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**Indonesia: An enabling environment for sustainable
enterprises (ESEE) assessment and a survey on
workers' perceptions**

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Small
Enterprise
Programme

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and Enterprise
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Preface

The primary goal of the ILO is to contribute, with its member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,² in the Employment Policy Convention, 1964 (No. 122) and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

While the main findings of the research initiatives are disseminated through the Employment Working Papers, the *Employment Report* series is designed to consolidate the major evaluations of employment programmes, conclusions and resolutions of workshops and seminars, and other information details that are particularly, though not exclusively useful to the work of the ILO and its constituent partners.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf.

² See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*. "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

This report provides an assessment of the enabling environment for sustainable enterprises in Indonesia as a follow-up to the conclusions concerning the promotion of sustainable enterprises adopted by the International Labour Conference (ILC) at its 96th Session (2007). In particular, this assessment is based on the 17 conditions for a conducive environment for sustainable enterprises, as identified by the ILC.

The report uses a comprehensive but flexible methodology to assess the degree to which conditions for an enabling environment for sustainable enterprises are met in Indonesia. It comprises an analysis of secondary data and the opinions of workers obtained from a survey undertaken in September 2011 at a number of large factories located in Greater Jakarta (more specifically in the area known as Jabodetabek).

The aim of the analysis of secondary data corresponding to each of the 17 conditions for sustainable enterprises is to present a picture of the relative strengths and weaknesses of the enabling environment of a country over time and compare them to those of countries at a similar level of development. On this basis, priorities for improvements and policy recommendations can be identified.

The compilation of indicators from published sources is complemented by a customized opinion survey with questions corresponding to a subset of the 17 conditions. In this case, the survey of workers' perceptions was a joint collaboration between the four trade union confederations in Indonesia i.e., the All-Indonesia Trade Union Confederation headquartered in Pasar Minggu, South Jakarta (also known as KSPSI Pasar Minggu), the All-Indonesia Trade Union Confederation headquartered in Kalibata, South Jakarta (also known as KSPSI Kalibata), the Indonesia Prosperity Labour Union Confederation (KSBSI) and the Confederation of Indonesia Trade Unions (KSPI) together with AKATIGA – Center for Social Analysis, a think tank based in Bandung and the International Labour Office.

The primary data collection was undertaken in a collaborative manner involving several enumerators from the four trade union confederations and AKATIGA providing technical support in administering the survey. Prior to this, the ILO had provided training to the four confederations in sampling and surveying methodologies. A specific capacity building element was built into the work with the objective of improving the trade union confederations' capacity in undertaking surveys, analyzing data and ultimately, using an evidence base to influence policy making. The capacity building also had the objective of fostering joint work and common positions among the four trade union confederations.

The AKATIGA team consisted of Indrasari Tjandraningsih as the project supervisor, Sarah Hermaniar as the project leader, Pungky Desi Christanti as the qualitative research assistant, and Taufik Nasrullah as the quantitative research assistant. Yulia Indrawati Sari provided additional support to the team as the quantitative expert. AKATIGA was principally responsible for collecting, organizing and analyzing the primary data and in drafting those parts of the report concerned with the survey findings. The ILO team comprised Mr. Soeharjono from ILO Jakarta Office, Mr. Mohammed Mwamazingo and Mr. Graeme Buckley from ILO Geneva.

This report is designed to stimulate debate and to provide an evidence base for policy reforms for an environment more conducive to the promotion of sustainable enterprises in Indonesia, and with particular reference to the surveyed sectors.

The views expressed in the report are the sole responsibility of the principal authors and do not represent the official position of the ILO, AKATIGA or the trade union confederations.

Markus Pilgrim
Manager
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Abstract

This report provides an assessment of the enabling environment for sustainable enterprises in Indonesia as a follow-up to the conclusions concerning the promotion of sustainable enterprises adopted by the International Labour Conference (ILC) at its 96th Session (2007).

The report is based on a comprehensive but flexible methodology for undertaking assessments of the enabling environment based on the 17 conditions for the promotion of sustainable enterprises identified in the ILC conclusions. The aim of the assessment – using secondary data – is to present a picture of the relative strengths and weaknesses of the enabling environment of a country over time and to compare them to those of countries at a similar level of development. This information is then complemented with selected primary data obtained from a custom made opinion survey of workers. On this basis, priorities for improvements and policy recommendations can be identified. Similar assessments have also been undertaken in other countries, including Swaziland, Mongolia, the Sultanate of Oman and Barbados.

The 17 conditions can be grouped into political, economic, social and environmental elements. Analysis of the political elements shows that in spite of the transition to democracy, there are still various aspects of political stability in Indonesia which remain weak. Poor governance has the effect of discouraging entrepreneurship and holding back private-sector growth and development. On the positive front, Indonesia performs better in the category of civil liberties and social dialogue. The most challenging issues in terms of how political elements can affect private sector development in Indonesia are to be found in the areas of poor governance and security and these findings were corroborated by the survey of workers' perceptions: workers felt the government should do more to tackle corruption and although the government had done much to facilitate freedom of association much more was needed to give effect to workers' rights, including the right to strike, for example.

On the economic front, Indonesia has experienced relatively good macroeconomic performance over recent years, including impressive inflows of foreign direct investment (FDI), but job creation has been modest and unemployment remains a serious problem. This fact was underscored in the workers' survey which also highlighted concerns related to price instability (inflation) particularly in relation to the price of staple goods. By international comparisons, the legal and regulatory environment for business (including with respect to foreign investors) remains relatively burdensome. Business licensing, for example, is costly and complicated. Private sector development (especially among small enterprises and business start ups) is vital to Indonesia's growth and development but businesses are constrained by poor access to business support services; financial services, ICT and limited access to certain markets. The surveyed workers (who were obviously waged employees) were nevertheless almost unanimously of the opinion that entrepreneurship training was either important or very important and most wanted training in this field.

Analysis of the social elements indicates that Indonesia is a complex society with many success stories but also with a great number of challenges. The country is well known for its cultural and religious plurality. Indonesia's basic indicators of educational attainment have improved but remain low by regional comparison. This low educational attainment is associated with a lack of investment in education: a factor underscored in the workers' survey. Consistent with comparatively low educational attainment, the human capital embodied in the labour force is also low and the workforce lacks specific

skills, especially when set against the needs of a modern, dynamic economy. However, the surveyed workers did not always concur with this: most felt that their own expertise and skills matched the company's needs. Although Indonesia has a number of formal social security systems and government financed safety-nets, it lacks a structured and coherent social protection system. Notwithstanding the fact that most of the surveyed workers had good quality social protection compared to most Indonesians, they flagged particular concerns in the field of social protection with respect to pensions, benefits for accidents happening outside of the workplace and "long leave" entitlement, as well as breastfeeding opportunities at the workplace.

Concerning the environmental elements, Indonesia is endowed with rich and varied natural resources, which are the backbone of the country's subsistence and formal economies. However, the country struggles with soil depletion, coastal degradation and air pollution. In recent years Indonesia has been beset by many natural and man-made disasters: tsunamis, earthquakes, landslides, floods and draughts which have caused huge losses to lives and property and have impeded economic and social development.

Abbreviations and acronyms

AKATIGA	Center for Social Analysis
APINDO	Indonesian Employers' Association
ASEAN	Association of South East Asian Nations
CET	Common External Tariff
CPI	Corruption Perceptions Index
ETI	Enabling Trade Index
FDI	Foreign Direct Investment
ICA	Investment Climate Assessment
GDP	Gross Domestic Product
ICT	Information and Communication Technology
ILC	International Labour Conference
ILO	International Labour Organization
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ITUC	International Trade Union Confederation
KSBSI	Indonesia Prosperity Labour Union Confederation
KSPI	Confederation of Indonesia Trade Unions
KSPSI Kalibata	All-Indonesia Trade Union Confederation headquartered in Kalibata, South Jakarta
KSPSI Pasar Minggu	All-Indonesia Trade Union Confederation headquartered in Pasar Minggu, South Jakarta
OECD	Organization for Economic Cooperation and Development
PPR	Physical Property Rights
UKP4	Presidential Delivery Unit

1. Introduction

1.1 Background

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. Promoting sustainable enterprises calls for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions, including workers' organizations. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity. The conclusions reached at the 2007 ILC discussion on the promotion of sustainable enterprises identified, among other things, 17 conditions for an environment conducive to the promotion of sustainable enterprises. This report is framed within the context of these conclusions.

More specifically, a sustainable enterprise prioritizes social protection for its workers in line with international labour standards and engages in social dialogue with the tripartite constituents. A sustainable enterprise can be described as "an enterprise that is able to generate profit, brings together employers and workers who need, and have the right to expect from the state and society, enabling condition for investment, doing business and wealth creation (including honouring the right to ownership/proprietorship, the stability of rules, effective state institutions and public policies). Sustainable enterprises comply with national laws and regulations and contribute to society by incorporating ethical values into business operations and social and environmental principles as stated under international standards, including International Labour Standards".⁵ Sustainable enterprises also require the establishment of a new form of cooperation among all the stakeholders in the productive sector – workers, employers, and the government.

Sustainable enterprises require favourable or enabling conditions which the International Labour Conference classified into seventeen conditions which can be divided into four elements, namely – economic, social, political, and environmental.⁶

⁵ For more information on the concept of sustainable enterprises see Graeme Buckley, Jose Manuel Salazar Xirinachs and Michael Henriques;2009; The Promotion of Sustainable Enterprises; Geneva; ILO.

⁶ The ILC Conclusions to the general discussion on the Promotion of Sustainable Enterprises (2007) are also contained in the book by Buckley, Salazar-Xirinachs and Henriques.

Conducive environment for sustainable enterprises

Economic elements

- Sound and stable macro-economic policy and good management of the economy
- Trade and sustainable economic integration
- Enabling legal and regulatory environment
- Rule of law and secure property rights
- Fair competition
- Information and communications technology
- Access to financial services
- Physical infrastructure

Social elements

- Entrepreneurial culture
- Education, training and lifelong learning
- Social justice and social inclusion
- Adequate social protection

Political elements

- Peace and political stability
- Good Governance
- Social dialogue
- Respect for universal human rights and international labour standards

Environmental elements

- Responsible stewardship of the environment

For any enterprise, irrespective of size, the sector it operates in or its legal structure, the broad political, social, economic and environmental context is vitally important. It is generally accepted, for example, that peace, a trusted and respected legal system, appropriate levels of social development and relatively predictable and stable political institutions, all have a major bearing on the sustainability of enterprises. These broad “meta conditions” provide the framework for wealth creation: they are necessary for fostering enterprise growth but they are not in themselves sufficient, as they do not actually create wealth themselves. The relationship between such broad parameters and enterprise growth is very complex but some general principles can be discerned.

The structure of civil and political life is undoubtedly an important determinant of competitiveness, economic growth and sustainable enterprise. Good governance – which encompasses respect for human rights, functioning democratic institutions, freedom of expression, equal rights for women and men, effective mechanisms for social dialogue, and so forth – generally provides a sound basis for sustainable development. Governments which maintain macroeconomic stability and ensure transparency and due process in policy-making, which safeguard property rights, channel tax revenues back into the economy through productivity-enhancing investments in human capital and physical infrastructure, ensure that good laws are made and upheld, that public order and security is maintained and that there is proper stewardship of the natural environment, are likely to create the best socio-economic conditions for sustainable enterprises to flourish.

There is ample evidence to show that enterprise is severely constrained in an economy where property rights are inadequately defined. When property owners, whether material or intellectual, are not guaranteed their rights, they are unwilling to invest further, while potential new entrants to the formal market will have incentives to disguise their activities and remain in the informal economy, outside the realms of decent work. Similarly, enterprise is likely to be built on a more secure foundation when society embraces a broad-based culture supportive of enterprise.

Equity and economic and social inclusion are important basic conditions for sustainable enterprises. Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High levels of income inequality weaken the poverty reduction impact of a given growth rate and can undermine the political stability and social cohesion needed for sustainable growth. Social inclusion – whether based on gender, ethnicity or any other factor – is inherent in sustainable societies and strengthens the potential for sustainable enterprises.

The 2007 conclusions at a glance

- **Conditions for a conducive environment for sustainable enterprises**
 1. Peace and political stability
 2. Good governance
 3. Social dialogue
 4. Respect for universal human rights
 5. Entrepreneurial culture
 6. Sound and stable macroeconomic policy
 7. Trade and sustainable economic integration
 8. Enabling legal and regulatory environment
 9. Rule of law and secure property rights
 10. Fair competition
 11. Access to financial services
 12. Physical infrastructure
 13. Information and communications technology
 14. Education, training and lifelong learning
 15. Social justice and social inclusion
 16. Adequate social protection
 17. Responsible stewardship of the environment
- **Role of government in the promotion of sustainable enterprises**
 1. Facilitating and participating in social dialogue
 2. Labour law enforcement through efficient labour administration, including labour inspection
 3. Encouragement of voluntary concept of corporate social responsibility
 4. Promotion of socially and environmentally responsible public procurement, lending and investment
 5. Promoting sectors and value chains
 6. Flexibility and protection to manage change
 7. Targeted programmes
 8. Research and innovation
 9. Access to information and business and financial services
 10. Policy coordination and coherence
 11. International policies
 12. Production and consumption patterns
 13. Supporting skills development
- **Enterprise-level principles for sustainable enterprises**
 1. Social dialogue and good industrial relations
 2. Human resource development
 3. Conditions of work
 4. Productivity, wages and shared benefits
 5. Corporate social responsibility
 6. Corporate governance
- **Role of the social partners in the promotion of sustainable enterprises**
 1. Advocacy
 2. Representation
 3. Services
 4. Implementation of policies and standards

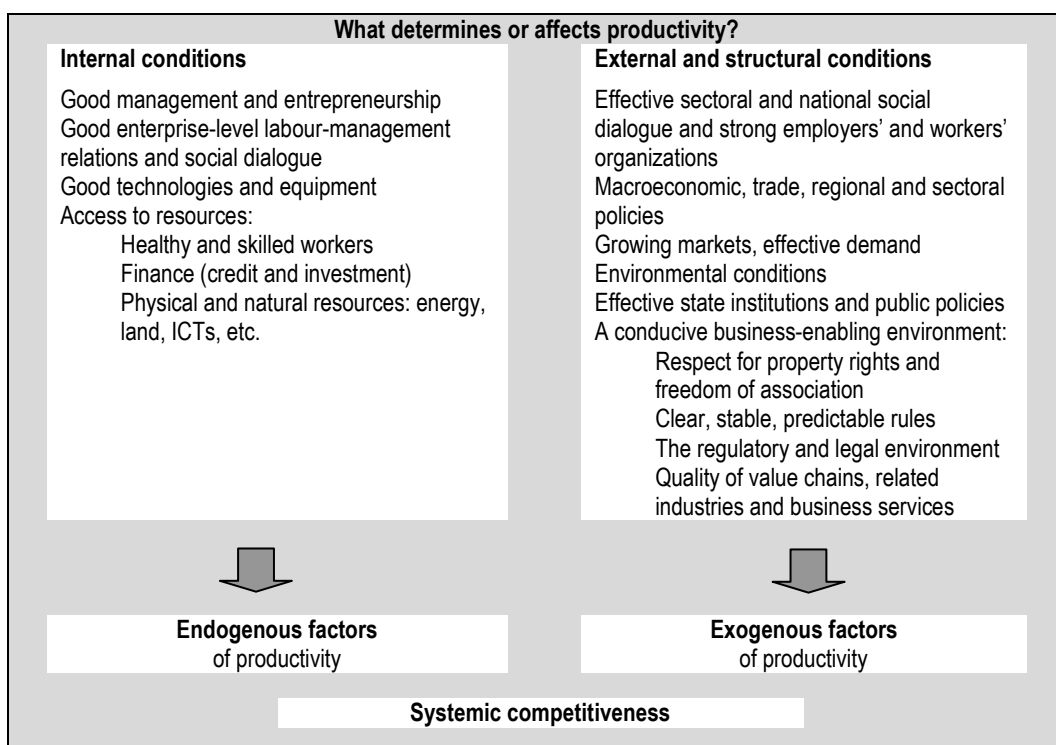
1.2 Trade unions and sustainable enterprises

Workers and their organizations have been closely associated with the concept of sustainable enterprises. In fact, trade unions strongly believe that decent work could only be created and perpetuated for employers, workers and society more generally if enterprises operated on a sustainable economic, social and environmental basis.

During the ILC 2007 discussions on sustainable enterprises and in many other forums, trade unions have promoted the idea that those countries that had succeeded in creating an enabling environment, with strong institutions and effective governance structures, had generally seen more successful development outcomes. In this regard, workers have continuously shown the interest to support efforts that will examine what constituted a conducive environment for the formation and growth of enterprises to be economically and socially sustainable, what were the key elements for this and the roles to be played by governments and employers' and workers' organizations.

It is in this context that the survey on workers' perception to sustainable enterprises was conducted to find out Indonesian workers' perceptions on sustainable enterprises and what they consider as favourable conditions for sustainable enterprise. The lead question of this survey is "what business conditions do workers in Indonesia perceive as supporting sustainable enterprise?". This is an innovative and original approach because virtually all other perceptions or opinion surveys of the enabling environment or competitiveness situation for business are based on the perceptions or opinions of owners and managers (usually of relatively large, formal businesses). Figure 1 illustrates that workers are the foundation stone of productivity.

Figure 1: Productivity



Sustainable enterprises recognize people as a source of competitive advantage and treat their employees both as assets and as agents for change. Therefore, sustainable enterprises need to win their employees' support not only for determining the success of their operations in the commercial sense but also in terms of the enterprise's engagement

with social and environmental issues in pursuit of the three pillars of sustainability. This will come from promoting enterprise values aligned with the economic, social and environmental dimensions of sustainability and from investing in the quality of working life through appropriate workplace organization, workplace practices, conditions of employment and human resource development and management.

In turning economic, social and environmental challenges into opportunities, enterprises need to tap into the creativity and innovation of employees at all levels, from the plant floor or service centre to the boardroom, by investing in the quality of working life. In a rapidly globalizing world, enterprises face a dynamic business environment that requires them to be adaptive and competitive in order to survive and grow in the “24-hour economy”. In the light of new and evolving structures of production and work, enterprise success is likely to rest increasingly on human and social resources. The competitiveness and viability – even survival – of enterprises increasingly depends on the ability to ensure that employees are motivated, skilled and committed. This is best achieved in a progressive workplace environment characterized by a spirit of mutual trust and respect, non-discrimination and good labour-management relations.

Indeed, at no time in history has the quality of the workforce assumed such widespread importance as at the present conjuncture. Globalization has brought about an intensification of international competition centred on the use of modern forms of technology which are primarily knowledge based, i.e. intensive in the use of conceptual skills. The forces of global integration and technical change have rendered education and training of paramount importance in terms of enterprise (and national) competitiveness. Governments (and business) have a vital and essential role to play in ensuring that education systems equip young people with the basic skills which are necessary to ensure that training can actually enhance people’s employability.

1.3 The survey on workers’ perceptions

Background

The idea to undertake the survey on workers’ perceptions on enabling environment for sustainable enterprises was mooted during a knowledge sharing and capacity building workshop for the Indonesian Jobs Pact held in Bandung in February 2011. Participants from the four trade union confederations proposed that the ILO should develop and support a capacity building programme that would enable trade unions contribute to the context of the enabling environment for sustainable enterprises. This request provided the impetus for the programme that included the following elements:

- provide training to the trade unions in research methods and survey techniques;
- build the capacity of the trade unions to undertake evidence based policy making;
- carry out field survey on the 17 conditions of the enabling environment in Indonesia;
- provide a research report with consolidated information on statistical data and workers’ perceptions on the conditions of the enabling environment in Indonesia; and
- provide trade unionists with training in advocacy and lobbying techniques in the context of policy dialogues in enabling environment for sustainable enterprises.

These elements were carried out in several interrelated activities, including:

- technical workshop on research and surveying methodologies corresponding to the “17 conditions” assessment framework and finalisation of research plan and survey instrument (May 2011);
- implementation of a survey based on a perceptions questionnaire among the trade union membership (September 2011);

- technical workshop to validate a diagnostic report pertaining to the promotion of sustainable enterprises based on the findings from the survey (October 2011);
- national tripartite workshop for presentation of findings (February 2012).

Survey methodology

The survey was administered by members of trade unions affiliated to four union confederations as part of a union capacity building programme. The project, which was initially introduced in a workshop on the Indonesia Jobs Pact in Bandung in February 2011, gained positive responses from the unions and was followed up with a workshop on the survey method and techniques of data collection and data analysis held in Jakarta in May 2011. The workshop was attended by union members and afforded the opportunity to discuss, in detail, the preparation of the survey, including the process of determining sample size, area of survey, the use of unionists as interviewers, and the choice of AKATIGA as their survey consultant. Prior to undertaking the survey, a four-day training was organized for the enumerators by AKATIGA in September 2011. The training session was attended by four participants from each confederation.

