

## Research Report #3

# Non-Wage Instrument as an Complement Effort for Improving Worker's Welfare: A Picture of Weaknesses in Policy Commitment of Local Government



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## I. INTRODUCTION

### 1.1. Background

Creating conducive climate for investment is very important to attract investors to invest in real business sector at the region. Capital inflow to a region has a potential to create job opportunities which would boost the economic activities in the region. Therefore, various local government programmes should be directed to create conducive investment climate.

In order to create conducive investment climate, there are many factors should be considered. Factors influencing creation of conducive investment climate are not a single one. Although it is rather difficult to identify a determination factor which is commonly applicable in all regions, nevertheless, labour factor is obviously an important factor which can not be neglected in creating conducive investment climate. Based on the KPPOD's study result regarding Districts/Cities investment attractiveness ranking, labour factor has significant weight and tends to increase during the study period of 2001-2005. In the study, the labour factor consists of various variables, i.e. worker's quality, availability, and costs. The quality factor of worker, which consists of productivity level indicator and worker's training are the main consideration for investors in determining areas for their investment destination.

Worker's level of productivity is very important for business companies, and is one of the factors taken into consideration by them in determining an area for investment. This is because higher productivity level of worker means that production activity could be carried out more effectively and efficiently, so that a certain amount of resource utilization would result in product output optimally. Therefore, worker's level of productivity in an area becomes the main consideration for business owners to invest.

However, there is an ironic fact that worker's productivity level in Indonesia, in particular of those spread over in districts/regencies, is very low (see the Report "Investment Competitiveness in Districts/Cities in Indonesia, 2005", KPPOD Study and TAF, 2006). Such condition is feared to have an impact upon business owners' interest to invest in the region, which subsequently would affect in slowing down of job creation.

Having faced such reality of low productivity level of workers, again the business companies have to face labour strikes actions which have been going more intensive and massive in recent times – including those with violent acts and vandalism. By such demonstration and strikes, workers demand for some improvement; one of them is an increase in nominal of minimum wage standar by additional numbers of sufficient standard of living (KHL)

components to become 84 measurement components (Source: Kompas, 2013). At present, minimum wage determination system applicable in Indonesia is a system which based on living cost index and Gross Domestic Income per capita as proxy to the level of welfare, in other words based on KHL which includes calculation of 46 measurement components and inflation rate.

Actually, workers' demand to add some measurement components in KHL calculation is a proper demand. As in a democratic state, every one has great opportunity to propose his/her aspiration. However, actions taken by the workers to struggle for their demands tend to be anarchic, disturb the peace, and cause people's restlessness. Anarchic demonstrations done by workers waive such norms in bi-partite and tri-partite industrial relations which should be used when there is a dispute between worker and employer. Law enforcement officials are not able to handle such anarchic action, therefore law enforcement can not be conducted as it should be to grant a conducive environment. Such condition has been a great challenge in creating good investment climate. Efforts to provide new job opportunities become more difficult since they are not followed by certainties in law enforcement to support conducive investment climate creation.

Another issue that workers are struggling is to reject postponement of applicable provincial minimum wage 2013 which does not conform to the Minister of Manpower and Transmigration Decree No.231/2003 regarding Mechanism to Postpone Minimum Wage Implementation. Such rejection is due to a consideration that wage is the only instrument to improve worker's welfare, whereas worker's welfare improvement is not limited only at wage increase instrument but also at non-wage instruments. Non-wage instruments are required as means to recover worker's ability in achieving his/her own welfare. Existence of non-wage instruments is needed to improve worker's access to basic social services which consist of various aspects, such as food, health, clothing, housing, education, business, and work aspects.

