. It is also associated with lower wages. Table 2.8 below compares the returns to formal and informal work in terms of average wages. It indicates that the earnings of young persons in formal work are over one-fifth higher than those of young people working in the informal sector. The table also indicates that the returns to formal vis-à-vis informal work are slightly higher in urban than in rural contexts.

Table 2.8 Average monthly wages^(a) (in Rp) and employment formality,^(b) employed persons aged 15–24 years, by residence and sex

Category	Residence			Sex	
	Total	Urban	Rural	Male	Female
Formal ^(b)	1 033 843	1 085 084	905 259	1 070 434	992 812
Informal ^(c)	807 892	861 875	783 454	851 759	637 076
Difference (in Rp)	225 951	223 209	121 805	218 675	355 736
Difference (%)	21.9	20.6	13.5	20.4	35.8

Notes: (a) Average monthly wage is calculated for all employed youth with non-zero wage.

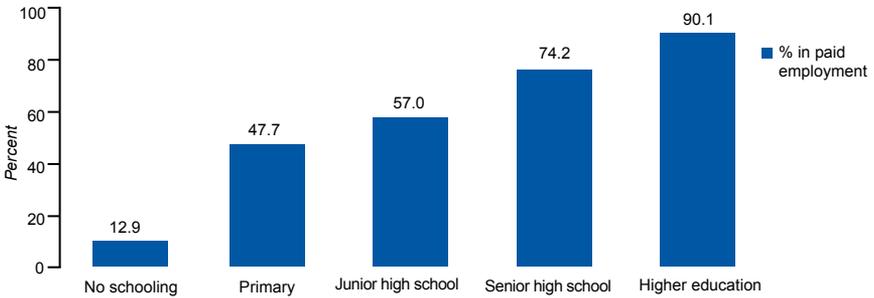
(b) See Table 2.7.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

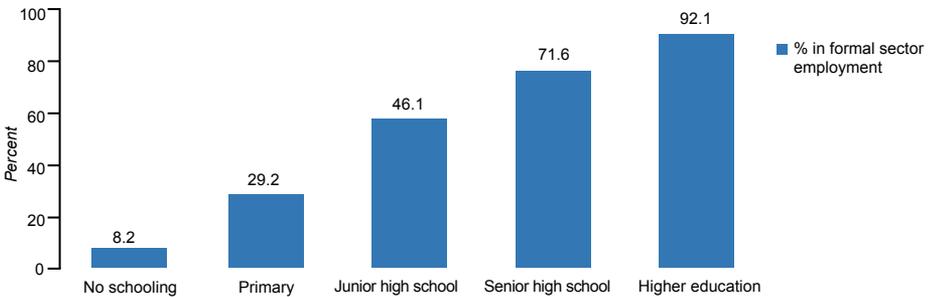
There is strong evidence that access to better quality jobs and higher income increases with higher levels of education. Figure 2.7 looks at the links between job quality and level of education for employed youth (only those no longer in education are included). Two factors for job quality are considered – salaried employment and formal employment. The figure highlights that the likelihood of securing both salaried and formal employment rises dramatically with education. The figure also indicates that even a small amount of education is relevant in this regard: those with primary education are four times more likely to be in salaried employment than those with no education. The implications of this will be discussed in Chapter 3.

Figure 2.7 Education level and job quality

(a) Proportion of employed youth(a) in salaried employment



(b) Proportion of employed youth(a) in salaried employment



Notes: (a) Only employed youth not in education are considered.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), 2012.

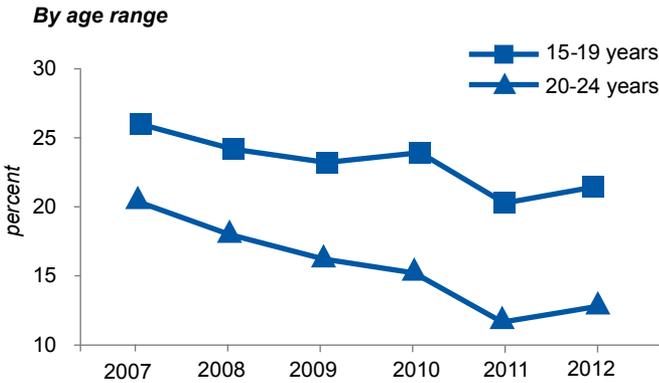
2.2.5 Youth unemployment

The effects of prolonged unemployment early in a person's working life are well-documented: it may permanently impair his or her productive potential and therefore influence lifetime patterns of employment, pay and unemployment. Research also points to links between youth unemployment and high risk behaviours as well as social and political turbulence.

Indonesia has experienced positive results in the overall trend for youth unemployment. There has been a clear downward trend in recent years. Comparison of the results of the national labour force surveys for the 2007 to 2012 period reveals unemployment trends. These trends, reported

in Figure 2.8, show a consistent and significant fall in unemployment for the active youth population as a whole and for most youth population subgroups. This downward trend is especially noteworthy in light of the global economic downturn which occurred during the 2007–2012 period. The decline in the unemployment rate among urban youth and among older youth is especially striking; in both cases, the youth unemployment rate fell by around 10 per cent between 2007 and 2012.

Figure 2.8 Trends in unemployment (% of active population), 2007–2012



Source: UCW calculations based on Indonesia National Labour Force Survey, August 2012, August 2011, August 2010, August 2009, August 2008 and August 2007.

Despite a downward trend, rates of measured unemployment among Indonesian young people remain high. Around 19 per cent of young people are unemployed (ILO, 2013), a rate several times higher than that for adult workers. In 2012 the ratio of youth unemployment to adult employment was 6.4. Unemployment rates, however, understate the full extent of the difficulty in securing full-time jobs as they do not take into account young persons who have given up looking for work or young persons who are technically employed but work only occasionally. The issues of underemployment and discouraged workers are taken up in sections 2.2.6 and 2.2.7, respectively, of this report.

While unemployment in urban areas is about six per cent higher than that in rural areas, the unemployment rate for young people living in the countryside nonetheless is almost 13 per cent. This points to the

inability of the agricultural sector to fully absorb the youth labour force in rural areas in the Indonesian context. There are also large differences in youth unemployment levels by age and location. Unemployment is much higher for 15–19 year-olds compared to 20–24 year-olds, not surprising in that the former have been in the labour market for less time. Regional disparities in youth unemployment are very large, with young people in West Java particularly challenged by the difficulty in securing a place in the labour market.

Econometric evidence largely confirms these youth unemployment patterns. Controlling for other factors, the probability of unemployment is influenced by age, residence and region. Married youth also face a lower risk of unemployment. Surprisingly, econometric evidence also indicates a strong positive link between high education levels and the risk of unemployment, i.e., more education increases the probability of unemployment. While the evidence shows clear positive returns in employment outcomes for greater levels of education (see section 3.1), this is only up to a certain point. Like many developing and middle-income countries, Indonesia suffers from a problem of graduate unemployment. The factors behind this perverse outcome are likely to include such supply side issues as skill mismatch as well as demand side issues, including the fact that these countries have not shifted structurally enough away from agriculture, resulting in weak demand for highly educated graduates. The issues surrounding graduate unemployment are discussed in more detail in section 3.1.

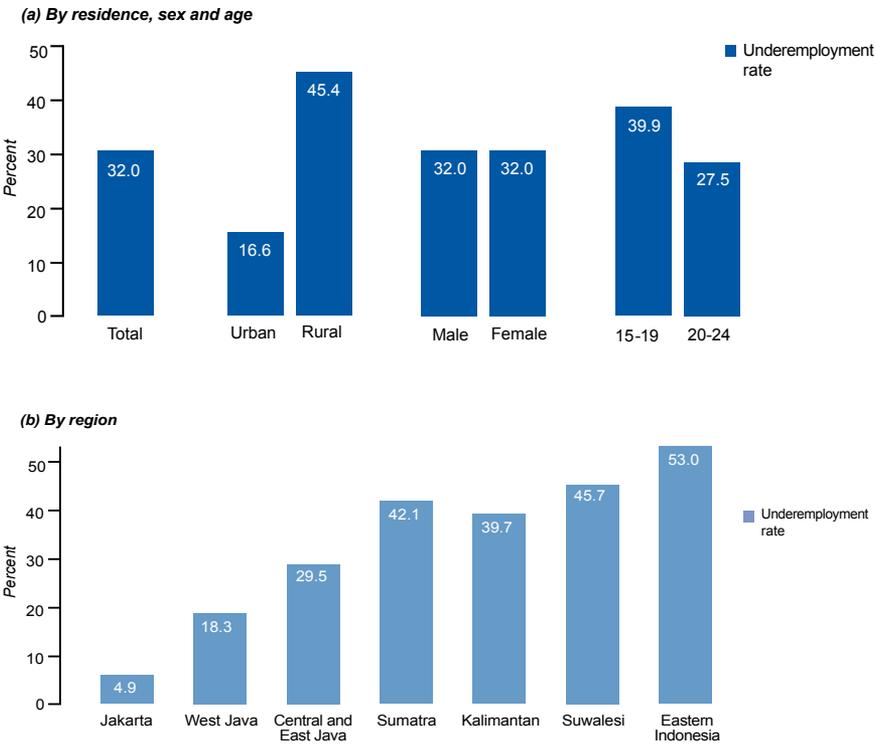
2.2.6 Underemployment

Difficulties in the labour market are often reflected in measures such as underemployment (as well as informality and job quality, as discussed in previous sections). Many young people, particularly in poor communities cannot afford to remain unemployed for long and are forced to accept occasional work, often in the agricultural sector. High levels of youth underemployment point to difficulties in securing an adequate place in the labour market, as well as to underutilized productive capacity.

Underemployment, defined in Indonesia as working less than 35 hours per week, is very common for young people. As reported in Figure 2.9 below, almost one-third of all employed youth are underemployed according to this measure. Underemployment is particularly pronounced

in rural areas (over 45 per cent of young workers) and in the regions beyond Jakarta and West Java (at least 29 per cent of young workers), pointing to the substantial underutilization of the productive capacity of young people in these geographical areas.

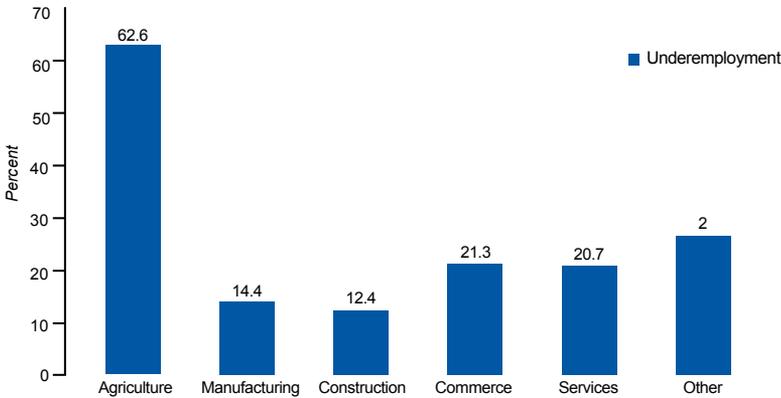
Figure 2.9 Trends in unemployment (% of active population), 2007–2012



Notes: (a) The underemployment rate is the number of employed persons in situations of underemployment expressed as a percentage of total persons in employment. A person is considered in a situation of underemployment, in turn, if he/she works less than 35 hours a week.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Figure 2.10 Underemployment rate by sector(a) (percentage of employed population aged 15–24 years), by sector



Notes: (a) The underemployment rate is the number of employed persons in situations of underemployment expressed as a percentage of total persons in employment. A person is considered in a situation of underemployment, in turn, if he/she works less than 35 hours a week

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

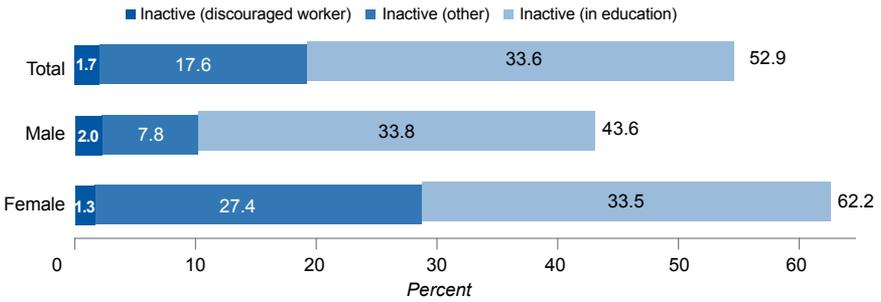
Unlike unemployment, the proportion of underemployed youth does not appear to be declining appreciably over time. Underemployment as a proportion of total employment was largely unchanged for young workers overall, and for most subgroups of employed youth.

2.2.7 Youth inactivity and discouragement

A very large share of young Indonesians – and especially young women – is neither in the labour force nor in education. As reported in Figure 2.11, 19 per cent of all youth is inactive and out of education, constituting significant lost productive potential and a constraint to growth. Inactivity is particularly high for young women: the share of young women that is inactive and not in education is almost three times that of young men. This difference is not a product of more young women being out of education: rates of education participation are virtually equal for young men and women. Nor is the difference a product of higher levels of discouragement among young women. Rather, the greater share of young women who are inactive and out of education appear more related to the

culturally driven tendency for them to stay out of the labour force in order to perform domestic duties and rear children.

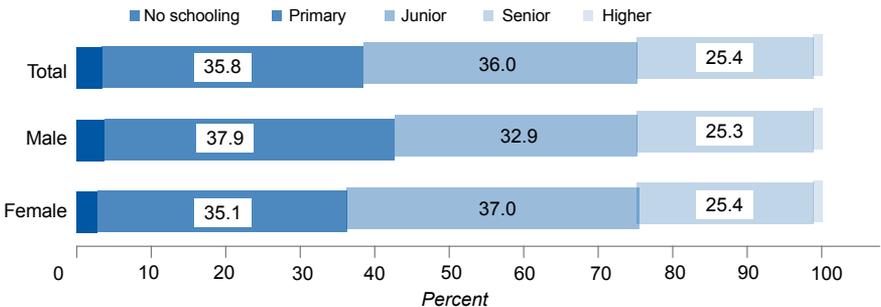
Figure 2.11 Inactivity (% of 15–24 years population), by status and sex



Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), August 2012.

Many young people are inactive and out of education despite having high levels of human capital. This fact underscores the lost productivity represented by young people in neither employment, nor education and training (NEET). As reported in Figure 2.12 below, over 60 per cent of this group has at least a junior secondary level of education, and a quarter has at least senior secondary education. Young women NEET, who, again, constitute the largest portion of total youth in this group, do not have lower levels of educational attainment than their male counterparts.

