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Country Briefs



International
Labour
Office

INDONESIA'S RESPONSE TO THE CRISIS

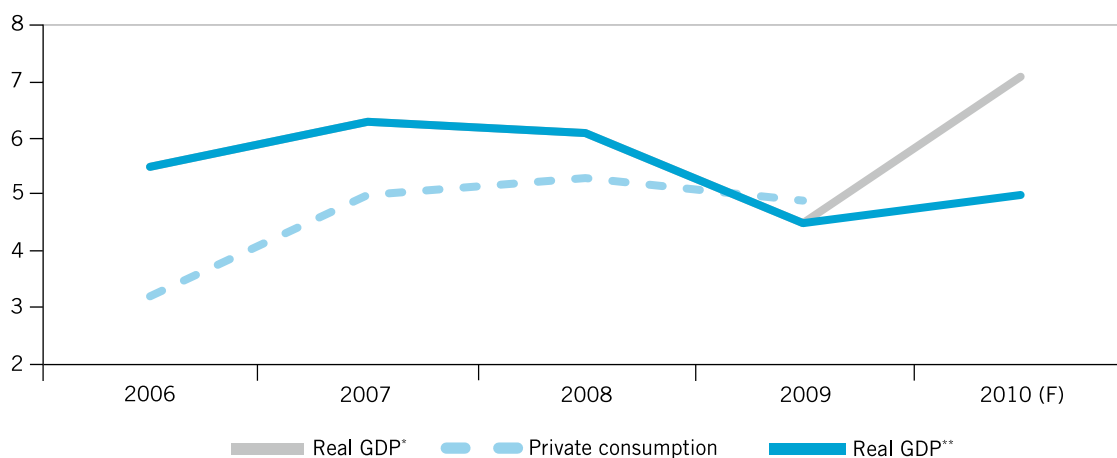
Slower growth, more informal employment

Indonesia weathered the crisis better in relative terms than many countries in Asia and across the world. The economy was cushioned by strengthened macro-economic management and oversight of the financial sector; the large share of household consumption in gross domestic product (GDP) compared with exports; and the boost to domestic consumption brought by the 2009 legislative and presidential elections.

Nonetheless, the global economic and financial crisis affected the Indonesian economy, mainly through falling exports. Growth in GDP slowed slightly to 6.1 per cent in 2008 from 6.3 per cent in 2007, with a further decline to 4.5 per cent in 2009. The drop in exports brought widespread job losses in the formal economy, with subcontracted, casual and temporary workers in export-oriented industries the hardest hit. Restricted credit availability for small and medium-sized enterprises (SMEs) hampered robust economic rebound and the re-absorption of labour.

On the surface it would appear that the employment fallout from the global financial crisis was minimal in Indonesia, given that the unemployment rate dropped to 8.1 per cent in February 2009. Closer inspection, however, shows that the crisis resulted in a decline in the quality of employment. Slowing economic growth prompted a steep reduction in the rate of growth of wage employment, which increased by just 1.4 per cent between February 2008 and February 2009, compared to 6.1 per cent growth recorded between February 2007 and February 2008. This contrasts with a sharp increase in informal employment. The number of workers in informal employment jumped by about 2 million between August 2008 and February 2009, with men accounting for 660,000 and women 1.36 million (figure 2). This reversed the trend of a declining share of informal employment of the previous two years. An expansion in informal employment has become a concern of policy-makers as earnings and productivity are likely to be lower, there is little or no social protection, and channels for representation and voice are limited.

Figure 1. Real GDP and private consumption, 2006–2010 (yearly growth rates based on constant prices)

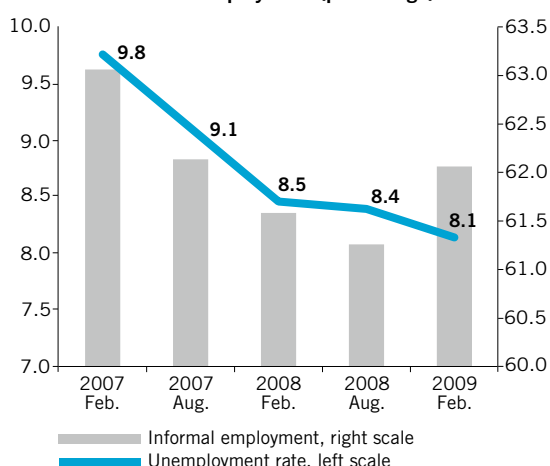


Source: National sources until 2009.

* 2010 forecasts from the Asian Development Bank, January 2010.

** 2010 forecasts from the United Nations: *World Economic Situation and Prospects 2010*, January 2010.

Figure 2. Unemployment rate and the share of informal employment (percentage)



Source: Statistics Indonesia.