Until now, wage has been seen as the only reliable instrument in order to improve worker's welfare, therefore many policies have been directed just to increase minimum wage, which in the contrary becomes burden upon business companies. Such situation indicates that worker's welfare improvement solely becomes responsibility of business companies, whereas local government, representing the State must also have a contribution in worker's welfare improvement by means of non-

wage instruments. Government Regulation (PP) No.38/2007 concerning Distribution of Government Management between Government, Provincial Government, and Regency/Municipal Government has instructed local government to actively play the role in handling some government responsibilities which are further distributed amongst levels and/or structure of government. One of such government responsibilities is related to worker. In Government Regulation No 38, local government is obliged to take part in conducting nurturing and training to improve productivity of workers, also in improving industrial relations, and provision of worker's social security. Local government's participation in conducting non-wage instrument is needed to create social infrastructure development, one of which by means of productivity improvement programmes, so that it could improve worker's welfare level effectively. Social infrastructure development in this framework is directed to provide facilities, services, and network to help workers in improving their work skills as needed. This is very important to maximize worker's potentials in comprehensive regional economic development which would finally result in worker's welfare improvement.

Realization of local government's role in social infrastructure development for improving productivity and conducting non-wage instruments for workers requires guidelines for implementation and legitimation which should be accommodated in Local Regulation (Perda) on worker. Ironically, not all regions have had local regulations which specifically stipulate on worker. Furthermore, local regulations on worker in many regions have not substantially accommodated the role and responsibilities of the local government in conducting non-wage instruments for worker's welfare improvement.

Based on the above explanation, there should be a formulation of local regulation in each region which specifically arrange role and responsibilities of local government in conducting non-wage instrument for improvement of worker's welfare. Through this study, it is expected that a recommendation regarding various aspects to be considered by local government in formulation of local regulation on worker, in particular those related to local government's responsibility in conducting non-wage instrument to improve worker's welfare, could be resulted. Such local regulation is needed to bridging the gap between minimum wage level which is determined based on KHL with wage level based on labour market mechanism, and to increase local government participation due to its responsibility to play an important role in improving worker's welfare in the region.

## 1.2. Problem Formulation

Based on the abovementioned explanation, the study

would answer the following inquiries:

1. What are important aspects to be considered in formulation of policy (local regulation) on worker which is justified for both worker's party and business company's party?
2. As the State representative, how should local government play its role and conduct its responsibility in improving worker's welfare, in particular by provision of non-wage instruments (programmes, facilities, etc)?

## 1.3. Goals

Goals of this study are:

1. Identify important aspects to be considered in formulation of local regulation draft on worker which is justified both for worker's party and business company's party;
2. Identify the role and responsibilities of local government as the State representative in improving worker's welfare.

## 1.4. Research Area

The abovementioned worker's problem has been occurring in almost all cities/districts across Indonesia. In order to identify these problems, so in this study conducted a review of the regulation of labor laws prevailing in 28 districts / cities in Indonesia. In this study we take two regions as case study. First, Batam City, as one of Special Economic Zones (KEK) in Indonesia that applies special policy, i.e. tax incentive to boost investment in real sector, in particular in export oriented industries. The labour strike actions which demand for an increase in city minimum wage (UMK) have resulted in many investors decided to stop their operation in Batam. The KEK was then regarded not to have such conducive business climate, therefore it no longer becomes the city of investment destination. Such situation resulted in great losses for the City in Riau Archipelago Province since many factories closed with a further impact in great number of workers being fired. Until now, there has been no resolute action by the local government to overcome the problem. The reason for this is because local government of Batam has no local regulation that specifically arranges on worker. Therefore, Batam City has been chosen as one of the study object.

In addition to Batam City as one of the samples representing KEK in Indonesia, the study also would focus in another region which is not a KEK; we chose Surabaya City (in East Java). The city in East Java Province is chosen taking into consideration the fact the labour union insisting its demand by means of many demonstrations. This indicated by the highest minimum wage increases occurred in the city of Surabaya in 2013. Therefore Surabaya City is an appropriate choice of region destination for the study to identify non-wage instrument applicable in the City and its mechanism for implementation.



## II. FRAMEWORK

Welfare of workers is an important thing that must be created. With the better welfare of the workers, then the level of productivity will also increase. This will have a positive impact on improving the competitiveness of products produced in the country. Therefore, it is important to pay more attention for labor welfare matter as a top priority

Improving the welfare of workers has always strived through improved levels of minimum wage instrument. This shows that so far, the responsibility to improve the welfare of workers is only charged to the businesses through the payment of wages in return instruments. In fact, the role and contribution of local government is also required in order to empower and strengthen employment through the implementation of non-wage instruments. Thus, welfare workers can be pursued not only through wage instrument, but also non-wage instruments.