Figure 2.12 Inactivity and human capital (decomposition of inactive and out of education youth population by education level), by sex



Source: UCW calculations based on Indonesia National Labour Force Survey, August 2012

The proportion of inactive youth does not appear to be declining appreciably over time. Inactivity as a proportion of the youth population declined very slightly from 19.6 per cent in 2007 to 18.7 in 2010, then increased to 19.8 per cent in 2011 before falling to 19.2 per cent in 2012. Among three subgroups – rural youth, young men and youth aged 15–19 years – levels of inactivity actually rose slightly during 2007–2012.

3

TRANSITION FROM SCHOOL TO WORK

The transition from education to work can be one strewn with obstacles. Difficulties in transitioning to the world of work can lead to “scarring” of young people. Among the long-term negative effects of this scarring are periodic episodes of unemployment, engagement in low quality informal work, lower earnings prospects and job opportunities and, in some cases, persistent life-long poverty (Matsumoto et al., 2012).

High rates of unemployment, underemployment, informality as well as inactivity are strong indications of the difficulties that young people face as they enter the labour market. Once young people settle for compromised opportunities in the labour market the scarring effects can begin. Poor transitions pose greater barriers – particularly for those with limited skills – to make the transition to better jobs later on in life. Hence an initial short-run demand shock can mutate into longer-run labour market impairments, including lower lifetime earnings for young workers (Matsumoto et al., 2012). The impact (including stress, frustration and a sense of exclusion) is felt not only at the individual level, but also at a societal level, with increased social unrest and greater inequality. Poor youth employment outcomes also affect national budgets due to the loss of outputs and tax revenues.

Evidence from many countries shows that the pathway towards a decent job is rarely smooth (ILO, 2012b). Amongst the obstacles faced by young people are inadequate education and training to prepare them for a job, lack of experience (rather than lack of motivation), lack of institutions to guide them in choosing a career and securing a job, and labour market structures that make it hard for them to gain a secure foothold on the employment ladder and progress afterward. Gaining reliable data on these issues is essential for developing effective policy solutions. School-

to-work transition surveys can provide in-depth understanding of the challenges facing young people in their pathway to the labour market (see box below).

Box 3.1 School-to-work transition surveys

Current restrictions in labour market information have made it difficult to provide a satisfactory response to the question of why the school-to-work transition of young people today is such a long and difficult process. At the same time, the goal of improving the transition is among the policy priorities of a growing number of countries. In response to this obvious information gap, ILO developed the school-to-work transition survey (SWTS). The SWTS is composed of two surveys: one for young people and the other for enterprises. The two-pronged approach allowed to generate a large pool of data on the characteristics and labour market attachments of young people as well as on the enterprises that could absorb them. The data in itself is not unique, although it tends to be more comprehensive than a typical labour force survey. What is unique about the SWTS is (1) the development of indicators that define the stages of transition and the quality of transition and (2) the application of “decent work” as a concept to be integrated into the analytical framework built around the SWTS.

For more details on the SWTS and results of the most recent surveys please see www.ilo.org/w4y.

There is no recent school-to-work transition survey in Indonesia,⁷ so some of the insights into the difficulties facing young people are not available for this report. Nonetheless information from the labour force survey presented in Chapter 2 does give very valuable understanding of the challenges facing young Indonesians as they enter the world of work.

Analysis of the data from the previous chapter paints a mixed picture in a number of areas relating to the transition difficulties facing young people in Indonesia. While there has been a significant decline in youth unemployment since 2006, labour force participants aged 15–29 still make up approximately 70 per cent of unemployed individuals in Indonesia (ILO, 2013). There is also strong evidence that those in the younger age group (15–19) in particular are struggling to gain a foothold in the labour market.

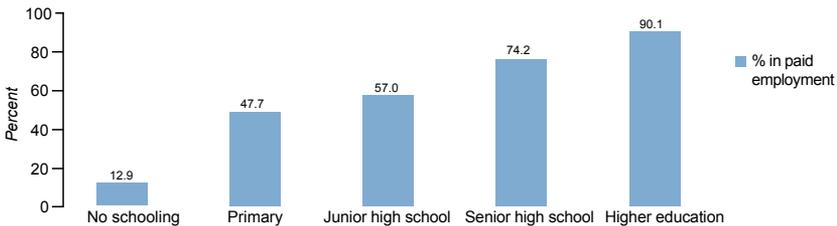
⁷A survey was undertaken in 2003, but the methodology has evolved somewhat since then.

3.1 Education levels and transition

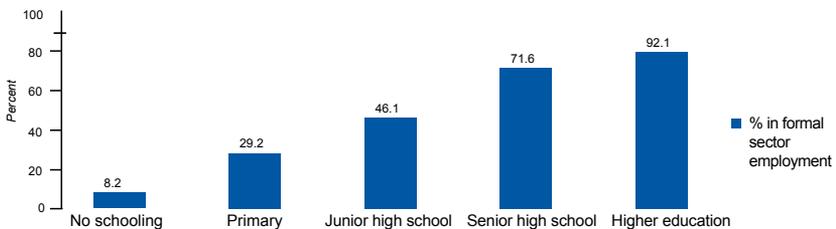
Indonesia is reaping the benefits of higher levels of spending on education. More young people are staying in education with clear positive consequences for the level of human capital they eventually bring to the labour market. In the period 2007 to 2012, education participation rose from 32 per cent to 37 per cent and labour force participation fell steadily from 51 per cent to 47 per cent over the period, indicating that young Indonesians are remaining in school and joining the labour force later. On the other hand, many young Indonesians still have little opportunity to acquire significant human capital: almost one third of 15–24 year olds have primary or less education, while only four per cent possess higher education. Low human capital is a particular concern in rural areas, where 41 per cent of young people have primary or less education and less than two per cent have education beyond the high school level. The impacts of transition for these groups of young people with low education are likely to be negative. A valid assumption would be that they have little likelihood of attaining a formal job and are more likely to be found in poor quality jobs in the informal economy.

Figure 3.1 Education level and job quality

(a) Proportion of employed youth ^(a) in salaried employment



(b) Proportion of employed youth ^(a) in formal sector employment



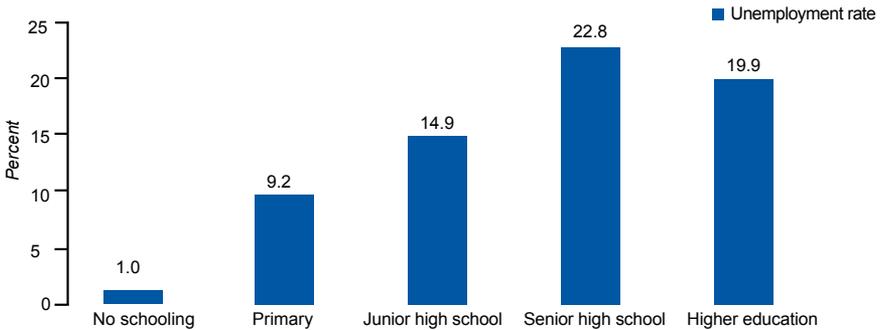
Notes: (a) Only employed youth not in education are considered.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), 2012.

Figure 3.1 looks at the links between job quality and level of education for young workers (only those no longer in education are included). Two factors for job quality are considered – salaried employment and formal employment. The figure highlights that the likelihood of securing both salaried and formal employment rises dramatically with education. The figure also indicates that even a small amount of education is relevant in this regard: those with primary education are four times more likely to be in salaried employment than those with no education.

As noted in section 2.2.5, one issue of concern in the links between education and labour market outcomes relates to the rate of unemployment amongst highly educated youth. See figure 3.4 below.

Figure 3.2 Unemployment rate, young persons aged 15–24 years not in education, by level of education attained



Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), 2012.

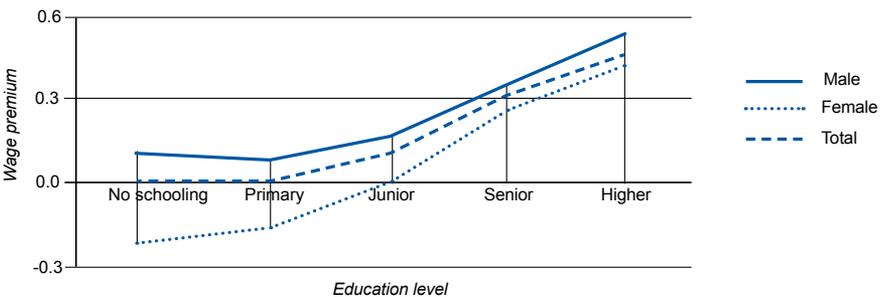
Youth unemployment peaks among those with upper secondary education or higher education at about 22 per cent (Figure 3.2). This is partially the product of the fact that less-educated young people by definition begin their transition to work at an earlier age, and therefore have had a greater length of exposure to the labour market and more time to secure employment. In many cases also, young people from poorer communities cannot afford to be unemployed so are engaged in some form of economic activity. Nonetheless this link between high education and unemployment appears as a perverse outcome since it contradicts the assumption that higher levels of education and training improve the

employability of young people. Certainly Indonesia is not the only country to experience this phenomenon of highly educated unemployed youth. The explanations proposed are various and not clear cut. Some suggest it is a result of poor quality tertiary education while others indicates a skills mismatch and poor mechanisms in bringing skilled job seekers to employers. While these may offer partial explanations, an examination of the demand side is also warranted. It may also be the result of particular patterns of growth that do not create the types of quality jobs that match either the skills acquired or the aspirations of educated young people (ILO, 2012b). This will be addressed further in Chapter 4.

As discussed in Chapter 2 (section 2.2.4), wage levels are also closely associated with returns on education. Average wages are nine per cent higher for junior high school graduates compared to primary graduates, 32 per cent higher for senior compared to junior high school graduates and 37 per cent higher for those with higher education compared to those with only high school education

Figure 3.3 below illustrates the wage premium associated with successive levels of education disaggregated by sex. It illustrates that wage premiums associated with education enjoyed by male youth are much higher than those enjoyed by female youth, another indicator of the relative disadvantage that female youth face in the labour market. The importance of education as a determinant of wage is confirmed by the econometric analysis reported in the annex.

Figure 3.3 Wage premium by sex, youth aged 15–24, with respect to total without schooling



Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), 2012.

Gender outcomes also remain uneven in other areas. While an encouraging trend is that the gender gap is closing in educational participation, this has not translated into better employment outcomes for young women or a reduction in the gender pay gap, particularly amongst salaried workers. Unemployment rates for young women remain higher than for young men. Transitions for young women are fraught with difficulty, not least because of gender roles (which assign women to responsibilities in the household rather than the world of work), and hence higher levels of labour market inactivity.

3.2 Struggling with transition: underemployment, informality and inactivity

Underemployment and informality rates among young people gives further indications of poor transitions to the labour market. About one in three young worker is underemployed. For many young people in poor communities, remaining unemployed is not a viable option. The need to earn an income may entail compromising their aspirations for a decent job. Similarly, rates of informality also indicate weak transitions. Despite young people making headway in accessing jobs with contracts, (see Chapter 2) many young people, particularly in rural communities and disadvantaged regions, remain trapped in informal work arrangements. And despite improvements in the labour market and a decade-long economic expansion, Indonesian employment remains largely informal, with 53.6 per cent of jobs in the informal economy in 2013 (ILO, 2013).

A significantly large portion of young Indonesians, especially young women, are neither in the labour force nor in education. Only a small share of this group is made up of discouraged workers (less than 2 per cent of all youth), indicating that most young people desiring work are actively seeking it in the labour market.

The rate of those not in employment, education or training (NEET)⁸ for 15–24 year olds rose from 27.1 per cent in 1996 to a peak of 31.9 in 2005, falling back to 27.6 per cent in 2009. Hence over a period of a decade, this rate has worsened; and in spite of recent improvements, it has remained higher than in 1996⁹.

3.3 Struggling with transition: unemployment and job search periods

Unemployment affects 19 per cent of young Indonesians in the labour force (ILO, 2013) and of these around five per cent are first-time job seekers. This underscores the challenge of gaining an initial foothold in the job market and shows the particular vulnerability of youth in the younger age group (15–19) in their transition trajectory.

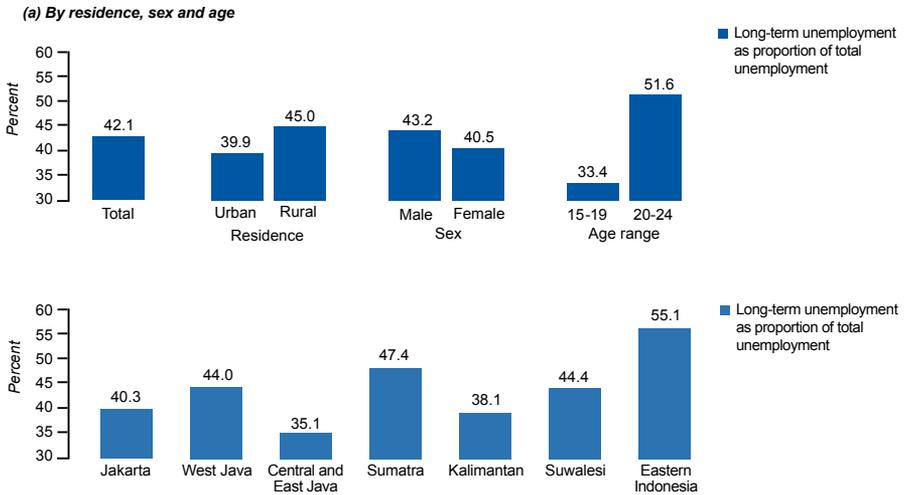
The period of time involved in the job search and the rates of long-term unemployment also illustrate the struggles young people experience in their transition. In Indonesia the average job search period of unemployed youth rose from 6.9 months in 2001 to 14.7 months in 2009 (ILO, 2012b).

Figure 3.4 below, which reports long-term unemployment as a share of total youth unemployment indicates that 42 per cent of all unemployed youth have been unemployed for at least 12 months, rising to almost 52 per cent for young people aged 20–24 years and to 55 per cent for young people in Eastern Indonesia. The length of unemployment spells are important to determining the likely harm caused by unemployment. High outflows and short spells of unemployment may merely reflect an active search on the part of youth for their “preferred” work, while the consequences of longer unemployment spells are likely to constitute a more serious policy concern.

⁸It is a measure that therefore reflects both youth who are inactive and out of education as well as youth who are in unemployment.

⁹ILO preliminary estimates from Sakernas data 1996–2009 cited in report to the International Labour Conference (ILC).

Figure 3.4 Long-term unemployment(a) as a proportion of total unemployment, young persons aged 15–24 years



Notes: (a) Short-term unemployment refers to unemployment spells of less than 12 months; long-term unemployment refers to unemployment spells of 12 months and over.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), 2012.

It is clear that more initiatives are needed to prepare young people for employment. Less than 40 per cent of young adults participate in any form of work experience, such as apprenticeships, and less than 30 per cent have job counselling (Islam, 2009). Measures to support work experience and job counselling are discussed in Chapter 4.