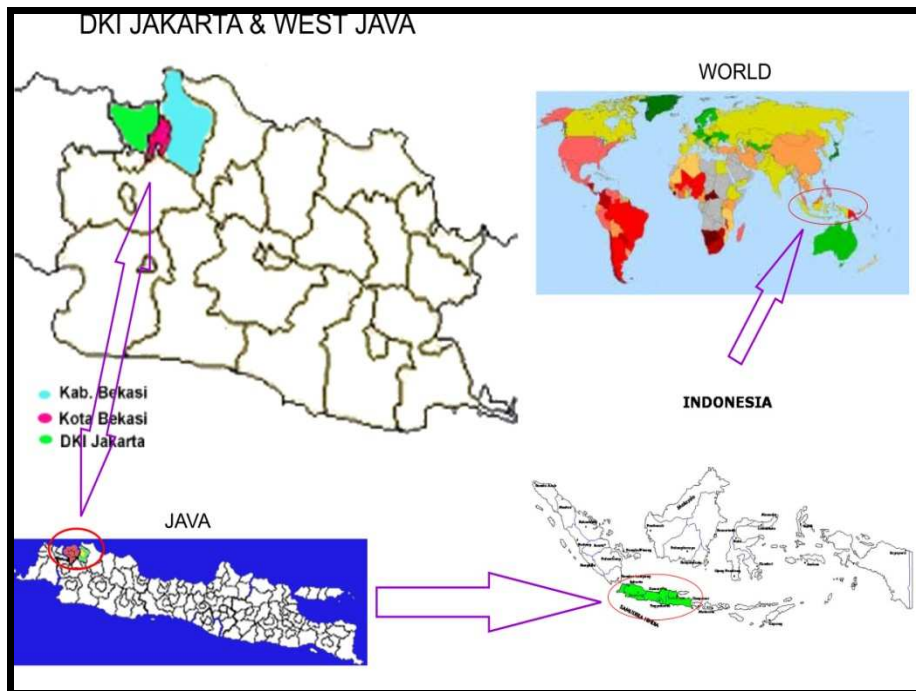
Data were collected using quantitative approach to obtain the workers' perception of the 17 conditions underpinning the sustainable enterprise concept. To complement the survey, in-depth interviewing of workers, group discussions with confederations executives and affiliations, focus group discussions (FGDs) with workers from the garment, electronic and automotive sectors and also from the panel discussions in the workshop validation with the unions and confederations were undertaken.

The survey was administered to 216 workers at seven enterprises – 3 garment companies, 2 electronic companies and 2 automotive companies – in the Jabodetabek⁷ area. The respondents were evenly distributed in the three sectors. A purposive sampling technique was adopted by the survey, according to industrial sector and trade union membership. The on-site respondents were selected according to prevailing situation at the time of the survey, bearing in mind factors such as whether workers had time for interviews with the enumerator, had the permission from their supervisors and management to be interviewed, and were willing to be interviewed.

The seven companies manufactured goods for the export and domestic markets. The garment companies were foreign investors from Singapore, India, and Taiwan, while the electronic and automotive companies had foreign investors from Japan. Three sectors were selected: the garment sector in the Tanjung Priuk Bonded Zone in North Jakarta, the electronics sector, and the automotive sector, both in the Bekasi District Industrial Estate. These sectors were chosen because they are leading sectors in the Jabodetabek area; they are labour-intensive sectors, absorbing the most manpower (over 500 people per plant) in the area; and the sectors have at least one trade union organization affiliated to any one of the four trade union confederations.

⁷ Jabodetabek stands for the cities of Jakarta, Bogor, Depok, Tangerang, Bekasi, which are the centers of growth and industry in western part of Java. The Jabodetabek area is also called the Greater Jakarta area.

The survey location



In addition to being sector-based, this survey was also based on samples taken according to the worker's involvement in trade union activities, under the assumption that this factor would affect the worker's perception.

The majority of respondents (86 per cent) in the survey were permanent workers, 64 per cent of them had been employed at their respective companies for over 10 years. 93 per cent of the respondents were union members.

2. Political elements

2.1 Introduction

Indonesia has been able to make the transition from dictatorship to democracy, with a consequent improvement in its political risk indicators. Nevertheless, there remains a measure of political stability rooted in poor governance in key areas, which serves to discourage entrepreneurship and hold back private-sector growth and development. In fact, in international surveys of good governance Indonesia lags behind regional peers. The serious consequences of bad governance on private sector development are confirmed by the results of the ILO survey on youth entrepreneurs where more than half of young people indicated that they were faced with security problems on a day to day basis and considered it as a major problem in running their business.⁸

Nevertheless, Indonesia performs fairly better in the category of civil liberties and social dialogue. The country has in fact put in place relevant legislation and regulations for the promotion of labour rights. However, despite the good policy and institutional framework, many problems and obstacles to effective social dialogue exist. In fact, the International Trade Union Confederation (ITUC) considers that there are measures that the government needs to take to improve the legal framework to support trade union activities and to strengthen the right to strike. With regard to human rights, despite ratification of most international instruments, implementation remains a challenge and there remains a need to strengthen the institutional capacity to implement the legal framework for giving effect to these instruments.

2.2 Peace and political stability

Peace and political stability are basic preconditions to nurture the formation and growth of sustainable enterprises. Following the end of its autocratic rule in 1997, Indonesia has suffered a great deal of political instability⁹. In recent years and with the solidification of democracy, political risk indicators have improved but remain poorer than in comparator countries (see below).¹⁰ Ethnic and religious conflicts, corruption and weak rule of law continue to pose risks to the country's stability.¹¹

Indonesia performs better in the category of civil liberties. The score of the World Bank's Voice and Accountability Index reflecting the extent to which country's citizens are able to participate in selecting their government. Similarly, on freedom of expression and freedom of association, Indonesia performs well in relation to Malaysia, Singapore and

⁸ ILO (2011), Business Environment for Young Entrepreneurs in Indonesia, ILO Jakarta.

⁹ ILO (2009). Promoting Democracy and Peace Through Social Dialogue: A Study of the Social Dialogue Institutions and Processes in Indonesia, Geneva.

¹⁰ Economist Intelligence Unit (2008). Country Profile 2008: Indonesia, London.

¹¹ IMF (2009). Indonesia: Selected Issues, IMF Country Report No. 09/231, Washington, D.C. <<http://www.imf.org/external/pubs/ft/scr/2009/cr09231.pdf>>

Philippines¹² and above the regional average in the Freedom House's Civil Liberties and Political Rights Index.

Key Indicators

Political stability and absence of violence/terrorism		2006	2008	2010
The likelihood that the government will be destabilized by unconstitutional or violent means, including terrorism. <u>Source:</u> World Bank, Governance Matters database ¹³	Indonesia	-1.37	-1.06	-0.89
	Malaysia	0.22	0.08	0.14
	Philippines	-1.56	-1.70	-1.56
	Singapore	1.21	1.32	1.12
	East Asia¹⁴	0.37	0.34	0.32
		Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.		
Political rights index		2007	2008	2011
The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government. <u>Source:</u> Freedom house, The Freedom in the World Survey ¹⁵	Indonesia	2	2	2
	Malaysia	4	4	4
	Philippines	3	4	3
	Singapore	5	5	5
	East Asia¹⁶	4	4	4
		Numerically, Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.		

¹² Economist Intelligence Unit (2008). Country Profile 2008: Indonesia, London.

¹³ <http://info.worldbank.org/governance/wgi/sc_country.asp>

¹⁴ Includes: American Samoa, Brunei, Cambodia, China, Cook Island, Fiji, Guam, Hong Kong, Indonesia, Kiribati, Korea North, Korea South, Laos, Macao, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Philippines, Reunion, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Vietnam.

¹⁵ <<http://www.freedomhouse.org/template.cfm?page=15>>

¹⁶ Includes Brunei, Cambodia, China, Fiji, Indonesia, Kiribati, Korea North, Korea South, Laos, Malaysia, Marshall Islands, Micronesia, Mongolia, Nauru, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Tonga, Tuvalu, Vanuatu, Vietnam.

Civil liberties index		2007	2008	2011
The Civil Liberties index measures freedom of expression, assembly, association, and religion. <u>Source:</u> Freedom house, The Freedom in the World Survey. ¹⁷	Indonesia	3	3	3
	Malaysia	4	4	4
	Philippines	3	3	3
	Singapore	4	4	4
	East Asia¹⁸	3	3	3
Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.				

2.3 Good governance

Poor governance, corruption and inefficient institutions can discourage entrepreneurship and hold back private-sector growth and development. Despite some improvement over the past decade, Indonesia fares poorly in international surveys of good governance. It lags behind regional peers, such as Singapore and Malaysia. This reflects the results of the annual evaluation of ministers' performance completed in July 2010 by the Presidential Delivery Unit (UKP4). The report found that one-quarter of the 45 cabinet ministers and heads of state institutions assessed were poor performers. Moreover a series of scandals has exposed the extent of corruption in the police force in Indonesia. Instances of bribery, intimidation and fabrication of evidence have all been documented in 2010 and 2011. Such practices continue to undermine the rule of law.¹⁹

Key Indicators

Control of Corruption		2006	2007	2010
The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. <u>Source:</u> World Bank, Governance Matters database. ²⁰	Indonesia	-0.78	-0.57	-0.72
	Malaysia	0.28	0.29	0.12
	Philippines	-0.80	-0.70	-0.82
	Singapore	2.22	2.25	2.18
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.				

¹⁷ <<http://www.freedomhouse.org/template.cfm?page=15>>

¹⁸ Includes: Brunei, Cambodia, China, Fiji, Indonesia, Kiribati, Korea North, Korea South, Laos, Malaysia, Marshall Islands, Micronesia, Mongolia, Nauru, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Tonga, Tuvalu, Vanuatu, Vietnam.

¹⁹ Economist Intelligence Unit (2010). Country Report, August 2010: Indonesia, London.

²⁰ <http://info.worldbank.org/governance/wgi/sc_country.asp>

Corruption perceptions index (CPI)		2007	2008	2009	2011
<p>The Transparency International CPI measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys.</p> <p>Source: Transparency International²¹</p>	Indonesia	2.3 (rank 143)	2.6 (rank 126)	2.8 (rank 111)	3.0 (rank 100)
	Malaysia	5.1 (rank 43)	5.1 (rank 47)	4.5 (rank 56)	4.3 (rank 60)
	Philippines	2.5 (rank 131)	2.3 (rank 141)	2.4 (rank 139)	2.6 (rank 129)
	Singapore	9.3 (rank 4)	9.2 (rank 4)	9.2 (rank 3)	9.2 (rank 5)
	East Asia & Pacific²²	4.2	4.2	4.3	4.0

The scores on a scale from zero (highly corrupt) to ten (highly clean).

Government effectiveness		2006	2007	2010
<p>The quality of public services, the capacity of the civil service and its independence from political pressures and the quality of policy formulation.</p> <p>Source: World Bank, Governance Matters database²³</p>	Indonesia	-0.25	-0.27	-0.20
	Malaysia	1.13	1.23	1.10
	Philippines	-0.53	-0.47	-0.21
	Singapore	2.14	2.33	2.25

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Voice and accountability		2006	2007	2010
<p>The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.</p> <p>Source: World Bank, Governance Matters database²⁴</p>	Indonesia	-0.14	-0.12	-0.06
	Malaysia	-0.50	-0.55	-0.53
	Philippines	-0.11	-0.14	-0.09
	Singapore	-0.40	-0.46	-0.29

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

A major problem for businesses operating in Indonesia is corruption. A ranking survey conducted by the Political and Economic Risk Consultancy (PERC) in 2010 placed Indonesia as the single most corrupt country in Asia-Pacific. Indonesia received a corruption score of 8.32, lower than Thailand (7.63), Cambodia (7.25), India (7.21),

²¹ <http://www.transparency.org/policy_research/surveys_indices/cpi/2008>

²² American Samoa; Australia; Brunei Darussalam; Cambodia; China; Fiji; French Polynesia; Guam; Hong Kong, China; Indonesia; Japan; Kiribati; Korea, Dem. Rep.; Korea, Rep.; Lao PDR; Macao, China; Malaysia; Marshall Islands; Micronesia, Fed. Sts.; Mongolia; Myanmar; New Caledonia; New Zealand; Northern Mariana Islands; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Thailand; Timor-Leste; Tonga; Vanuatu; Vietnam.

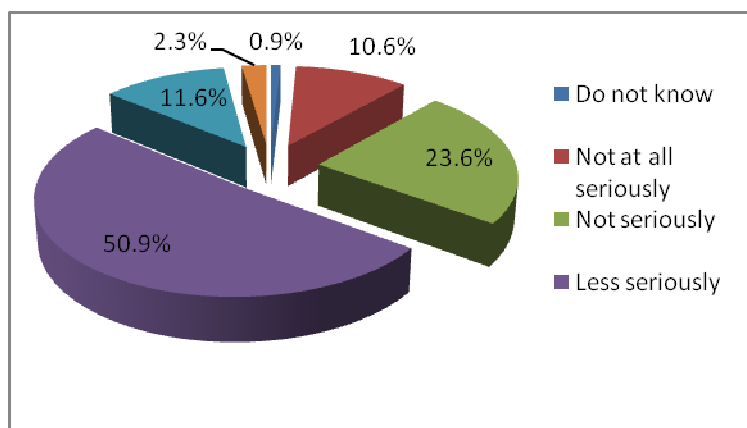
²³ <http://info.worldbank.org/governance/wgi/sc_country.asp>

²⁴ Ibid.

Vietnam (7.11), and the Philippines (7.0).²⁵ A Transparency International report from 2011²⁶ gave similar indications: Indonesia's corruption index was 3 on a Scale of 0 to 10, with 0-1 indicating the highest corruption level for a Country, and 9-10 indicating that the Country would be the most corruption-free. Indonesia's score and rank (100th out of 178 countries) has improved over recent years but still lags behind neighbouring countries and the South East Asia average. Transparency International also publish a "bribe payers' index" and in 2011 Indonesia ranked 25th out of 28 countries.

This situation was also reflected in the workers' survey. The majority of the workers had a negative view of the Government's role in the eradication of corruption. About 85.1 per cent of the respondents believed that the Government lacked commitment in dealing with corruption. Majority of the workers had a negative view of the Government's role in the eradication of corruption, As indicated in Figure 2, 85.1 per cent of the respondents believed that the Government lacked commitment in dealing with corruption. About 69 per cent of the workers believed that corruption had a major influence in holding back a company's operations. Further interviews with workers revealed that the Government's lack of commitment in handling corruption was derived from the sheer number of corruption cases that remained unsolved.

Figure 2: Perception of workers' on the Government's commitment to deal with corruption



Source: Survey on workers' perceptions, September 2011.

A subset of good governance is the extent to which business community has confidence in the rules of society, including the quality of contract enforcement and property rights, affects their readiness to make long-term investments. Indonesia's ability to provide adequate and equal protection for all citizens is weak, mainly due to corrupt judiciary and a lack of professionalism within the police force. Judicial processes tend to be slow and verdicts compromised by bribery.²⁷ Contract enforcement is problematic, and courts often discriminate against foreign investors. Moreover, many business people

²⁵ Nusantaraku, Memalukan..Indonesia Negara Terkorup Asia Pasifik, Nusantaraku: 9 Maret 2010. Available at <http://nusantaraneews.wordpress.com/2010/03/09/prestasi-terus-naik-indonesia-negara-terkorup-asia-2010/>

²⁶ Transparency International. 2011. Corruption Perception Index 2011. http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results. Downloaded on 2 November 2011.

²⁷ Economist Intelligence Unit (2008). Country Profile 2008: Indonesia, London.

perceive the courts as too expensive (especially in terms of time taken to resolve cases).²⁸ The legal framework for protecting property rights is also weak in Indonesia. The global ranking published in the Global Competitiveness Report 2009-2010 (World Economic Forum) places Indonesia 81st out of 133 economies in terms of protection of property rights and 67th in terms of intellectual property rights. Although Indonesia has expanded its international commitments and improved the legal framework, enforcement of these rights remains weak.²⁹

2.4 Social dialogue

Social dialogue plays a key role in achieving the objective of promoting opportunities for women and men to obtain decent and productive work in conditions of freedom, equality, security and human dignity. In Indonesia, relevant legislation and regulations have been put in place to provide a legal framework within which labour rights can be promoted, and enjoyed.³⁰ In practice, freedom of assembly is usually upheld, and peaceful protests are commonplace. However, authorities have restricted this right in conflict areas.³¹ Workers representation in Indonesia is complex and diverse. There are hundreds of trade union federations and thousands of independent unions at the provincial level. In contrast to the multiplicity of unions, there is only one employers' organization: the Indonesian Employers' Association (APINDO)³² (but a number of other business membership organizations). Despite the good policy and institutional framework, many problems and obstacles to effective social dialogue exist. According to data from the World Economic Forum, cooperation in labour-employer relations has deteriorated over recent years (see below). However, due to a lack of international data, a detailed assessment of social dialogue in Indonesia, as well as regional benchmarking is difficult. More data on trade union density, employers' organizations and their members in Indonesia are needed.

From the survey of workers' perceptions, majority of the respondents (54.2 per cent) understood that the national laws are created through a process of tripartite social dialogue in Indonesia. However, 25 per cent of the workers were not aware of any role of social dialogue. Many of the workers who did not know about the tripartite role happen not to be trade union members.

²⁸ OECD (2008). Economic Assessment of Indonesia 2008, OECD Economic Surveys, Paris.

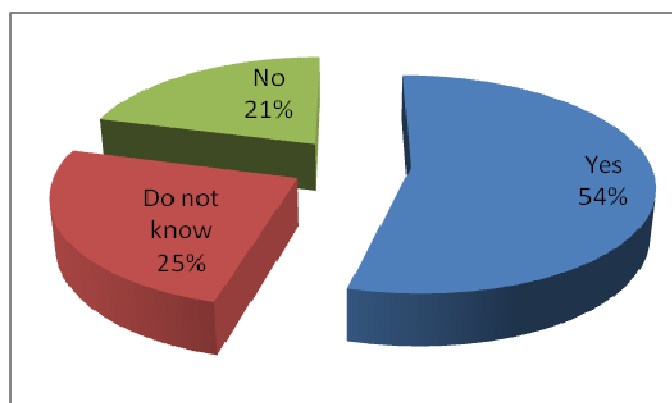
²⁹ WTO (2007). Trade Policy Review – Report by the Secretariat – Indonesia. Revision.

³⁰ ILO (2007). Indonesia: Decent Work Country Programme 2006-2010.

³¹ Freedom House (2009). Country Report – Indonesia <
<http://www.freedomhouse.org/template.cfm?page=15>>

³² ILO (2009). Promoting Democracy and Peace Through Social Dialogue: A Study of the Social Dialogue Institutions and Processes in Indonesia, Geneva.

Figure 3: Workers' knowledge on tripartite role



Source: Survey on workers' perceptions, September 2011.

At the company level, two-thirds of the respondents (67 per cent) believed that management had done enough to involve workers in company policy making. This positive view was influenced by the trade union's existence. Generally, in each case, before the company management made a new policy involving the workers, the management would consult with the trade union.

The survey showed that the trade union's role in the company was adequate. Over 70 per cent of the respondents believed that the trade union's role at the national and company level was adequate, but the union's role in the company was more highly appreciated. Based on interviews with some respondents, unions at the workplace had played a significant role in fighting for their members' rights with respect to, for example, wage increases and the handling of grievances and disputes.

Other useful indicators

Cooperation in labour-employer relations

The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: "Labour-employer relations in your country are 1 = generally confrontational to 7, generally cooperative"

Source: World Economic Forum Executive Opinion Survey³³

	2008	2009	2011
Indonesia	5.4	5.1	4.3
Malaysia	5.6	5.3	5.4
Philippines	4.5	4.4	4.5
Singapore	6.3	6.2	6.1
World (mean)	4.6	4.5	4.4
1 = generally confrontational, 7 = generally cooperative			

³³ <<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/PastReports/index.htm>>

2.5 Respect for universal human rights and international labour standards

Respect for Human Rights and International Labour Standards is an important condition for the completion of democracy and obtaining decent work. Indonesia has ratified all fundamental Conventions covered by the ILO's Declaration on Fundamental Principles and Right at Work (indeed, Indonesia was the first country in Asia to do so), as well as all the major Human Rights Conventions except for the International Convention on the Prevention and Punishment of the Crime of Genocide. The challenge is, therefore, about strengthening the institutional capacity to implement the related legal framework. However, a recent Human Rights Watch report criticizes the slow progress in implementing certain human rights in Indonesia.³⁴

The International Trade Union Confederation (ITUC) regularly flags concerns regarding the enabling environment for trade union activities. In its annual survey of trade union rights (2010), the ITUC called for the Government to support basic statutory rights of unions, including the right to strike, citing cases where the Government had ignored flagrant violations of law and where union officials had faced criminal charges for false charges raised by employers as a way to frustrate union representation.³⁵

The survey on workers' perceptions identified four main issues in relation to social dialogue and employment relations:

- Workers' knowledge on the International Labour Standards and tripartite dialogue
- Workers' perception of the Government's role in the application of International Labour Standards and workers' rights
- Workers' perception of the company's role in the application of International Labour Standards and workers' rights
- Workers' perception of the role of trade union.