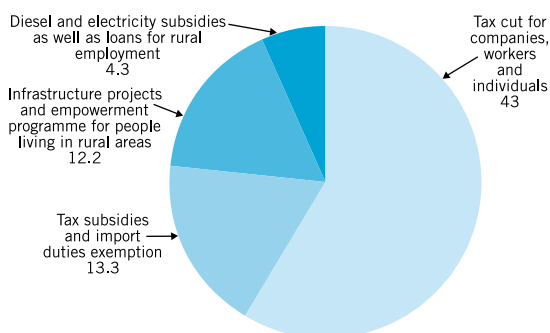
Note: The share of informal employment indicates the percentage share of informal employment in total employment.

Stimulus package

Given the impact of the global crisis on Indonesia's economy and its labour market, the Indonesian government responded rapidly, announcing in January 2009 a stimulus package of 73.3 trillion Indonesian rupiahs (IDR), or US\$7.6 billion,¹ approximately 1.4 per cent of GDP, among other measures. The biggest component by far was a tax rebate (figure 3) through which the government hoped to prevent massive layoffs by easing the burden on companies. The stimulus package also contained up to IDR12.2 trillion for infrastructure development, including the improvement of highways, ports, bridges and irrigation systems. The government significantly increased the state budget allocation for poverty alleviation programmes. For fiscal year 2009, it allocated IDR66 trillion to reduce poverty.

Furthermore, seeking to upgrade workers' competitiveness, the Indonesian government allocated IDR300 billion for job training at Vocational Training Centres (BLKs)² and IDR110 billion for training in labour-intensive sectors. The government's efforts towards

Figure 3. Components of the stimulus package (in trillions of Indonesian rupiahs)



Source: Government of Indonesia.

greening the economy included the provision of loans to industry at lower interest than prevailing market rates, allowing outdated equipment to be replaced with newer and more efficient technology.

Training and skills development

As part of its drive to upgrade workers' competitiveness and employability, the government also allocated IDR300 billion (approximately US\$31.5 million) to the Ministry of Manpower and Transmigration (MOMT), increasing the ministry's annual budget to IDR3.3 trillion. Of the additional budget, MOMT allocated IDR300 billion to vocational training. IDR136 billion was used to deliver additional training for jobseekers and migrant workers as well as productivity enhancement. The remaining IDR164 billion improved the physical infrastructure of training centres.

As vocational training is decentralized in Indonesia, BLKs are under the management of local governments, except for 11 centres that the MOMT manages directly. The MOMT allocated the additional training budget among regions using three criteria: severity of unemployment; the number of laid-off workers; and capacity of BLKs. Each region then allocated the extra funding to BLKs. Stimulus funding meant that nearly 3,000 additional courses were offered and about 50,000 jobseekers received training throughout the country.

Based on assessment of skills demand, local governments decided on the areas covered by the extra training courses. These included motorcycle and automotive repair, welding, construction, sewing, computer and language skills. BLKs also fostered entrepreneurship through training. Public-private partnership enhanced the effectiveness and relevance of the training, with private training institutions contracted by local governments delivering 670 courses in areas including business and management skills. The additional courses were 240 hours and trainees received partial transportation allowance, food and snacks.

Since decentralization, most BLKs have been managed by local governments and many BLKs suffered from insufficient funding. Therefore, part of the MOMT funding was aimed at enhancing the capacity of BLKs, including by renovating old training centres and purchasing new training materials and equipment. The ministry sees benefits from such investments stretching beyond the crisis.

One of the challenges faced by the authorities involved the relatively short period of time (six months) for planning how to use the additional training budget. Another is linked to decentralization of vocational training. While this allows local governments to accommodate local situations and reflect local skills demand in the training courses offered, awareness among local administrations about the importance of vocational training is not always high. As a result, raising awareness and building capacity of local government remains a challenge in improving vocational training in Indonesia.

Another government initiative in response to the crisis was greater use of mobile training units, which are vans with training equipment. These can deliver training to remote villages in areas such as food processing, carpentry and electrical engineering. This was effective because many laid-off workers returned to rural regions, where access to BLKs is not always easy.

High on the agenda for the newly elected government is training of skills relevant for both the formal and informal economies. The government also views as urgent revitalization of the approximately 150 training centres managed by the MOMT. The ILO is working with Indonesia to improve management and instructor training at the vocational training institutions. ILO interventions also include the establishment of tripartite training advisory boards. The long-term goal is to set up MOMT-operated training centres that train management and instructors of BLKs in cooperation with one or more international institutions.

Investment in infrastructure and employment creation

The stimulus package contained up to IDR12.2 trillion for infrastructure development, including the improvement of highways, ports, bridges and irrigation systems, which were projected to create approximately 1 million short-term work opportunities. At the end of 2009, 93.1 per cent of the government's stimulus package had been absorbed, and this had seen over 1 million additional jobs created in the Indonesian economy (table 1).

