



**VOCATIONAL EDUCATION AND TRAINING, A STRONG
FOUNDATION FOR DEVELOPING COMPETENT WORKERS**

Synthesis Policy Paper on Decent Work for Young
Persons and Women at the National Level and
in 5 Districts/Cities in Indonesia

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BPS	Badan Pusat Statistik (Central Statistics Agency)
BLK	Balai Latihan Kerja (Vocational Training Center)
Disnakertrans	Dinas Perindustrian dan Tenaga Kerja (Local Industry and Labor Office)
DIY	Daerah Istimewa Yogyakarta (Special Region of Yogyakarta)
ILO	International Labour Organization
INFID	Internasional NGO Forum for Indonesian Development
MoEC	Ministry of Education and Culture
MoRHE	Ministry of Research and Higher Education
MoL	Ministry of Labor and Transmigration
Musrenbang	Musyawarah Perencanaan Pembangunan (Consultative Development Planning Forum)
OECD	Organization for Economic Cooperation and Development
SD	Sekolah Dasar (Primary School)
SMP	Sekolah Menengah Pertama (Lower Secondary School)
SMK	Sekolah Menengah Kejuruan (Upper Secondary Vocational School)
SMA	Sekolah Menengah Atas (Upper Secondary School)
Sakernas	Survei Angkatan Kerja Nasional (National Labor Force Survey)
UMK	Upah Minimum Kota/kabupaten (City/District Minimum Wage)

SUMMARY

Indonesia is a country where labor quality remains an issue. Data from BPS (Central Statistics Agency) showed that over 60 percent of the country's labor force completed their lower secondary education (SMP) or below, and 45 percent of total unemployed only managed to finish their SMP education or below.

Low-level education has significant implications on the quality of workers. Consequently, Indonesia's labor competitiveness remains at a low level. In ASEAN, Indonesia ranks fourth place with respect to labor productivity, behind Thailand, Malaysia and Singapore.

Regarding labor issues at the national level and in five regions where research was conducted by the Civil Society Coalition for Decent Work, it is evident that the government needs to have policies in place for improving the quality of human resource and opening wider access to decent work.

This is the only way to improve the quality of Indonesian workers to ensure absorption by industries, which will ultimately reduce open unemployment rates.

A roadmap must be developed on improving labor quality and vocational education institutions. Vocational education must be an integral part of the national education system and fundamental social structure of a society.

A dynamic education system that can keep up with the ever-changing needs of society, the industry, as well as the aspirations of the younger generation and a rapidly changing global economy. Vocational education should also be designed by engaging the necessary stakeholders to ensure a flexible curriculum that meets the needs of the industry as employers.

The district/city government must establish policies that open up new employment opportunities, such as incentivizing investments and developing the necessary infrastructure.

Each region has a different set of priorities. In Malang District for example, the local government is advised to develop community entrepreneurship, an economic empowerment model suitable for the region, not only because it offers economic gains on an individual basis, but also collectively.

In the districts of Kulonprogo and Wonosobo, it is recommended that the local government develop a roadmap for improving labor quality. Meanwhile in Yogyakarta City and Bojonegoro

District, the local government is urged to improve the quality of BLKs and job training institutions, and build a labor database.

This is to ensure that the workforce in these regions can obtain employment that matches their skills, and that the necessary policies are issued on the basis of valid and reliable data.

The government must also anticipate developments in the digital industry by preparing a workforce that has adequate knowledge of this particular sector. This is an industry that will undeniably continue to expand with the growth of start-up companies, and old conglomerates beginning their foray into an industry that they see as the future of business.

CHAPTER

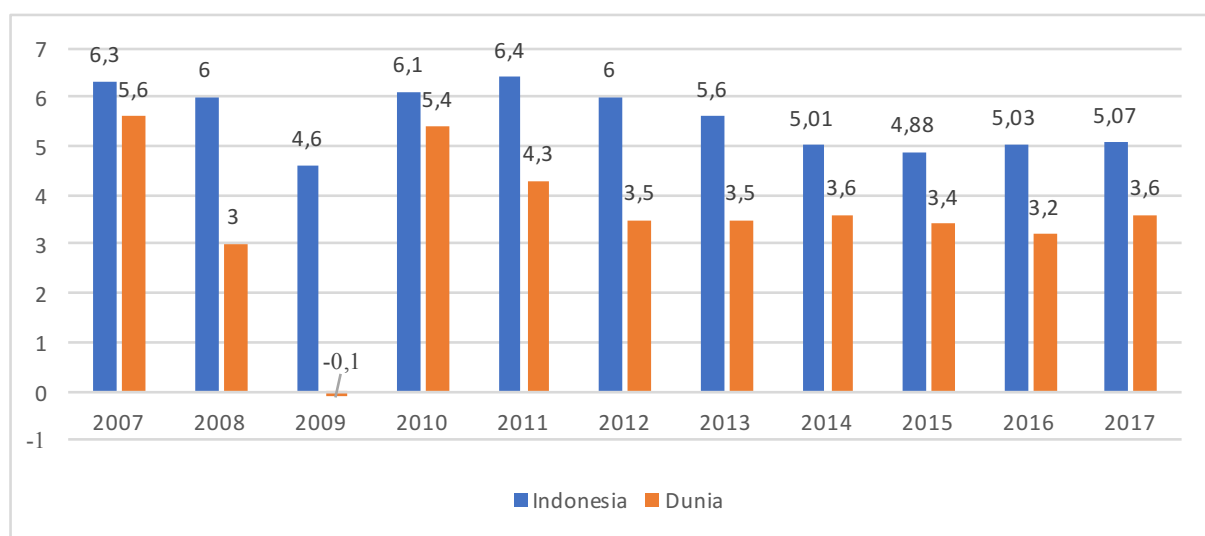
01

Economic growth and inequality in Indonesia

1. Inequality and employment opportunities

In the last ten years, Indonesia has posted economic growth of 5-6 percent. A percentage that is fairly high, even above the average global economic growth rate. Given the commendable growth rate, Indonesia has managed to lower its poverty rate by one digit, the first-ever in the country's history.