At the outset, it should be noted that the term "International Labour Standards" was not familiar to many of the workers who participated in the survey. However, workers could easily relate to terms as "freedom of association" and "tripartism". Many workers also associated the term "decent wage" to mean minimum wages, rather the adequacy of the receivable wages.

Table 1 shows that the term "International Labour Standards" turned out to be unfamiliar for the majority of workers – trade union members and non-members alike.

³⁴ < <http://www.hrw.org/en/node/87395>>

³⁵ ITUC 2010 Annual Survey of violations of trade unions rights. < <http://survey.ituc-csi.org/+Indonesia+.html>>

Table 1: Workers' knowledge on the term of International Labour Standards

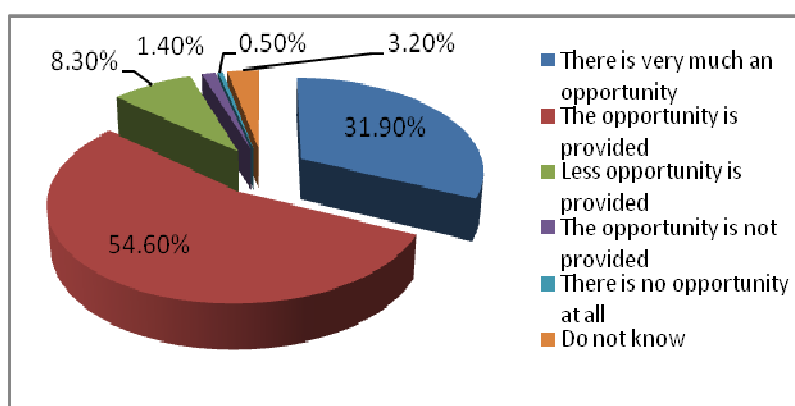
Trade Union Membership	Perception		Total
	Yes	No (Don't know)	
Trade Union Board Members	55 %	45 %	100 %
Trade Union Members	15.2 %	84.8 %	100 %
Trade Union Non-Members	0 %	100 %	100 %
Total	21.8 %	78.2 %	100 %

Source: Survey on workers' perceptions, September 2011.

Amongst workers who were unfamiliar with the term 84.8 per cent were trade union members. In fact, a large number (45 per cent) were senior trade unionists (board members). Nonetheless, based on in-depth interviews the survey ascertained that most of the workers were indeed aware of the substance and content of the International Labour Standards, such as freedom of association, tripartite negotiations, and non-discrimination.

Indeed, most workers believed that freedom of association had been in place since the adoption of Trade Union/Labour Union Law No. 21 of 2000 on. The majority of the workers (86 per cent) believed that the Government had given workers the opportunity to unionize.

Figure 4: Workers' perception of the Government's role in creating freedom of association

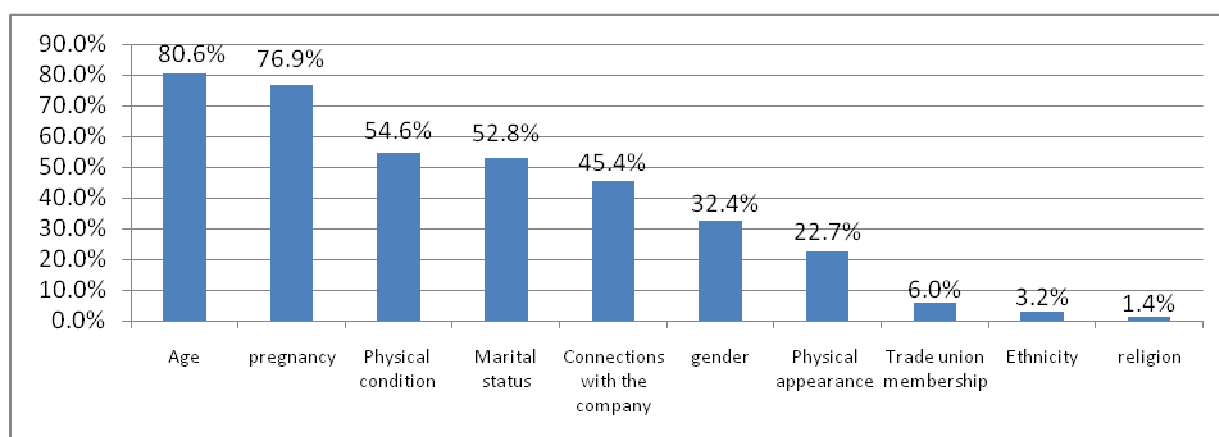


Source: Survey on workers' perceptions, September 2011.

While freedom of association had been perceived positively, it had not been fully realized in any substantial way since trade unions had not always been involved in labour policy making and the Government was perceived to lack fairness in treating trade unions compared to their treatment of employers particularly in dispute settlement. About 57.3 per cent of the workers believed that the Government lacked fairness in tripartite negotiations and 54.4 per cent (out of the 41.2 per cent of workers who knew the Government's role in settling disputes) believed that the Government acted unfairly in labour dispute settlement.

Figure 5 summarizes the perception of workers with respect to discrimination during recruitment. There exist high levels of discrimination based on age, pregnancy, physical condition, and marital status. A much smaller percentage of the workers perceived that discrimination existed in the recruitment of workers on the grounds of religion, ethnic group, and union membership.

Figure 5: Workers' perception of discrimination at the company



Source: Survey on workers' perceptions, September 2011.

In terms of gender equality at the company, there were differing perceptions among the workers from different sectors. Over 80 per cent of the workers in the electronics and automotive sector claimed that there was discrimination based on age and marital status. On the other hand, workers in the garment sector believed that the company made no discrimination based on age and marital status.

Key Indicators

Ratification of Human Rights Conventions

as of March 2011

It shows the status of human rights instrument - how many of human rights instruments have been ratified. It refers to ratification of following 7 conventions: Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, Convention on the Rights of the Child, International Convention on the Elimination of All Forms of Discrimination Against Women, International Convention on the Elimination of All Forms of Racial Discrimination, International convention on the Prevention and Punishment of the Crime of Genocide, International Covenant on Civil and Political Rights, International Covenant on Economic, Social and Cultural Rights.

Indonesia	6 ³⁷
Malaysia	3 ³⁸
Philippines	7
Singapore	3 ³⁹

Number of ratified Conventions out of 7

Source: UNDP³⁶

³⁶ <http://hdrstats.undp.org/indicators/indicators_table.cfm> and <<http://treaties.un.org/Pages/Treaties.aspx?id=4&subid=A&lang=en>>

³⁷ not ratified: International Convention on the Prevention and Punishment of the Crime of Genocide

Ratification of fundamental ILO conventions**as of 1 January 2012**

It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (Convention 87, 98), Elimination of forced and compulsory labour (29, 105), Elimination of discrimination in respect of employment and occupation (Convention 100, 111), Abolition of child labour (Convention 138, 182).

Source: ILO⁴⁰

Indonesia	8
Malaysia	5 ⁴¹
Philippines	8
Singapore	5 ⁴²

Number of ratified Conventions (out of 8)

Ratification of ILO governance conventions and conventions relevant for sustainable enterprises, as of 1 January 2012**Governance conventions****Conventions for sustainable enterprises**

The ILO's Governing Body has designated four conventions as "priority" instruments, thereby encouraging member states to ratify them because of their importance for the functioning of the International Labour Standards system. Since 2008, these conventions are now referred to as Governance conventions as they were identified by the ILO Declaration on Social Justice for a Fair Globalization as the standards that are the most significant from the viewpoint of governance. They are Labour Inspection Convention, 1947 (No. 81), Employment Policy Convention, 1964 (No. 122), Labour Inspection (Agriculture) Convention, 1969 (No. 129), and Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144). Similarly, the 2007 ILC discussions identified conventions that relate to the promotion of sustainable enterprises including Labour Inspection Convention, 1947 (No. 81); Labour Clauses (Public Contracts) Convention, 1949 (No. 94); Workers' Representatives Convention, 1971 (No. 135); and Maternity Protection Convention, 2000 (No. 183).

Source: ILO⁴³

Indonesia	C81, C144	None
Malaysia	C81, C144	C94
Philippines	C122, C144	C94
Singapore	C81, C144	C94

³⁸ Not ratified: International Convention on the Elimination of All Forms of Racial Discrimination; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.

³⁹ Ibid.

⁴⁰ <<http://www.ilo.org/ilolex/english/docs/declworld.htm>>

⁴¹ Not ratified: Convention No. 78 of Freedom of Association and Collective Bargaining; Convention No. 111 of Elimination of Discrimination in Respect of Employment and Occupation. Denied: Convention No. 105 of Elimination of Forced and Compulsory Labour.

⁴² Ibid.

⁴³ <<http://www.ilo.org/ilolex/english/docs/declworld.htm>>

3. Economic elements

3.1 Introduction

Despite Indonesia's relatively good macroeconomic performance over recent years, job creation has been modest and unemployment (and underemployment) remains a serious problem. Over recent years, there has been a gradual shift towards the service sector and economic liberalization, which has given rise to a fairly open economy with strong inflows of foreign direct investment (FDI). Indonesia managed to maintain relatively strong economic growth during the global crisis owing to its large domestic market (and relatively lower exposure to overseas markets).

Indonesia scores relatively poorly in many domestic and global assessments of the business enabling environment and this reflects concerns in terms of both aspects of the rule of law and security of property rights and in terms of "fair competition. With regard to the latter, the Government controls or heavily influences various markets. Overall, Indonesia's "e-readiness", including connectivity, remains weak compared to neighbouring countries. The financial sector in Indonesia is still relatively small and dominated by banks with a large presence of government ownership. Domestic credit to private sector as a percentage of GDP for Indonesia is low by regional comparison, and access to credit is particularly difficult for SMEs. Therefore many enterprises depend on finance from informal sources such as own savings, loans from individuals and family members. Regarding infrastructure, bottlenecks in energy and transport are the most pressing obstacles to business development.

3.2 Sound and stable macroeconomic policy and good management of the economy

The stability of the macroeconomic environment is important for business and, therefore, important for the overall competitiveness of a country. Indonesia is now a middle-income country and has made remarkable progress in macroeconomic stability since the 1997-98 financial crisis. In this context, strong household and government consumption along with prudent monetary policy helped to ease the economy out of recession and contributed to economic growth. Over the period of 2003-2007, Indonesia's gross domestic product grew at an average of 5.4 per cent.⁴⁴ This rate is similar to that of some regional peers and even exceeded in 2008 the growth rate of Malaysia, Philippines, and Singapore. The global financial crisis put a brake on the growth performance but Indonesian growth was less affected than growth in neighbouring countries (as the table below shows). The industry sector is the largest contributor to GDP in Indonesia, but the service sector has expanded rapidly in recent years. Although the share of agriculture in GDP is declining, it remains an important employer.⁴⁵ Indonesia's inflation over the past 5 years has averaged 9 percent (but with relatively high volatility). It has increased several

⁴⁴ OECD (2008). *Economic Assessment of Indonesia 2008*, OECD Economic Surveys, Paris. IMF (2009). *Indonesia: Selected Issues*, IMF Country Report No. 09/231, Washington, D.C. <<http://www.imf.org/external/pubs/ft/scr/2009/cr09231.pdf>>

⁴⁵ Economist Intelligence Unit (2008). *Country Profile 2008: Indonesia*, London.

times, owing to exchange rate instability, fuel and food price increases.⁴⁶ Despite Indonesia's relatively good macroeconomic performance, job creation has been modest and unemployment remains a serious problem. In 2007, estimated 9.1 per cent of the workforce was unemployed and the labour force participation rate amounted to 70.3 in 2009 which is higher than Malaysia or the Philippines.⁴⁷

Figure 6: Rate of GDP growth

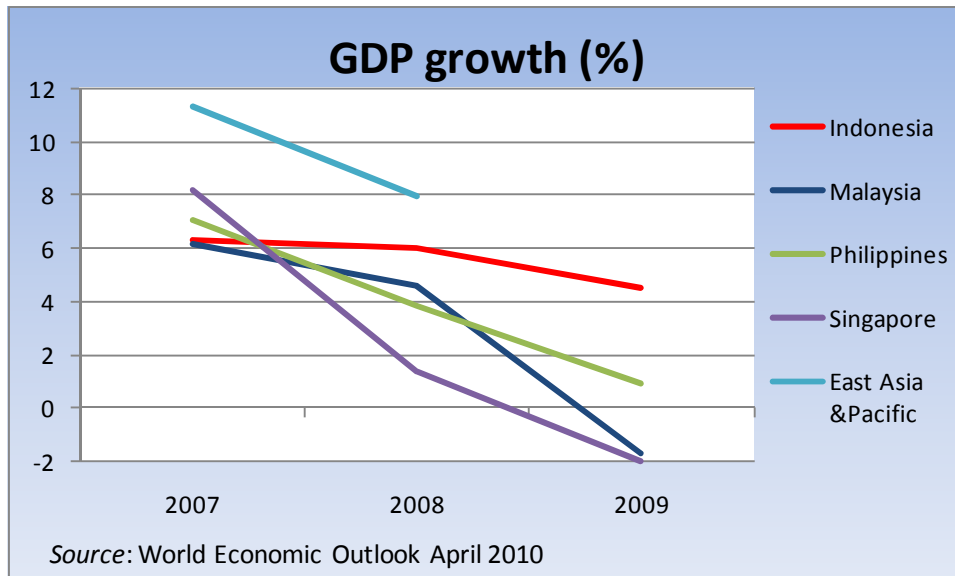
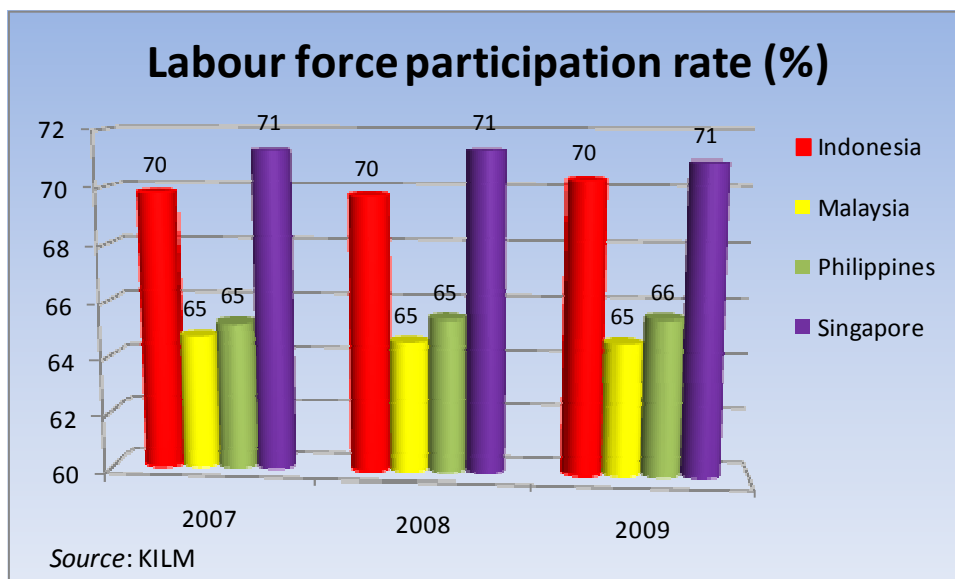


Figure 7: Labour force participation rate

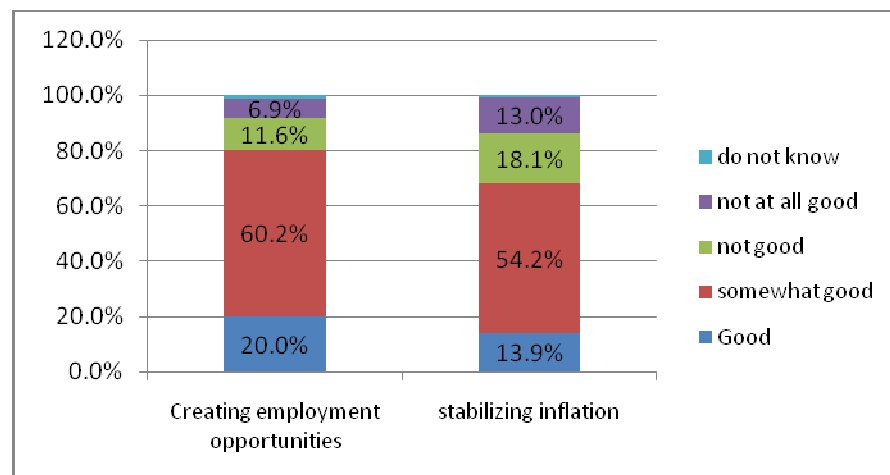


⁴⁶ IMF (2009). Indonesia: Selected Issues, IMF Country Report No. 09/231, Washington, D.C. <<http://www.imf.org/external/pubs/ft/scr/2009/cr09231.pdf>>

⁴⁷ OECD (2008). Economic Assessment of Indonesia 2008, OECD Economic Surveys, Paris.

In general, the respondents in the workers' survey had a negative perception of the Government's performance and capacity in ensuring public welfare. With regard to creating jobs and guarding against inflation, the survey showed that over 70 per cent of the respondents believed that the Government had not succeeded in creating jobs and keeping the prices of staple goods to satisfy basic necessities of life in check. The Government's role in maintaining staple goods stability was perceived to be poor by 85.3 per cent of the workers.

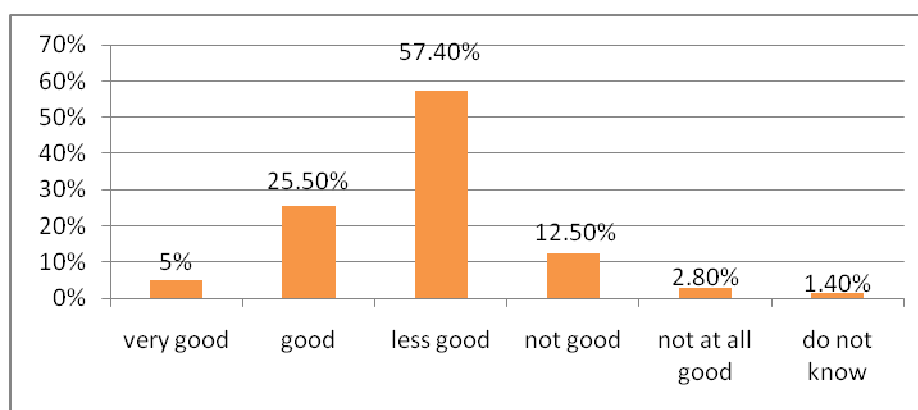
Figure 8: Workers' perception of the Government's role in job creation



Source: Survey on workers' perceptions, September 2011.

With the understanding that decent wage means minimum wage, more than half of the workers surveyed (57.4 per cent) believed that the Government did a poor job in applying decent wage. This perception was based on their assumption that decent wage is similar to the sectoral provincial minimum wage (UMSP).

Figure 9: Workers' perception of the Government's policies in determining decent wage



Source: Survey on workers' perceptions, September 2011.

Further interviews with workers employed for over ten years revealed that the sectoral provincial minimum wage (UMSP) they received every month would not be enough to cover their and their families' necessities of life, largely due to the high cost of living in Jakarta,. AKATIGA's survey on the wages of textile and garment workers in

Indonesia had the same finding: that the Minimum Wage set by the Government was only enough to cover 62.4 per cent of the workers' average actual expenses.⁴⁸

3.3 Trade and sustainable economic integration

Trade, market integration and global value chains are important to the growth of sustainable enterprises. Indonesia went through a period of economic liberalization, including a reduction in trade protection in the mid-1980s. Now the country is considered as a fairly open economy. However, Indonesia's actual openness, measured as the ratio of imports and exports to GDP, is much lower than in Malaysia, Philippines, and Singapore.⁴⁹ Likewise, the Enabling Trade Index (ETI) by the World Economic Forum ranks Indonesia behind Malaysia and Singapore in terms of facilitating the free flow of trade. This may reflect numerous non-tariff barriers which are mainly related to agricultural products, motor vehicles, electronic components and textiles.⁵⁰ Indonesia's exports are dominated by oil, gas, coal, and palm oil. Main destination markets are Japan, Singapore, China, the European Union, and the United States.⁵¹ The country is heavily dependent on imports, mainly intermediate and capital goods. Indonesia's imports are mostly obtained from the same sources as exports, as well as from Saudi Arabia and Australia.⁵² Inflows of foreign direct investment (FDI) to Indonesia have been growing since 2005 but the share of FDI in GDP (1.8 in 2008) remains low compared with Malaysia (3.3), Singapore (12.5) and the average level of East Asia and Pacific (3.3).