The budget allocation from the 2009 stimulus package includes IDR6.6 trillion for the Department of Public Works, which will be invested in water resource development, roads and sanitation systems. Water resource development alone is to receive IDR1.5 tril-

lion and is responsible for creating 250,000 jobs. The Departments of Public Works at the regional level are expected to create close to 70 per cent of the employment opportunities funded by the stimulus package. Results of a sample survey indicate that the programme opened job opportunities for disadvantaged groups. For example, 60.6 per cent of beneficiaries had a maximum of six years of schooling; 47 per cent of the jobs created went to youth (15 to 29 years); and 67 per cent of the sample had been unemployed before joining the programme.

To ensure timely implementation of the stimulus package and to benefit from existing administrative structures, many current or ongoing public works schemes were given additional funding. In addition, new programmes funded through the Fiscal Stimulus Package followed standard administrative procedures and much of the funding was broken into small grants that went to small local contractors and local labourers. To enhance the employment outcomes of the infrastructure component, the government has advocated using local contractors, labour and resources.

In developing the 2009 stimulus package, the government also sought to gain a better understanding of the impact of public spending on employment and the cost-effectiveness of government investments in areas such as the budgeting process, infrastructure investment and public works programmes. An accurate and comprehensive tool to assess the impact of public investment on employment was needed, however. At the request of the Coordinating Ministry of Economic Affairs, the ILO has developed a diagnostic tool – a dynamic social accounting matrix (DySAM), which could be used to analyse the direct, indirect and induced employment impact of government spending. The DySAM could also capture the economy-wide impact of employment investment relating to consumption and internal demand.

Table 1. Estimates of job creation from the 2009 stimulus package

Government Ministry/ Department	Budget allocation		No. of jobs created
	IDR billion	% of total	
Public works	6,601	54.1	952,674
– Centre	(3,617)	(29.6)	(160,708)
– Regional	(2,984)	(24.5)	(791,957)
Transport	2,198	18.0	72,898
Energy and mineral resources	500	4.1	6,434
Public housing	400	3.3	5,000
Maritime affairs and fishery	100	0.8	12,590
Labour and transmigration	300	2.5	10,983
Health	150	1.2	146
Trade	335	2.7	7,653
Cooperatives and SMEs	100	0.8	4,234
Other departments	1,515	12.4	0
Total	12,199	100.0	1,072,603

Source: Coordinating Ministry of Economic Affairs (2009).

References:

ADB (2009): *Asian Development Outlook 2009 Update: Broadening Openness for a Resilient Asia* (Manila).

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ILO (2009): *Impact of the global financial and economic crisis on Indonesia: A rapid assessment* (Geneva and Bangkok).

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ILO (2009): *Labour and social trends in Indonesia 2009: Recovery and beyond through decent work* (Jakarta).

World Bank (2009): *East Asia and Pacific Update - Battling the forces of global recession* (Washington, DC).

United Nations (2010): *World Economic Situation and Prospects 2010* (New York) Jan.

In addition to the DySAM, the Coordinating Ministry of Economic Affairs and the Department of Public Works are seeking to enhance national diagnostic and policy advisory capacities through research that is focused on improving the planning, monitoring and evaluation systems of public works programmes. Data collected will verify assumptions used to estimate the number of short-term employment opportunities generated from the 2009 fiscal stimulus package. This research aims to assess the effectiveness and quality of work opportunities by considering the length of such opportunities and the efficiency of programme outreach, while also providing insights into the dynamics of job creation and job destruction associated with the global financial crisis. An amount of US\$16,000 has been allocated to support these activities in 2009 and it is envisaged that this work will be extended in 2010. Data collected ultimately will be used to support development of methodologies and models used by both the Department of Public Works and Statistics Indonesia, as well as to support high-level policy dialogue on the role of Indonesia's public works programmes.

Outlook and challenges

The Indonesian economy grew by 4.5 per cent in 2009 and GDP forecasts for 2010 range from 5 per cent to 7.1 per cent, depending mainly on assumptions regarding oil prices and global demand.³

The consequences for Indonesia's labour market, however, may be protracted as labour market recovery lags economic recovery. While unemployment rates have continued declining during the global crisis, it could take several years for other socio-labour indicators, such as productivity, poverty and informal employment, to return to pre-crisis levels.

Improving the quality and relevance of vocational training would yield sustained impact on the supply side of the labour market. Revitalizing training institutions, enhancing the qualification of managers and instructors and aligning training courses to the market's skills demand would certainly help increase the employability of jobseekers. The challenge, however, involves the relatively long time horizon before such policies bring tangible employment outcomes. In addition, for training strategies to be effective, the government and social partners must implement policies that promote employment creation in tandem.

Infrastructure investment has immediate employment creation effects, which is much needed during the period of protracted recovery from the global financial and job crisis. It also improves the business environment and investment climate and creates multiplier effects. Such investments generate employment far beyond the initial infrastructure project. Given the increase in low-quality informal employment in Indonesia, an important goal is to enhance the employment impact of infrastructure spending.

¹ Based on an exchange rate of US\$1=IDR9,600.

² The sum includes allocations to upgrade training facilities.

³ United Nations (2010); and ADB (2010).