Graph 1. Economic Growth in Indonesia and the World (2007 - 2017)



Source: Bank Indonesia and IMF (2018)

However, at the same time Indonesia's economic inequality still stands at high levels. In 2017, BPS released the country's Gini index to be at 0.391. The Gini ratio is an index that measures income inequality between the rich and poor. It is a coefficient with values between 0 and 1. The higher the value, the higher the level of inequality. Indonesia's Gini ratio at 0.391 in 2017 therefore falls under the high-level category.

A research conducted by the International NGO Forum for Indonesian Development (INFID) on the inequality index in 2017 showed a similar trend. At least 85 percent of respondents felt that inequality exists in Indonesia. The most prevalent is income inequality followed by inequality in employment.

According to the World Bank (WB), inequality arises due to differences in opportunities available to children from poor and rich families. Not to mention inequality in the labor market where high-skilled workers earn far more than unskilled informal workers with low productivity.

Economist Eric Maskin, a Nobel laureate in 2007, confirmed the assumption. He contended that more trade openness between countries will widen inequality. Inequality is attributable to the gap in skills and expertise between workers in developed countries and the rest of the world.

The situation above aptly describes what is happening in Indonesia as a developing country. From a total of 113 million workers in Indonesia, 47 percent only managed to complete their primary education, while 20 percent finished their lower secondary education.

This means that Indonesia needs to tackle the issue of the competitiveness of its labor force. Over half of Indonesian workers are uneducated, unskilled and unable to compete with their counterparts from other countries.

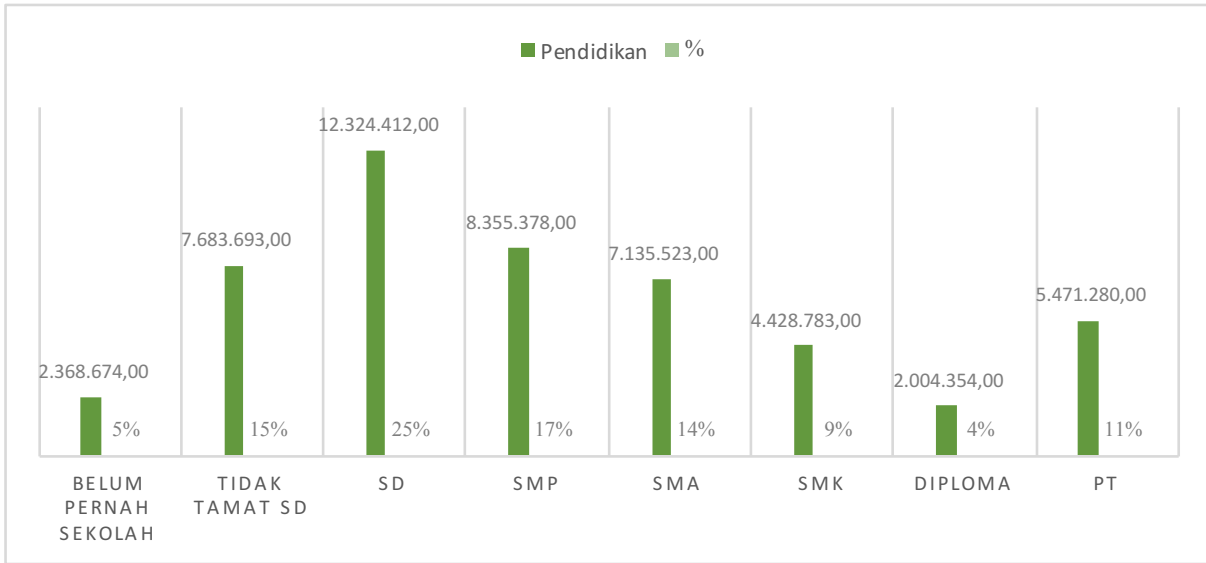
Given the circumstances, they will not be absorbed by the labor market that requires well-educated and skilled workers. Furthermore, investors coming to Indonesia will only be interested in capital-intensive industries as the quality of existing workers is only suitable for these sectors. Workers with low-level education working in these industries will simply be trapped in low-wage employment.

Inequality in employment opportunity in general occurs because labor issues are not mainstreamed into development policies. This means that the government does not pay special attention to improving human capital. Indonesia has long gained independence yet the government has only recently given serious attention to enhancing worker skills and expertise.

Why only now? The government has in fact raised the importance of link and match in national education and the economy. Alas, it was merely an educational discourse without progressing to an actual labor policy.

Furthermore, the New Order regime at the time was fearful of the influence of labor politics and as a consequence the Labour Ministry established by the government was not oriented towards worker welfare and strengthening the role of workers in development but simply an attempt to control trade unions.

Graph 2. Highest Level of Education Attained by the Indonesian Workforce in 2017



Source: BPS, 2017

A workforce that is not absorbed by the industry will create other social problems. An ILO (International Labour Organization) report in 2017 brought attention to an increase in the unemployment rate by 3.4 million people or 5.8 percent in 2017, higher than the previous year at 5.7 percent.

This rise in unemployment mainly occurred in developing countries such as Indonesia than in advanced nations. The unemployment rate in Indonesia is expected to rise 0.3 points from 2016 to 2018, which is considered a significant increase.