Overall trends discussed in Chapter 2 show positive trends in youth employment in Indonesia. However, it is clear that many young people are still struggling in their transition to the labour market. The analysis presented above indicates that those in the younger cohort, young women, rural youth and those in disadvantaged regions and income groups are facing more difficulties in entering the labour market and securing a quality job. More surprisingly, the evidence also shows that those in highly educated brackets are struggling with their transition to the labour market. The policy responses which affect youth outcomes are discussed in the following chapter.

4 POLICIES AND INSTITUTIONS FOR YOUTH EMPLOYMENT

4.1 Macroeconomic and sectoral policies

4.1.1 Linking macroeconomic policies with employment outcomes

Poor youth employment outcomes are often attributed to supply side issues such as skill mismatch, lack of experience and employability characteristics of young people. What is often neglected is an analysis of demand side issues and the role that macroeconomic and sectoral policies can play in generating effective demand for the skills of young people. Yet it is clear that meeting the employment aspirations of young people requires a high rate of job creation. Economic growth is an important prerequisite for this, but on its own it cannot generate jobs without an explicit policy orientation towards employment. Economic policies must therefore include quality employment creation as a major goal. Within this it is also necessary to have specific measures for young people, particularly since youth employment is highly sensitive to business cycles.

Various ILO policy documents have emphasized the importance of demand side policies for good youth employment outcomes. The ILO 2005 Resolution concerning youth employment for example focused on the importance of high, sustained and employment-intensive growth. It recognized the need to align monetary, fiscal, trade and social security policies to the goals of creating decent work, and of ensuring that the regulatory environment for investment, enterprises and labour creates an investment climate that fosters investment and economic growth. Similarly, the 2012 ILO Resolution entitled *The youth employment crisis: A call for action*, reaffirmed this in the face of the ongoing challenges facing youth, stating that “Full employment should be a key objective of macroeconomic

policies” and that “pro-employment macroeconomic policies that support stronger aggregate demand and improve access to finance are essential.”

One of the ways that macro-economic policies can play a positive role in employment creation is by alleviating constraints on the capacity of the private sector to create jobs (Matsumoto et al., 2012). A major constraint that middle-income countries such as Indonesia face relates to access to finance and poor infrastructure, including electricity supply, etc. Measures for ensuring financial inclusion in conjunction with infrastructural development are likely to stimulate labour demand and thereby generate employment for young people. Enterprise development programmes explicitly targeted to youth are also needed since self-employment and small businesses are an important means for young people to have gainful employment. In addition, alleviating binding constraints on the private sector means increasing public investment in infrastructure.

Within this framework there is a growing understanding that the role of central banks should be broadened to not only include inflation but also employment stabilization (Matsumoto et al., 2012). This requires extending the policy mix to encompass other variables such as investment allocation and real exchange rate. Such measures can enhance the expansion of existing business operations through increased private investment and allow governments to exploit the entrepreneurial potential of young people through adequately responding to their financing needs. The real exchange rate is an important macroeconomic policy instrument to facilitate structural transformation and hence more diverse employment opportunities. This can be embedded in a balanced policy mix to enable central banks to focus on a broader set of objectives to positively influence labour market outcomes (ibid).

4.1.2 Adjustments in Indonesia’s macroeconomic indicators in the current period

As noted in Chapter 1, the Indonesian economy suffered a downturn in 2013 as a result of a combination of internal and external factors. International financial volatility, a tightening of United States monetary policy, and revisions to the fuel subsidy that spurred inflation contributed to the slow-down. Inflation hit 8.4 per cent in September 2013, but is likely to stabilize to around 6.7 per cent in 2014 in the absence of further shocks (World Bank, December 2013). While the Government is expected to make

significant savings on expenditure through the reduction in the fuel subsidy, these gains may not eventually be realized in the short term due to the depreciation of the rupiah.

Growth is likely to remain below 6 per cent in 2014. Historically, over the last decade, household consumption and investment have been the main drivers of GDP growth. In the first quarter of 2013, household consumption weakened and fell by 0.2 percentage point year on year. Additionally, monetary policy challenges have led to a fall in investment growth in Indonesia. With investment growth falling 4 percentage point year on year in the same period, the concern is that this reduction in investment could negatively impact employment growth, with less capital flowing into employment creation.

The Government has been quick to respond to these issues. In August 2013 a package of four economic policies was announced to respond to the downturn. The package includes provisions for: (1) improving the current account and stabilizing the currency; (2) maintaining economic growth and purchasing power; (3) maintaining price stability and suppressing inflation; (4) accelerating investment. The Government also issued a number of regulations including guidance on minimum wage setting, labour intensive industries to stimulate growth, and on taxes for luxury goods. The Government has also put in place the temporary expansion of social protection programmes to offset the vulnerabilities created in disadvantaged communities by the reduction in the fuel subsidy. An unconditional cash transfer scheme (BLSM) targets the poorest households, while other schemes, up such as the conditional cash transfer scheme (PKH), the scholarship scheme (BSM) and the Rice for the Poor programme, are being scaled up.

The concern remains, however, that the weakened macroeconomic environment may be a setback for the positive employment trends seen in the recent past. While the Government has shown strong commitment to ensuring the centrality of employment concerns, and to stimulating aggregate demand, many of the commitments are reliant on a high rate of growth. An ongoing challenge is also to ensure that the benefits of growth are evenly distributed. Huge regional disparities are revealed in that the combined figures for Java and Sumatra account for 82 per cent of GDP, while the Eastern provinces lag far behind.

4.1.3 Indonesia's national development frameworks

An examination of Indonesia's national development frameworks (discussed below) shows that Indonesia has expressed a strong commitment to ensuring employment is embedded in macroeconomic policies in some policy documents but less so in others. It has clearly recognized the importance of stimulating aggregate demand through increasing investments, infrastructural development and promoting private sector growth. What is more challenging is ensuring effective implementation. Importantly, within some of the national development policies, there is only an implicit focus on youth employment outcomes rather than an explicit priority.

a) Decent Work Country Programme (DWCP) 2012–2015

Indonesia's commitment to inclusive and sustainable growth is firmly expressed in its Decent Work Country Programme (DWCP) 2012–2015. Job-rich growth as a DWCP priority is directly derived from the Government's guiding principle of pro-employment and pro-poor growth. The DWCP builds upon the priorities identified in the Indonesian Jobs Pact (IJP), which responded to the global financial crisis and contributed to Indonesia's remarkable resilience in the face of the downturn. Strong domestic demand and low external pressure combined to ensure that Indonesia was only temporarily hampered by the crisis. The IJP was developed to mitigate external shocks and was formulated by the Government, employers and workers organizations. It places employment and social protection as key policy priorities.

The current DWCP reaffirms the national priorities: employment creation, industrial relations and social protection. Within its employment creation priority there is a clear commitment to ensure the mainstreaming of employment in macroeconomic and social policies:

Priority 1: Employment creation for inclusive and sustainable growth:

1. Mainstreaming of employment in macroeconomic and social policies through sound labour market policies and tools.
2. Improved policies to equip young women and men to enter the labour market.
3. Optimized employment outcomes for public and community investment.

4. Improved policies and programmes on entrepreneurship, business and cooperative development for job creation, including financial inclusion.
5. Workers' skills are upgraded through demand-based and competency-based training to better meet labour market needs.

While there is no explicit policy on youth employment, it is expressed in the commitment for “Improved policies and programmes to equip young women and men entering the world of work”. In this, the Government has been able to build upon and consolidate the achievements of the previous DWCP. Recognizing that young workers (aged 15–24) are five times more likely than older workers to be unemployed, the previous DWCP tackled this issue in various ways with the following notable achievements:

- Development of a curriculum of life skills training that was adopted, replicated and upscaled by the Ministry of National Education and Culture.
- Preparation of guidelines for school counsellors to support the job and education decisions of young people with a view to promoting a successful school to work transition.
- Development of a strategy by the Ministry of National Education and Culture to improve the quality of training provided by non-formal trainers.
- Creation of 100 regulations on the elimination of the worst forms of child labour and support for vulnerable children to stay in school.
- Introduction of “Know about Business” into vocational high schools, resulting in increased student consideration of entrepreneurship as a career possibility.
- Establishment of six Competency Based Certification Centres (TUK) in selected provinces.
- Formation of a Youth Employment Network for Indonesia.
- Development of a curriculum of education for gender equality and rights at the workplace for youth.

b) National Mid-Term Development Plan 2010–2014

The Government's commitment to the “pro-growth, pro-poor, pro-employment and pro-environment” strategy is exemplified by the National Mid-Term Development Plan 2010–2014 (RP JMN), which details a number of national priorities for development:

- i. Bureaucratic and management reforms;
- ii Education;

- iii. Health;
- iv. Poverty alleviation;
- v. Food security;
- vi. Infrastructure;
- vii. Business and investment climate;
- viii. Energy;
- ix. Environment and disasters;
- x. Disadvantaged, front- and outside- border, and post conflict areas;
- xi. Culture, creativity;
- xii. Technology innovation;
- xiii. “Other priorities”.

In line with its tasks and functions, the Ministry of Manpower and Transmigration (MOMT) is given the mandate to support three national priorities: (a) poverty alleviation; (b) business and investment climate; and (c) “other priorities”, particularly in the field of economy. These other economic priorities include (i) the implementation of industrial development in line with the Presidential Regulation No. 28/2008 on National Industrial Policy; (ii) promotion of the role and capability of the Republic of Indonesia in international trade diplomacy; (iii) improvement of services and protection of Indonesian workers during the process of preparation for departure to and arrival in foreign destinations; as well as (iv) improvement in the service and protection of Indonesian workers abroad. These are employment mandates embedded in the Government’s national priorities. These priorities then interface with other priorities to strengthen Government decentralization, improve technical capacities, and strengthen economic competitiveness (Schmidt, S., unpublished). Again, youth employment policy is not explicitly addressed within these elements, rather it is expected that young people will benefit in general from the plan.

c) Master Plan for the Acceleration and Expansion of Indonesia’s Economic Development (MP3EI)

In line with its tasks and functions, the Ministry of Manpower and Transmigration (MOMT) is given the mandate to support three national priorities: (a) poverty alleviation; (b) business and investment climate; and (c) “other priorities”, particularly in the field of economy. These other economic priorities include (i) the implementation of industrial development in line with the Presidential Regulation No. 28/2008 on National Industrial Policy;

(ii) promotion of the role and capability of the Republic of Indonesia in international trade diplomacy; (iii) improvement of services and protection of Indonesian workers during the process of preparation for departure to and arrival in foreign destinations; as well as (iv) improvement in the service and protection of Indonesian workers abroad. These are employment mandates embedded in the Government's national priorities. These priorities then interface with other priorities to strengthen Government decentralization, improve technical capacities, and strengthen economic competitiveness (Schmidt, S., unpublished). Again, youth employment policy is not explicitly addressed within these elements, rather it is expected that young people will benefit in general from the plan.

The Master Plan includes three main elements:

- (a) Developing six Indonesia economic corridors, by establishing centres of development within every corridor and developing industry clusters and special economic zones based on advanced commodities resources.
- (b) Strengthening national connectivity, which includes intra- and interconnectivity of centres of development, intra-islands (corridors), and international trade.
- (c) National science and technology acceleration to support the development of the main programme as a human resources development strategy to support each of the 22 major economic development activities.

The plan mentions that polytechnics and community colleges will be established in each capital city, which is likely to involve significant investment to establish this base capacity. The plan briefly mentions development of Sekolah Menengah Kejuruan SMKs, job training and development of a certification body.

With the Master Plan, the Government clearly states that it will take a strong position not only as the regulator but also as the facilitator, and function as “a catalyst for growth”. One of the key aspects of the Master Plan is that the Government will amend or remove regulations that inhibit the implementation of investments and, potentially, also those that hamper increased trade and smoother flow of goods. This “debottlenecking” process is a key factor, as the Government will require and request the input from private sector to primarily identify but also find solutions to the problems at hand (Schmidt, S., unpublished).

In implementing the plan, the Government and all stakeholders support the following principles:

- Change must positively affect all national stakeholders;
- Change in mind-set starts from the Government and its bureaucracy;
- Change requires the spirit of hard work and the strong desire to develop collaborations within a healthy competitive environment;
- Productivity, innovation and creativity, driven by science and technology;
- Enhancing entrepreneurship;
- Private sector has an important role in economic development;
- A campaign to implement sustainable development principles;
- A campaign for change in mind-set to improve prosperity has to be carried out extensively by all national stakeholders.

While it is an ambitious plan, there will be challenges in implementation. For example, managing the districts and municipalities and coordinating them all to participate in a uniform way to establish the corridors will be a formidable task (Schmidt, S., unpublished). Furthermore, a study carried out in 2012 identified other barriers to be overcome, such as limited manpower planning and regional infrastructure. The report concluded the following in relation to these two areas:

Mapping out the manpower planning needs for Indonesia will be a tremendous challenging exercise as it requires detailed research in all sectors of economic expansion, strong time series data, and substantial methodological capacity. In addition, projections of labour and education requirements based from project outputs are subject to various possibilities in production methods and labour market demand. This is likely to be a complicated process that cannot be carried out alone by the Ministry of National Education (MONE) as it requires the cooperation of other entities such as Bappenas and the Ministry of Finance to develop more accurate forecasts. Moreover, specific forecasts for the conditions of each one of the provinces of economic corridors are also needed.¹⁰

And, Basic infrastructure needs to be developed as a priority at the regional level. To work on reducing regional disparities special attention must be given to islands in eastern Indonesia. Reviewing the budget allocated towards areas with underdeveloped infrastructure

¹⁰Implementing Indonesia's Economic Master Plan (MP3EI): Challenges, Limitations and Corridor Specific Differences, Strategic Asia, June 2012, p. 63. Cited by Steven Schmidt – unpublished report.

needs to occur as it is unlikely private sector investment will be attracted to regions with lower levels of basic infrastructure¹¹.

While the plan is broad and deep in its approach it makes no commitment on employment or youth employment. With the principle that “change must positively affect all national stakeholders” and seeking to enhance entrepreneurship, the plan seems poised to support broad-based development¹².

d) The Vice-President’s Job Creation Action Plan

The Vice-President’s¹³ Job Creation Action Plan (VP-EAP) consists of five main pillars in a holistic approach to labour market development and monitoring on both the labour supply and demand side, although it is primarily a supply side intervention.

Three of the pillars aim at employment creation through market interventions to address labour market failures. It is a plan that sits well with the Indonesian economy under the current conditions: unemployment and underemployment challenges are largely rural, the distribution of the benefits of economic growth are heavily skewed, and there is a shortage of regional infrastructure across the nation¹⁴.

