

Findings from the Indonesia Review of Youth Employment Policies

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Economic and social context

- 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 ASEAN in terms of GDP. It accounts for 30 to 40 per cent of regional income within ASEAN in any given year
- Indonesia was one of the first countries to sign up as a lead country under the Youth Employment Network in 2002.
- Institutional mechanisms were put in place to address youth employment from 2003.

Economic and social context

- The government has responded quickly to various economic downturns, to continue to stimulate demand.
- Poverty has been declining: in March 2013, 11.4 per cent of the population were 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.
- Youth unemployment has also been on a downward trend since 2006 (from 30 per cent to 18.6 per cent)

BUT...

Economic and social context

- Progress has been uneven across provinces: some have experienced high growth rates while other provinces such as Aceh and Papua have stagnated or actually contracted.
- As a result there are large regional disparities in poverty rates as well rural /urban divides.

Moreover, growth is slowing as a result of:

- 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.
- 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 percent in 2010 and 6.5 per cent in 2011. Projections for 2014 are at a rate of 5.2 per cent.

Economic and social context

- The questions remains whether the current rate of growth is enough to sustain the downward trends in youth unemployment and poverty;
- **Despite overall positive trends in youth employment, persistent unemployment, under-employment, discouragement, informality, high out-migration, as well as gender and regional disparities indicate problematic transitions for youth in Indonesia.**

General labour market trends

- Employment growth (age 15+) rates have been surpassing the growth rates of the labour force since 2006. Employment grew annually by 3.2 percent on average between 2006 and 2010, while the labour force expanded at 2.3 percent per year during the same period.
- Unemployment rates have been on the downtrend since 2005, however time-related underemployment has been high: 14.1 percent of total workers were under-employed in 2010, and the share was higher among women at 16.2 percent.
- 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.

General labour market trends

- Gender disparities exist in the labour market. 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.
- 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.

General labour market trends

- Labour market churning: between 2012 and August 2013 close to 1 million workers left rural areas.
- Although the numbers of workers in urban areas has increased there is also significant overseas migration for temporary work in Indonesia. Around 700,000 documented workers leave Indonesia annually for temporary work. Numbers of undocumented workers may be as much as 2-4 times higher.
- Young people may account for as much 25 per cent of out migration, giving an indication of the poor employment prospects facing youth in the domestic labour market

The youth labour market

- Indonesia is experiencing a demographic dividend / bonus (high working age population and low dependency ratio). Indonesia has 50 per cent of its population under 29, and 60 per cent under age 39.
- Over 47 percent of young Indonesians aged 15-24 years were in the labour force in 2012.
- Despite structural shifts, agriculture absorbs the largest share of youth employment

The youth labour market: evidence of problematic transitions

- A very large share of young Indonesians, and especially female young people are neither in the labour force nor in education. Only a small share of this group is made up of discouraged workers (less than two per cent of all youth). The rate of those not in employment, education or training (NEET) 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 1996.

The youth labour market: evidence of problematic transitions

- Unemployment affects close to 19 per cent of young Indonesians in the labour force. A large share are first time job seekers.
- Long term unemployment as a share of total youth unemployment indicates that 42 percent of all unemployed youth has been unemployed for at least 12 months, rising to almost 52 percent for young people aged 20-24 years and to 55 percent for young people in Eastern Indonesia.

The youth labour market: evidence of problematic transitions

- Still a half of youth work in the informal sector; levels of informality are especially high in rural areas and in regions off Java.
- About one in three employed youth is underemployed, pointing to substantive underutilised productive capacity in the youth labour force.

The youth labour market: evidence of problematic transitions

- Young women tend to be even more disadvantaged than young men. Female youth unemployment is higher than male.
- Young people from rural communities, lower income brackets and disadvantaged regions also appear to have problematic transitions.
- Unemployment also appears amongst highly educated which can be seen as a perverse outcome, since the overall trend is that higher levels of education lead to better youth employment outcomes.

Indonesian policies affecting youth employment

DWCPs

- Job-rich growth as a DWCP priority is directly derived from the Government's guiding principle of pro-employment and pro-poor growth.
- Priorities: employment creation, industrial relations and social protection;
- commitment for 'Improved policies to equip young women and men to enter the labour market'.

National mid-term development plan 2010-2014

- pro-growth, pro-poor, pro-employment and pro-environment
- Covers a full range of policies including priorities given to the MOMT: (a) poverty alleviation (b) business and investment climate and (c) "other priorities" particularly in the field of economy

Indonesian policies affecting youth employment

Master Plan for Acceleration and Expansion for Indonesian Infrastructural Development

emphasis on infrastructural investment and the improvement of the investment climate

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 inter connectivity of centres of development, intra-islands (corridors), and international trade.
- (c) National science and technology acceleration to support the development of the main program has a human resources development strategy to support each of the 22 major economic development activities.

Indonesian policies affecting youth employment

Vice President's Job Creation Plan

- Labour Market Information and Services
 - Improving labour market information and services in district and municipality labour offices
 - Increase the quality and access to Labour Market Information
 - Develop a skills supply and demand information system
- Increase the capacity and skills of the workforce
 - Review and repair competence standards and professional certifications so they are in line with labour demands by engaging with industry and professional associations
 - Strengthen vocational secondary schools so they produce graduates who are ready for work and are absorbed by industry.
 - Strengthen BLKs so that they become industry driven training institutions
 - Push for autonomous management and funding for BLKs
 - Create incentives for individuals to increase their capacity through training and for institutions to improve the quality of graduates.
- Employment Creation through micro, small and medium enterprises and entrepreneurship
 - Entrepreneurship training program
 - Business development support services program
 - Support for young entrepreneurs to access credit
- Employment Creation through Employment Intensive and Simple Infrastructure Programs
 - Employment creation through simple infrastructure program
 - Voluntary youth employment program
- Emergency Employment Creation
 - Emergency program for employment creation

Indonesian policies affecting youth employment

Education policies

- Strong investments in education are paying off with young Indonesians staying in education longer and entering the labour force later
- Almost one-third of youth enters the labour market with primary education or less.
- Higher education levels are associated with a greater likelihood of a salaried job and of formal sector employment generally, underscoring the important link between education and job quality.
- Returns to education in terms of earnings are significant at all levels of educational attainment.
- The wage premium associated with education is greater for male youth than for female youth.