Graph 3 Global Unemployment Trends and Projections

Unemployment, vulnerable employment and working poverty trends and projections, Asia and the Pacific, 2007–18

Country/region	Unemployment rate, 2007–18 (percentages)				Unemployment, 2016–18 (millions)		
	2007–2015	2016	2017	2018	2016	2017	2018
Asia and the Pacific		4.2	4.2	4.3	84.4	85.4	86.5
Eastern Asia		4.5	4.5	4.5	41.6	41.9	42.4
China		4.6	4.6	4.7	37.3	37.6	37.9
Japan		3.1	3.0	3.0	2.0	1.9	2.0
Korea, Republic of		3.7	3.6	3.7	1.0	1.0	1.0
South-Eastern Asia and the Pacific		3.8	3.8	3.9	13.3	13.7	14.0
Australia		5.7	5.5	5.3	0.7	0.7	0.7
Indonesia		5.6	5.8	5.9	7.1	7.4	7.7
Southern Asia		4.1	4.1	4.1	29.5	29.8	30.2
India		3.5	3.4	3.4	17.7	17.8	18.0

Source: ILO, 2017

At the sub-national level, the situation is not much different. The Civil Society Coalition in late 2017 until early 2018 studied the young population and women concerning their need for decent work in five districts/cities, namely Yogyakarta City and Kulonprogo District in the Special Region of Yogyakarta (DIY); the districts of Malang and Bojonegoro in East Java; and Wonosobo District in Central Java.

A key conclusion is that a gap exists between worker education and skills with industry and labor market needs. The open unemployment rate in the selected regions is fairly high as worker skills and productivity do not meet industry expectations. The industry does not employ workers with the current level of skills.

2. Labor quality contributes to worsening poverty

In Malang District, the poverty rate is over 11 percent. The local workforce mostly has low-level education, skills and competency.

At least 34 percent of them only graduated from primary school, while 21.89 percent completed their SMP education and 15.47 percent did not even finish primary education. Meanwhile, the labor force participation rate for those aged above 15 is 66.28%.

Some 64,034 people are unemployed. Ironically, the unemployed are predominantly vocational secondary school (SMK) graduates, accounting for the highest number of people without work at 34.53 percent, followed by those who completed their SMP education at 27.93 percent.

The fact that SMK graduates contribute significantly to the unemployment rate in Malang showed a mismatch between the skills acquired from school and labor market needs.

Even if they are not absorbed in the labor market, the next option for SMK graduates to set up their own businesses will also be met with obstacles such as lack of access to capital, technology and market, in addition to weak business management capacity, including in the anticipation of risks. For small investors, the challenges that they face in opening up a business are heavy, especially regarding risk management.

Similarly, labor quality in Wonosobo District is far from expectation as evident in the composition of the educational attainment of its workforce. In 2017, from a total of 428,556 workers, the highest level of education attained is as follows: 299,806 people with primary education or below (69.96 percent); 59,906 people with SMP-level education (13.98 percent); 52,854 people with SMA-level education (12.33 percent); and 10,557 people with a university

degree (undergraduate, postgraduate, doctoral) (2.56 percent); and 5,433 people with a Diploma (one, two, three-year diploma course) (1.27 percent).

The local population in Wonosobo is mostly aged 15 and above, and predominantly work in the agricultural sector (44.72 percent), followed by the trade sector (21.64 percent) and industrial sector (13.42 percent).

From the data above, it can be concluded that more than half of the local workforce have either only completed primary education or below. As a consequence, it is difficult for them to compete with workers from other regions, especially for highly skilled jobs.

Poor labor quality is associated with low pay. Poor quality puts workers in a difficult position with no bargaining power, unable to earn decent wage.

Unless they upgrade their quality, their well-being will not improve. Enhancing their quality is therefore part of efforts to secure employment.

Apart from the issue of quality, workers in Wonosobo do not enter in an employment contract in any form whatsoever. Again, this is related to the level of education, knowledge and legal awareness of workers on labor policies. In addition, most of them work in the informal sector.

Consequently, their salaries are not in accordance with the minimum wage set by the government when in fact it is meant to protect workers who are marginalized and not organized in the modern sector.

The impact of such low-level education is reflected in the poverty statistics of this cool-climate district. In 2017, poor people accounted for 21.4 percent of a total population of 777 thousand. This makes Wonosobo a district with the second highest poverty rate in the Kedu Residency. The large number of poor people in the region and the inequalities that they face remain to be a persistent problem.

Apart from the issue of quality, employment opportunities in Wonosobo are limited. The leading sectors are agriculture, industry, trade and service. Alas, these sectors have not been able to provide the workforce with adequate employment opportunities.



3. Surplus of quasi job openings

Labor quality is also an issue for the district of Bojonegoro, East Java. A distinct phenomenon in the district is the surplus of job vacancies that is twice the number of workers available.

According to local government data, there are 3,862 job seekers in the region, and in the same year there are 10,424 job vacancies, or a surplus of 269.9 percent.

This surplus however is not because there is no unemployment or the entire workforce in Bojonegoro is absorbed in the labor market. In 2016, the number of unemployed has instead increased from 8,994 people (2015) to 23,320 people (2016).

This is due to the scarcity of workers with skills that industries seek. They are therefore unable to access available jobs and unemployment remains high.

Industries in Bojonegoro require workers with at least an undergraduate degree or with specific competencies. In short, workers with skills, knowledge and attitude. In reality however, the local population aged 15 and above mostly have only managed to finish their primary education, accounting for over 43 percent. Nearly half of the local workforce are uneducated and unskilled.

Given the situation, however plenty the job openings available, it will not help bring down the open unemployment rate as in reality frictional unemployment has in fact occurred.

A key contributing factor of frictional unemployment in Bojonegoro is the poor quality of workers, while job openings are not proportional to the number of job seekers.

As a consequence, most of the workforce aged 15-30 in Bojonegoro are absorbed in unskilled employment such as in labor-intensive industries as construction workers, or in the tobacco industry.

The wide gap between unemployment and the demand for labor exists because many job seekers do not register with the Disnakertrans (Local Industry and Labor Office). This is not only about their willingness to register, but also due to lack of sensitization about the need to report, and the absence of effective instruments to facilitate job seekers wishing to report, for example by using information technology.