Key Indicators

Trade (% of GDP)		2006	2007	2008
Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and +∞. Please note that the trade-to-GDP ratio refers to <u>the sum of the imports and exports</u> and could therefore exceed 100%. Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators CD-ROM)	Indonesia	56.66	54.85	58.39
	Malaysia	211.23	200.08	..
	Philippines	95.24	84.80	75.56
	Singapore	456.65	428.66	449.61
	East Asia & Pacific	87.61	88.58	63.99
	Trade share (%) in GDP.			

⁴⁸ Tjandraningsih and Herawati, *Op. cit.*, p.22.

⁴⁹ OECD (2008). Economic Assessment of Indonesia 2008, OECD Economic Surveys, Paris. IMF (2009). Indonesia: Selected Issues, IMF Country Report No. 09/231, Washington, D.C. <<http://www.imf.org/external/pubs/ft/scr/2009/cr09231.pdf>>

⁵⁰ World Bank (2008). Indonesia: Trade Brief <<http://info.worldbank.org/etools/wti2008/docs/brief87.pdf>>

⁵¹ Economist Intelligence Unit (2008). Country Profile 2008: Indonesia, London.

⁵² World Bank (2008). Indonesia: Trade Brief <<http://info.worldbank.org/etools/wti2008/docs/brief87.pdf>>

Enabling Trade Index (ETI)

The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destination. The index breaks the enablers into four overall issue areas: (1) market access, (2) border administration, (3) transport and communications infrastructure and (4) the business environment. Enabling Trade Index was published in 2008 and 2009

Source: World Economic Forum⁵³

	2007 (Report 2008)	2008 (Report 2009)	2009 (Report 2010)
Indonesia	4.27 (rank 47)	3.82 (rank 62)	3.97 (rank 68)
Malaysia	4.75 (rank 29)	4.70 (rank 28)	4.71 (rank 30)
Philippines	3.57 (rank 82)	3.62 (rank 82)	3.72 (rank 92)
Singapore	5.71 (rank 2)	5.97 (rank 1)	6.06 (rank 1)

On a scale from 1 to 7, a high score in the overall ETI indicates that a country is relatively successful at enabling the free flow of trade

FDI net inflow (% GDP)

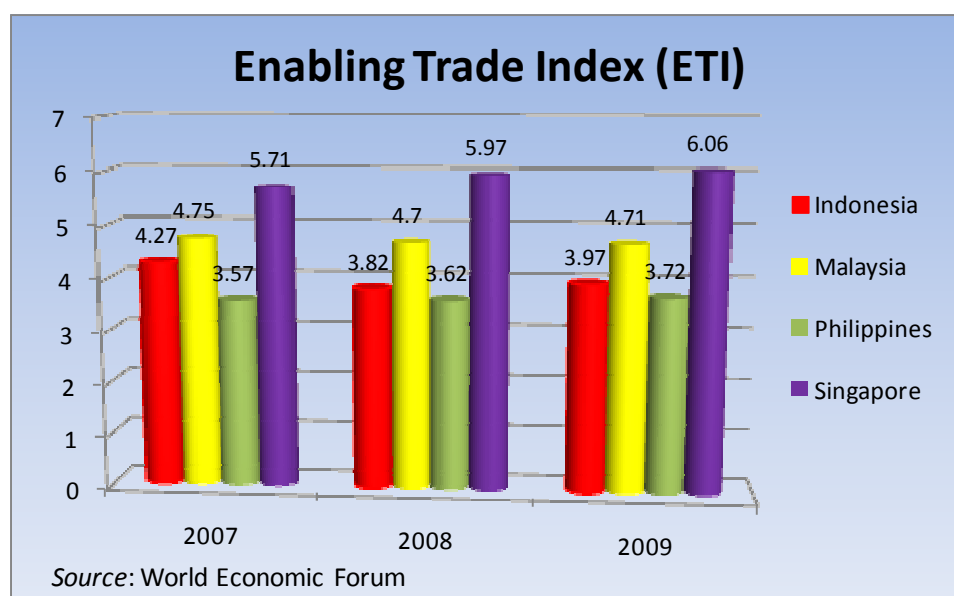
Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP.

Source: World Development Indicators & Global Development Finance April 2010⁵⁴

	2006	2007	2008
Indonesia	1.3	1.6	1.8
Malaysia	3.9	4.5	3.3
Philippines	2.5	2.0	0.8
Singapore	19.9	18.9	12.5
East Asia & Pacific	2.9	3.9	3.3

FDI net inflow (percentage in GDP)

Figure 10: Enabling trade index



⁵³ <<http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm>>

⁵⁴ <http://databank.worldbank.org/ddp/home.do?Step=1&id=4>

3.4 Enabling legal and regulatory environment

The business environment in Indonesia poses a number of challenges, the most common and generic of which are highlighted in the various studies shown below.

Table 2: Studies of the enabling environment

Survey / Institute	Methodology	Key findings for Indonesia
Doing Business (World Bank/IFC 2009)	Ease of doing business index ranks economies from 1 to 183, with first place being the best. A high ranking means that the regulatory environment is conducive to business operation. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. <u>Source:</u> World Bank, Doing Business project	Indonesia scores poorly on starting a business; getting electricity; getting credit; paying taxes; enforcing contracts; and resolving insolvency but better on the four other topics: dealing with construction permits; registering property; protecting investors; and trading across borders. See table below for a comparison with neighbouring countries.
Enterprise Surveys (World Bank/IFC 2009)	Firm-level surveys of a representative sample of small, medium and large enterprises. A broad range of business environment topics including (a) access to finance, (b) corruption, (c) infrastructure, (d) crime, (e) competition, and (f) performance measures are covered. The standard survey design allows for comparisons across countries and regions.	The Enterprise Survey for Indonesia identified access to finance, political stability and infrastructure among the main obstacles to doing business as perceived by the private sector. These obstacles are particularly identified by small enterprises, while bigger enterprises also pointed to poor labour regulations and infrastructure.
GEDI Global Entrepreneurship and Development Institute (Acs, Z.; Szerb, L. 2011)	The Global Entrepreneurship and Development Index (GEDI) offers a measure of the quality and scale of the entrepreneurship process in 71 countries. The index is composed around three pillars: entrepreneurial attitudes, activity and aspirations. GEDI consists of individual (survey-based) and institutional variables.	GEDI 2011 ranked Indonesia 46 th (out of 71 countries), indicating that entrepreneurial spirit and attitudes still need to be enhanced. In particular, entrepreneurial attitudes were identified as particularly weak (among the lowest of all countries included in the study).
Regional Autonomy Watch (The Asia Foundation 2010)	The Regional Autonomy Watch (KPPOD) conducts Local Economic Governance Surveys that focus on the implementation of regional autonomy in Indonesia since 2001. KPPOD aims at stimulating competition among local governments by ranking districts and provinces according to the local business environment and local governance.	Local Economic Governance surveys currently cover 267 districts and cities across 19 provinces in Indonesia. They indicate that business owners perceive improvement of infrastructure as the most important dimension to bolster regional business climate. In addition, business development programs – in particular for Micro, Small and Medium Enterprises (MSMEs) – are a priority of respondents.
Business Climate Survey (GTZ 2007)	GTZ has been supporting stakeholders in conducting and publishing enterprise surveys covering Central Java on a bi-annual basis since 2003, evaluating the business performance and the business environment.	The GTZ business climate survey for Central Java stresses that most dynamic sectors are hampered by regulatory weaknesses. Furthermore, the performance of private sector associations is rated as unsatisfying.
Global Competitiveness Report 2011/12 (World Economic Forum 2011)	Assessment of the business operating environment and competitiveness of 142 economies worldwide. The report series identify advantages as well as impediments to national growth based largely on an analysis of secondary datasets and an opinion survey of senior executives in large companies.	In line with other studies mentioned above, the World Economic Forum report identified inefficient government services, low quality of infrastructure, inadequate access to financing, political instability and restrictive labour regulation as the most problematic factors. Indonesia's overall ranking in the latest report is 46/142. A country snapshot is shown below.

Ease of Doing Business Rank	2007 (DB 2008 report)	2008 (DB 2009 report)	2009 (DB 2010 report) + (rank without "employing workers")	2010 (DB 2011 report)	2011 (DB 2012 report)
Indonesia	123	129	122 (113)	126	129
Malaysia	24	20	23 (29)	23	18
Philippines	133	140	144 (145)	134	136
Singapore	1	1	1 (1)	1	1
The index ranks economies from 1 to 183, with first place being the best					

Box 1: Global Competitiveness Report 2011/12: Indonesia Snapshot

Indonesia drops two places this year to 46th, following an impressive improvement of 11 places over the past two years. Indonesia remains one of the best-performing countries within the developing Asia region, behind Malaysia and China yet ahead of India, Vietnam, and the Philippines. The macroeconomic environment (23rd, up 12 places) continues to improve despite rising fears of inflation. Sound fiscal management has brought the budget deficit and public debt down to very low levels, attributes that contribute to further upgrading the country's credit rating and to raising the country's ranking on the macroeconomic environment pillar to 23rd this year (up from 89th in 2007). The situation is also improving, albeit from a much lower base, in the area of physical infrastructure (76th, up six places), yet the quality of port facilities remains alarming and shows no sign of progress (103rd, down seven places, with a score of 3.6) and the electricity supply continues to be unreliable and scarce (98th). The assessment of public institutions continues to deteriorate, with a 10-place drop in the related pillar (71st), even though Indonesia does relatively well on selected components. Despite efforts to tackle the issue, corruption and bribery remain pervasive and are singled out by business executives as the most problematic factor for doing business in the country. Security, or the lack thereof, is again becoming a concern, and the business community assessed this indicator at levels similar to those seen in 2005 (91st). Because it is now close to entering the efficiency-driven stage of development, according to the GCI classification, Indonesia's competitiveness increasingly depends on more complex elements, such as market efficiency. Addressing the many rigidities (120th) and inefficiencies of the labour market (94th) would ensure a more efficient allocation of labour. Additional productivity gains could be reaped by boosting technological readiness (94th), which remains very low, with slow and scant adoption of ICT by businesses and the population at large.

See www.weforum.org/issues/global-competitiveness

3.5 Rule of law and secure property rights

The extent, to which the business community has confidence in the rules of society, including the quality of contract enforcement and property rights, affects their readiness to make long-term investments. Indonesia's ability to provide adequate and equal protection for all citizens is weak, mainly due to corrupt judiciary and a lack of professionalism within the police force. Judicial processes tend to be slow and verdicts compromised by bribery.⁵⁵ Contract enforcement is problematic, and courts often discriminate against foreign investors. Moreover, many business people perceive courts as too expensive.⁵⁶ The World Bank confirms that Indonesia's ability to ensure rule of law (-0.66 in 2008) is low

⁵⁵ Economist Intelligence Unit (2008). Country Profile 2008: Indonesia, London.

⁵⁶ OECD (2008). Economic Assessment of Indonesia 2008, OECD Economic Surveys, Paris.

compared with Malaysia (0.49), Philippines (-0.49), Singapore (1.73) and East Asia average (0.09). The legal framework for protecting property rights is also weak in Indonesia. The global ranking published in the Global Competitiveness Report 2009-2010 (World Economic Forum) places Indonesia 81st out of 133 economies in terms of protection of property rights and 67th in terms of intellectual property rights. Although Indonesia has expanded its international commitments and improved the legal framework, enforcement of these rights remains weak.⁵⁷

3.6 Fair competition

Fair competition in the marketplace is likely to produce a range of efficiencies in the provision of goods and services, lower costs, reduced price distortions and wider consumer choice. In Indonesia, the concept of fair competition is covered by the Law Number 5 that prohibits monopolistic practices and unfair business competition. The Commission for Supervision of Business Competition (KPPU) is responsible for enforcing the law.⁵⁸ Since the enactment in 1999, significant progress has been made in improving competition in the economy.⁵⁹ According to the Global Competitiveness Report 2009-2010, Indonesia's scores for intensity of local competition, effectiveness of anti-monopoly policies and extent of market dominance are similar to its regional peers. The Indonesian Government owns the majority of large firms in several sectors, including production and distribution of electricity, gas, water and postal services. It is also involved in telecommunications and insurance. There is considerable room for making Indonesia's regulatory framework in product markets more pro-competition.⁶⁰

3.7 Information and communication technologies

The continuing shift towards knowledge-based economies and the accelerated growth in the technological sphere has led to increased pressures on enterprises to upgrade their production technologies and adopt ICT innovations to enhance their competitiveness.⁶¹ Nevertheless, the manufacturing and retail sectors have been slow to adopt IT systems, largely because high unemployment rates and low wages make additional manpower a cheap alternative to increasing the productivity of current workers through IT.⁶² The telecommunications sector has been one of Indonesia's fastest growing in recent years, partly due to deregulation and liberalization of the legal framework since 2000. As result, telecoms infrastructure and service provision have improved. However, the mobile-phone

⁵⁷ WTO (2007). Trade Policy Review - Report by the Secretariat - Indonesia – Revision.

⁵⁸ World Bank, Competition Law Database - Indonesia.
<<http://go.worldbank.org/NIZU8LZCI1>>; UNCTAD (2009). Voluntary peer review of competition law and policy: Indonesia, New York, Geneva
<http://www.unctad.org/en/docs/ditccpl20091overview_en.pdf>

⁵⁹ WTO (2007). Trade Policy Review - Report by the Secretariat - Indonesia – Revision.

⁶⁰ OECD (2008). Economic Assessment of Indonesia 2008, OECD Economic Surveys, Paris.

⁶¹ Economist Intelligence Unit (2009). Industry Report, Telecoms and technology: Indonesia, London; WTO (2007). Trade Policy Review - Report by the Secretariat - Indonesia – Revision.

⁶² Economist Intelligence Unit (2010). Industry Report, Telecoms and technology: Indonesia, London, March 2010.

and Internet penetration rates remain low compared with the regional average. This is also reflected in the ICT Development Index by the International Telecommunication Union. The score for Indonesia (2.46 in 2008) shows a weak performance in terms of ICT access, use and skills compared with Malaysia (3.96), Philippines (2.87), Singapore (6.95) and South-Eastern Asia average (3.07),⁶³ notwithstanding notable improvements over the past three years. In 2008, Indonesia had approximately 74.90 fixed line and mobile phone subscribers per 100 people, with mobile telephony exceeding the number of fixed lines. The number of Internet users was estimated at 8.70 per 100 people in 2009. However, the exact number is difficult to estimate but probably much higher than this because many of the users gain access to the Internet via telephone kiosks. Overall, Indonesia's e-readiness including connectivity remain weak compared to the region but high in terms of its level of income.⁶⁴ The ILO survey on Young Entrepreneurs showed that nearly 80 per cent of all respondents use neither a computer nor the internet in their daily business operations.⁶⁵

Key Indicators

ICT Development Index (IDI)	2002	2007	2008
IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007 (159 countries in 2008). The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer, the number of Internet users; and literacy levels.			
Indonesia	1.54	2.15	2.46
Malaysia	2.74	3.66	3.96
Philippines	2.07	2.61	2.87
Singapore	4.83	6.47	6.95
South-Eastern Asia⁶⁷	2.20	3.07	..

Source: International Telecommunication Union.⁶⁶

Scale from 1 to 10, with lower scores reflecting lower development levels.

⁶³ 2007.

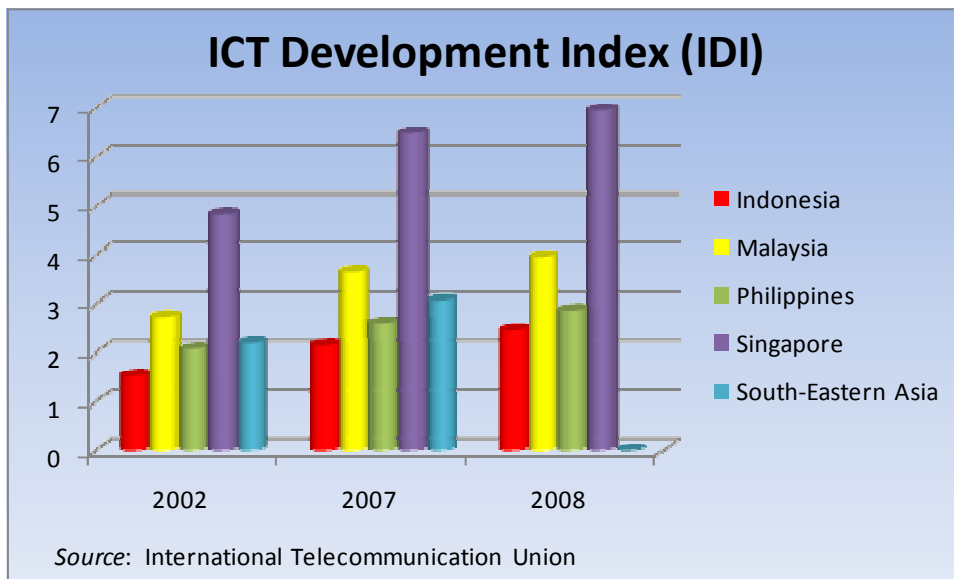
⁶⁴ Economist Intelligence Unit (2009). Industry Report, Telecoms and technology: Indonesia, London.

⁶⁵ ILO (2011), Business Environment for Young Entrepreneurs in Indonesia, ILO Jakarta.

⁶⁶ <http://www.itu.int/ITU-D/ict/publications/idi/2009/material/IDI2009_w5.pdf>

⁶⁷ Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

Figure 11: ICT Development Index



3.8 Access to financial services

Whether to create a new business or to expand existing one, entrepreneurs of all sizes and types need financial resources to stay competitive and to grow. The financial sector in Indonesia is relatively small, accounting for just 1.4 per cent of employment and 4.9 per cent of GDP.⁶⁸ The sector is dominated by banks, accounting for 80 per cent of financial assets and state-owned banks have a large presence.⁶⁹ The reason for this is that after the 1997-98 Asian financial crisis the Government, itself struggling with mounting public debt, responded to bank failures with large bail-outs and by taking over some banks. Thus, the Government took control of almost the entire banking sector. Since the 1997-98 financial crisis, the financial sector has gone through major restructuring. Government efforts to return banks to private ownership and market-oriented activities have been relatively successful, although the Government has retained control of a number of large banks.⁷⁰

Despite some improvements and a robust credit growth over the last few years, domestic credit to the private sector as a percentage of GDP for Indonesia is lower than in regional comparator countries, such as Malaysia and Singapore where credit accounts for more than 100 per cent of GDP. Access to credit is particularly difficult for SMEs, especially those operating in the informal economy and for enterprises located in rural areas. Therefore many enterprises depend on finance from informal sources such as own

⁶⁸ Economist Intelligence Unit (2009). Industry Report – Financial services – Indonesia, London.

⁶⁹ WTO (2007). Trade Policy Review – Report by the Secretariat – Indonesia. Revision.

⁷⁰ Economist Intelligence Unit (2010). Industry Report: Financial services, March 2010.

savings, loans from individuals and family members.⁷¹ The OECD states in a recent report on Indonesia that non-bank credit to enterprises, especially through fixed-income and equity markets, is also limited in the country.⁷² However, the credit information index measuring availability and quality of credit information ranks Indonesia relatively high which is comparable with other countries in the region, such as Singapore and Malaysia. Nonetheless, SMEs and enterprises in rural areas continue to face problems with credit information.⁷³ There is a clear need for reforms in terms of credit information and allocation to SMEs.

3.9 Physical infrastructure

Enterprise sustainability critically depends on the quality and quantity of the physical infrastructure. Indonesia has some of the weakest infrastructure development indicators in Southeast Asia. Infrastructure development has been neglected since the 1997-1998 Asian financial crisis. According to a recent Global Competitiveness Report, the overall quality of Indonesia's infrastructure was ranked 96th and the quality of port infrastructure 95th out of the 133 countries surveyed. Moreover, bottlenecks in energy and transport are the most pressing infrastructure-related obstacles to business development. In 2005 only 55 per cent of roads were asphalt-covered, compared with 77 per cent in Malaysia and 100 per cent in Singapore. Ports are often inefficient, imposing additional time and costs on transport of goods. While the main airports function well, increased transport demand is putting pressure on capacity at medium-sized and small airports. The likelihood of energy shortages has increased in recent years. Access to clean water is also low compared to Malaysia, Philippines, Singapore and the average level of East Asia and Pacific. It is estimated that about 80 per cent of the population is connected to improved water sources. Efforts are under way to encourage private-sector involvement in infrastructure development and to improve the regulatory framework.⁷⁴

The survey on workers' perception also tried to gauge the views of respondents on the quality of infrastructure in the company's surrounding area. Around 80 per cent of the respondents perceived the physical infrastructure (water, roads and bridges, electricity, and information and communication technology) in the company's surrounding to be of good quality, especially electricity and information and communication technology.