There is strong emphasis on ensuring that the employment creation programmes are efficient and targeted well in terms of creating jobs where they are needed. There is also a significant effort to address the issue of demand-driven skills development and labour market analysis. This is important since decentralization has created a labour market management void in the public and private sectors, and is a key intervention for youth employment. The plan for updating the approach to job seekers and placements through local labour market information system development and utilization of labour statistics is vital for Indonesia. The action plan includes specific measures for addressing both youth employment specifically and unemployment generally in urban and rural locations in Indonesia.

The five pillars, relevant policies and main activities of the Vice-President’s Job Creation Action Plan are as follows:

¹¹Ibid.

¹²Unpublished report by Steven Schmidt.

¹³In 2010 a National Team for the Acceleration of Poverty Reduction (TNP2K) was established by Presidential decree, with the Vice-President as chair. The Job Creation Action Plan is part of this framework.

¹⁴Unpublished report by Steven Schmidt.

1. Labour market information and services

- a. Improve labour market information and services in district and municipality labour offices;
- b. Increase the quality and access to labour market information;
- c. Develop a skills supply and demand information system.

2. Increase the capacity and skills of the workforce

- a. Review and repair competence standards and professional certifications so they are in line with labour demands by engaging with industry and professional associations;
- b. Strengthen vocational secondary schools so they produce graduates who are ready for work and are absorbed by industry;
- c. Strengthen Balai Latihan Kerja BLKs so that they become industry-driven training institutions;
- d. Push for autonomous management and funding for BLKs;
- e. Create incentives for individuals to increase their capacity through training and for institutions to improve the quality of graduates.

3. Employment creation through micro, small and medium enterprises and entrepreneurship

- a. Entrepreneurship training programme;
- b. Business development support services programme;
- c. Support for young entrepreneurs to access credit.

4. Employment creation through employment intensive and simple infrastructure programmes

- a. Employment creation through simple infrastructure programme;
- b. Voluntary youth employment program.

5. Emergency employment creation

- a. Emergency program for employment creation;
- b. Skills-training assistance for businesses;
- c. Postpone youth entry to the labour market.

The first pillar of improving labour market information and services is a critical need that aims to increase the capacity for and quality of employment services and both active and passive labour market policies, labour placement systems, labour market analysis and the development of a decentralized labour market information system to lay the foundations for appropriate, up-to-date labour market policy. A system that can signal fluctuations in labour market performance, identify regional strengths and

weaknesses, and provide appropriate labour market information and advice to help attract investments. This part of the system will also provide the information required to identify skills that are in demand, as an essential basis for increasing the capacity and skills of the workforce.

These are the longer term strategies that are to be supported in the medium term by the three types of employment creation programmes:

- (1) An employment creation programme to provide sustainable independent employment opportunities that will potentially create further employment opportunities as businesses succeed and grow into the future. This programme would also potentially be supported by the second programme;
- (2) Employment creation programme to increase aggregate demand by providing important cash income in resource-constrained rural communities while also addressing infrastructure shortages in rural communities that impede market development;
- (3) Finally, the emergency employment creation programme to prepare for economic shocks caused by unforeseen circumstances such as natural disasters or economic downturns. This is a thorough cyclical labour market development programme in which success depends not only on the accuracy of the planned interventions but also the timing of application of each pillar (Schmidt, S., unpublished).

The VP-EAP integrates youth concerns in Pillar 1, including support to employment service centres to develop job profiles, school-to-work transition training, outreach programmes and career counselling. Youth entrepreneurship is supported under Pillars 2 and 3 through access to microfinance, entrepreneurship training and business development support.

4.1.4 Agricultural policies

Although the contribution of agriculture to Indonesia's GDP has fallen from around 19 per cent in 1990 to around 15 per cent in 2010 (OECD, 2012), it still remains one of the largest sources of employment for young people. Structural shifts away from agriculture continue to take place. Nonetheless, the manufacturing sector, the services sector and capital intensive extractive industries have not yet been able to deliver sufficient alternative employment options in Indonesia. Economy-wide

structural reforms are needed to stimulate further long-run transformation in agriculture and the wider economy. Crop production is dominated by small family farms, while large commercial agro-industries specialize in palm oil, rubber and other commercial commodities. Smallholder farmers continue to be constrained by slow progress in land registration and poorly developed infrastructure.

Indonesia's agricultural policies have four main objectives: (i) self-sufficiency in certain commodities to ensure food security in rice, sugar, soybeans, beef and maize; (ii) to diversify production and consumption away from carbohydrates towards meat, fruit and vegetables; (iii) to raise the level of productiveness of agriculture and value-added processing; (iv) and to improve the welfare of farmers, thereby reducing the level of rural poverty (OECD, 2012). While the policy mix to support these objectives has received significant resource allocation in the period since the 1997 Asian Financial Crisis, there has been less attention directed towards the problems of young people in the agricultural sector and the rural labour market.

As discussed in Chapters 2 and 3, rural youth and those from disadvantaged regions are amongst the most vulnerable to poor transitions into the labour market in Indonesia. They often have fewer skills, less years of education and limited employment opportunities. Many young people are found in smallholder agriculture as both paid and unpaid family labour. Access to land, credit, skills, market information and technology are particularly limited for young people in rural settings. In general, rural labour markets do not function well in Indonesia because labour market governance institutions are weak, infrastructure is poorly developed, and education and skills development institutions are poorly resourced. In the context of limited work opportunities, little access to land and high rates of poverty, many young people seek work in cities, putting pressure on urban labour markets, or they migrate overseas for temporary work.

Overcoming the disadvantages of rural youth will require both a mainstreaming approach of youth employment concerns within existing agricultural and related policies and specific targeting of young people through active labour market policies. Investments in education in rural areas, stimulating entrepreneurship in both on- and off-farm businesses, as well as infrastructural development targeting young people can significantly improve the employment prospects of many young Indonesians currently working in agriculture. While small-scale labour-intensive infrastructure programmes do exist in irrigation, land resource management and other low

cost infrastructure, they are not currently on a scale to sufficiently absorb rural youth. Labour intensive methodologies, when applied, have proven to have significant multiplier effects in disadvantaged areas through employment creation, stimulation of local demand and the development of community assets. Intensified and coordinated active labour market policies using these methodologies in rural settings and on a national scale (for example in similar countries such as India) could significantly reduce working poverty among young people in rural communities and disadvantaged regions.

The various national development frameworks detailed above recognize that employment is a cross-cutting issue for the economy, and that, at least in some of the documents, macroeconomic policies need to be centred around employment creation. The policy documents emphasize increasing investments, improving infrastructure and supporting private sector growth to stimulate aggregate demand – key ingredients in the policy mix to support employment growth.

There is less explicit emphasis on youth employment in the various policy frameworks, (with some exceptions), but rather an understanding that it is implicit within the suite of general employment-related policy. In order for this approach to bear fruit for young people, especially those in rural and informal economy situations, all policy-related barriers to youth employment need to be removed. In the context of ongoing youth unemployment, underemployment and informality, an explicitly elucidated approach to youth employment may be of great benefit in future national development plans (Schmidt, S., unpublished). Given that youth employment is highly sensitive to business cycles, this becomes even more pertinent in the context of the current slowdown in growth.

4.2 Education and training policy

As affirmed by the 2005 and 2012 ILO Resolutions on youth employment, access to basic education is a fundamental right, as well as one of the key rights encapsulated in the Universal Declaration of Human Rights. Education, training and skills are key components of enhancing the employability of young people and easing the transition to a decent job.

In this regard, Indonesia has made a clear commitment to education, passing a constitutional mandate to allocate at least 20 per cent of the total Government budget to education. This has led to a large increase in resources

– more than a doubling of education spending in real terms since the passage of the constitutional amendment in 2002, with the largest jump occurring in 2009 after the ruling was defined and clarified by the Constitutional Court. Between 2008 and 2009, the education budget increased by 17 per cent in real terms, the equivalent of an additional 6 per cent of the national budget. The biggest payoff for this increase in spending has been in terms of access and equity in basic education; however, access to upper secondary and especially tertiary education remains low, especially for the poor (World Bank, 2013a). Beyond basic education,¹⁵ enrolment rates are still low in Indonesia (see section 2.1.2 on education trends). And like many countries, Indonesia suffers from uneven access to education, with large disparities between poor and higher income groups, between rural and urban areas, and between regions. Lack of infrastructure, facilities and qualified teachers, particularly in rural areas, also hampers progress.

Two ministries are responsible for the provision of education in Indonesia, the Ministry of National Education and Culture (MOEC) and the Ministry of Religious Affairs. The Indonesian education system consists of nine years of compulsory schooling,¹⁶ six years at primary level and three in secondary level. After six years of primary school, students continue to lower secondary school. After graduating this level, students can choose between general and vocational upper secondary streams. For each level of formal education, there is an equivalent level of Islamic-based education. General secondary streams are to prepare students for further academic education, while the vocational streams are designed to prepare students for work. Vocational upper secondary graduates can also further their education in technical streams by moving into the tertiary education system where they can study for a diploma. Diploma level education offers education packages between one and four years duration. A four-year diploma is equivalent in status to an academic bachelor's degree. The Ministry of National Education and Culture also provides apprenticeships, and preschool education.

In 2013 a new curriculum was introduced. It covers three levels of schooling: basic/primary, junior secondary and senior secondary, and vocational senior secondary. The curriculum is divided into compulsory topics and electives (electives are specialization subjects that reflect students' life choices and determines whether they prepare for their future career in a vocational or general school).

¹⁵Indonesia defines basic education as nine years of schooling: six years of primary education (ages seven to 12 years) and three years of junior secondary education (ages 13 to 15 years).

¹⁶There are currently plans to increase the number of years of compulsory schooling.

The new curriculum also placed renewed emphasis on counselling. Two hours in every study week must be set aside for student counselling in schools. This builds upon the 1993 Minister of Public Infrastructure Empowerment Decree No. 83 and the 1995 Minister of Education and Culture Decree No. 25, which established counselling in schools. This greater focus on counselling and the quality of counselling is likely to increase the amount of information on career opportunities students receive, contributing to a smoother transition into the labour market. It can also potentially help early school leavers by encouraging them to either stay in school or to channel them to appropriate pathways in employment, education or training.

4.2.1 Vocational training and lifelong learning

Vocational training and lifelong training responsive to the evolving demand for skills in the labour market, along with apprenticeships and other measures to combine training and employment, are fundamental to improving youth employability (ILO, 2005).

In Indonesia, vocational training comes under the auspices of two ministries. The Ministry of National Education and Culture (MOEC) provides formal education, including vocational education (e.g. secondary schools, polytechnics, technical colleges through the respective directorates of formal education, and vocational training through the Directorate of Pre-School, Non-formal and Informal Education.

The Ministry of Manpower and Transmigration (MOMT) also provides vocational training (TVET) programmes for school leavers, unemployed youth and workers in general. Although youth unemployment is not targeted specifically, young people as part of the labour force are included as a target group for a range of employment initiatives such as the TKPMP (Tenaga Kerja Pemuda Mandiri Professional/Young Professional Entrepreneur Development) program, entrepreneurship training, apprenticeships, and others.

Vocational senior secondary (VSS) schools are the main stream for vocational education in Indonesia. Demand for this type of education is high. In 2010, 1,748,112 students applied for entry, and 1,219,418 (70 per cent) gained entry. In 2010 there were just over 3.3 million VSS students, 59 per cent males and 41 per cent females. Young women were more likely to be found in public schools (Schmidt, S., unpublished). In 2012, almost 8 per cent of the working age population in Indonesia consisted of VSS graduates.

The majority were from the STM¹⁷ or technical streams (5.3 million), and real vocational streams such as SMKK¹⁸ and SMK¹⁹ which offer courses such as tourism, hospitality, nursing etc., while almost 4 million (30 per cent) originated from SMEA²⁰.

In 2012 both SMKK and SMEA schools were replaced by SMK, which provide vocational education in nine specialized fields. These schools are linked to industry, and students gain real on-the-job experience. Instructors are often sourced from industry and students have their work experience supplemented by professional education programmes. A network of curriculum centres and laboratories around Indonesia facilitate the development and dissemination of curriculum. Importantly, these centres consist of representatives of the education system, workers (unions) and employers.

A World Bank report identified a number of challenges facing vocational senior secondary education. Issues of concern include disparities in teacher performance, funding of private and public schools, declining marginal rate of return for upper secondary education, no functioning quality assurance system, and no pro-poor targeted education subsidies. Currently the more affluent spend less than 10 per cent of their income to keep a child in upper secondary education, while poorer families spend up to 30 per cent of their income to keep a child in the same level of education (World Bank, 2012b).

Another report highlights the need to adjust the skill base of upper secondary school graduates (World Bank, 2010). The report concludes that the poor cognitive skills base, “especially for low-income students, and the poor quality of a high proportion of senior secondary school graduates as reported by employers” (World Bank, 2012b) is a major downfall of the system. It also goes on to state that employers underscore the importance of practical skills, especially those learned on the job, so a more flexible approach that combines a stronger adaptable skill base with more practical and on-the-job training is likely to be more effective at improving the employability of young graduates.

¹⁷Sekolah Teknik Menengah or secondary technical school.

¹⁸An acronym for family welfare secondary schools, which were originally designed as home economics schools but have now made the transition to offering vocational streams which were traditionally related to women’s vocations such as beauty, hairdressing and fashion, but would in the modernized society be attended by both men and women.

¹⁹Sekolah Menengah Kejuruan or vocational secondary school.

²⁰Sekolah Menengah Ekonomi Atas or economics senior secondary school, which provides education in streams such as economics, accounting and state administration, and is clearly designed for the public service – a contradiction of the purpose of vocational education under the current system, which is to encourage students to enter productive and creative jobs rather than civil service.

4.2.1.1 Vocational training: Ministry of Manpower and Transmigration

MOMT is responsible for overseeing technical and vocational education training centres (TVET) known as BLK. BLK centres provide vocational training and job placement services to formal and informal sector workers. Courses are free of charge (some centres offer additional non-subsidized courses) and they exist in all provinces and many districts. The Directorate of Pre-School, Non-formal and Informal Education also provides short-term training programmes for the unemployed. One of the most prominent recent changes to TVET policy began in 1994 with the “Link & Match” education policy in which the management and development of education switched from a purely Government responsibility to a community responsibility where Government, industry and society in general all have a say in the development of education, especially vocational education.

Since decentralization in 2001, most BLKs have been handed over to provincial and district governments. In 2012, there were 325 training centres and facilities registered in the Ministry of Manpower and Transmigration with 3,066 instructors.²¹

Data from the MOMT shows that their graduates, with the help of their placement system, are highly employable. In 2009, out of 107,051 graduates, 95,094 or 89 per cent were absorbed into the labour market. Nonetheless scope is limited compared to need. Available data suggests that the overall capacity to provide skilled manpower seems quite small in relation to the scope of unemployment and national skill development needs. In 2009, output was 107,051 graduates, which was around 1 per cent of all unemployed and approximately 0.44 per cent of the existing number of unemployed and underemployed people in that year. Similarly, with regard to apprentices, only a relative few have been processed through the BLK system. In the years 2008 to 2011, 19,664 apprentices were processed through the BLK system and placed in local firms, and from 1993 to 2011, 43,134 apprentices were processed through the BLK system and placed in overseas firms (Schmidt, S., unpublished).