The district has no strategic plan for training the workforce or building their entrepreneurial skills. The government had organized skills training programs in 2015-2017. In 2015, there were 11,639 training participants, and the number fell sharply in 2016 with only 2,807 workers trained, and further plummeted to only 150 people in 2017.

This has led to less than optimal results in terms of the number of new entrepreneurs and number of workers accessing available job opportunities. The output of training held in 2015 was that only 2.59 percent of participants have set up businesses, and in aggregate terms a mere 8.68 percent of participants have established enterprises.

This is because the training programs were not designed as part of a comprehensive labor policy, and as such training did not generate a meaningful impact on workers or the opening up of new enterprises.

4. Low labor productivity

The district of Kulonprogo is similarly facing labor productivity issues. The National Labor Force Survey (Sakernas) for DIY in 2016 showed that labor productivity in the district is ranked the second lowest in DIY. Labor competency in Kulonprogo is also another serious issue.

From total job openings for 1,745 people, only 752 workers or 57 percent were eligible for employment. This indicates that the local workforce is still unable to meet job requirements needed by the labor market.

Another issue that the district needs to deal with concerns the disproportionate growth of the labor force compared to the growth of job opportunities. This has the potential to drive unemployment rates upward.

The trend in 2017 reveals a gap in hires and job openings. The widest gap is evident in job placements among local workers.

Other issues relate to workers earning less than the district-level minimum wage, absence of an employment agreement, lack of worker social security, and low-level skills that meant workers not being absorbed in the labor market.

In Kulonprogo, there are in fact BLKs that provide skills training packages with a range of financing schemes. However, post-training participants are not provided with job placement facilities, leaving them on their own devices to seek employment.

Training participants also do not go through an apprenticeship or internship. This indicates the absence of cooperation or linkage between BLKs as vocational training institutions and companies as employers. There is therefore no connection between vocational training received by participants (supply side) and the needs of companies as employers (demand side).

5. Decent work that commensurate with worker skills

The situation in Yogyakarta City is no different, albeit with relatively lower unemployment rate at 3.33 percent compared to the national average of 5 percent.

This city however does not fully provide decent work that matches the appropriate skills. Another issue concerns employment that remains less than the city-level minimum wage and unavailability of information on mechanisms for salary increases.

The situation above is due to several factors. First, incompatibility between government policies and capacity-building needs as well as worker skills. This is because the annual *musrenbang* (consultative development planning forum) has failed to provide employment opportunities that match the skills and expertise of workers as proposed programs do not reflect the actual needs of potential workers.

The government does in fact engage the private sector in developing training programs for producing workers that meet market needs to ensure absorption, including cooperation for apprenticeship and internship. However, not all participants are willing to take part in apprenticeship or internship programs, and they do not then proceed to seek employment or have the inclination to work.

The collaborative ties between the government and private job training institutions (LPK) in Yogyakarta can be an exemplary practice for others to emulate. Through such partnerships, educational institutions can offer more varied training schemes compared to BLKs run by other local governments.

Such collaborative ties need to be expanded for developing more costly training infrastructure, such as for training on machining techniques. The government needs to partner with the private sector given the rapid advancement in technology. For instance, the government can collaborate with automakers for automotive training or procurement of auto engines.

Yogyakarta City's unemployment rate may be low, but does not lead to a proportional change in worker welfare. One of the indicators is the uptake of social security programs with regard to health and employment.

In Yogyakarta City, nearly 81 percent of respondents have no basic social security. Any available social security is provided in stages, and only by large and medium-sized companies. Smaller enterprises are not required to enroll their employees in any of the four protection programs.

6.Challenges to vocational education and training institutions

Vocational education and training institutions – SMK, BLK, LPK and polytechnic – in general face various fundamental issues. SMKs for instance are often perceived as “second-class” institutions compared to mainstream upper secondary schools (SMA). Another issue relates to the competency of educators who mostly teach subjects under the normative and adaptive categories than the so-called “productive” subjects on vocational competencies.

This is also a problem for BLKs and polytechnics with inadequate infrastructure or mentors. Polytechnics in particular are unable to meet their need for qualified lecturers with an industry background due to a policy that requires educators to have a Master’s degree.

Furthermore, the limited availability of vocational programs at the Master’s and applied doctorate level presents a challenge of its own in developing qualified human resource with higher academic qualifications in applied sciences.

Another concern is that the SMK curriculum is not much different than in SMA. Only in the second year will practical, hands-on lessons provided to SMK students account for 38 percent of the curriculum, and in the third year such lessons increase to 50 percent. Vocational schools should in fact stress on practical training than theoretical mastery.

Curriculum is also an issue for BLKs where the type of competencies taught are not flexible. BLK training is more universal without regional differentiation to suit the industry potentialities of each region. Polytechnics on the other hand do not optimally apply the “teaching factory” learning model when they are expected to foster partnerships with industry partners to allow their students to put their knowledge and skills into practice in an actual working environment.

Vocational school administrators tend to prioritize courses that require minimum equipment, such as computer and network engineering, accountancy, office administration, light automotive engineering or motorcycle engineering. BLKs on the other hand have outdated equipment that is no longer suitable for ever-changing industry needs.

Another issue concerns budget policy that has been inadequate for making quality programs available to build the capacity of workers. The vocational education and training program budget for three key ministries – Minister of Education and Culture (MoEC), Ministry of Labor (MoL), and Ministry of Research and Higher Education (MoRHE) – amounts to IDR 2.58 trillion or 0.021 percent of GDP.

In comparison, OECD (Organization for Economic Cooperation and Development) countries such as Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland,

France, Germany, Greece, Hungary, Iceland, Ireland and Israel, with a high-quality, competent workforce allocate 1.32 up to 1.58 percent of GDP for worker education and training. Denmark has even set a higher standard at over 3 percent of GDP.