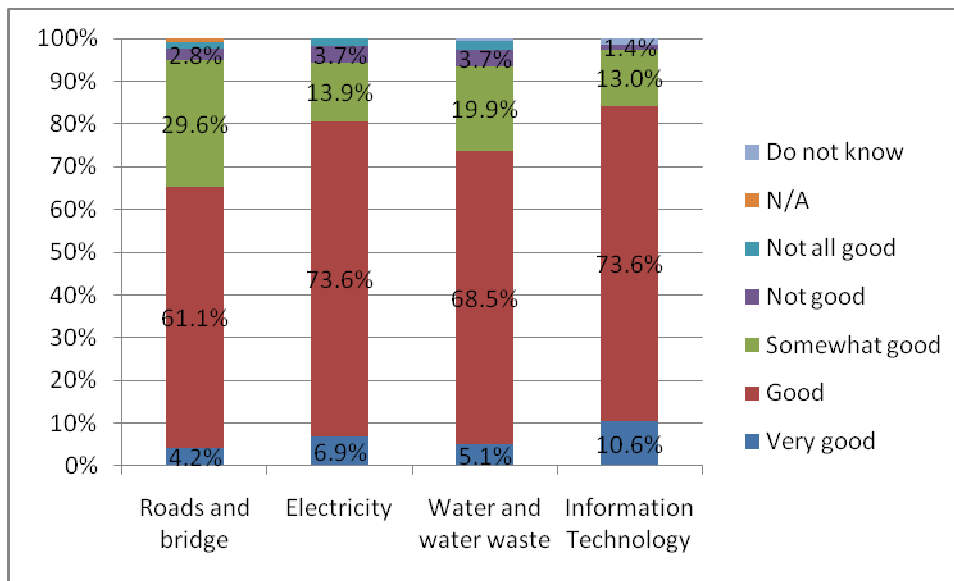
⁷¹ Asian Productivity Organization (2007). *Entrepreneurship Development for Competitive Small and Medium Enterprises*, Tokyo.

⁷² OECD (2008). *Economic Assessment of Indonesia 2008*, OECD Economic Surveys, Paris.

⁷³ Asian Productivity Organization (2007). *Entrepreneurship Development for Competitive Small and Medium Enterprises*, Tokyo.

⁷⁴ OECD (2008). *Economic Assessment of Indonesia 2008*, OECD Economic Surveys, Paris; Economist Intelligence Unit (2008). *Country Profile 2008: Indonesia*, London; WTO (2007). *Trade Policy Review – Report by the Secretariat – Indonesia*. Revision.

Figure 12: Workers' perception of infrastructure quality around the company



Source: Survey on workers' perceptions, September 2011.

However, these findings probably reflect the generally good infrastructure in the areas surveyed. More generally, Indonesia has some of the weakest infrastructure development indicators in Southeast Asia.

A major problem for businesses operating in Indonesia is corruption. A ranking survey conducted by the Political and Economic Risk Consultancy (PERC) in 2010 placed Indonesia as the single most corrupt country in Asia-Pacific. Indonesia received a corruption score of 8.32, lower than Thailand (7.63), Cambodia (7.25), India (7.21), Vietnam (7.11), and the Philippines (7.0).⁷⁵ A Transparency International report from 2011⁷⁶ gave similar indications: Indonesia's corruption index was 3 on a Scale of 0 to 10, with 0-1 indicating the highest corruption level for a Country, and 9-10 indicating that the Country would be the most corruption-free. Indonesia's score and rank (100th out of 178 countries) has improved over recent years but still lags behind neighbouring countries and the South East Asia average. Transparency International also publish a "bribe payers' index" and in 2011 Indonesia ranked 25th out of 28 countries.

⁷⁵ Nusantaraku, Memalukan. Indonesia Negara Terkorup Asia Pasifik, Nusantaraku: 9 Maret 2010. Available at <http://nusantaranews.wordpress.com/2010/03/09/prestasi-terus-naik-indonesia-negara-terkorup-asia-2010/>

⁷⁶ Transparency International. 2011. Corruption Perception Index 2011. http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results. Downloaded on 2 November 2011.

4. Social elements

4.1 Introduction

Indonesia is a complex society with many success stories and an even greater number of challenges. The country is well known for its cultural and religious plurality. Indonesia is the world's largest Muslim majority country with generally moderate form of Islam that supports democracy and outward-looking modern society.

Privately-owned enterprises and in particular small and medium-sized enterprises (SME) play an important role in Indonesia's economy. Productivity in SMEs is said to have increase more substantially than in larger firms. SMEs also tend to weather the financial crisis more resiliently.

With regard to education, Indonesia's basic indicators of educational attainment have improved but remain low by regional comparison. This low educational attainment is associated with a lack of investment in education. Consistent with comparatively low educational attainment, the human capital embodied in the labour force is also low and the lack of specific skills in the workforce is highlighted by various surveys.

The level of extreme poverty (earning less than 1 USD a day) in Indonesia is relatively low (7.4 per cent). However, income poverty has been consistently higher in rural than in urban areas. The high level of unemployment is an area of concern, since it can lead to socio-economic exclusion.

When comparing unemployment rates by gender, the female unemployment rate stays higher than men's one. Likewise, the rate of economic activity among women remains low in Indonesia compared with the average level of East Asia and Pacific, although it is higher than in Singapore and Malaysia, according to the UNDP. Nevertheless, the Gender Empowerment Measure (GEM) – measuring gender inequality in economic and political participation and power over economic resources – represents a slight increase for Indonesia over time.

In terms of social protection, Indonesia has a number of formal, government financed safety-nets; however it lacks a structured and coherent social protection system. Even though a mandatory social insurance fund (Jamsostek) is in place, the majority of workers are not covered because they have informal-sector jobs, where the scheme is not binding.

The social issues that may require urgent attention include: lack of public investment in education and consequent lack of specific skills in the workforce; lack of a structured and coherent social protection system and prevalence of informal-sector jobs without social insurance.

4.2 Entrepreneurial culture

Promoting an entrepreneurial culture is primarily making people aware of the potential of business as an alternative to traditional employment in government and the private sector. Privately-owned enterprises and in particular small and medium-sized enterprises (SME) play an important role in Indonesia's economy. They have been a powerful engine in the social and economic development. SMEs account for more than 90 per cent of all firms outside the agricultural sector and provide a livelihood for over 90 per cent of the country's workforce, especially women and young people. Many enterprises in rural areas play an important role in the development of local economies and communities.

All this indicates that entrepreneurial talents are widely recognized in Indonesia. However, many of the enterprises are born out of necessity and work with low levels of productivity. Indonesia has developed a unique clustering strategy to provide entrepreneurs with training, facilities and subsidies but productivity of many SMEs remains low.⁷⁷ According to the World Bank, the number of newly registered firms to total working age in Indonesia has slightly increased between 2003 and 2007 but is lower than in Malaysia, Philippine and Singapore. This might reflect Indonesia's poor business environment, which is likely to discourage enterprise start-ups.⁷⁸ Overall, enterprises play an important role in Indonesia but more data is needed to fully assess the attitude towards entrepreneurship.

Box 2: Characteristics of young entrepreneurs in Indonesia

An ILO survey of youth entrepreneurs (YEs) found that 70 per cent of the sampled entrepreneurs were led towards entrepreneurship by intrinsic rather than extrinsic motivations. Being independent and earning more money were more or less balanced as reasons for intrinsic motivation. In fact the main motivations for starting a business were to be independent and to earn more (for 70 per cent of the YEs). A small percentage of YEs started their businesses because their families wanted them to become entrepreneurs or because they did not have a job but needed to earn some income. There were no gender differences but some age differences: the 15-19 age group showed a slightly lower level of intrinsic motivation than in the older groups, meaning that the youngest group was still quite influenced by external factors.

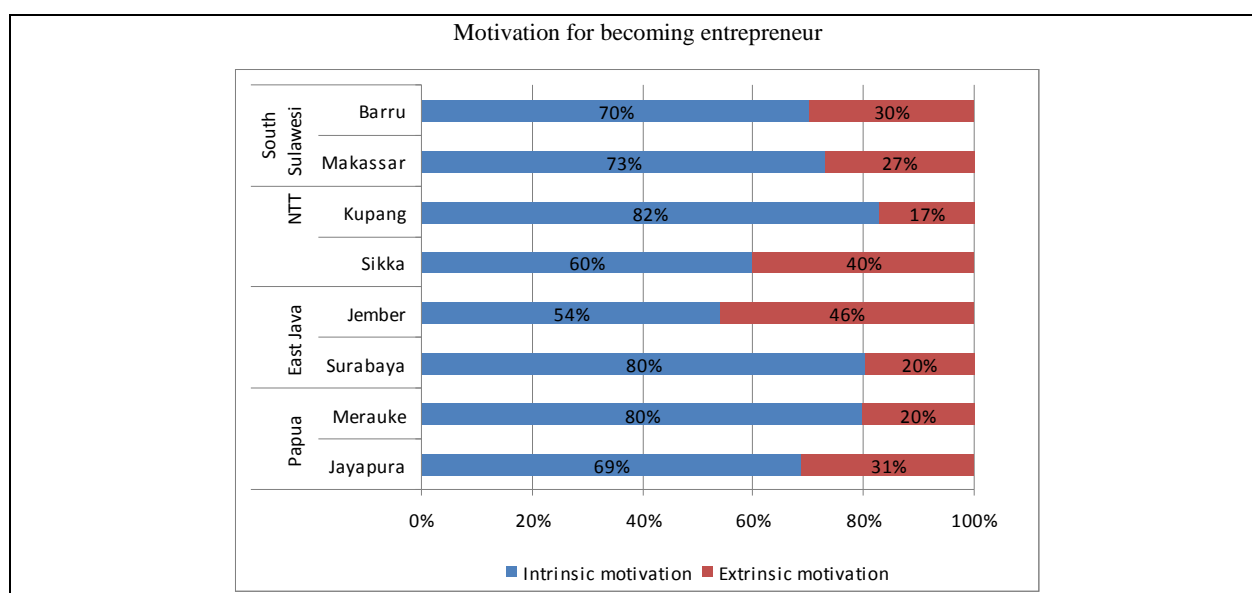
The survey also indicated that YEs definitely value their occupation – on average, 76 per cent of respondents gave their own occupation the highest ranking (with regional disparities) when presented with a list of ten different occupations against which to rank on a preference scale, followed by government employee, director of a big company and lecturer/teacher. However younger groups valued their profession slightly less than older groups.

Interestingly, religious leaders were the most respected role models for YEs, followed by philosophers and then professional athletes and artists. Politicians and entrepreneurs were relegated to the bottom end of that list. The majority of respondents (57 per cent) considered that competition among workers does more harm than good. This indicates a rather competition-averse attitude for YEs in Indonesia across different age categories and genders. Nevertheless the youngest age group generally accepted the benefits of competitive behaviour more than their experienced counterparts.

The survey suggested that even if promotion of youth entrepreneurship contributed to reduce unemployment (through self employment), it did not create substantial waged employment. Among the 1,600 YEs businesses surveyed, only around 2,500 jobs were created and these were mostly informally employed family members.

⁷⁷ Asian Productivity Organization (2007). *Entrepreneurship Development for Competitive Small and Medium Enterprises*, Tokyo.

⁷⁸ OECD (2008). *Economic Assessment of Indonesia 2008*, OECD Economic Surveys, Paris



Source: Business Environment for Young Entrepreneurs in Indonesia (2011), ILO Jakarta.

Key Indicators

New Business Density (per 1000 people)

Number of newly registered corporations to total working age population (per 1000 of population)

Source: World Bank Group Entrepreneurship Survey (WBGES) 2008.⁷⁹

	2003	2005	2007
Indonesia	0.05	0.13	0.13 ⁸⁰
Malaysia	2.52	2.52	2.77
Philippines	0.22	0.23	0.33
Singapore	4.20	5.80	7.46

Number per 1000 of population

Entry rate (%)

Entry rate is defined as new firms (registered in the current year) as a percentage of lagged total registered firms.

Source: World Bank Group Entrepreneurship Survey (WBGES) 2008.⁸¹

	2003	2005	2007
Indonesia	0.03	0.08	0.07 ⁸²
Malaysia	..	..	..
Philippines	..	..	..
Singapore	0.15	0.19	0.19

Number of firms as a percentage of lagged total registered firms

⁷⁹ <<http://rru.worldbank.org/businessplanet/default.aspx?pid=8>>

⁸⁰ 2006.

⁸¹ <<http://rru.worldbank.org/businessplanet/default.aspx?pid=8>>

⁸² 2006.

Figure 13: New business density

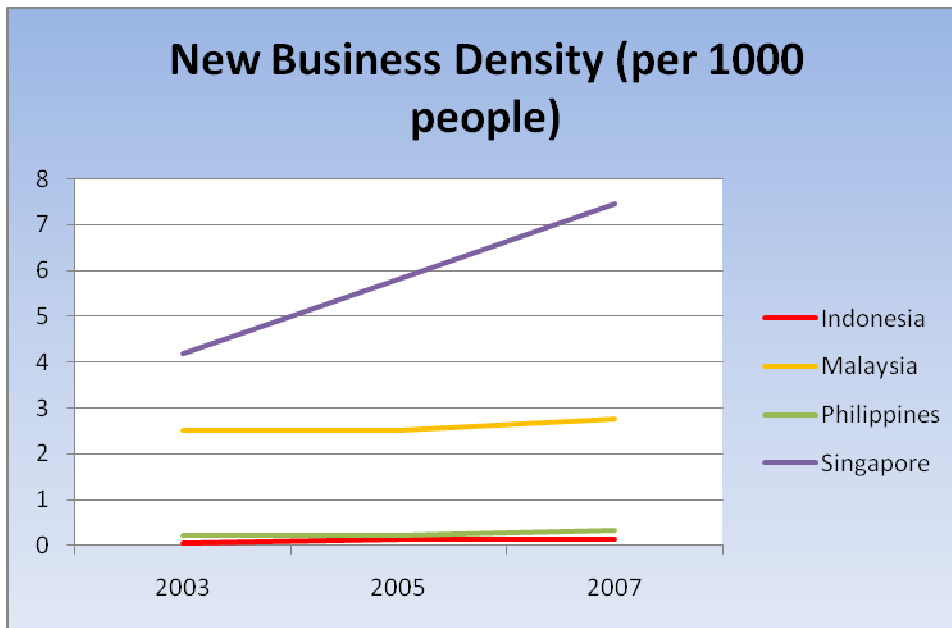
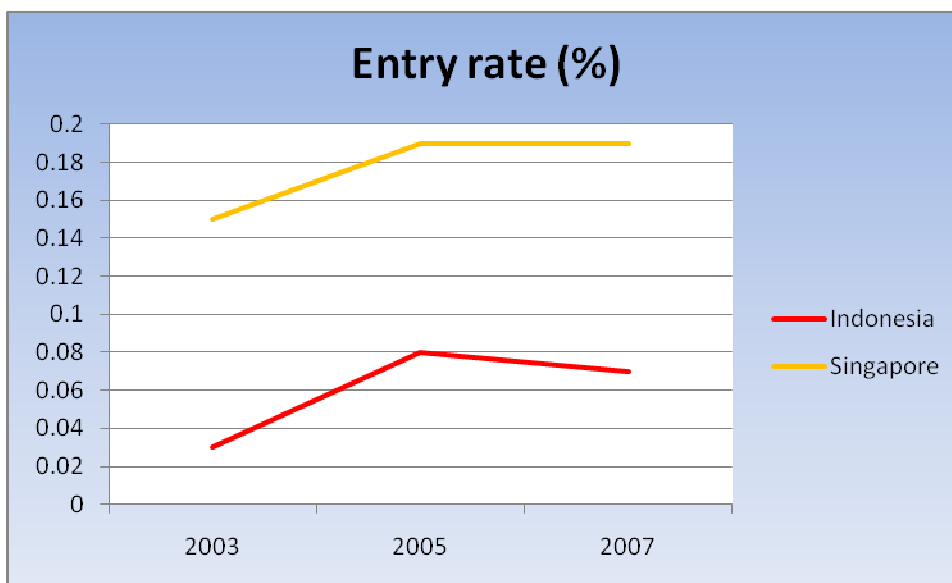


Figure 14: Entry rate



4.3 Education, training and lifelong training

Enterprise success, productivity, competitiveness and even survival increasingly depend on human resources. Indonesia's basic indicators of educational attainment have improved under the government of Soeharto but remain low in comparison with regional

peers. Thus the UNDP's Education index ranks Indonesia below Malaysia, Philippines, Singapore and the average level of East Asia and the Pacific in terms of its adult literacy and the primary, secondary, and tertiary gross enrolment. However, the share of population with at least lower-secondary education is more than three times as high among younger individuals as for their older counterparts.⁸³ Youth literacy rate in Indonesia was estimated at 96.65 per cent in 2007, which is similar to its peers although a little bit lower than in Malaysia and Singapore. In fact, the ILO survey of youth entrepreneurs indicated that most youth entrepreneurs had completed at least Senior High School (SMA), followed by Junior High School (SMP), Vocational School (SMK) and University. The proportion of women youth entrepreneurs who had reached at least SMP was slightly higher than for men, while for SMA and SMK, the proportion was higher for men.⁸⁴

Indonesia's low educational attainment is associated with a lack of investment in education. After the Asian financial crisis, public spending on education has only grown slowly and has reached the level of 3.48 (per cent of GDP) in 2007.⁸⁵ Consistent with comparatively low educational attainment, the human capital embodied in the labour force is also low. According to a World Bank Survey, 19 per cent of managers in Indonesia ranked skills of available workers as a major obstacle to their operations. Also, the ILO survey of youth entrepreneurs found that respondents in all regions had problems with finding qualified staff with specific skills.

Despite the need for more skilled workers, the number of firms offering training only reached 24 per cent in 2003 which is low compared with Malaysia, Philippines and the average of East Asia and Pacific. According to the Global Competitiveness Report, the extent of staff training remained stable over recent years but below the level of comparator countries.

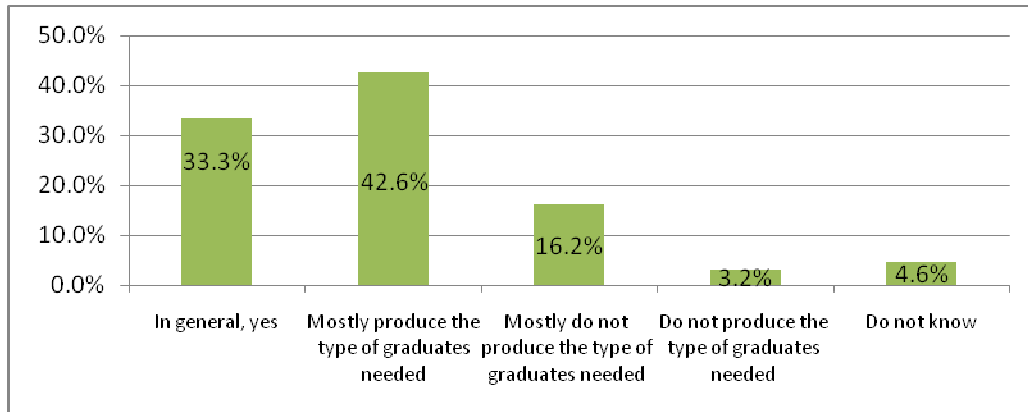
In a bid to assess the workers' perception of the education and training aspect in supporting sustainable enterprise, the survey found that the majority of respondents (76 per cent) believed that vocational schools have managed to produce graduates that the company needs.

⁸³ Economist Intelligence Unit (2008). Country Profile 2008: Indonesia, London.

⁸⁴ ILO (2011), Business Environment for Young Entrepreneurs in Indonesia, ILO Jakarta.

⁸⁵ OECD (2008). Economic Assessment of Indonesia 2008, OECD Economic Surveys, Paris; Economist Intelligence Unit (2008). Country Profile 2008: Indonesia, London.

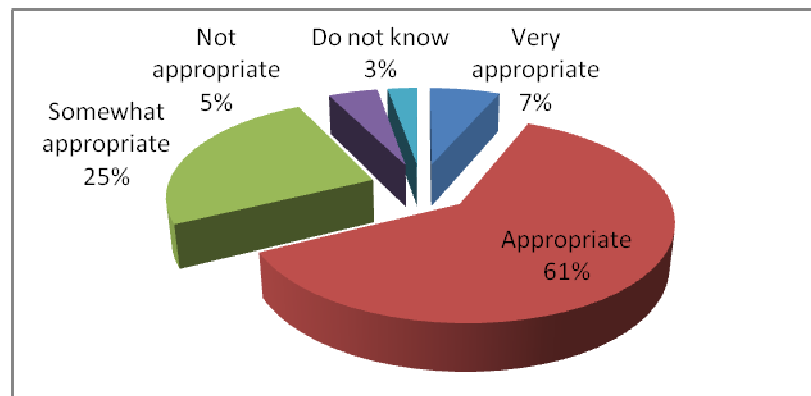
Figure 15: Match between vocational school graduates and company needs



Source: Survey on workers' perceptions, September 2011.