A survey conducted by the World Bank in a number of BLKs shows also that the per capita cost of training differs widely. The average cost per graduate (about three months of training) in central BLKs is IDR

²¹Manpower Data and Information Centre, Ministry of Manpower and Transmigration.

17 million (US \$1,650), while it is IDR 9 million (\$875) in provincial BLKs, and IDR 4 million (\$390) in district BLKs for ostensibly the same course. The average number of graduates in 2009 for the three types of BLKs ranged from nearly 1,300 per BLK for centrally managed centres to 650 and 340 per centre at the provincial and district levels, respectively (World Bank, 2011). Funding for the central BLKs comes entirely from the central Government, while provincial and district BLKs are co-funded by the central and the respective provincial or district governments.

The Ministry of Manpower and Transmigration recently initiated a BLK revitalization programme to improve the performance of BLKs. Part of this effort included work done by the ILO Education and Skills Training (EAST) for Youth Employment in Indonesia project, which worked with BLK centres in several provinces, and in Aceh in particular. A report prepared at the conclusion of this programme provides useful information on the challenges facing BLKs. The report recognized the shortcomings of the system and made several recommendations, including that BLKs have a potentially large capacity, but are underutilized because of funding constraints for training. The poor condition of BLKs is also related to inadequate routine budgets and poor maintenance. There are few incentives to operate commercially and therefore no strong links with the private sector. Poor targeting of beneficiaries is another problem, with free courses for those assumed to be poor after they pass an entry exam. There is also a need to make courses more market-driven and establish courses for people who are willing to pay fees (Schmidt, S., unpublished).

The Ministry estimates that at least IDR 2 trillion per year is required to help revitalize existing BLKs. The Government budget allocated for BLK operations amounted to IDR 540 billion in 2010 and IDR 786 billion in 2011. On average, central BLKs spend IDR 20.7 billion, provincial BLKs spend IDR 5.8 billion, and district BLKs spend IDR 1.5 billion per year. In short, more funding is needed as well as capacity building to bring them into line with market demands (Schmidt, S., unpublished).

4.2.1.2 The National Professional Certification Board

The Badan Nasional Sertifikasi Profesi (BNSP) was created through Indonesian Government Regulation No. 23 of 2004. This regulation describes the duties and functions of the BNSP as developing and implementing a valid, appropriate and traceable competency certification system and procedures that can be recognised by similar bodies in other countries. The BNSP was established through a joint agreement (LCS) between the Minister of Labour and Transmigration, Minister of National Education, and the Chairman of the Indonesian Chamber of Commerce (KADIN).

BNSP is an independent body that is responsible to the President of the Republic of Indonesia and funded by MOMT. It has the authority to provide certification services for professions and occupations as a foundation for employment and improving the standards for certain occupations, and maintaining national uniformity of occupations. Its main aim is to improve the quality of the labour force by providing certification through the application of standards. It is demand driven, i.e. it prioritizes the certification of occupations that are in demand, and competence based, i.e. the method of assessing an applicant's suitability to become certified is based on a set number and type of competences that must be mastered to receive an award in the form of a certificate and title reflecting the type of work the holder is competent in.

BNSP operates through a network of organizations and has the power to appoint organizations to conduct competency assessments on its behalf through a system of licensing. These organizations are created by industry associations or professional associations under the name Lembaga Sertifikasi Profesi (LSP). The actual competency assessments are carried out by the LSPs.

Of concern is the lack of access in the regions: 60 per cent of all LSPs are located in Jakarta, and only 9.2 per cent outside Java Island: two on Bali (both for tourism), two on Sulawesi (both in Makassar, South Sulawesi) and one each on Kalimantan and Sumatra. Some LSPs have branch offices in different provinces where local individuals can apply for competency certification. However, LSPs are not provincial or local organizations. They are organized along industries and trades and can provide their services in all parts of the country.

LSPs are private organisations funded by the industry as well as through fees from the people being assessed. Fourteen out of the 65 LSPs currently operating have a contract with BNSP to conduct competency certification and receive funding. These LSPs receive subsidies from BNSP: IDR 300,000 to IDR 500,000 per assessment for a limited number of competency assessments. All assessments subsidized through this programme have to be offered free of charge to the people being assessed. Most LSPs, however, do not apply for these subsidies, as their costs per assessment are higher than IDR 500,000, and they need to rely on fees as a source of income (Schmidt, S., unpublished).

4.2.1.3. Apprenticeships

Apprenticeships and other forms of work-based learning offer an opportunity to combine experience at the workplace with more structured learning. When they are appropriately targeted to the poor they can offer an alternative pathway into skilled employment for those from disadvantaged backgrounds. Experience from many countries show that apprenticeships are most effective where they are linked to a standardization of skills, where the skills of trainers have been upgraded through capacity building and where appropriate include literacy training and life skills (ILO, 2012c). Community involvement is also important since it can open up new employment opportunities for vulnerable groups of youth (ILO, 2012c). From the employer perspective, they can be seen as a valuable investment in human resources (Widarti, D., unpublished).

The ILO defines apprenticeship in its Apprenticeship Recommendation (R60, 1939) as follows: "...any system by which an employer undertakes by contract to employ a young person and to train him [or her] or have him [or her] trained systematically for a trade for a period the duration of which has been fixed in advance and in the course

A recent study (ILO, 2010) on apprenticeships in Indonesia found that apprenticeships generate a number of desirable outcomes. Among others, they:

- are cost-effective ways to train workers for employers;
- help employers overcome structural problems with recruitment;
- offset skill shortages;

- help improve retention rates among employees;
- provide training to meet business needs;
- contribute to the pool of skilled people;
- instil company values in young people;
- increase the productivity of workers;
- are linked to structured career development; and
- contribute to the quality of skills in the labour market.

Three laws and a number of regulations govern apprenticeships for young people in Indonesia. Law No. 40 of 2009 defines youth as people from 16–30 years old. The employment Law No. 13 of 2003 and Law No. 20 of 2003 concern the national education system. The employment law states that apprenticeships are used to improve the capacity of workers and does not specifically mention that the target for apprenticeships is youth or those who are unemployed; however it does state that persons from the age of 15 can do an apprenticeship if it is part of their education (Gunawan, J., unpublished).

The MOMT is responsible for managing apprenticeships and MOMT regulation number PER.21/MEN/X/2005 provides the regulatory basis for apprenticeships in terms of administrative requirements and technical competencies. The regulation states that apprenticeship agreements should state the responsibilities and rights of both employers and apprentices, and also clarifies other details about apprenticeships such as maximum duration, responsibilities of employers, and the registration (formalization) process and skills training. It also stipulates who can provide apprenticeships. According to Law No. 13 of 2003, skills training providers who are active in apprenticeships must register with the MOMT, and Law No. 20 of 2003 states that skills training can be given by non-formal education institutions under the Ministry of National Education and Culture (MOEC) (Schmidt, S., unpublished). This is to ensure standards are maintained.

Apprenticeships in Indonesia are available in different sized enterprises, both formal and informal, and in fact it is a widespread practice in micro, small and medium enterprises (MSMEs) (Gunawan, 2011). However, many of these apprenticeships do not comply with regulations (hence are informal), including lack of written contracts, lack of quality control, standardization, certification, and lack of linkages to MOMT and other agencies (Gunawan, 2011).

A problem identified with the existing apprenticeship system regards age. This affects in particular early school leavers, who are among the young people most vulnerable to poor transition outcomes. While Law No. 13 of 2003, and Ministry of Manpower and Transmigration Regulation No. PER.21/MEN/X/2005 state respectively that people under the age of 18 can do apprenticeships, and that the minimum age of apprentices is 15, Ministry of Manpower and Transmigration Regulation PER.22/MEN/IX/2009 states that only people over the age of 18 can do apprenticeships. This could block approximately 1 million junior secondary students who drop out of junior secondary school and fail to transition to senior secondary, or block senior secondary dropouts of from an alternative pathway to gaining skills and decent jobs²².

The Indonesian apprenticeship system has faced numerous challenges in the recent past. Prior to the Asian financial crisis (AFC) the international donor community and the Indonesian Government invested heavily in apprenticeship development. At that time the system was based on a three-year apprenticeship. Problems included a lack of supporting systems such as competency testing and national accreditation. Government-private sector coordination was limited, and there were low levels of formality as reflected in the lack of employer-apprentice contracts (ILO, 2010). After the AFC the apprenticeship development programme wound down as companies closed down until a major funder, GTZ, discontinued their funding in 2000. Following this, the apprenticeship program was inactive until 2005.

In 2005 the Minister of Manpower and Transmigration issued Ministerial Regulation No.21/MEN/X/2005 on the implementation of the apprenticeship program, and in 2007, the Government issued Government Regulation No.31/2006 in an attempt to support renewal of the programme by laying the groundwork for the National Apprenticeship System (SISLATKERNAS). The current system is known as the Enterprise-based apprenticeship system and consists of 3–6 month apprenticeships, based on a contract between the apprentice and employer. The maximum time allowed for an apprenticeship is 12 months. The Minister of Manpower and Transmigration has the mandate for regulation of apprenticeships in Indonesia, though agencies also run their own schemes.

²²Unpublished report by Steven Schmidt. Youth under 15 cannot be in the same working space as adults, which also limits the learning that can be acquired from older workers. A related issue is that there may be some private sector concerns that youth apprenticeships, while they do not constitute child labour, may be perceived as such by international buyers.

The Ministry of National Education and Culture also runs apprenticeship schemes that provide 2–4 month courses. Ministry of National Education and Culture apprenticeships are implemented under the Directorate of Pre-School, Non-formal and Informal Education because the activities are managed in community-based education centres in the field. Training is provided through primarily non-accredited training providers, with approximately 300 out of 13,000 accredited training providers. Quality of training can therefore vary quite significantly. Moreover without stronger links to the private sector there is a danger that the courses may be supply side driven (Schmidt, S., unpublished).

These issues highlight some of the challenges facing apprenticeship programmes in Indonesia which will need to be overcome to enable more young people to avail of valuable work opportunities and training. A recent report (ILO, 2010) points out that:

At present, the national apprenticeship system is not coordinated by a single policy. Indonesian ministries run apprenticeship and training programs independently, refusing to recognize the legitimacy of each others' certification. Their programs are industry-specific. Efforts at sector planning have been underway for a number of years, but the national policy on apprenticeship has not yet emerged as one unified umbrella.

4.2.1.4 Entrepreneurship

Micro, small and medium enterprises (MSMEs) account for up to 90 per cent of enterprises in Indonesia, however entrepreneurship is still not seen as a viable employment option for many segments of the youth population. The Government has placed emphasis on entrepreneurship development, particularly since 2007. Entrepreneurship is regulated by eight legal documents in Indonesia:

- i. Presidential Instruction No. 04/1995 on a national programme to promote entrepreneurship. This placed the Ministry of Cooperatives and Small Medium Enterprises at the forefront of entrepreneurship development with support from the Ministries of Education, Manpower and Transmigration, Youth and Sports, Religion and Agriculture. The beneficiaries of the instruction included existing SME owners and young people, especially unemployed youth and school dropouts.
- ii. In 2000, a mutual agreement between the Ministry of Cooperatives and Small Medium Enterprises and Ministry of National Education and Culture²³ was developed to insert entrepreneurship into the education system.
- iii. In 2007, Presidential Instruction No. 06/2007 was established to foster the development of the real sector and youth empowerment through SME development at the university level.
- iv. A Ministry of State Owned Enterprises Regulation No. PER-05/MBU/2007 concerning enterprises that have been established for one year, and which have a feasible business but no collateral.
- v. In 2008, Law No. 20/2008 on Micro, Small and Medium Enterprise placed SME empowerment as the vehicle for entrepreneurship development and made the Government responsible for promoting an environment conducive to business, including supporting institutional development, business incubator and business development services, facilitation of business development, in terms of production, process, marketing, human resources, design and technology, and promoting entrepreneurship by providing training, coaching, motivation, business creation, technical and managerial support.

²³02/SKB/MENEG/VI/2000 and number 4/U/SKB/2000

- vi. Also in 2008, Ministry of Cooperatives and Small Medium Enterprises Regulation No. 02/PER/M.KUKM/2008 was ratified and aimed at empowering business development service providers to support the development of cooperatives, microenterprises and SMEs through universities.
- vii. In 2009, Law No. 40/2009 on Youth set the age of Indonesian Youth at 16–30 and made the Ministry of Youth and Sports responsible for youth services, including skills training and capacity development, rights and youth empowerment, and coordination of youth policies with other related ministries, non-government institutions and district governments. It also states that youth entrepreneurship is facilitated through training, apprenticeships, coaching, partnerships, promoting and providing access to finance, and that the Government conducts cross-sector coordination to support youth employment and entrepreneurship, and government at any level may allocate budget to support youth entrepreneurship. This is reinforced by Government Regulation 41/2011 on Youth Entrepreneurship and Initiative as well as Provision of Youth Infrastructure and Facilities. It includes more detailed information on training, funding, internships, Government support and the roles of local and central government in promoting youth entrepreneurship.
- viii. Ministry of National Education and Culture Government regulation No. 17/2010 on Management and Operationalization of Education covers people from four years old and above and makes the Directorate of Pre-school, Non-formal and Informal Education responsible for job-seeker training and entrepreneurship development.

The most significant and binding legal documents in this case are Law No. 20/2008 and Law number 40/2009, which place entrepreneurship development in the hands of the Ministry of Youth and Sports. A brief study was undertaken on entrepreneurship in September–October 2011. According to the study (Gunawan, Y., unpublished) almost 90 per cent of government agencies offer some form of training and around 58 per cent of the courses offered are business coaching and support for start-ups, including technology support (24.1 per cent) and market extension (41 per cent). The funding for these activities are provided by national, provincial and district government budgets, and most respondents report

that a significant contribution comes from the national budget. The training given to improve business is mainly in management skills training which may indicate a supply side bias. Most programmes involve third party contractors to deliver the training.

Key informants research²⁴ suggests that the main challenge for young people is that they lack supporting networks to deal with the difficulties of business. They have no coaching, but instead are learning by doing, and do not know whether they are on the right track or not. If business development services for young people were available, they would be more confident in starting and running businesses. Respondents from Sulawesi and Maluku stated that in most cases, parents deliberately discourage them from starting a business, because to become an entrepreneur means uncertain income, which will lead to difficulties in starting and raising a family. Interviews with business development service providers in East Java revealed that their services were dedicated to small and medium enterprises, which were normally run by mature adults. They did not specifically target young people (Schmidt, S., unpublished).