In addition, Indonesia in general has yet to develop a definite vocational education and training model. There is no preferred references, Germany or Taiwan, as both countries have best practices in labor education.

The Policy Roadmap on Vocational Education (2017) has also yet to adequately describe on which educational system to be applied, whether it should be oriented to SMKs, BLKs and polytechnics or other alternatives.

CHAPTER

02

Policy Recommendations

1. Everything needs a roadmap

Efforts to improve the quality of vocational education and training institutions must be based on a roadmap, which serves as guidance to provide the necessary direction. With regard to achieving the expected outcomes of an activity, a roadmap is a document that provides a detailed work plan that integrates all program and activity plans and implementation processes within a specified timeline.

The vocational education and training roadmap in Indonesia will explicitly set out what needs to be done to ensure improvements in labor quality, starting from education and training institutions, to key sectors and capabilities expected from workers in Indonesia.

The roadmap will make it easier for the government to develop and implement education and training programs for human resource that meet the needs of the industry and labor market. In April 2018, the government has started work on developing the roadmap, but to date the document has not been released.

The government has managed to identify sectors or industries that require workers in large numbers (demand side), in addition to the level of capabilities and skills expected.

Sectors that the government predicts will continue to grow and absorb a significant number of workers are agribusiness, manufacturing, tourism, health (health workers), digital economy and migrant workers.

The roadmap should also consider the development priorities set by President Jokowi's government such as infrastructure and the development of 10 new tourist destinations. Only then will there be a balance between vocational education and training outputs with industry and labor market needs.

The Jokowi administration is in fact strongly committed to improving the vocational education and training system as a solution to the country's labor issues. This is demonstrated in various official visits that led to the commitment to collaborate towards developing vocational education and training in Indonesia.

This is indicated in several actions taken by the government. Firstly, in an official visit to Germany in mid-April 2016, President Jokowi specifically requested German Chancellor Angela Merkel to help with Indonesia's vocational education programs.

On 9 September 2016, the President also issued Presidential Instruction No. 9/2016 on the Revitalization of SMKs to Improve Human Resource Quality and Competitiveness in Indonesia. Soon after on 13 September 2016, a meeting was held with instructions to overhaul the

vocational education and training system, and reorient to a more demand-driven system. On 29 September 2016, a MoU was jointly signed by 5 Ministers on the Development of Competence-Based Vocational Education through a “link and match” program with the industry

2. Importance of improving the quality of vocational training institutions

To tackle the issue of labor quality in Indonesia, a systematic approach is necessary for upgrading worker capabilities and competencies. This can be done at the national and sub-national level, such as in the research locations identified by the Civil Society Coalition.

The question however is what quality-enhancement programs can effectively increase the level of worker skills and competencies?

A key issue that needs to be dealt with concerns the quality of vocational training institutions, such as campuses, BLKs or LPKs owned by the government or private sector, which provide training programs that support the mastery of specific applied skills.

Vocational education must form an integral part of the national education system and the fundamental social structure of a society. The education system should be dynamic and in tune with the needs of society and industry, as well as the aspirations of the younger generation and a fast-changing global economy.

This is a fundamental feature that every vocational education and training system needs. An effective system that is responsive and relevant to worker needs with long-term strategic planning, adequate training infrastructure and effective delivery systems.

An immediate issue that needs to be prioritized concerns the quality of BLK teaching staff. BLKs need to recruit instructors that not only have a good grasp of the theoretical knowledge of a particular type of work, but can also provide practical guidelines that learners can easily understand.

Their knowledge must keep up with developments in the industry, facilities and infrastructure in order to become competent, creative and innovative teachers who can easily adapt to changing times. This includes proficiency in foreign languages for ease in transactions and employment abroad.



3. Flexible curriculum

To this end, government intervention is necessary in order to make competent educators available without emphasizing on their formal educational attainment.

This is a critical aspect as vocational education requires flexible curriculum and instructors. In order to provide the best education, vocational education institutions can recruit individuals with experience in the tourism and agribusiness sectors as teachers or instructors even though they come without formal education qualifications.

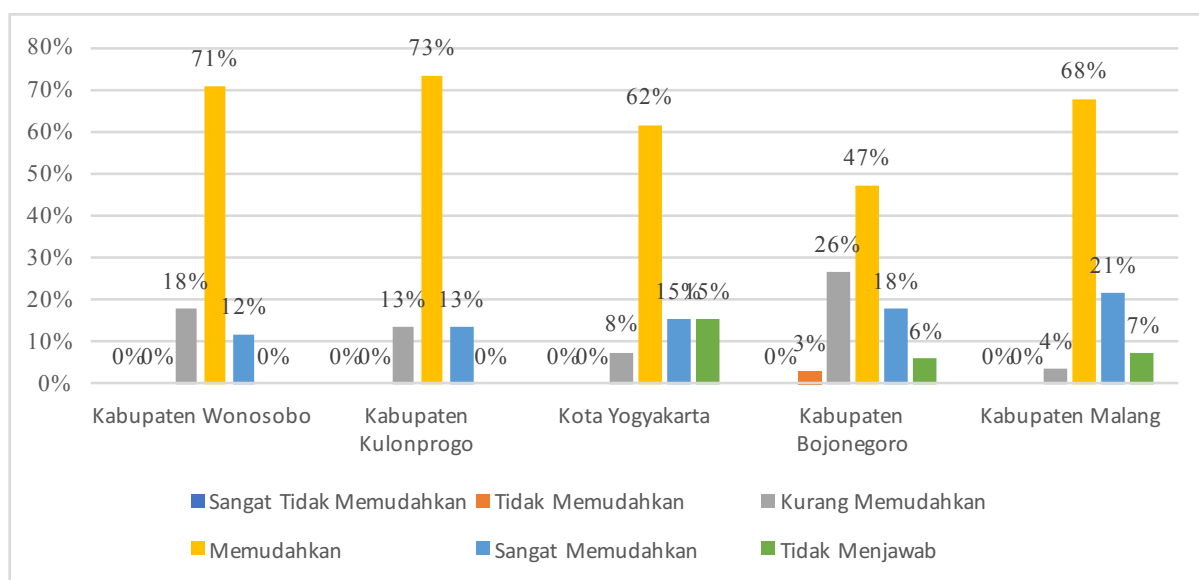
The curriculum also needs to engage the industry in order to obtain input on their needs, improve quality as well as the facilities and infrastructure needed for vocational education.