On the aspect of individual skill, 68 per cent of the workers claimed that the expertise and skills that the respondents possess match the company's needs.

Figure 16: Match between worker expertise and skill and company needs



Source: Survey on workers' perceptions, September 2011.

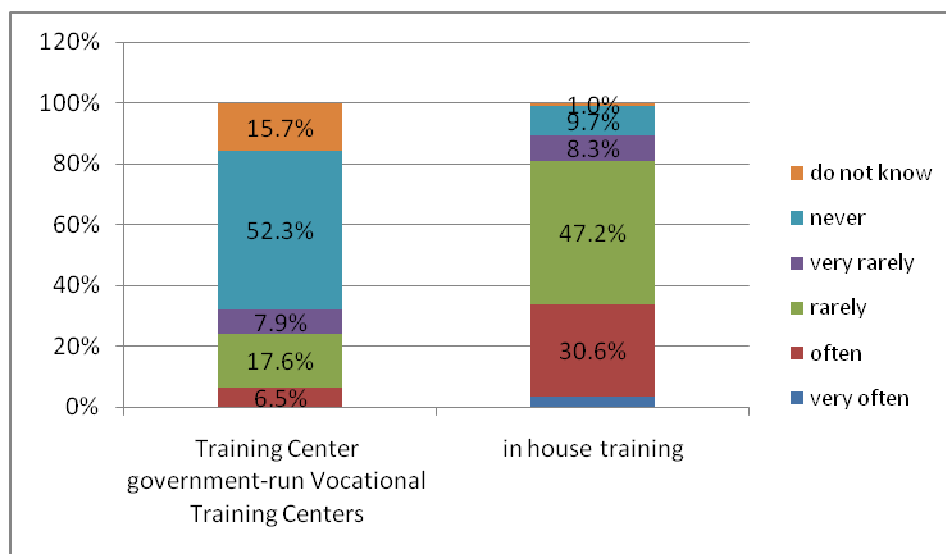
A quarter of the 30 per cent of respondents who claimed that their expertise and skill did not match the company's needs were workers from the automotive and electronics sectors, male, high school graduates and employed as operators. The expertise and skill mismatch in the automotive sector was due to the management's lack of special qualifications on what expertise and skills are needed.

At the empirical level, recruitment in a number of electronics companies does not specify any special skill requirements, but rather the minimum marks for a number of subjects. After the recruits have passed the administrative selection, the next selection involved psychological evaluation and interview. Upon passing this selection, the recruits would attend a 3-day orientation on K3 (Occupational Health and Safety), company profile, and so forth. After the orientation period, the workers were divided into work groups and introduced into the non-shift departments working from 8 a.m. to 5 p.m. for two weeks. Afterwards, an evaluation team would observe and evaluate the workers' performance. Workers with a good evaluation score would attend a two-week training programme before they officially begin working full-time. This worker recruitment and training process is a common pattern for manufacturing companies in the automotive sector.

For garment companies, the procedure is far simpler, involving a few days of sewing skill tryout and starting work immediately.

As for comparison between training organized by the Government and training organized by companies, this survey finds that 34 per cent of the respondents view the role played by companies in providing training to their workforce in a more positive light compared to the role played by the Government through government-run Vocational Training Centres (BLK). Only 24 per cent of the respondents said that BLKs frequently organize skill and expertise training. As a matter of fact, a number of workers being interviewed who said that they were not familiar with the term "BLK" (which is an abbreviation of government-run Vocational Training Centre) and the term "SP/SB" (which is an abbreviation of Trade Union/Labour Union) also said that the training organized by BLKs was less varied and less adequate in preparing them for employment.

Figure 17: Workers' perception of training organization

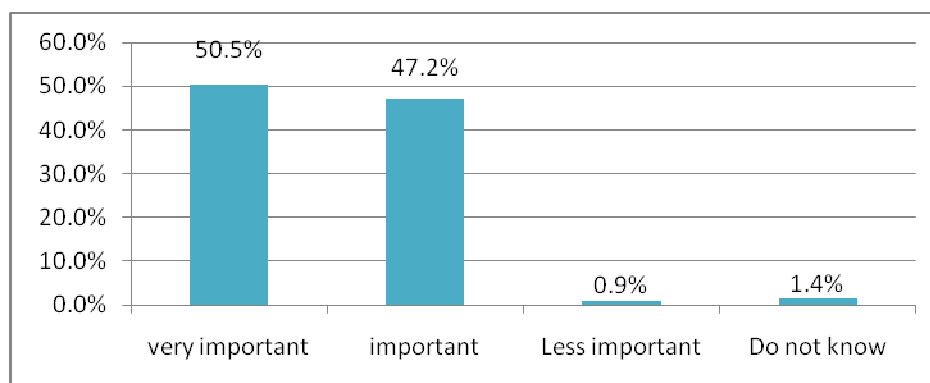


Source: Survey on workers' perceptions, September 2011.

The survey also found that workers who held a supervisor or technical head position received more expertise and skill training from the company. According to the interviews, workers in these two positions frequently received leadership training from the company. They felt that most companies preferred the on-the-job training model and the first training was given when a worker began their orientation period upon joining the company.

On entrepreneurship training, the workers perceived companies to have an obligation to organize training. Chart 19 shows that nearly all workers believed that it was important for companies to provide entrepreneurship training. Nevertheless, the workers' view remains an expectation because this research did not find any company that provided entrepreneurship training.

Figure 18: Workers' perception of the importance of entrepreneurship training



Source: Survey on workers' perceptions, September 2011.

Focus group discussion in the garment sector indicates that even though the workers already have sewing expertise and skills, there is no guarantee that they would be able to start their own sewing business once they quit working. That is because the sewing skills they acquire in the course of their employment are only partial (fractional). For example, workers assigned or employed to sew sleeves will only master the art of that particular section of clothing; they may not be able to use their sectional sewing skill to put together each section of a shirt into a whole shirt. Complete, overall sewing skills can only be acquired by workers in the sampling division who are assigned to make a sample of clothing in its entirety.

Key Indicators

Public spending on education, total (% of GDP)		2005	2006	2007
Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels. Source: United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators CD-ROM).	Indonesia	2.86	3.60	3.48
	Malaysia	7.52	4.57	..
	Philippines	2.53	..	..
	Singapore	..	..	3.20 ⁸⁶
	East Asia & Pacific⁸⁷	2.75 ⁸⁸	..	..
	Public spending on education as share (%) of GDP			

⁸⁶ 2009.

⁸⁷ American Samoa; Australia; Brunei Darussalam; Cambodia; China; Fiji; French Polynesia; Guam; Hong Kong, China; Indonesia; Japan; Kiribati; Korea, Dem. Rep.; Korea, Rep.; Lao PDR; Macao, China; Malaysia; Marshall Islands; Micronesia, Fed. Sts.; Mongolia; Myanmar; New Caledonia; New Zealand; Northern Mariana Islands; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Thailand; Timor-Leste; Tonga; Vanuatu; Vietnam.

⁸⁸ 2004.

Education index

It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 100]) (with one-third weighting).

Source: UNDP, Human Development Report⁸⁹

	2004 (HDR 2006)	2005 (HDR 2007/2008)	2007 (HDR 2009)
Indonesia	0.83	0.830	0.840
Malaysia	0.84	0.839	0.851
Philippines	0.89	0.888	0.888
Singapore	0.91	0.908	0.913
East Asia & the Pacific	0.84	0.836	0.849

On a scale from 0 to 100. Higher values correspond to better performance.

Labour skills⁹⁰

Labour skills measure the percentage of senior managers who ranked skills of available workers as a major or severe constraint. The computation of the indicator is based on the rating of the obstacles as a potential constraint to the current operations of the establishment.

Source: World Bank, Enterprise Surveys⁹¹

	2002	2005	2008
Indonesia	18.93 ⁹²	..	..
Malaysia	20.19 ⁹³
Philippines	7.81 ⁹⁴
Singapore
East Asia & Pacific	21.9

Percentage of managers surveyed ranking this as a major business constraint.

⁸⁹ <<http://hdrstats.undp.org/indicators/7.html>> and <<http://hdr.undp.org/en/reports/global/hdr2006/>>

⁹⁰ Due to differences in scales used in the ECA countries in 2002 and 2005 (four points) and those used in the 2008 surveys (five points) indicators based on business constraints questions are not fully comparable.

⁹¹ <<http://www.enterprisesurveys.org/CustomQuery/>>

⁹² 2003.

⁹³ 2007.

⁹⁴ 2009.

Firms offering formal training (% of firms)		2002	2005	2008
Firms offering formal training are the percentage of firms offering formal training programs for their permanent, full-time employees. <u>Source:</u> World Bank, Enterprise Surveys ⁹⁵ and World Development Indicators CD-ROM.	Indonesia	23.83 ⁹⁶	..	..
	Malaysia	42.03	..	50.14 ⁹⁷
	Philippines	21.74 ⁹⁸	..	31.11 ⁹⁹
	Singapore	..	..	..
	East Asia & Pacific	..	..	47.2
		Percentage of firms offering formal training		
Extent of staff training		2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)" <u>Source:</u> World Economic Forum, The Global Competitiveness Report. ¹⁰⁰	Indonesia	4.5	4.6	4.5
	Malaysia	5.2	5.0	4.9
	Philippines	4.6	4.6	4.4
	Singapore	5.6	5.7	5.6
		1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees		
Literacy rate, youth total (% of people ages 15-24)		2000	2004	2008
Youth literacy rate is the percentage of people ages 15-24 who can, with understanding, read and write a short, simple statement on their everyday life. <u>Source:</u> United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators CD-ROM).	Indonesia	..	98.71	96.65 ¹⁰¹
	Malaysia	97.24	..	98.30
	Philippines	95.09	95.06 ¹⁰²	94.41
	Singapore	99.50	..	99.72
	East Asia & Pacific¹⁰³	97.85	..	97.87
		Percentage of people		

⁹⁵ <<http://www.enterprisesurveys.org/CustomQuery/>>

⁹⁶ 2003.

⁹⁷ 2007.

⁹⁸ 2003.

⁹⁹ 2009.

¹⁰⁰ <<http://www.weforum.org/pdf/GCR08/GCR08.pdf>>

¹⁰¹ 2006.

¹⁰² 2003.

¹⁰³ American Samoa; Australia; Brunei Darussalam; Cambodia; China; Fiji; French Polynesia; Guam; Hong Kong, China; Indonesia; Japan; Kiribati; Korea, Dem. Rep; Korea, Rep.; Lao PDR; Macao, China; Malaysia; Marshall Islands; Micronesia, Fed. Sts.; Mongolia; Myanmar; New Caledonia; New Zealand; Northern Mariana Islands; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Thailand; Timor-Leste; Tonga; Vanuatu; Vietnam.

Figure 19: Public spending on education

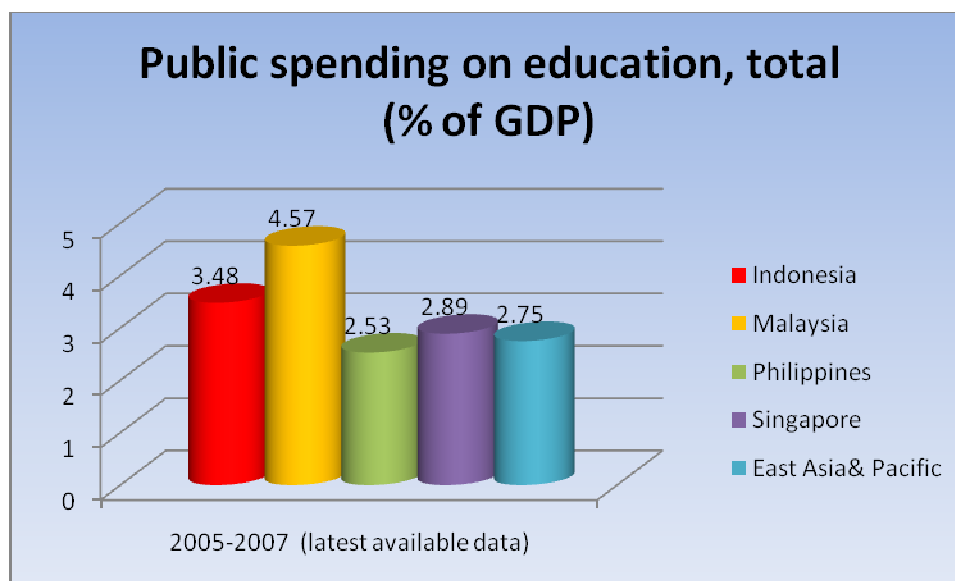


Figure 20: Index on Education

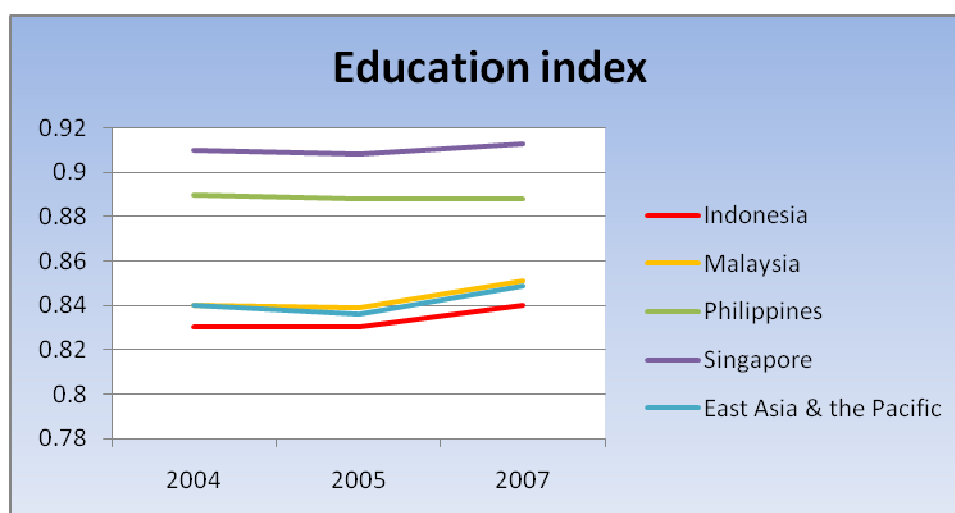


Figure 21: Firms offering formal training

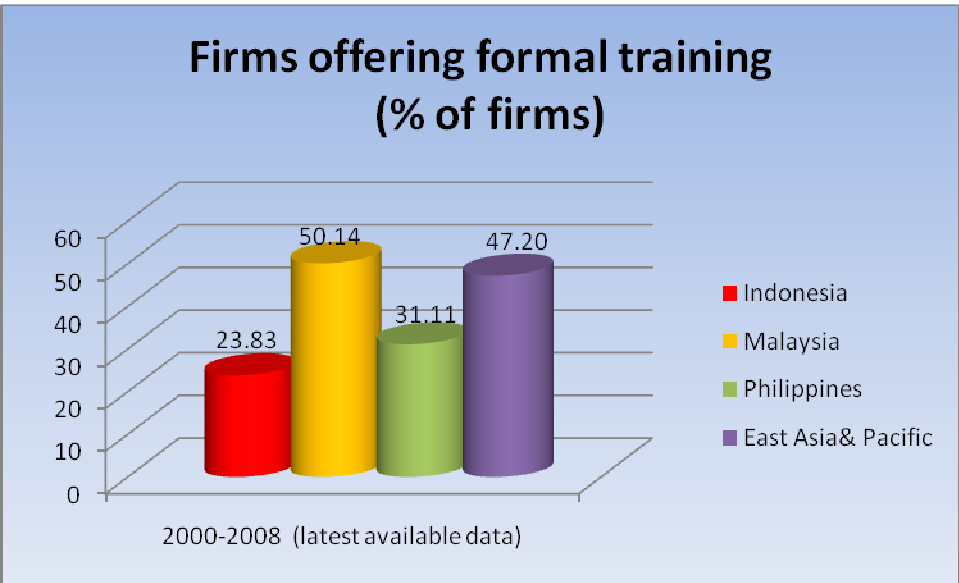


Figure 22: Literacy rate for youth

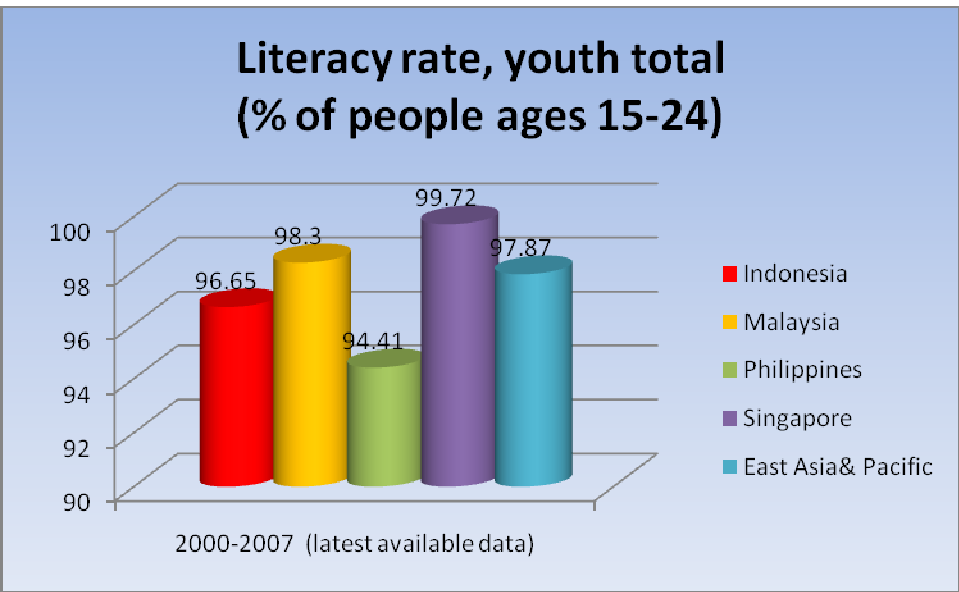


Figure 23: Extents of staff training



4.4 Social justice and social inclusion

Inequality and discrimination are incompatible with sustainable enterprise development. In Indonesia, a large number of people are vulnerable to poverty including lack of access to basic services. However, the level of extreme poverty (earning less than 1 USD a day) is relatively low (7.4 per cent). Income poverty has been consistently higher in rural than in urban areas. Moreover, the GINI coefficient shows that inequality in material well-being in Indonesia is moderate (39.4 in 2007) compared with Singapore (42.5), Philippines (44.0) and until recently also with Malaysia (49.2 in 2005).¹⁰⁴ Another area of concern is the high level of unemployment which can lead to socio-economic exclusion. In 2007, estimated 9.1 per cent of the workforce was unemployed. Young people and those living in conflict areas are more likely to be unemployed than others. In addition to unemployment, underemployment remains widespread.¹⁰⁵ Labour-force participation has been quite stable over time at about two-thirds of individuals aged at least 15 years. When comparing unemployment rates by gender, the female unemployment rate stays higher than that of male.¹⁰⁶ The Gender Development Index (GDI) which reflects inequalities between male and female achievements shows a much lower literacy rate of 83.4 per cent as compared with men's literacy rate of 92.5 per cent, as well as a lower gross enrolment ratio and lower level of income for women in Indonesia. Globally, Indonesia's GDI ranks 93rd out of 182 countries indicating an improvement since 2004. The Gender Empowerment Measure (GEM) measuring gender inequality in three basic dimensions of

¹⁰⁴ World Bank (2006). Making the New Indonesia Work for the Poor
 <<http://go.worldbank.org/1WTPYA7FD0>>

¹⁰⁵ ILO (2006). Indonesia - Decent Work Country Programme 2006 – 2010
 <http://www.ilo.org/asia/decentwork/dwcp/lang--en/docName--WCMS_099820/index.htm>

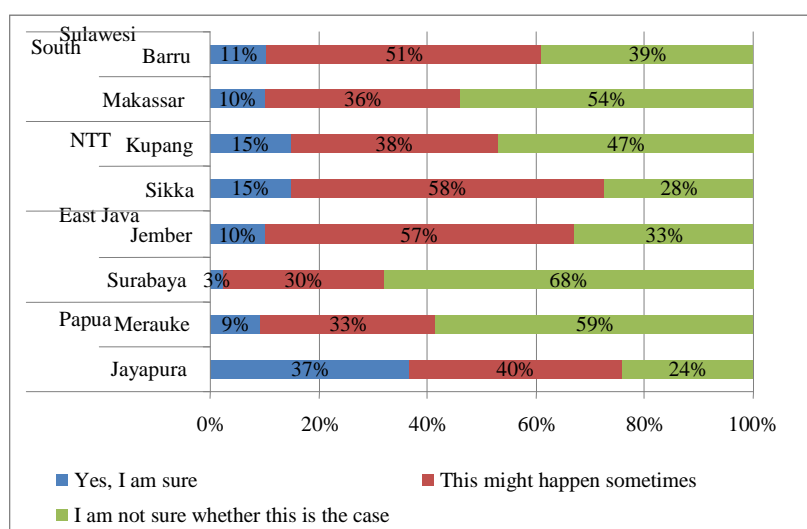
¹⁰⁶ OECD (2008). Economic Assessment of Indonesia 2008, OECD Economic Surveys, Paris.

empowerment, such as economic participation, political participation and power over economic resources, represents a slight increase for Indonesia over time. However, it ranked Indonesia below Malaysia, Philippines and Singapore in 2007. Likewise, the rate of economic activity among women remains low in Indonesia compared with the average level of East Asia and Pacific, although it is higher than in Singapore and Malaysia, according to the UNDP.¹⁰⁷

Box 3: Gender factor

An ILO survey of youth entrepreneurs (YEs) found that just over half of respondents (57 percent) thought women YEs were likely to experience specific disadvantages due to their gender. Interestingly, the figure was slightly higher among men than among women.