Moreover, evidence from ILO's entrepreneurship programme has shown that in some cases young people have difficulty learning business skills with adults and may face different obstacles in start-ups.

While MSMEs make a vital contribution to employment and economic outcomes in Indonesia there are concerns at various levels. Many of the smaller micro firms operate in the informal economy where working conditions are often poor and returns are low. Productivity in small and medium firms is also of concern. Indeed productivity in large firms is often 200 per cent greater than in smaller enterprises (ILO, 2013). This productivity gap is a result of many factors including low technology levels, low skill levels, lack business know-how, lack of funding, and poor infrastructure.

There is much that can be done to upgrade smaller firms, not least of which is the elaboration of explicit policies for formalization. ILO experience has shown the importance of a multiple policy approach in supporting formalization for enterprises, including responsive regulation, streamlining registration and costs, expanding business development services, and opening access to finance, technology, skills, market

²⁴In this case the chairman of a club for young entrepreneurs. Research conducted by Steven Schmidt.

information, as well as social protection to manage risks. In Indonesia, through the MOMT, a number of programmes have been put in place to support small and informal enterprises in terms of both livelihood and social protection. Padat Karya Infrastructure applies labour intensive methods to village level infrastructure development. Padat Karya Productive applies labour intensive support to specific subsectors such as fisheries, agriculture, and rural industries. Teknologi Tepat Guna supports community empowerment and microenterprise development. Tenaga Kurja Mandiri provides training and mentoring in micro-enterprises and entrepreneurship. Tenaga Kurja Sukarela provides mentoring to business groups. Since 2012 the Government has been reforming these programmes using ILO labour-based resource (LBR) methodologies to improve both the quality of assets and the quality of work opportunities. The budget in 2013 for these programmes was over IDR 378 billion.

4.3 Labour market policies and institutions

Labour market policies can facilitate young people's entry and re-entry into the labour market. If well targeted, they benefit the most disadvantaged youth and can yield large economic and social benefits, with greater equity, social inclusion and higher aggregate demand (ILO, 2012c). There are important linkages between labour market policies, both active and passive, and minimum wage policies, and it is important that each be taken into account and be mutually supportive in encouraging work opportunities for young people (ILO, 2012b). The delivery of labour market policies requires institutional capacity, both at public and private levels. Early intervention can help prevent long-term unemployment by targeting services and resources to jobless youth, both rural and urban, who are most in need, such as those not in education or employment (ILO, 2012c).

4.3.1 Wage policy

Nominal and real wage trends

The average nominal wage for employees in Indonesia increased significantly in 2013, which is a departure from the previous three years of moderate increases. Real average wages which are calculated on adjusting to inflation have only increased marginally or been stagnant in recent years. While nominal wages have grown at around 8 per cent, real average wages have been much more subdued, growing at 2.5 per cent year on year since 2010. Wages were lowest in the agriculture sector and highest in the mining and quarry sectors followed by banking and finance sectors (ILO, 2013).

4.3.1.1 Gender wage gaps

Gender wage gaps continue to persist, with women's wages around 73.7 per cent of men's, with the highest differences in the manufacturing sector. The discrepancy between men's and women's wages is found across all education levels, which raises issues of gender discrimination in the Indonesian labour market (ILO, 2013).

4.3.1.2 Minimum wages

Minimum wages can be an important means of preventing unfair and discriminatory pay practices and improve the purchasing power of young workers. Social dialogue at the national level is essential in ensuring a coherent and consistent wage policy framework that offers adequate protection and improves the employment prospects of young workers (ILO, 2012b).

Minimum wage fixing has been a national issue in Indonesia for some time with each province having its own experience and dilemmas. In many instances it has been difficult dealing with and reconciling what is often seen as competing considerations of the basic needs of workers and the requirements of enterprises and the economy to grow and be productive.

Box 4.1 The minimum wage process in Indonesia

Indonesia has a minimum wage policy that runs on an annual wage setting schedule based on surveys of basic commodity prices. The policy is regulated by Ministry of Manpower and Transmigration Regulation No. 13 of 2012 about the components and process of setting decent living standards. The process consists of price surveys carried out from August to October in provinces and districts. The survey covers 60 expenditure components in seven categories of basic needs items (food and drink, clothing, housing, education, health, transportation, recreation and savings). After the pre-surveys and surveys are completed the provincial tripartite wage committees begin discussions and negotiations on wage increases based on the survey results, inflation levels, economic growth, and employer's financial capacity. The wage committees then submit their recommendations to provincial governments. In November, governors issue decrees on provincial minimum wages and sector minimum wages. Governors who oversee provinces that have industrial estates usually agree to recommendations also submitted by rural and urban districts. At this stage employers can submit official objections to the provincial minimum wages for consideration if they wish, based on Ministerial Decree No. 231 of 2003. In December, tripartite wage committees in urban and rural districts discuss market survey results in reference to recommendations from governors about provincial minimum wages and then submit their recommendations on wage increases in the regions. The governors then officially agree to wage increases and local employers may also submit objections at this stage. The official and agreed minimum wage, and district minimum wages are then announced in January of the following year, with the Government accepting or rejecting any employer objections.

PERATURAN MENTERI TENAGA KERJA DAN TRANSMIGRASI REPUBLIK INDONESIA NOMOR: PER-17/MEN/VIII/2005 TENTANG KOMPONEN DAN PELAKSANAAN TAHAPAN PENCAPAIAN KEBUTUHAN HIDUP LAYAK, and Gajimu.com website at [http://www.gajimu.com/main/gaji/Gaji-Minimum 10 August 2013](http://www.gajimu.com/main/gaji/Gaji-Minimum%20August%2013)

There are opportunities for refinement to the wage setting process. As noted by some economists²⁵ there are two basic reasons to increase wages. One is the lack of productivity. If workers become more productive, they deserve increased wages, and wages can be sustained as long as productivity remains high. The other is to maintain the purchasing power of wages in the face of inflation. Recent research in 2012 has shown that the productivity of workers in Indonesia based on GDP per capita is

²⁵Kodrat Wibowo, Padjadjaran University, "Indonesia and the minimum wage: Inflation vs. productivity". East Asia Forum Website 29 December 2012. <http://www.eastasiaforum.org/2012/12/29/indonesia-and-the-minimum-wage-inflation-vs-productivity/>

only half that of Malaysia. A study by USAID in 2010 has also shown that a major problem in the Indonesian economy when compared to Thailand, Viet Nam, the Philippines, Singapore, Malaysia and China, is the lower-than-average worker productivity²⁶.

The average nominal minimum wage increased by 14.8 per cent between 2012 and 2013, raising concerns by employers that productivity levels do not justify such increases. However, trade unions have argued that high inflation has eroded any increases in the minimum wage. Given that minimum wage setting is an arena of high conflict a Presidential instruction was issued in 2013. The instruction provides guidance on minimum wage setting in line with a minimum decent standard of living, productivity and economic growth.

Because of vulnerability and informality in the Indonesian economy not all employees receive the minimum wage. Around 36.2 per cent of employees in provinces received less than the minimum wage in August 2013 (ILO, 2013).

Of the 24 provincial minimum wages so far published for 2014²⁷, 11 provinces have set the rate lower than the assumed level needed for a decent living in the provinces, which implies that the minimum wage is not enough to meet a person's basic monthly needs. Effective enforcement of the minimum wage policy therefore will likely have an immediate and positive impact on poverty reduction.

Minimum wages have been shown to be an important element in reducing poverty and inequality in similar middle-income countries such as South Africa and Brazil. The impact for proper enforcement for young workers in Indonesia, and particularly for those in the informal economy, is likely to be positive and to help stimulate demand through increasing their income. However, finding the optimum levels, ensuring a standardized approach across districts and municipalities, and establishing the respect for institutional mechanisms by all parties in Indonesia is fraught with challenges.

²⁶Unpublished report by Steven Schmidt.

²⁷See website for Indonesian Investments: <http://www.indonesia-investments.com/news/todays-headlines/24-indonesian-provinces-have-set-new-regional-minimum-wage-for-2014/item1314>.

Finding a consensus on the issue will take concerted tripartite dialogue in a context of sometimes fractured industrial relations. Only dialogue and respect for the minimum wage mechanisms can find the optimum balance between what companies can afford to pay in the context of levels of productivity and what workers require to combat inflation and have a decent standard of living. The current Indonesian DWCP has a strong commitment to address this issue through intensified tripartite dialogue in the context of a comprehensive wage policy reform process²⁸.

4.3.2 Employment protection legislation

Regulations concerning the hiring and firing of workers play an important role in ensuring fair treatment of workers. Designing and enforcing employment protection legislation involves trade-offs between the degree of protection of workers, and the incentives for firms to hire, particularly young inexperienced workers and other new labour market entrants. In particular, strict and uncertain procedures concerning the firing of permanent workers along with high severance payments tend to make employers reluctant to hire young workers on open-ended contracts (ILO, 2012b).

Nonetheless establishing special arrangements for young workers may also have negative impacts. Country experience has shown that incentivizing the hiring of young workers at the expense of their rights and social benefits such as pensions, health and unemployment insurance results in increased vulnerability and insecurity in the long term. An ILO review of these consequences has highlighted that low levels of protection and assistance by the State may impact the future development of young workers and their confidence in public institutions (ILO, 2011). Both the 2005 and 2012 ILO Resolutions on youth employment stated that tackling youth unemployment should not disregard or weaken the protection to which young workers are entitled. Young workers have the same rights as adult workers.²⁹

Temporary and casual contracts with limited protection are often used in some countries for the hiring of young people. Evidence has shown however, that youth employment is very sensitive to business cycles. In

²⁸See Indonesia DWCP 2012-2015 sections on minimum wage-fixing machinery and collective bargaining.

²⁹The youth employment crisis: A call for action.

periods of economic slow-down and crisis, young people are often the first to lose their employment. It is important therefore that youth employment policies should encourage the transition from temporary jobs to stable jobs for young people.

Indonesia has employment protection legislation in the form of dismissal procedures and requirements, severance pay, rules on child labour and youth employment. The Manpower Act (Law No. 13 of 2003) deals with a wide range of employment matters that are reflected in the scope of the Act. It pays particular attention to and provides the legal framework for the basic rights of workers, including the right to strike for workers/labourers as well as the right to lock out for employers, protection in relation to wages, and social security and occupational safety and health. It regulates Indonesia's industrial relations and the procedure of how to deal with termination of employment (ILO, 2012c).

Labour Law No. 13/2003 also provides that all formal sector employees are entitled to a termination payment once they have finished a four-month probation period. Regardless of the reason of termination, the employer is obliged to provide a lump-sum severance payment and long-service payment – the amount depends on length of employment.

According to Labour Law No. 13/2003,³⁰ workers and any organization they belong to must be notified in advance, and employers must give prior notice and negotiate the terms of dismissal with the workers' organization – if the worker is not a member of an organization negotiation will be directly with him/her. If an agreement cannot be reached, it must be taken to Industrial Relations Court.

The Indonesian termination system is not based on notice but on prior bipartite negotiations and, if they fail, on mediation by the administration, and eventually judicial settlement. In the case of dismissal for economic reasons (redundancy, enterprise closing, layoffs, etc.), the above remains in force, but the employer has a responsibility to make all possible efforts to avoid termination of employment, including transfer, retraining, restructuring and so on.

³⁰Makarim and Taira S., 2012. <http://www.mondaq.com/x/160956/Redundancy+Layoff/Termination+of+Employment+in+Indonesia> - ILO 2013. http://www.ilo.org/dyn/eplx/termmain.showCountry?p_lang=en&p_country_id=ID
Makarim and Taira S., 2012. <http://www.mondaq.com/x/160956/Redundancy+Layoff/Termination+of+Employment+in+Indonesia> - ILO 2013. http://www.ilo.org/dyn/eplx/termmain.showCountry?p_lang=en&p_country_id=ID

There is no express obligation to state the reasons for dismissal. However, there is a list of valid and unacceptable grounds for dismissal, avenues for redress on wrongful dismissals and special rights for pregnant women, women on maternity leave and workers suffering from injuries gained on the job.

Indonesia has significant institutional capacity to process industrial relations cases, though evidence suggests most of these cases are from formal sector firms. Those in the informal sector have little or no access to resolution mechanisms, highlighting their vulnerability to job insecurity.

Whether Indonesian employment protection results in disincentives to hire young workers is an issue for debate (Schmitt, V., 2011). Certainly the view that it does discourage employers from hiring or starting a new business is influential. Yet a recent ILO global study (Caze, S. et al., 2012) provides a meta-analysis of more than 100 studies and finds that the impact of employment protection legislation on employment is rather weak and mixed. It suggests that there is a non-linear relationship between labour market regulations and employment, with both too lax regulations and excessive regulations resulting in poor employment outcomes (Matsumoto, M. et al., 2012). Importantly the study finds that since 2007, the dominant trend has been a decline in employment protection, yet unemployment and informality rates have stayed the same or even increased.

In the Indonesian context, there is no doubt scope for modification and a more responsive design and application of employment protection legislation (Islam, I., 2009). A potential option to moderate relatively high rates of severance pay in Indonesia may be to design a well-crafted unemployment benefit scheme (Islam, I., 2009). ***This process of finding the balance between protection of the rights of young Indonesians (through employment protection regulations) and with incentives to hire young people can only be resolved through intensified tripartite discussion and debate.***

4.3.3 Labour migration policies

Limited employment opportunities in rural areas drive migration both internally and overseas. The Government of Indonesia has a long history in promoting policies to direct internal population migration to other major islands in the archipelago, although they have adopted a system based on dissuading migration to Java coupled with measures

incentivising migration to other regions, rather than on a system of rigid prohibition or penalties. The bulk of Indonesian migrant labourers who work overseas are unskilled workers and a large proportion are women. As noted in section 1.2, young people make up around 25 per cent of emigration, both as regular and irregular migrants. Many young women migrant workers work as domestic workers in the Middle East, East Asia, and Southeast Asia. They are often poorly trained and do not possess the language skills needed in their countries of destination. Many originate from rural areas and may only have primary school education and limited work experience. To overcome these vulnerabilities, the Indonesian Government's labour migration policies have been directed towards better protection of its migrant workers from the recruitment stage through to their deployment abroad. However, the Government has not yet given labour migration the same policy attention and resources as countries such as the Philippines and Viet Nam.

Strong bilateral agreements with receiving countries are still at the early stages, though several Memoranda of Understanding have been signed with recipient countries to better protect Indonesian workers overseas. Temporary moratoriums have also been placed on certain countries where serious violations of the rights of Indonesian migrant workers have taken place. These include Malaysia and Kuwait in 2009, Jordan in 2010, Saudi Arabia and the Syrian Arab Republic in 2011.