Apart from the issue of teaching staff, vocational education institutions must also invest in additional equipment in line with the changing needs of the world of business. A minimum standard must therefore be determined on the equipment that must be available and can be used by vocational students in order to be work-ready.

The quality of vocational education institutions or BLKs must be improved given their vital role in making it easier for job seekers to find work. A study conducted by the Civil Society Coalition found that 70 percent of respondents on average in the five research locations mentioned that vocational training establishments have been useful in making it easier to seek employment.

They believed that training materials are relevant to their line of work. Some respondents spoke on the need to improve the quality of BLKs as the training materials are hard to understand and not relevant to their work. In addition, job opportunities that require the competencies taught by BKLs are not readily available, especially in Bojonegoro (60 percent).

Graph 5. Ease in Finding Work



It is equally important to foster government-industry partnerships in providing vocational education and training.

The government must support companies in providing education and training to their workers. The Singapore government for instance has launched several schemes that provide full or partial financial support for worker capacity-building programs.

These funding schemes include cash transfers, government equity funding, business incubators, debt financing and tax incentives. These schemes can help cut consultation costs for human resource development such as productivity improvement, and implementation of information technology and human resource systems.

High-quality vocational training requires adequate budget. Hence, the importance of considering to reallocate budget for formal education to non-formal vocational education.

Non-formal vocational education can be an alternative approach, particularly as the Net Enrolment Rate (NER) for formal upper secondary education in the past 4 years reached only around 60 percent. With a fiscal capacity of IDR 2 thousand trillion, ensuring access to 12 years of formal education shall take considerable time.

There is therefore the need to consider the possibility of reallocating budget for formal education to vocational education and training. Educational outcomes should shift toward improving quality while widening access to education which is not measured from the availability of non-vocational formal schools, but from establishing more vocational schools to meet the emerging challenges in an ever-evolving world, such as the fourth industrial revolution or industry 4.0.

4.Improving labor quality in Kulonprogo

For the district of Kulonprogo, a roadmap needs to be formulated for developing the workforce. Programs can include job training, competency certification, internship mechanisms, as well as placement and protection in terms of wages and social security.

Programs should also be responsive to labor market needs and changing times with regard to education and training curriculum, instructors and facilities. Industries as employers must be actively involved in preparing the workforce in accordance with their needs. They need to work alongside vocational education and training institutions with respect to education, training, research and internship or apprenticeship opportunities.

Vocational education and training establishments such as BLKs, higher vocational studies, LPKs or NGOs need to offer training programs that are responsive to labor market needs and changing times in terms of education and training curriculum, instructors and facilities.



In terms of budget, the Kulonprogo district government has shown the commitment to develop human resource among others by earmarking IDR 2.7 billion or 32.8 percent of its budget for worker development and training programs. This policy must be maintained particularly with an ever-expanding workforce.

The government should create decent working conditions even though the workforce is mostly absorbed in the informal sector. For example by making it compulsory to enter into an employment agreement, to provide social security, and to fulfill the normative rights of employees.

Civil society organizations in Kulonprogo need to take the lead in forming a Committee for Vocational Education, Productivity, Internship and Protection of Workers that engages local government, private sector and the public.

With the formation of this committee or forum, the needs and aspirations of the respective parties can be accommodated and labor issues can be discussed for finding viable solutions.

5. Developing community entrepreneurship in Malang

In the district of Malang, the recommendation to enhance worker competency is followed through by developing community entrepreneurship at the village level. This concept is different from entrepreneurship in the economic context that equates to pure profit motive, especially individual gains.

Community entrepreneurship is not simply about economic motives, but also the social purpose of elevating the economic well-being of the people collectively (communities), and not only individually. Based on this concept, entrepreneurship is an instrument for community development, and not simply for improving the economic welfare of individuals.

Community entrepreneurship is built on three key elements. Firstly, engagement at the local level, involving village heads and other leading figures. Leaders who show initiative play a pivotal role in pushing for the implementation of this concept.

In practice, local leadership such as the village chief must be sensitive towards change beyond the village and be receptive to the people's needs, and can creatively make the most of opportunities in the village, in addition to the ability to collaborate with various parties in dealing with challenges that the village faces.



Secondly, community entrepreneurship is related to the creative ways in which to solve economic and social issues in the community, such as open unemployment among the young individuals and women in the workforce.

Thirdly, community entrepreneurship implements change in a participatory manner. The village head as the leader cannot make decisions and work alone, but should engage other individuals or groups.

6. Need for government-private sector collaboration in Yogyakarta City

The recommendation for Yogyakarta City is also to build the capacity of job seekers by improving the quality of training provided by LPKs. This program involves enriching knowledge in line with market needs, as well as improving training methods and developing trainers with expertise.

In addition, there is the need to promote public-private partnerships, which remain to be a persistent issue in Yogyakarta City. In this city, research revealed lack of cooperation between the government and companies as employers.

Vocational education should not necessarily be the sole responsibility of the local labor office (in Yogyakarta it is the local cooperatives, SMEs and labor office), but can engage other institutions in cooperation schemes. The local labor office for example need not hold cooking classes that are similar with those provided by the local office for women and child protection where economic empowerment programs include skills training for women.