Perception that young women entrepreneurs experience specific disadvantages because of their gender (by survey location)



Source: Business Environment for Young Entrepreneurs in Indonesia (2011), ILO Jakarta.

Key Indicators

GINI coefficient		2004 (Report 2006)	2005 (Report 2007-2008)	2007 (HDR 2009)
Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.	Indonesia	34.3	34.3	39.4
	Malaysia	49.2	49.2	37.9
	Philippines	46.1	44.5	44.0
	Singapore	42.5	42.5	42.5
	0= perfect equality, 100= perfect inequality			

Source: World Bank staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments (World Development Indicators CD-ROM) and UNDP Human Development Report (HDR).¹⁰⁸

¹⁰⁷ Asian Development Bank (2006). Indonesia - Country Gender Assessment, Southeast Asia Regional Department, Regional and Sustainable Development Department, Asian Development Bank, Manila, Philippines.

¹⁰⁸ see also: <<http://hdrstats.undp.org/indicators/147.html>>

Labour force participation	2008	2009	2010	
The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.	Indonesia	69.7	70.3	67.4
	Malaysia	64.7	64.7	60.5
	Philippines	65.5	65.6	64.3
	Singapore	71.3	70.9	66.9
	The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population			
<u>Source:</u> ILO KILM ¹⁰⁹				
Gender-related development index (GDI)	2004 (Report 2006)	2005 (Report 2007-2008)	2007 (HDR 2009)	
A composite index measuring average achievement in the three basic dimensions captured in the human development index - a long and healthy life, knowledge and a decent standard of living - adjusted to account for inequalities between men and women.	Indonesia	0.704	0.721	0.726
	Malaysia	0.795	0.802	0.823
	Philippines	0.761	0.768	0.748
	Singapore	..	..	..
	The lower the value, the more heavily a society is penalized for having inequalities			
Gender empowerment measure (GEM)	2004 (Report 2006)	2005 (Report 2007-2008)	2007 (HDR 2009)	
A composite index measuring gender inequality in three basic dimensions of empowerment - economic participation and decision-making, political participation, and decision-making and power over economic resources.	Indonesia	..	..	0.408
	Malaysia	0.500	0.504	0.542
	Philippines	0.533	0.590	0.560
	Singapore	0.707	0.761	0.786
	The lower the value, the more heavily a society is penalized for having inequalities.			
Gender equality rating	2006	2007	2008	
Gender equality rating assesses the extent to which the country has installed institutions and programmes to enforce laws and policies that promote equal access for men and women in education, health, the economy, and protection under law (1=low to 6=high).	Indonesia	3.50	..	..
	Malaysia	..	..	..
	Philippines	..	..	..
	Singapore	..	..	..
	East Asia & Pacific	..	..	..
<u>Source:</u> World Bank Group, CPIA database ¹¹¹ (World Development Indicators CD-ROM).				
	Equality: 1=low to 6=high			

¹⁰⁹ <<http://www.ilo.org/public/english/employment/strat/kilm/index.htm>>

¹¹⁰ < <http://hdr.undp.org/en/reports/> >

¹¹¹ <<http://www.worldbank.org/ida>>

Female economic activity	2003 (HDR 2005)	2004 (HDR 2006)	2005 (HDR 2007-2008)
Female economic activity is a measure of women over the age of fifteen who are working in industry, agriculture or services as a percent of males.			
Source: UNDP Human Development Report. ¹¹²			
Indonesia	56.3	50.7	51.0
Malaysia	49.2	46.1	46.5
Philippines	50.1	53.8	54.7
Singapore	50.0	50.8	50.6
East Asia & Pacific	68.9	65.4	65.2
Percentage aged 15 and older			

Figure 24: Gini coefficient

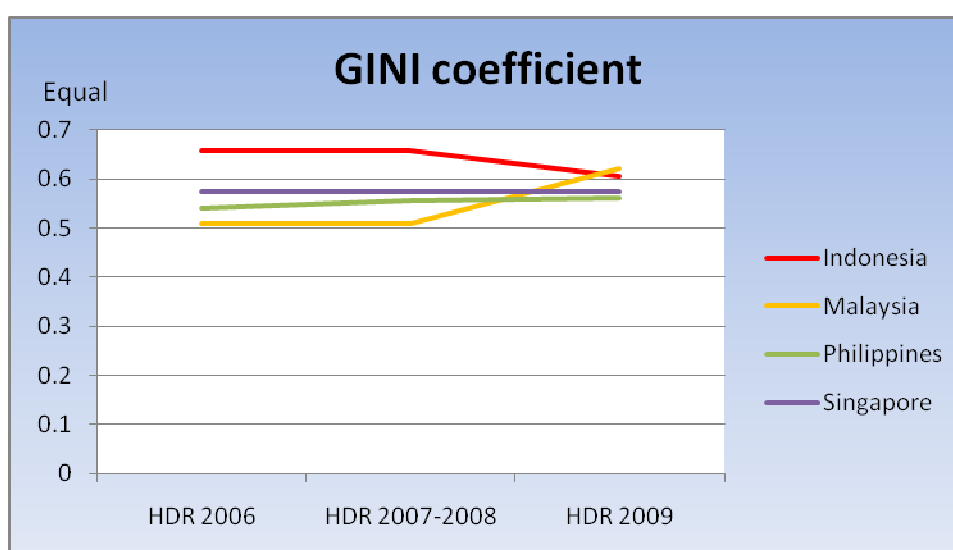
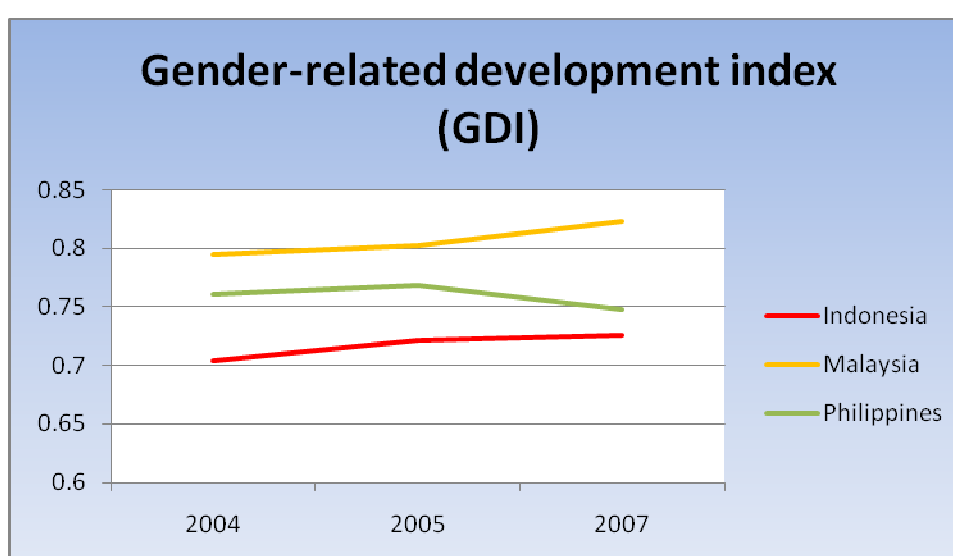


Figure 25: Gender-related development index



¹¹² <<http://hdr.undp.org/en/reports/>>

Figure 26: Gender empowerment measure

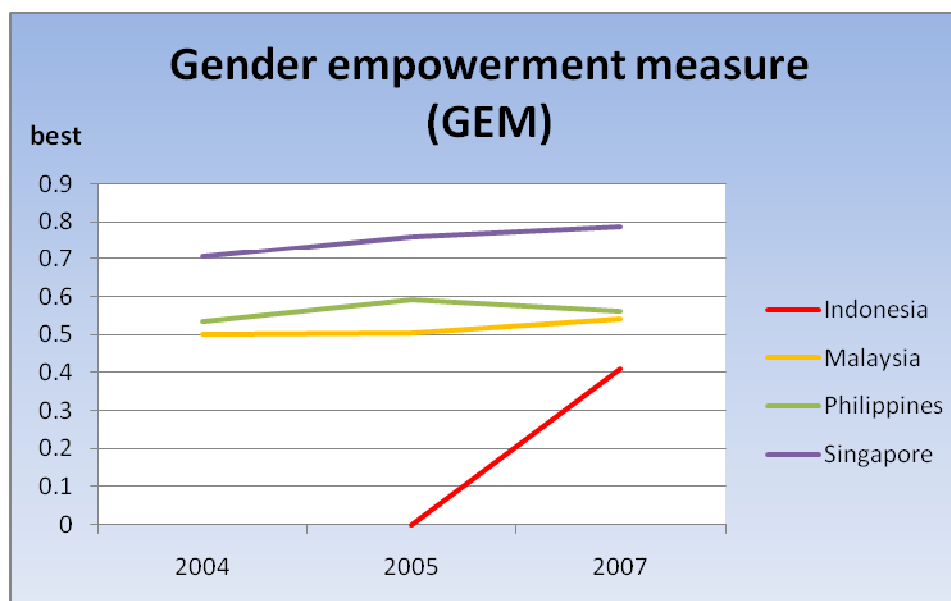
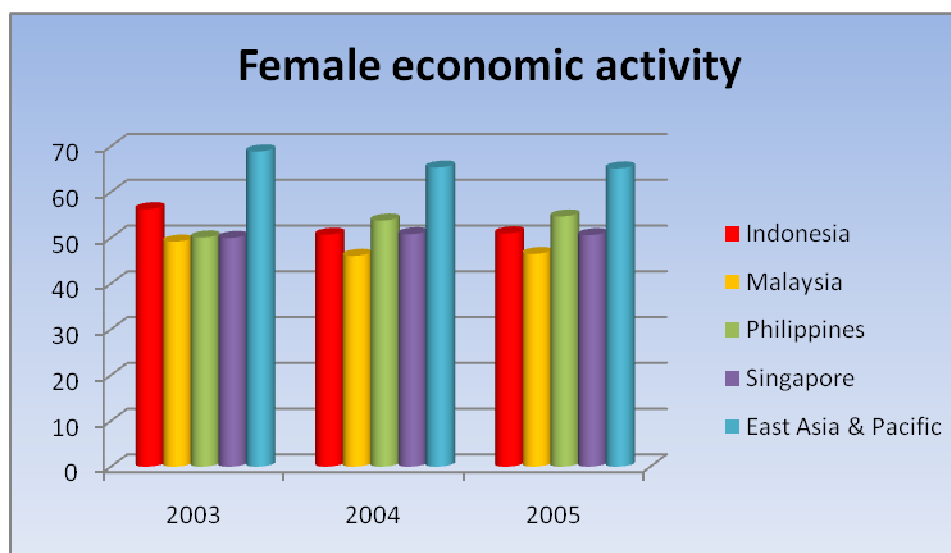


Figure 27: Female economic activity



4.5 Adequate social protection

Adequate social protection is key to improving productivity and fostering transitions to the formal economy. Indonesia has a number of formal, government financed safety-nets but it lacks a structured and coherent social protection system.¹¹³ Indonesia's public social expenditure as a percentage of general government expenditure accounted for 7.39 per cent in 2004. The largest mandatory programme, Jamsostek, which is financed

¹¹³ World Bank (2006). Making the New Indonesia Work for the Poor
<<http://go.worldbank.org/1WTPYA7FD0>>

predominantly through employers' contributions, offers old-age pensions, life and health insurance, and job-related disability and illness compensation to private-sector workers. However, the majority of the workers are not covered by the Jamsostek, because many of Indonesian workers have informal-sector jobs and the scheme is not binding in the informal sector. Although a national security law enacted in 2004 extends social security to informal-sector workers, its relevant provisions have not yet been fully regulated. Nonetheless, coverage by health care as percentage of total health care is high (67.1 per cent in 2006) in Indonesia compared with Malaysia, Philippines and Singapore and the number of old age pension beneficiaries as a proportion of population at 65 and older is also higher (22.9 in 2003) than in Malaysia and Philippines.¹¹⁴

Key Indicators

Public social expenditure (% government expenditure)	2005	2006	2007
Indonesia	7.39 ¹¹⁶	..	..
Malaysia	..	..	..
Philippines	4.59	5.88	..
Singapore	7.85	13.80	10.11

Social expenditure as a percentage of general government expenditure is a measure of the extent to which governments assume responsibility for supporting the standard of living of disadvantaged or vulnerable groups. It includes expenditure on health care and non-health social security expenditure. A ratio to the total general government expenditure reflects properly the situation in countries with relatively "small" (in terms of public finances) governments. Social benefits provided by private entities are excluded in this measure.

Source: International Monetary Fund (ILO Social Security Expenditure Database¹¹⁵)

Percentage of government expenditure

Old age (% of GDP)	1994	1995	1996
Indonesia	0.01	0.03	0.03
Malaysia	0 ¹¹⁸	..	..
Philippines	2.47 ¹¹⁹	..	..
Singapore	1.31	1.25	1.28

Old age expenditure as percentage of GDP

¹¹⁴ OECD (2008). Economic Assessment of Indonesia 2008, OECD Economic Surveys, Paris.

¹¹⁵ <<http://www.ilo.org/dyn/sesame/IFPSES.SocialDBExp>>

¹¹⁶ 2004.

¹¹⁷ <<http://www.ilo.org/dyn/sesame/IFPSES.SocialDBExp>>

¹¹⁸ 1993.

¹¹⁹ Ibid.

Old age pension beneficiaries	2003	2004	2005
Number of pension beneficiaries at 65 and older (or 60 and older) as a proportion of population at 65 and older. The index includes beneficiaries of all kind of pensions and similar benefits (not only old-age pensions but also survivors' and disability pensions) received by those over the age threshold to see what proportion of all those over a certain age threshold is actually receiving any type of social benefit.			
Indonesia	22.9	..	..
Malaysia	..	2.1	..
Philippines	..	..	16.9
Singapore	..	..	..
Source: ILO Social Security Inquiry. ¹²⁰			
			Number of pension beneficiaries as a proportion of population at 65 and older.
Public expenditure on health (% of GDP)	2004	2005	2006
Public expenditure on health as percentage of GDP - Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds.			
Indonesia	0.84	0.96	1.26
Malaysia	2.25	1.84	1.92
Philippines	1.37	1.31	1.25
Singapore	1.08	1.07	1.09
East Asia and Pacific	1.74	1.75	1.82
Source: World Health Organization WHOSIS ¹²¹ and World Development Indicators CD-ROM and UNDP Human Development Report.			
			Percentage of GDP.
Coverage by health care (% of total health care)	2004	2005	2006
Percentage of total (public and private) health care expenditure not financed by private household's out of pocket payments (as a proxy indicator).			
Indonesia	63.0	64.5	67.1
Malaysia	58.5	58.2	59.8
Philippines	50.2	49.1	51.6
Singapore	36.1	36.1	37.6
Source: World Health Organization WHOSIS. ¹²²			
			Percentage of total health care.

¹²⁰ <<http://www.ilo.org/dyn/sesame/IFPSES.SocialDBExp>>

¹²¹ Ibid.

¹²² Ibid.

Figure 28: Public social expenditure

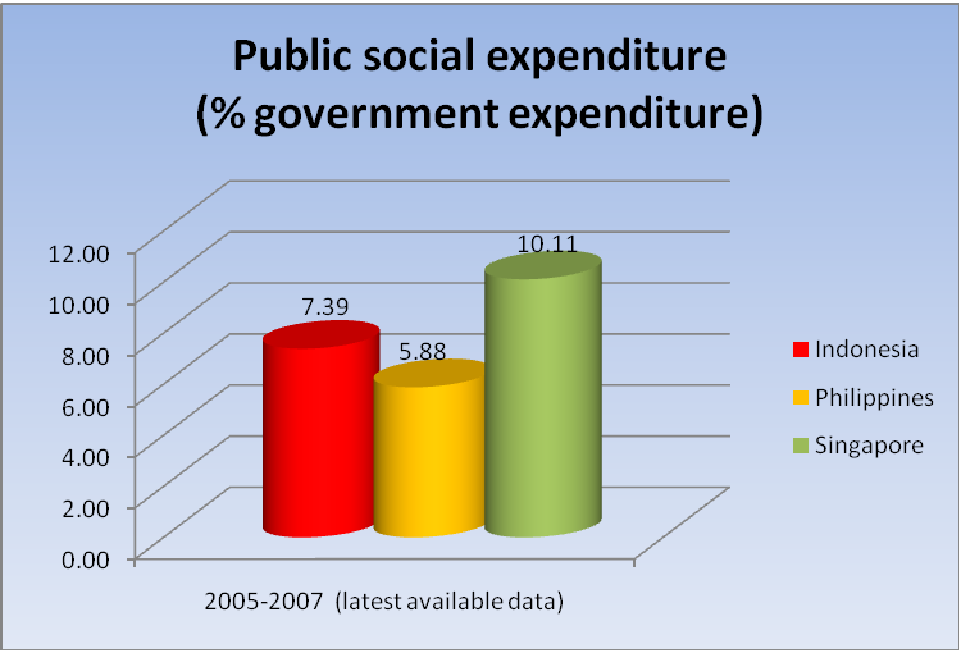


Figure 29: Old age pension beneficiaries

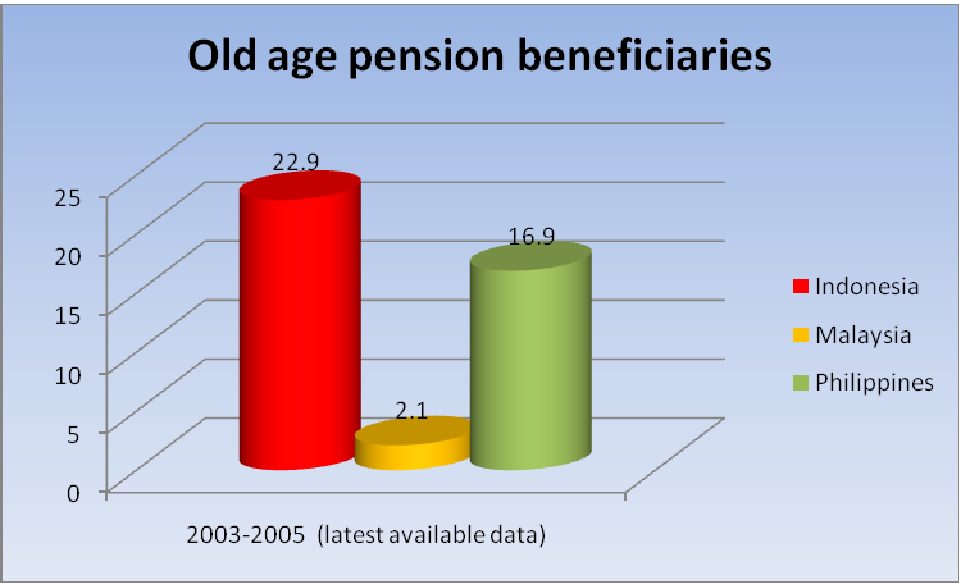


Figure 30: Public expenditure on health

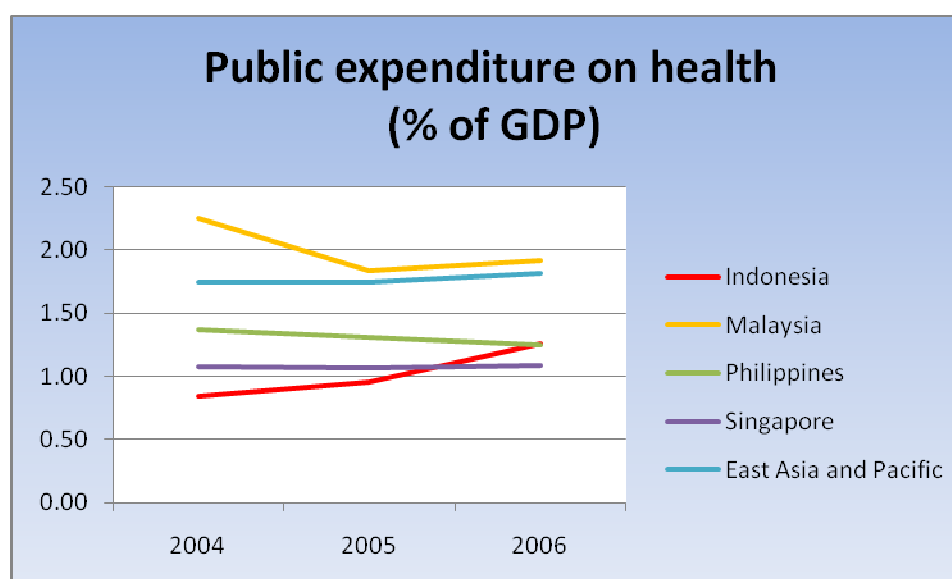
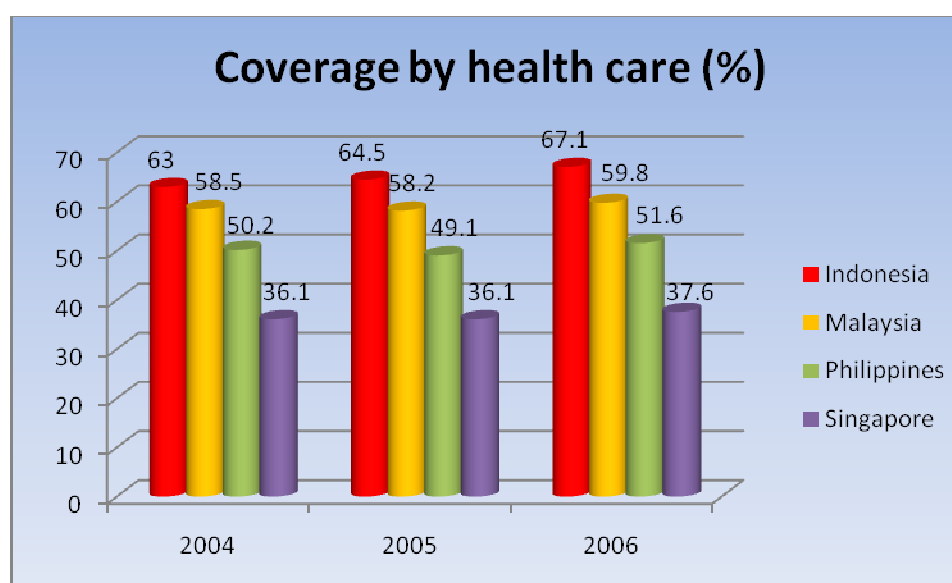