The Government has also introduced a scheme of compulsory private insurance before migrants can travel overseas. Other measures have been introduced over the past decade to regulate agencies involved in the recruitment process, as well as programmes to enable migrant workers to obtain redress in Indonesia for wrongs committed abroad. However, some statutory rights and obligations lack transparent and effective enforcement mechanisms. A further challenge to Indonesia's migration policies is the number of agencies involved in the regulation of migration policies. Around five agencies have primary responsibility, including the Ministry of Economic Affairs and MOMT, with the delineation of authority at times unclear.

4.3.4 Passive labour market policies

Income support for young people when combined with active labour market policies (see 4.3.4 below) can assist in the early exit of young people from unemployment. Good practices from around the world

suggest that conditionality (establishing criteria for eligibility), activation (measures to move people back into the labour market) and mutual obligation (recipients must engage in active job search and improve employability in exchange for receiving efficient employment services and benefits) can keep young people connected with the labour market, particularly those groups at risk of marginalization (ILO, 2012c).

Indonesia has several passive labour market policies including employer and employee funded unemployment insurance, and other social welfare programmes. Although the more established programmes are those that cover the formal sector and are ostensibly mandatory, national coverage is as yet, far from universal. For the informal sectors coverage is much lower. The Government has made significant efforts to devote increasing amounts of funds to social protection in the form of education and other subsidies for the poor in the last five years. In 2012 more than IDR 68 trillion was devoted to social protection programmes in Indonesia (Schmidt, S., unpublished). Among these are the conditional cash transfer programme³¹ and the recently disbursed unconditional cash transfer programme to alleviate income vulnerability resulting from decreased fuel subsidies in 2013.

However, some of these programmes are hampered by inadequate statistical data collection at regional level making accurate targeting difficult, and lack of awareness amongst potential participants.

Several different modalities are used for provision of social protection, with the majority of participants being formal sector workers or the very poor. There is still a large unmet need from the majority of informal sector and self-employed workers. Efforts are however being made to reduce the gaps. Programmes such as Asuransi Kesejahteraan Sosial (Askesos), administered by the Ministry of Home Affairs, provide income replacement benefits to groups of informal workers such as street vendors and micro-entrepreneurs. There are also other small-scale pilot programmes such as the Jamsostek pilot programme for informal sector workers, Jamsostek Luar Hubungan Kerja (LHK), which provides insurance for work injury, old age, health care, and death.³²

³¹The conditional cash transfer programme has better targeting than the previous unconditional cash transfer scheme. It was started in 2007 and aims to reach 3 million households by 2014.

³²ILO GESS Global Extension of Social Security Website <http://www.social-protection.org/gimi/gess/ShowCountryProfile.do?cid=444>.

There is no unemployment scheme in Indonesia – workers must rely on their severance pay and benefits from Jamsostek³³ (if they contributed). When workers from the formal sector lose their job, they risk falling into poverty and therefore enter the informal economy if they cannot find a new position. The Indonesian Government is working to reform social security policy, including unemployment, but currently there are no benefits except possibly for the relatively very well-off through private contribution schemes. The current reforms that are expected to come into place in 2014/15 include privatization and consolidation of the national health and pension schemes such as ASKES health insurance for civil servants and retired defence force personnel. Also included is the ASABRI social insurance for armed forces personnel – aged pension, occupational injury and life insurance and TASPEN, pension for civil servants, and old age savings lump sum benefits. These schemes will be consolidated into non-exclusive private sector companies such as Jamsostek and Askesos. All social protection insurances will be privatized with no special Government facilities, and the companies will begin to strive for universal coverage (Schmidt, S., unpublished).

4.3.5 Active labour market policies

Active labour market policies (ALMPs) can benefit the most disadvantaged youth by mitigating education and labour market failures while promoting efficiency, growth and social justice. In many countries young people are the primary beneficiaries of ALMPs. ALMPs include a range of measures: some aim at easing the transition into the labour market, others target particularly disadvantaged groups, or seek to prevent detachment from the labour market and de-skilling. Measures include employment subsidies for employers to hire young workers, direct public employment creation schemes and self-employment, and training programmes to increase skills and employability.

ALMPs are likely to be most effective when they are well targeted, meet the specific requirements of the intended beneficiaries, are based on careful analysis of the local employment situations, are linked to demand

³³Despite its mandatory nature, participation in the Jamsostek employment injury insurance, life insurance, old age savings programmes is considerably low. In 2010, of around 34 million informal sector workers in Indonesia, only 9,337,423 are active members of these programmes. See ILO SECSOC database http://www.ilo.org/dyn/ilossi/ssimain.viewScheme?p_lang=en&p_scheme_id=344&p_geoaid=360.

for real jobs, and include measures to improve the competencies, skills and sustainable employment opportunities of beneficiaries (ILO, 2005).

Success in reducing youth employment through these policies can set off a virtuous circle of rising demand through income that is generated in the process. They also yield large economic and social benefits including greater equity. Recent ILO research has shown the cost-effectiveness of such policies. Simulations show that increasing spending on ALMPs by 0.5 per cent of GDP, increases employment by between 0.2 to 1.2 per cent over the medium term and depending on country context (ILO, 2011b).

The key to reaching maximum benefits from ALMPs is intelligent design and cost effective implementation. Programmes need to avoid deadweight loss (the same result would have been realized without the programme); substitution effects (subsidized participants may have replaced non-participants); displacements (output of subsidized activities may displace that of non-subsidized activities); and creaming off (they help those who are already better off) (ILO, 2012b).

In Indonesia, the Ministry of National Development Planning has established five priorities for employment creation for young people:

1. Policy coherence for optimizing youth educational attainment;
2. Skills improvement for employability;
3. Improvement of the quality of apprenticeships;
4. Increased opportunities for youth entrepreneurship;
5. Improved knowledge sharing, in particular access to labour market information.

Many of these strategies relate to the strengthening of active labour market policies. MOMT is responsible for the majority of public employment services, apprenticeships and vocational trainings. In municipalities and districts, this is carried out by local/regional MOMT representative offices. At present the employment services system that links job seekers to jobs and collects labour market information operates through around 100 offices in an online system that enables job seekers to access job opportunities and employers to access potential employees anywhere within the scope of the system in Indonesia. This enables job seekers to register for employment at an office near their home, and employers are also encouraged to register their employment opportunities with these offices. Currently this system does not function well outside of

urban centres such as Java or Sumatra. MOMT is working to try to expand the system, but regional capacity and resources remain low (Schmidt, S., unpublished).

This system would greatly assist the youth employment situation in Indonesia if it were fully established through job matching and collection and analysis of labour market information. Employment Service Centres (ESC)³⁴ are very useful in addressing the needs of young jobseekers and disadvantaged groups such as low-skilled jobseekers and the long-term unemployed. Services include the provision of career information, vocational counselling, employment related workshops, and job vacancy referrals.

A feasibility study (Widarti, D., unpublished) linked to the development of an ESC office in Surabaya revealed that most job seekers who participated in the program (80 per cent) felt that employment services were very helpful for the job seeker to find a job. The focus group also revealed that lack of know-how in finding jobs is a major barrier for young jobseekers. Participants in the group expressed a high need for job search workshops as well as workshops dealing with employability skills (such as teamwork, positive attitude, and work ethics).

MoEC and MOMT have training programmes linked to unemployment services whereby unemployed individuals can improve their employability by learning skills for a job or self-employment. Some training centres offer employment services as well as training, and local MoMT offices sometimes offer employment services and referrals.

Some BLK centres have “three-in-one kiosks”, which are in partnership with local government, and offer vocational training, skills certification and job placement services. The latest data from MOMT shows that there are 11 BLKs with three-in-one kiosks, and these are likely to be the provincial BLKs that share strong linkages with the central Government, and remain an extension of the central Government in the regions.

Many programmes are concentrated in economically advanced provinces and major urban centres. There is no central authority gathering relevant labour market information for dissemination so that job seekers

³⁴ The ILO Job Opportunities for Youth (JOY) project worked on ESCs in East Java and helped open several centres.

can know what skills are being demanded by employers, thus hampering efforts to match supply and demand of skills. There is no centralized regular reporting of skills mismatch between supply and demand. Limited centre-region nexus may be acting as an impediment to an integrated national approach to the provision of employment services (Schmidt, S., unpublished).

Short-term employment creation schemes include the National Programme for Community Empowerment (PNPM) which targets marginalized communities. The programme generates jobs, provides loans to small women traders and home-based businesses and increases community access to markets, town centres, clean water and health and education facilities. Communities supported by PNPM have a greater likelihood of exiting poverty. Evaluations show that it has been effective in reducing vulnerability through short-term employment creation.

Currently there is little linkage between various ALMPs in Indonesia, and there is only limited linkage between ALMPs and labour market demand. While job creation and entrepreneurship training are provided to unemployed and underemployed individuals, young people are not targeted as specific beneficiaries. These programmes are also only of a short duration and do not link participants to job search facilities or provide post training support. This limits the impact of their intervention (Schmidt, S., unpublished).

4.3.6 Social dialogue on youth employment

Government efforts on youth employment are centralized through the Indonesian Youth Employment Network (IYEN), an inter-institutional body hosted by the Ministry of National Development Planning Agency (Bappenas) and working closely with the Coordinating Ministry of Economic Affairs and the Ministry of Manpower and Transmigration. The IYEN has a strong tripartite basis but also includes other relevant actors engaged in youth affairs.

Indonesia became a lead country of the Youth Employment Network (YEN) in March 2002, by joining a group of nations that were committed to address the challenges of youth employment at the highest level. The vehicle for this advancement of youth employment concerns at national level has been the Indonesian Youth Employment

Network (IYEN). In its early phase the core product of the IYEN was the Indonesian Youth Employment Action Plan (IYEAP) for the period 2004–2007. IYEAP identified the major youth employment challenges in the following areas: (1) education and training; (2) quantity and quality of jobs; (3) barriers to youth entrepreneurship; and (4) equal opportunity. Gender awareness is deeply embedded (Schmidt, S., unpublished).

IYEN is a potent organization for a number of reasons, including that it brings together the various organizations and groups that are working on youth employment issues. Although there are many youth employment related groups and organizations, the opportunities for them to share experiences, lessons learned, and aspirations are rare. IYEN provides the venue and opportunity to generate beneficial synergies, and accumulate a critical mass to ignite efforts and draw the attention of policy makers. IYEN has the potential to provide a critical policy platform for youth employment and include all voices from different sectors and affiliations, private and government interests, civil society, academia and communities in addressing the challenges of youth employment. However, the multitude of ways in which IYEN could contribute has not yet been fully explored, and there have been periods of inactivity.

The process of revitalization of IYEN began in 2007 with an evaluation of the IYEN action plan done by a team of consultants that fed into a workshop on 3 July 2008. On 30 June 2009 the Coordinating Minister of Economic Affairs confirmed Indonesia's involvement in IYEN and formally requested support from the ILO Director-General and YEN programme manager. Since 2010 IYEN has been the responsibility of the Ministry of National Development Planning (BAPPENAS) as the coordinating agency. With support from the ILO Job Opportunities for Youth project, a secretariat was established with staff and a knowledge sharing system. Among the priorities identified by BAPPENAS are:

- (1) youth employment policy reform in order to keep students in school longer and reduce drop-outs, and thereby reduce the number of workers with a low level of education entering the labour market;
- (2) skills improvement for employability;
- (3) improved quality of apprenticeships;

- (4) increased opportunities for youth entrepreneurship; and
- (5) increased knowledge sharing, in particular access to labour market information systems (LMIS).

The process of revitalization is ongoing and members are meeting regularly. A meeting in September 2014 brought together a large number of national actors, hosted by the Vice President's Poverty Reduction Acceleration Team (TNP2K) to support BAPPENAS's continued strengthening of the IYEN. Among the initiatives emanating from this workshop were updated web information on different policies supporting youth employment, a place for job postings and guidance for young people on the website, proposals for strengthening public-private partnerships in job search mechanisms, as well as a proposed IYEN pilot in Karawang, Recengy and other provinces.

This continued revitalization of IYEN will be of critical importance in ensuring that youth employment issues remain on the national agenda as well maintaining a national platform for dialogue on the concerns of young people.

5

CONCLUSIONS AND POLICY IMPLICATIONS

5.1 Conclusions

This policy review has revealed that Indonesia has been reaping the benefits for its proactive stance on youth unemployment. As one of the lead countries in the YEN, Indonesia was one of the first countries in the world to put youth employment firmly on the national agenda since 2002. Amongst the positive indicators is a significant drop in unemployment of young people, from around 30 per cent in 2006 to around 19 per cent in 2013. Nonetheless this rate is still very high and significantly higher than the adult rate.

Similarly there have been positive downward trends in terms of youth informality, with young people in urban areas in particular having better access to formal jobs. However, current levels of informality are still high, with around 50 per cent of young workers in Indonesia in informal work. Much still needs to be done.

The patterns of growth have been conducive to better employment outcomes, and Indonesia has displayed strong commitment to ensuring pro-employment outcomes. The Government has been quick to respond to crises, ensuring that demand remains strong through fiscal stimulus packages, infrastructure development and income support. These policies have helped shape Indonesia's remarkable resilience in the face of various crises. The impacts of the current weakened rates of growth are starting to be seen, and there is concern that the gains that have been achieved in employment may stagnate or even reverse.

On the supply side, increases in investment in education are starting to pay off, with greater educational participation and higher quality

human capital formation. While there is still much to accomplish in terms of ensuring access to education beyond the basic level, and overcoming regional disparities, the trends for greater educational participation can only contribute to more creativity and innovation for the future labour market.

With evidence of strong returns for higher levels of education, with regard to higher income and access to better quality jobs, there is substantial incentive for young people to remain in higher education. Increasing access to secondary education is of particular importance in this context. This includes continuing to invest in educational infrastructure and the quality of teaching, as well as scholarships and reducing secondary school costs.

Additionally, addressing unemployment at both ends of the education spectrum (low education and high education) will require tailored responses taking into account possible skill mismatches, and better job search and labour market information mechanisms on the supply side, and stimulating demand on the other side.

Of concern is that while poverty in Indonesia has been declining, inequality has not. Regional disparities, gender inequalities, vulnerabilities and informality in employment as well as the chasm between urban and rural mark clear divisions in youth employment outcomes. These groups also have greater risk of poor transitions to the labour market including higher rates of underemployment, unemployment, inactivity and informality. Better coordination and coherence between existing active labour market policies, and better targeting can contribute to overcoming these disparities. Moreover, experience from other countries has shown that increasing spending on active labour market policies, as a proportion of GDP, if designed intelligently, can offer immediate rewards in terms of better transitions to the labour market. Improving work experience opportunities, more effective labour placement institutions, and better alignment of skills institutions with demand are areas that need more attention.