Government-owned LPKs must also collaborate with the private sector to develop more varied training packages. Such cooperation should even be extended to the procurement of costly training infrastructure such as machinery and other equipment considering the rapid pace at which technology is advancing.

For example, training on automotive engineering can be done in partnership with automotive manufacturers for the procurement of auto engines and other equipment.

It is also recommended that Yogyakarta City develops a grand policy design jointly with all stakeholders that can guarantee employment opportunities for young persons and women with decent wage. This grand design is expected to include a roadmap geared at creating decent work for the people of Yogyakarta City.

7. Solving the issue of labor quality in Wonosobo District

For the district of Wonosobo, the first step is to improve the quality of vocational training provided by the government and private sector. The purpose is to ensure relevancy, and improve the quality and efficiency of worker training.

Job training institutions shall focus on instilling a productive culture and strong work ethic, technological mastery, and efficient economic activities in order to improve the productivity of the local workforce.

Efforts to improve labor quality shall start with the mapping of the number and type of businesses and skills needed. This initial step is necessary to determine the type of training and skills that the government will provide, in addition to ensuring that training materials match skills needed by the workforce.

Another recommendation for the government concerns the need to make training equipment available, and to collaborate with universities and NGOs in dealing with the lack of equipment and experts in specific areas of discipline.

Training should also reach rural areas and made available as widely as possible, including to the smallest unit of society. This can help make more people in the workforce gain the necessary skills and expertise.

The government should also work in concert with the private sector as well as state-owned companies at the national and subnational level in providing training in order to ensure that employers can directly recruit potential workers from such training programs.

Apart from the issue of labor quality, the government needs to broaden job opportunities based on natural resource and human resource potential and technology.

This can be achieved by promoting local government policies for every sector that are aimed at expanding job opportunities, both within and outside of an employment relationship. It is also important for banking and non-banking financial institutions to also contribute and facilitate every community activity that can create or develop employment opportunities.

The government is expected to attract more investors due to their ability to create new job opportunities. This can be done by actively promoting investment and incentivizing investors.

Job opportunities can also be expanded by developing independent enterprises, such as relating to tourism management, development of tourism potential, agroindustry and



culinary. Training is therefore necessary to make the most of resource potential in the district.

In establishing new businesses, the government should provide the necessary facilities, from licensing incentives to accessing new markets. Cooperation can also be fostered with banking institutions in providing soft loans for additional capital in an effort to boost business productivity.

This should be followed by the placement of workers in jobs that provide welfare, safety as well as mental and physical health since day one of recruitment. In setting the minimum wage to guarantee worker welfare, the government must take into account essential needs for a decent life as well as productivity and economic growth.

In dealing with child labor, a persistent issue in poor regions, the Wonosobo district government should make it a requirement for job seekers aged below 20 to obtain an introduction letter from the local labor office before applying for work. This is intended to provide the government with access to data on the number of young workers hired by companies. This will allow local government to use the data to take the necessary action if a company is known to exploit minors.

8. Optimizing BLKs and developing a labor database in Bojonegoro

It is recommended that the district of Bojonegoro address its labor issues by formulating local policies on inclusive training and optimizing BLKs for competency training.

Training should also be provided in a continuous manner. Labor quality can be improved by implementing CSR (Corporate Social Responsibility) programs relating to competency-based education and training.

Training shall not be limited to hard skills, certification and vocational training for bridging the gap between school life and world of work, but also includes soft skills, life skills, and instilling the determination and willingness to work.

An education system like this requires a holistic and integrated approach that engages professionals, not only for potential workers but also families, schools and the social environment.

The Bojonegoro district government can support this through policies that may be in form of district head regulations on inclusive training, which have immediate impact on the availability of qualified workers.



Such programs can be initiated through partnerships with the private sector as employers. Both parties are mutually dependent; workers need employers (private sector) to be paid salary, whereas the private sector need workers to keep their businesses going.

They can contribute in improving labor quality, among others by collaborating with vocational education institutions in providing opportunities for internship or apprenticeship to help participants gain knowledge on business and the industry.

In addition, the private sector through CSR programs can provide competency-based training to the workforce in Bojonegoro who are still considered unskilled.

Bojonegoro prioritizes on the use of CSR funds for skills-enhancement training through District Regulation No. 23/2011 on Accelerating Local Economic Growth in the Exploration, Exploitation and Processing of Oil and Natural Gas in Bojonegoro District.

It is also recommended that the local government build facilities and infrastructure that support the growth of investment and develop an information technology-based labor database

From the problems identified and facts provided above, the strategic issue is the formulation of a roadmap/strategic plan on training the workforce and entrepreneurship through the link and match approach. The roadmap or strategic plan shall contain targets that training participants are expected to meet, the competencies required, and post-training support such as internship or apprenticeship, financing, facilitation and information.

Competency-based training with a link and match approach is expected to provide workers with skills that the world of work really needs, allowing them to immediately access available employment opportunities. Meanwhile internship or apprenticeship is part of government efforts to facilitate training participants to put their skills into practice in the workplace, and to instill in them a professional work ethic.

The competencies gained from training should also take into account the global industrial revolution that may pose a serious threat to the local workforce of Bojonegoro.

Considering the fact that the people's level of prosperity in Bojonegoro remains low (high poverty rate at 14.89%), the region is exposed to serious risks as its human resource has skills that are incompatible with what the world of work needs, particularly as industry 4.0 brings in a new era of automation.

Training is therefore expected to create individuals with entrepreneurial competency who are capable of opening up new job opportunities. Entrepreneurial training must be

accompanied with assistance and facilitation for start-ups, especially in accessing capital. The roadmap or strategic plan can therefore produce a competent workforce and a new breed of entrepreneurs.

Given the strategic issue above, the Bojonegoro district government can develop a policy alternative by issuing a district head regulation on a roadmap or strategic plan on worker and entrepreneurial training that should be provided on a continuous basis.