Figure 31: Coverage by health care



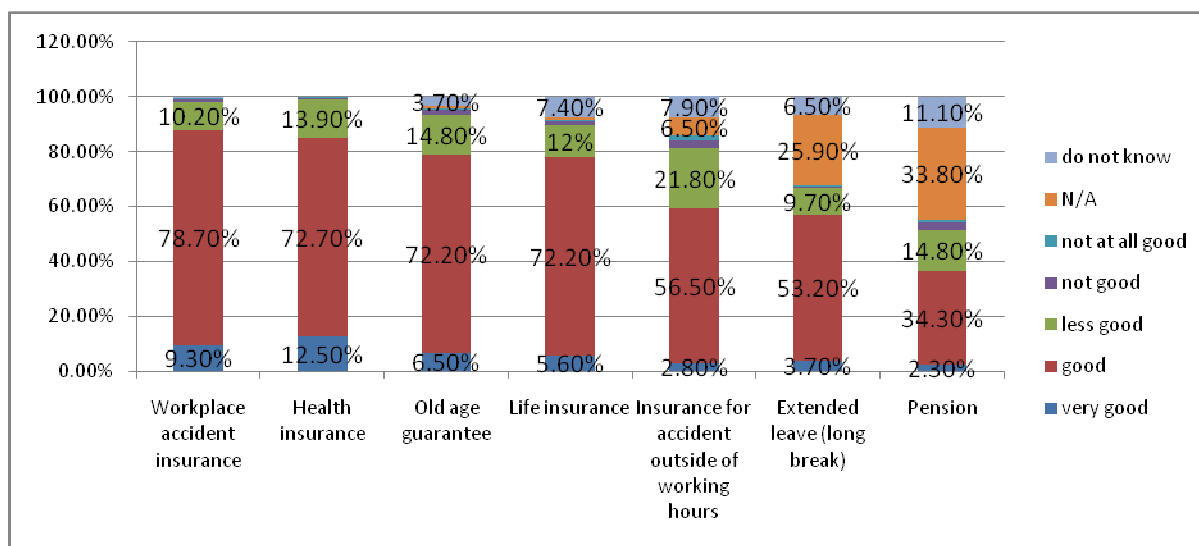
This survey on workers' perceptions addressed three broad categories of social protection: social security for employed workers (Jamsostek), long leave, and pregnancy and breastfeeding protection.

Two major findings of the survey about the social protection aspect show the workers' positive appreciation of the company in providing social security for workers and workers' rights relating to maternal leave, but the workers were not satisfied with the pension security, work accident benefit for accidents happening outside working hours, long leave and breastfeeding opportunities at work.

This survey found that, in general, the surveyed enterprises had provided adequate social security to the workers. Chart 14 shows reveals that over 75 per cent of the respondents appreciated the company's policy in providing workplace accident security,

health care benefits, old age benefit, and death benefit. About 88 per cent of the respondents gave their highest appreciation to the company's success in paying out the workplace accident benefits. However, many respondents had a less positive perception of the company's capacity in honouring the workers' rights to long leave and pension benefit. This is shown by the 33.8 per cent of respondents who claimed that the company provided no pension benefit and 25.9 per cent of the respondents answered that the company did not grant any long leave.

Figure 32: Workers' perception of social security at the company



Source: Survey on workers' perceptions, September 2011.

Overall, while less significant, there was a difference in the workers' perception of social security implementation by sector. Generally speaking, workers in the garment and automotive sectors had a positive perception but workers in the electronics sector had a negative perception.

Specifically, a perception difference was also found between workers in the garment sector and those in the electronics and automotive sector. The survey result shows that 60 per cent of the respondents in the garment sector claimed that the company had properly provided for old age benefit, death benefit, and work-accident benefit for accidents happening outside working hours. This finding was different from the workers' perception in the electronics and automotive sectors, who believed that the company had not been able to properly provide death benefit and work accident benefit for accidents happening outside working hours.

Table 3: Workers' positive perception of social security

Sector	Work Accident Benefit	Death Benefit	Old Age Benefit
Electronics	77.8 %	63.80%	66.60%
Garment	93.1 %	91.70%	93.10%
Automotive	93.1 %	77.80%	77.30%

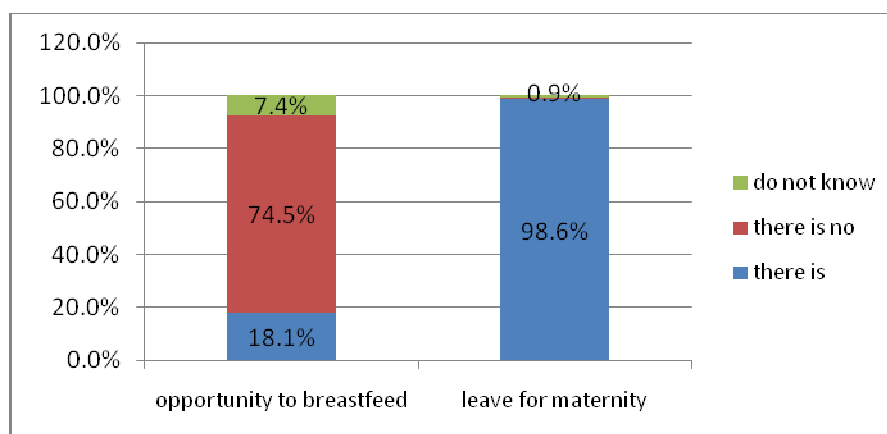
Source: Survey on workers' perceptions, September 2011.

Union executives at the confederation and company levels noted that social security actually covered more than social security for employed workers (Jamsostek). Social security includes housing and education as well. The survey result that showed the workers' perception of Jamsostek was seen to indicate the workers' limited understanding of the social protection and security concept. Based on the discussion in the validation workshop, the other social security that needs to be provided are unemployment security and free education for children up to 9th grade from Government.

Regarding the right to long leave, 72.2 per cent of the respondents in the garment sector said that they do not receive the right because the company needs a large number of workers to meet their target and export deadlines, so there is no long leave policy in place.

In addition to the provision of social security for employed workers, the companies also received a positive mark for providing maternal leave as stated by 98.4 per cent of the respondents but 74.5 per cent of the respondents gave a negative mark when it came to breastfeeding opportunities and facilities.

Figure 33: Workers' perception of maternity leave and breastfeeding opportunity



Source: Survey on workers' perceptions, September 2011.

Of the seven companies in this survey, only one company in the automotive sector provided a lactation room for female workers. The provision of the lactation room was the result of an education process the union had undertaken on behalf of female workers on the importance of exclusive breastfeeding. The provision of the lactation room takes the form of providing a means and facility that supports female workers' right to breastfeed.

5. Environmental elements

5.1 Introduction

Indonesia is endowed with rich and varied natural resources, which are the backbone of the country's subsistence and formal economies. However the country struggles with soil depletion and coastal degradation, issues that make Indonesia one of the world's largest greenhouse gas emitter. As a consequence, air pollution has been worsening too. Over the past decade, many aspects of environmental management have been decentralized to the local level. However this has resulted in obstacles to good environmental management, including inadequate enforcement, problems with incentives and insufficient capacity.

In recent years Indonesia has been beset by seemingly endless natural and man-made disasters: tsunamis, earthquakes, landslides, floods, draught caused huge losses to lives and properties and impede economic and social development. There has also been imbalance in population distribution: nearly 60 per cent of total population of 230 million live in Java which only has 4 per cent of total land area. Java and "Outer Islands" face different sets of problems.

Probably the environmental issues that might require further attention include worrisome soil depletion and coastal degradation.

5.2 Responsible stewardship of the environment

Sustainable enterprise development goes hand in hand with responsible stewardship of the environment, which in turn needs appropriate regulations and incentives. Indonesia is endowed with rich and varied natural resources, such as large reserves of oil and gas, vast marine and terrestrial biodiversity.¹²³ It also possesses rich deposits of coal, tin, copper, nickel, bauxite, gold, silver and iron. Natural resources are the backbone of Indonesia's subsistence and formal economies. Millions depend on farming, fishing, and tree-crop and cash-crop cultivation. However, Indonesia's environment and natural resources are facing challenges both from human activity and natural phenomena.¹²⁴ Indonesia is one of the world's largest greenhouse gas emitter, with the largest emissions originating from deforestation and land degradation.¹²⁵ The country also struggles with soil depletion, and coastal degradation. Air pollution has been worsening in the early part of this decade. According to the Environmental Sustainability Index (ESI), Indonesia's ability to protect the environment has slightly improved since 2001. However, the Environmental Performance Index (EPI) ranks the country low in its ability reaching broadly-accepted targets for environmental performance. Over the past decade, many aspects of environmental management have been decentralized to the local level. This has resulted in

¹²³ UNDP, Indonesia – Climate Change and Sustainable Development
<<http://www.undp.or.id/programme/environment/>>

¹²⁴ Economist Intelligence Unit (2008). Country Profile 2008: Indonesia.

¹²⁵ UNDP, Indonesia – Climate Change and Sustainable Development
<<http://www.undp.or.id/programme/environment/>>

obstacles to good environmental management, including inadequate enforcement, problems with incentives and insufficient capacity.¹²⁶

Key Indicators

Environmental Sustainability Index (ESI)		2001	2002	2005
<p>The Environmental Sustainability Index (ESI) benchmarks the ability of nations to protect the environment over the next several decades. It does so by integrating 76 data sets – tracking natural resource endowments, past and present pollution levels, environmental management efforts, and the capacity of a society to improve its environmental performance – into 21 indicators of environmental sustainability.</p> <p><u>Source:</u> Yale University's Center for Environmental Law and Policy in collaboration with Columbia University's Center for International Earth Science Information Network (CIESIN), and the World Economic Forum.¹²⁷</p>	Indonesia	42.6	45.1	48.8
	Malaysia	49.7	49.5	54.0
	Philippines	35.7	41.6	42.3
	Singapore	46.8	..	..
	Peer group average¹²⁸	45.2	47.3	48.9
	<p>The higher a country's ESI score, the better positioned it is to maintain favorable environmental conditions into the future.</p>			
Total Ecological Footprint (EFP) (global hectares per capita)		2005		
<p>The Ecological Footprint (global hectares per capita) measures the amount of biologically productive land and sea area an individual, a region, all of humanity, or a human activity requires to produce the resources it consumes and absorb the waste it generates, and compares this measurement to how much land and sea area is available.</p> <p><u>Source:</u> Global Footprint Network, based on international data (UNSD, FAO, IEA, IPCC).¹²⁹</p>	Indonesia	0.9		
	Malaysia	2.4		
	Philippines	0.9		
	Singapore	4.2		
	Asia-Pacific¹³⁰	1.6		
	<p>lower value= better performance</p> <p>For 2005, humanity's total ecological footprint was estimated at 1.3 planet Earths - in other words, humanity uses ecological services 1.3 times as fast as Earth can renew them.</p>			

¹²⁶ World Bank (2009). Investing in a more sustainable Indonesia, Country Environmental Analysis <<http://go.worldbank.org/YX5DAY5ZT0>>

¹²⁷ <<http://www.yale.edu/esi/>> (for ESI 2005)
<<http://sedac.ciesin.columbia.edu/es/esi/archive.html>> (for ESI 2000-2002)

¹²⁸ Peer groups were assigned by dividing the countries of the index into five equal groups, sorted by GDP per capita (PPP). The peer group ESI is the Average ESI score for that group.
<http://www.yale.edu/esi/b_countryprofiles.pdf> (See page 3 for explanation).

¹²⁹ <http://www.footprintnetwork.org/en/index.php/GFN/page/ecological_footprint_atlas_2008>

¹³⁰ Australia, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Japan, Korea DPRP, Korea Republic, Laos, Malaysia, Mongolia, Myanmar, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Singapore, Sri Lanka, Thailand, Vietnam.

Other useful indicators

Environmental Performance Index (EPI)

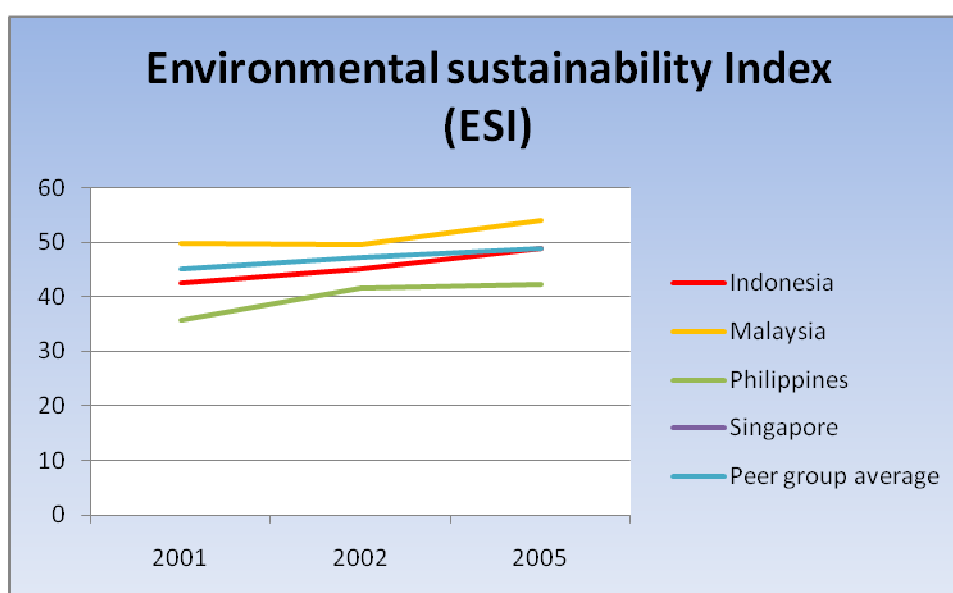
The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change. The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals. The EPI has only been published for 2006 and 2008.

Source: Yale University's Center for Environmental Law and Policy in collaboration with Columbia University's Center for International Earth Science Information Network (CIESIN), and the World Economic Forum.¹³¹

	2006	2008	2010
Indonesia	60.7	66.2	44.6
Malaysia	83.3	84.0	65,0
Philippines	69.4	77.9	65,7
Singapore	..	..	69.6
Asia and Pacific¹³²	66.2	70.8	57.4
Income Group Average¹³³	51.1	68.5	56.2

The higher the score the better the environmental performance of the country (range of 0-100)

Figure 34: Environmental sustainability index



¹³¹ <<http://epi.yale.edu/Home>> and <<http://epi.yale.edu/ResultsAndAnalysis>>

¹³² New Zealand, Philippines, China, Japan, Viet Nam, Papua New Guinea, Malaysia, Nepal, India, Taiwan, Fiji, Pakistan, Australia, Mongolia, Bangladesh, Sri Lanka, Laos, Cambodia, South Korea, Indonesia, Solomon Islands, Thailand, Myanmar.

¹³³ Income Decile 7 (1=high, 10=low).

Figure 35: Total Ecological Footprint

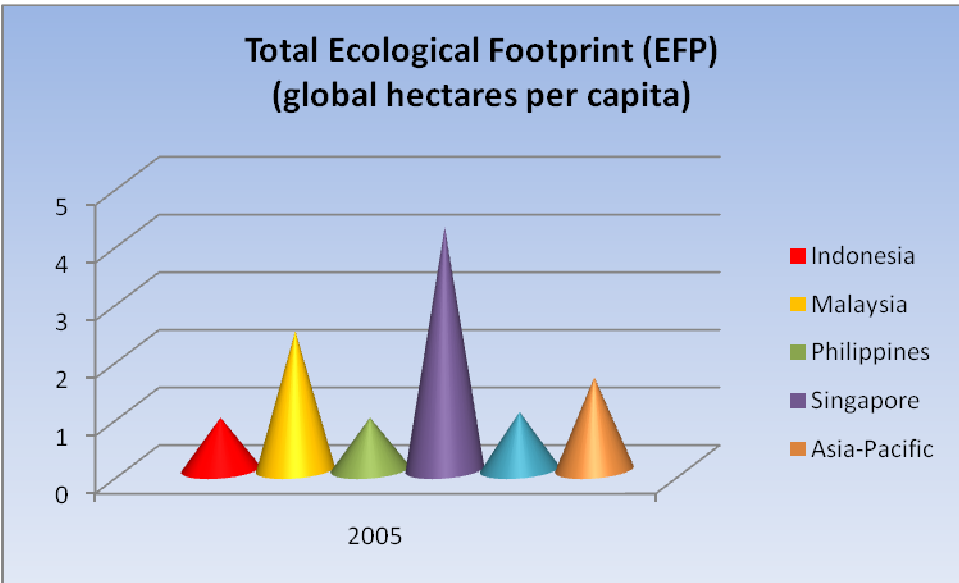
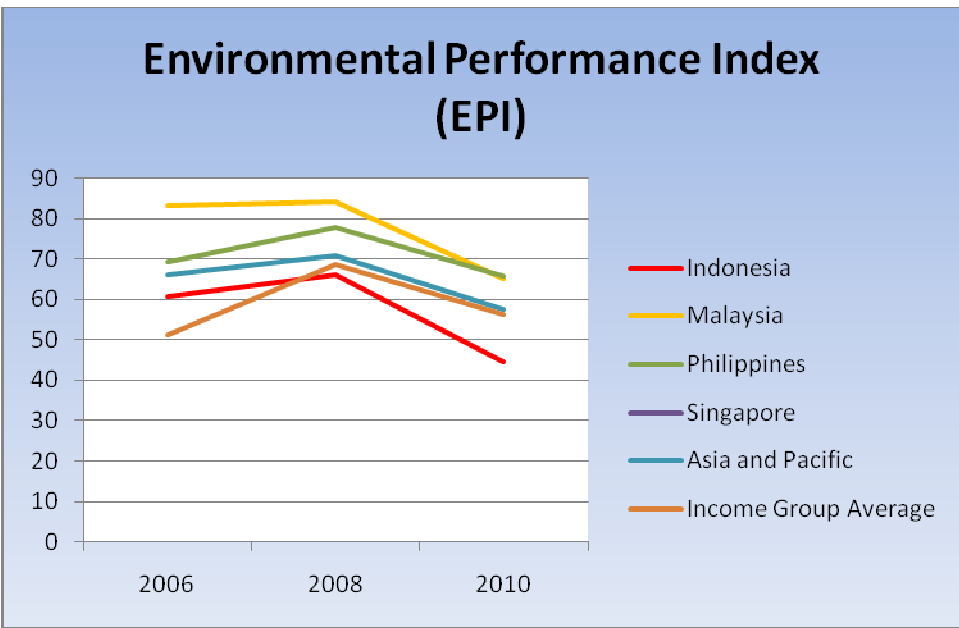


Figure 36: Environmental performance index



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