Indonesian policies affecting youth employment

Entrepreneurship policies

Range of regulations and policies put in since 2007 to address challenges of low productivity, informality, weak enterprise growth, promoting entrepreneurial culture from an early age etc. Ministry of Youth and Sports has a strong role in youth entrepreneurship.

Minimum wages policies and institutions

Currently an arena of industrial conflict. Presidential Decree 2013 gives guidance on minimum wage setting in line with a minimum decent standard of living, productivity and economic growth

Indonesian policies affecting youth employment

Passive labour market policies

- Several passive labour market policies including employer and employee funded unemployment insurance, conditional and unconditional cash transfers, subsidies and other social welfare programs.

Challenges include inadequate statistical data collection at regional level making accurate targeting difficult, and lack of awareness amongst potential participants

Indonesian policies affecting youth employment

Active labour market policies

Includes various short term employment creation programmes, training programmes etc

- Indonesia the Ministry of Planning has established five priorities for employment creation for young people:
 - Policy coherence for optimizing youth educational attainment
 - Skills improvement for employability
 - Improve the quality of apprenticeships
 - Increase opportunities for youth entrepreneurship
 - Improve knowledge sharing, in particular access to labour market information

Many of these strategies relate to the strengthening of active labour market policies.

- The MOMT is responsible for the majority of public employment services, apprenticeships and vocational training.

Challenges little linkage between various ALMPs in Indonesia and there is only limited linkage between ALMPs and labour market demand. Job creation and entrepreneurship training are also only of a short duration and do not link participants to job search facilities or provide post training support.

Indonesian policies affecting youth employment

Social dialogue on youth employment

- IYEN formed in 2003, moved to Ministry of Planning since 2010, supported by ILO's JOY project.
- Vital mechanism for bringing national stakeholders together and to push the youth employment agenda forward in the policy arena.
- Challenges include periods of inactivity.
- Currently being revitalized

Report conclusions

Positive long term trends but persistent problematic youth employment outcomes

- Indonesia is reaping the benefits of its proactive stance on youth unemployment, as a lead countries in the YEN since 2002. Unemployment has declined from around 30 per cent in 2006 to around 19 per cent in 2013. Nonetheless this rate is still very high and significantly more than the adult rate. Underemployment and discouragement also remain high.
- 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, again current levels of informality are still high, with around 50 per cent of young people in Indonesia in informal work.
- Regional disparities, gender inequalities, vulnerabilities, informality in employment, high out-migration, as well as the chasm between urban and rural mark clear divisions in youth employment outcomes.

Report conclusions

The need for greater mainstreaming youth employment into all national development frameworks

- A strong commitment to employment outcomes appears in some macroeconomic policy documents and national development frameworks but less so in others.
- Specific youth employment outcomes are less apparent.
- Need greater connection to skills delivery mechanisms, linking supply and demand.
- Implementation of these policies will need to specifically address regional, rural-urban, gender and income disparities.
- A strong infrastructural development programme has been planned which will stimulate demand and support regional development in the period up to 2025, but there is untapped potential to link these programmes with explicit youth employment targets, and with skills delivery institutions.

Report conclusions

High rates of growth are required for better youth employment outcomes

- Until recently the patterns of growth have been conducive to better employment outcomes. The government has been quick to respond to crises, ensuring that demand remains strong through fiscal stimulus packages, infrastructural development and income support.
- However, 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 youth employment may stagnate or even reverse.

Report conclusions

Greater investment in education is bearing fruit

- On the supply side, increases in investment in education is paying off: with greater educational participation and higher quality human capital formation.
- 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. Continuing to increase access to secondary education is of particular importance in this context.
- Addressing unemployment at both ends of the education spectrum (low education and high education) will require tailored responses taking into account possible skills mismatches, the need for skills upgrading, and better job search and labour market information mechanisms on the supply side, and stimulating demand on the other side.

Report conclusions

Greater investment in and coordination of active labour market policies can strengthen youth employment

- Better coordination and coherence between existing active labour market policies, and better targeting can contribute to overcoming disparities. 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 which need more attention.

Report conclusions

The need for expanding entrepreneurship and increasing productivity

- Most Indonesian enterprises are MSMEs - often informal and caught in growth traps. Although entrepreneurship has received greater policy attention recently more needs to be done to support upgrading of enterprises.
- 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.
- Entrepreneurship culture needs to be further promoted amongst young people.

Some policy implications

- *Continued revitalization of the Indonesian Youth Employment Network (IYEN)*
- *Strengthening labour market information systems*
- *Improving work experience and expanding apprenticeship opportunities*
- *Continuing to reduce gaps in educational access and participation*

Some policy implications

- *Promoting entrepreneurship*
- *Increasing productivity*
- *Developing integrated approaches to transition young people out of informality*
- *Strengthening pro-employment macroeconomic policies and national development frameworks*
- *Expanding active labour market policies, ensuring better coordination; and better targeting of passive labour market policies*