Bojonegoro also needs to seriously maintain a labor database. The government currently has data on only 2 percent of the unemployed in the region. This indicates a gap between the number of job seekers and open unemployment. This data gap has led to inaccurate solutions to dealing with the region's labor issues.

The district government claims that there are 164.65 percent of job openings compared to the number of job seekers. This means that there are more job openings than job seekers. However in reality, the job openings can only accommodate 15.91 percent of the unemployed. The government's claim of a surplus in job openings is therefore unproven.

The government needs to identify ways in which to collect more data on the workforce by using information technology. Managing the database includes the mechanism, storage, information services, and IT-based monitoring that allows job seekers to register online.

The database consists of a complete profile of the workforce with personal data, including information on their education, expertise, work experience and others. Data can be immediately updated, thus providing valid data that reflects the most recent situation.

A comprehensive database with complete information on the workforce will support efforts to create a more just and fair labor market.

The government also needs to address issues related to decent work with respect to wage and social security. In the district, a study conducted by Prakarsa found that over 40 percent of workers do not have an employment contract. Meanwhile, 64 percent of workers are paid less than the prescribed minimum wage.

The absence of an employment contract means that workers are denied job security, and earning below the minimum wage means that they cannot fulfil the basic necessities to lead a decent life (income security).

The government therefore needs to develop a policy that guarantees decent work, and that requires business entities to comply with the minimum wage standards, sign employment agreements and pay social security.



Like other districts, Bojonegoro has the duty to expand job opportunities in order to reduce open unemployment. In 2016, some 8,000 people in Bojonegoro were put out of work in the oil and gas industry, and there were only few investments.

The government should therefore provide incentives to investors to do business in Bojonegoro. There were initially six investors who showed interest in investing, but due to lack of facilities and infrastructure, they pulled out.

The local government needs to show more concrete efforts in formulating the necessary policy by allocating budget for improving facilities and infrastructure to draw in more investment, such as the provision of transport for industries. This will ensure that government incentives are truly beneficial to investors.

9. Digital literacy

Indonesia is now entering the fourth industrial revolution that brings digitalization and technology application to the fore. The Minister of National Development Planning, Bambang Brodjonegoro, has pointed out that the digital era may cause the loss of tens of thousands of jobs. He stated that McKinsey, a multinational management consultancy firm, projects that 52.6 million jobs are at risk of being replaced with automated processes, or equivalent to 52 percent of the Indonesian workforce.

Not only Indonesia, other countries are also imperiled by the advent of the digital era. In Australia, 45 percent of its workforce will be at risk, in Malaysia it will be 41 percent, Singapore 44 percent and Japan 51 percent.

Jobs that will disappear are those that need limited skills, not advance-level competencies. Jobs that will survive typically rely on human skills, and thus cannot be replaced by machines.

Automation means replacing humans with machines for efficiency, effectiveness and economic reasons. A study by Oxford Martin Program on Technology and Employment predicts that 47 percent of jobs will be under threat within the next decade, and only 0.5 percent of workers may work in new types of employment.

There will be less job opportunities, and those available will be focused on the technology and information sector that requires high-skilled workers. Under such circumstances, disparity among workers in terms of skills will widen. Highly skilled workers are less likely to switch profession, whereas those from the lower-middle class will increasingly be left behind.

Based on government statistics, there are 575,000 workers in the manufacturing industry; 195,843 workers employed in the agribusiness sector; 3,333 people in the tourism industry;

6,018 people working as health workers; 5,172 people with careers in the digital economy; and 243,265 working as labor migrants.

The proportion of workers in the digital industry may now seem relatively insignificant, but is expected to grow in line with rapid developments in this industry. A survey by Michael Page, a recruitment agency, in March 2016-April 2017, observed a 60 percent surge in labor needs or job openings in the technology and digital industry.

Suh labor needs will continue to grow as nearly all companies, from start-ups to old conglomerates, will make attempts to diversify their businesses into the digital technology industry that they see as the business of the future. Four key prospective digital and tech sectors are e-commerce, logistics, fintech and big data.

The digital or technology literacy of Indonesian workers therefore should be an issue that the government needs to pay more serious attention to.

CHAPTER

03

Closing

Fundamental changes in the national system

There is one particular agenda in improving labor quality in Indonesia that cannot be ignored, which is the need to fundamentally change the education system.

It is critical to consider a strict division between formal and non-formal education. Formal education should focus on aspects relating to the basics of leading life as part of the nation and State, and character building. Non-formal education on the other hand shall provide skills development facilities to meet job requirements.

It is also important to reassess the length of schooling. The duration of schooling should be made shorter but far more effective and efficient.

Primary and secondary (lower and upper) education can be shortened to no more than 8 years instead of the current 12 years. Within the eight-year period, students are encouraged to build their sense of nationalism, good character (morals/ethics), cooperation and tolerance, develop reading habits, as well as logical thinking based on sound argumentation

If upon completing upper secondary school, a student does not continue to higher education, he or she can access various short courses (non-formal education) to acquire the necessary skills. The State shall provide opportunities for short learning programs to allow students to build their capacity and competency.

Another fundamental change concerns the LPTK or teacher education institutions. LPTK should teach about effective learning methods that engage students in dialogues. In addition, LPTK should develop graduates who are familiar with information and communications technology for learning aids. In short, it should be able to produce professional educators.

The education curriculum should be made more flexible as it must adjust to a fast-changing world. Furthermore, every region has distinctive features due to different demographic, geographic and socio-cultural conditions.

All these require accurate responses that effectively answer needs. If there is only a one-size-fits-all curriculum too rigid to respond to a changing environment, education will simply be a stagnant learning process.



Apart from efforts at the national level, it is equally important to address the labor situation in regions. A study by the Civil Society Coalition on decent work also provided recommendations for each region.



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