While there are plans for a massive infrastructural development programme that will stimulate demand and support regional development in the period up to 2025, there is untapped potential to link these programmes with explicit youth employment targets, and with skills delivery institutions.

Similarly while the national development frameworks have, for the most part, strong employment content, there is currently little emphasis on targeting young people in particular (with some exceptions). Agricultural and

migration policies would also benefit from taking a mainstreaming approach towards youth as well as targeting specific components towards them. There is strong potential for better linkages between supply and demand for labour within these programmes.

Productivity is an area where Indonesia has been lagging behind. While productivity is high in large firms it remains very low in smaller firms. *Opening up access to skills, technology, business advisory services, market information and finance are areas where Indonesia could place more emphasis.*

5.2 Recommendations

Revitalization of the Indonesian Youth Employment Network (IYEN)

Formed as a result of Indonesia's 2002 commitment to become a lead country within the United Nations to address youth unemployment, IYEN has brought together key actors at the national level to address youth employment concerns. Since 2010 it has been located in Bappenas (Ministry of National Development Planning) with support from the ILO Job Opportunities for Youth (JOY) project. There have been significant periods of inactivity and lost opportunities to push the youth employment agenda forward in the national policymaking arena. IYEN has great potential to play a major role in directing and coordinating national efforts on youth employment since it brings together many ministries and institutions that would otherwise have little opportunity for working together. *Revitalization of IYEN with a specified work plan, indicators, targets and resources would offer the entry point for concerted and explicit action on addressing youth employment.* IYEN could also play an important role in expanding knowledge on issues of youth employment through a dedicated research programme bringing together relevant universities and research institutions. As noted in section 4.3.6 the process of revitalization of IYEN is ongoing and has been strengthened by regular stakeholder meetings. It will be of critical importance to continue this process in order for youth employment issues to remain firmly on the national agenda.

Strengthening labour market information systems

Weak capacity of labour market information systems particularly in disadvantaged provinces and rural areas hinders many young people from accessing the types of information needed to obtain good quality jobs. Capacity building of employment services and better coordination between them, particularly in the regions, can ensure a better flow of information on work opportunities for young people and better meet the needs of employers. Stronger linkages need to be developed with enterprises in order to improve their knowledge on training requirements. A specifically designed capacity building programme for employment services staff could be developed that enables them to better target and provide more efficient services for young people. This could include developing profiling techniques and support to develop outreach programmes. *Partnerships between employment services, the business community and other local actors will significantly improve the services currently provided to young people. Involving the social partners in the design and evaluation of these measures can enable these institutions to be more responsive to labour market demand.*

Improving available data on young people's needs and constraints is another key area that can feed into policy design and strengthen labour market information systems. A school-to-work transition survey, for example, has proven to be vital in other country contexts for better understanding the challenges facing young people in the labour market. Indonesia would benefit greatly from the improved methodologies in the STWT survey instruments since it last undertook a survey in 2003.

Improving work experience and expanding apprenticeship opportunities

Less than 40 per cent of young Indonesians have had opportunities to gain work experience training. Where apprenticeships exist, they are often in informal MSMEs, with a lack of written contracts, no established criteria for training and job quality, a lack of standardization and certification, and few linkages with regulatory agencies such as MOMT. *Developing an incentive-based approach to MSMEs, including offering opportunities for capacity building of enterprises, access to training, business services and credit could be explored to encourage MSMEs to link with regulatory authorities on apprenticeship training.*

The Indonesian Government could further investigate the potential for providing employers with relevant subsidies to hire young people in internship and apprenticeship programmes. Employers' organizations have a key role to play in encouraging their membership to take on more young people and ensure better working conditions for those they hire. The problems identified in existing regulations on apprenticeships, including the lack of a single coordinating body acceptable to all actors, and the sometimes contradictory regulatory framework need to be investigated further and would benefit greatly from policy oriented research on the issue. A revitalized IYEN could, as discussed above, take the lead role in developing and disseminating this type of research.

Reducing the gaps in educational access and participation

Indonesia's commitment to expanding educational access has been strong in recent years with increased budget allocations. Many indicators have seen an improvement. Nonetheless there are substantial gaps in access and participation, particularly along rural, regional and socioeconomic status lines. *Identifying and targeting those vulnerable to difficult labour market transitions, strengthening linkages with the private sector, as well as investing in educational infrastructure and teacher quality can enable the education and training system to be better utilized for positive youth employment outcomes.*

Young school dropouts are amongst the most vulnerable to poor transitions into the workplace and are much less likely to access decent jobs during their lifetime. Encouraging secondary school participation through reforms, counselling for students, education subsidies and scholarships may be an important area for intervention. *For those young people who still leave school early, establishing remedial measures such as channelling them into training opportunities, work experience opportunities and better labour market information may mitigate the long-term impacts of poor employment opportunities.*

Promoting entrepreneurship

Despite a recent flurry of policy messages and regulations on promoting entrepreneurship, it remains an underutilized means of generating employment amongst young people. In many cases self-employment is

established out of necessity rather than choice. Recent moves to promote entrepreneurship within the curriculum can help counter existing cultural and social barriers to starting a business. *Effective implementation of the current entrepreneurship policies on training, credit, mentoring, business advisory services and opening access to resources for young people to start a business will be key.* Coordination amongst the different bodies supporting entrepreneurship will enable better targeting and support to young entrepreneurs. Streamlining the business environment in general will help private sector growth, but developing specific measures for young entrepreneurs may also be necessary.

Developing integrated approaches to shift young people from informal to formal employment

While the informal economy has shown a decline in the recent period, it still remains that over half of jobs in Indonesia are in the informal economy (around 53 per cent in 2013) (ILO, 2013). The pattern of growth since 2010 saw a shift towards employment in the formal economy. With the slow-down in growth since 2012 it remains to be seen whether there will be increases in informality.

ILO experience has shown the importance of an integrated and explicit approach to reducing informality. *Developing incentives, capacity building and social dialogue are the cornerstones of the approach. Incentives for young people include opportunities to access finance, further training, business advisory services, markets, technology, information, as well as access to social protection to manage risks.* It is also essential to streamlined regulatory frameworks and removing barriers to business entry. Building the capacity of young entrepreneurs can encourage compliance with regulations and improve occupational health and safety. Indonesia's decentralized form of governance can be a strong vehicle for taking integrated policy approaches to support shifts towards formality, including employment creation through infrastructural development, targeting of vulnerable communities, and opening access to productive resources. Effective implementation of minimum wage policies and better enforcement of existing rights at work can ensure that young people are not subject to discriminatory practices as well as providing immediate benefits for those currently in the informal economy.

Strengthening pro-employment macroeconomic policies and national development frameworks

While the rates of Indonesian growth have been relatively high at least until the last two years, this does not automatically translate into quality jobs creation. The patterns of growth since 2010 have seen a greater emphasis on employment creation; nonetheless there is opportunity to further re-orient macroeconomic policies to have a higher employment content. Stimulating the demand side is as important as resolving supply side issues such as skill mismatch and improving educational outcomes.

Pro-employment macroeconomic reforms including opening access to finance, counter-cyclical policies, and enabling Bank Indonesia to expand its objectives beyond inflation targeting, and towards employment outcomes are policy areas which could be pursued. Fiscal and monetary policy, along with trade and social protection policies have much substantial potential to be linked not only with each other but with overall objectives of increased and sustainable economic growth and employment generation.

In the short term, and in the context of the current slow-down in growth, counter-cyclical policies targeting disadvantaged groups may be important to sustain consumption and boost demand. This is particularly important given the evidence that youth employment in Indonesia is sensitive to business cycles.

Indonesia has put in place ambitious frameworks for national development, some of which target youth while others do not. A review of existing national policy frameworks can enable the identification of entry points to mainstream youth employment strategies and develop separate components as necessary. This is also applicable to Indonesia's agricultural and migration policies – segments where large numbers of highly vulnerable and disadvantaged young Indonesians are concentrated.

In this context the commitment to a large scale programme of infrastructural development within the national development plans will help alleviate some of the rural and regional disparities. Maximizing the employment content of this investment will not only increase jobs and social protection, but will at the same time build strong community assets and have multiplier effects in local communities.

The PNPM as a public employment programme has proven to be a successful model in marginalized communities. Developing explicit youth targets with specific resource allocations within these schemes can ensure that young people have better access to these employment opportunities.

Expanding active labour market policies and better targeting of passive labour market policies

Labour market policies are one of the key instruments to support better youth employment outcomes in Indonesia. An appropriate mix of active and passive labour market policies needs to be found. Job counselling, work experience opportunities including expanded apprenticeship opportunities, as well as more efficient labour market information systems are areas which need capacity building and resource allocation, particularly in disadvantaged regions. Monitoring and evaluation of current policies need to take place regularly to assess their impact and effectiveness.

Wage subsidies and training grants are ALMPS which have been unexplored in Indonesia, and could prove to be an important incentive for employers to hire young people, while countering concerns about disincentives in employment protection legislation and in increases in minimum wages. The development of an unemployment benefit could also alleviate the costs of severance pay and reduce burdens on firms. However a close synergy between income support and activation measures to prevent perverse effects will be needed.

Indonesia could also explore the possibility of developing a national level employment guarantee scheme targeting rural areas similar to the one currently being implemented in India.

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ANNEX

Table A1 Employment formality, percentage of employed persons aged 15-24 years, by sex

Category	Sex	
	Male	Female
Formal ^(a)	44.5	58.5
Non-formal ^(b)	55.5	41.5
Total	100	100

Notes: See Error! Reference source not found.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), 2012.

Figure A1 Average wage (in rupiah)(a) of employed youth,(b) by level of education attained

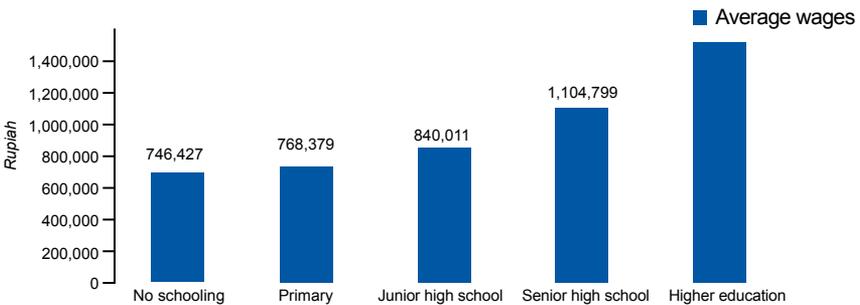


Figure A1 Average wage (in rupiah)(a) of employed youth,(b) by level of education attained

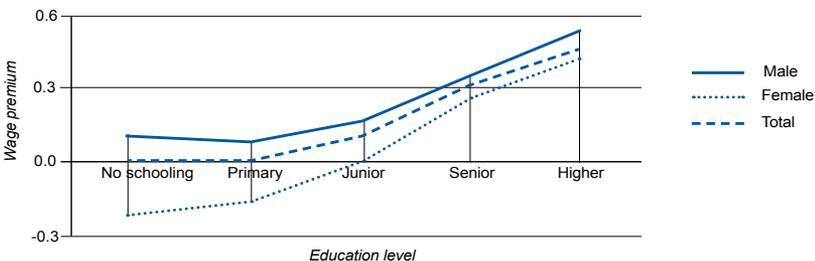


Table A2 Determinants of youth wages,(a) non-student population aged 15-24 years, results of OLS estimation with robust standard errors

Explanatory variables		Coeff	z
Age	Age	0.1425	12.6
	Age squared	-0.0027	-9.6
Sex (b)	Male	0.4193	7.7
Education attainment (c)	Primary education	0.1535	3.1
	Junior education	0.3214	6.5
	Senior education	0.5592	11.3
	Higher education	0.6835	13.5
Sex and education attainment	Male with primary educ. (d)	-0.1503	-2.7
	Male with junior educ. (e)	-0.2316	-4.2
	Male with senior educ. (f)	-0.3067	-5.6
	Male with higher educ. (g)	-0.2520	-4.4
Employment sector (h)	Manufacturing	0.1038	14.3
	Construction	0.2175	31.4
	Commerce	0.0159	2.4
	Service	-0.0524	-8.2
	Other(m)	0.3259	28.7
Employment formality (i)	Informal	-0.1165	-25.2
Residence (j)	Urban	0.1467	37.3
Region(k)	West Java	-0.2747	-38.2
	Central and East Java	-0.5144	-76.2
	Sumatra	-0.2835	-41.0
	Kalimantan	-0.1083	-13.9
	Suwalesi	-0.4440	-55.5
	Eastern Indonesia	-0.4271	-47.8
Year(l)	2009	0.0257	6.3
	2010	0.0967	20.3
	2011	0.0956	16.4
	2012	0.1406	25.5
Constant		10.9132	87.7

- Notes:
- (a) Dependent variable is logarithm of real wage (Rp. in 2005 prices);
 - (b) Reference category is female;
 - (c) Reference category is no schooling;
 - (d) Reference category is female with primary education;
 - (e) Reference category is female with junior education;
 - (f) Reference category is female with senior education;
 - (g) Reference category is female with higher education;
 - (h) Reference category is agriculture;
 - (i) Reference category is formal;

- (j) Reference category is rural;
- (k) Reference category is Jakarta;
- (l) Reference category is 2008; and
- (m) "Other" includes mining and quarrying, electricity, gas and water supply and extraterritorial organizations and bodies.

Source: UCW calculations based on Indonesia National Labour Force Survey (Sakernas), 2008-2012.

Figure 2. Trends in formality (formal employment as % of total employment), 2008-2012

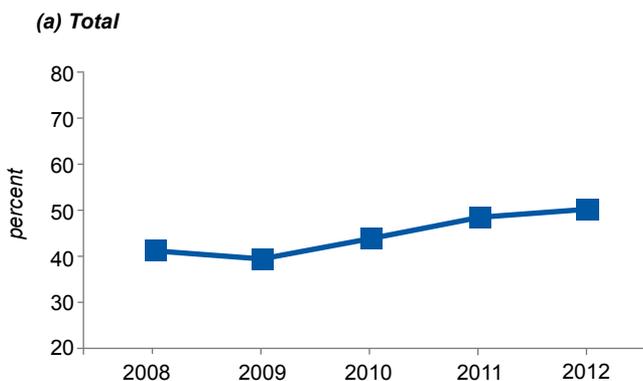


Table A3 Employment formality,^(a) percentage of employed persons aged 15-24 years, by residence and region

Category	Residence				Region					
	Total	Urban	Rural	Jakarta	West Java	Central and East Java	Sumatra	Kalimantan	Suwalesi	Eastern Indonesia
Formal ^(b)	50.1	75.0	28.6	90.1	67.0	52.4	38.4	39.5	35.7	19.3
Informal ^(c)	49.9	25.0	71.4	9.9	33.0	47.5	61.6	60.5	64.3	80.7
Total	100	100	100	100	100	100	100	100	100	100