### 2.1. Minimum Wage Determination Policy

Regional minimum wage is determined by considering sufficient standard of living (KHL) as a result of the survey conducted by local wage council. Through the Minister of Manpower and Transmigration's Regulation No 13, 2012 it has been determined that the measurement components and needs that are used in calculation of KHL are added to become 60. In addition, the regulation also says that determination of minimum wage must be preceded by simultaneous discussion and must consider some factors, such as:

- 1.) KHL which is obtained from survey result;
- 2.) Macro productivity which is a ratio between Gross Regional Domestic Product (PDRB) and number of workers at the same period;
- 3.) Economic growth which is PDRB growth;
- 4.) Labour market condition which is a ratio between number of job creation and number of job seekers in a certain area at the same period;
- 5.) The worst business condition (marginal) which is shown by development of marginal business number in certain area at certain period.

In principle, minimum wage policy is based on a main idea to fulfill worker's right to get wage and to live sufficiently in accordance with human dignity and values. It is because in general worker is in weak position, and susceptible to employer's position.<sup>1</sup> In such a developing country, minimum wage policy is categorized as worker protection

and is accommodated in regulation on worker wage. Such protection is needed since there is an imbalance between capability of private sector and worker's needs. Therefore, if there is no government intervention, the wage as worker's need is feared to drop down to such level that is below sufficient level to fulfill the need of the worker and his/her family for living.<sup>2</sup>

Actually, government regulation on minimum wage determination should be understood as that companies must pay wage at least the same amount with the determined minimum wage to be paid to worker of the lowest level. Minimum wage determination is regarded as a means or policy instrument that is suitable to meet appropriate industrial relations. The objectives of regulation on determination of minimum wage are:<sup>3</sup>

- 1.) To lessen unfair competition within workers in labour market due to improper labour market;
- 2.) To protect purchase power of worker of low income since high inflation rate would decrease the worker's purchase power;
- 3.) Poverty eradication, since poor labour would be decreasing due to gradual increase in minimum wage;
- 4.) To improve work productivity, since by the minimum wage regulation, employer who pay low wage would have to increase the wage. Furthermore, the employer would be motivated to increase efficiency and productivity of the company to enable him/her to pay the minimum wage;
- 5.) To assure same wage be given to same kind of job. By minimum wage, discrepancy in wage within companies with same kind of job would be decreasing because companies that pay low wage would have to increase their labour wage;
- 6.) To prevent disputes. By minimum wage regulation, wage structure/levels in companies would be improved, therefore disputes regarding wage which are common to happen could be prevented, since an increase in people's purchase power would in turn boost economic growth in general;
- 7.) To prevent dropping down of wage for low skilled labour due to labour market imbalance caused by over supply of labour.<sup>4</sup>

In formulating and implementing minimum wage regulation, a developing country likes Indonesia face two problems in general, i.e. there is a wide gap between labour of low skill and leader in a company, and within labours of different sectors<sup>5</sup> (for example

1. Abdullah Sulaiman, *Labour Wage in Indonesia*, (Jakarta: Universitas Trisakti, 2008), Log. Cit. page.181.

2. International Labor Office Geneva, *Determination of Minimum Wage*, translated by Sentanoe Kertonegoro, (Jakarta : Yayasan Tenaga Kerja, 2000), page v.

3. Yunus Shamad, *Wage Guidelines for Human Resource Manager*, (Jakarta: Bina Sumber Daya Manusia, 1992), Log. Cit. page 83-84.

4. Original text/technical terms: labour, worker and employee, without any change in meaning, they are all called as "labour".

5. Elizabeth C. Surin, "Government Influence on Labor Unions in A Newly Industrialized Economy: A Look at the Singapore Labor System", *Comparative Labor Law Journal*, (Vol. 18: 102, 1996), Log. Cit. page 109-118.



daily-hired labour in a textile industrial company and daily-hired labour in a bank or mining industry), and between regions of different characteristic, in particular if there is a surplus in labour supply, therefore it is hard to generalize minimum wage regulation. Income per capita in developing countries is still low and unemployed and half-employed rates are high, therefore economic growth and job creation, not improvement of wage, become the main priorities.<sup>6</sup>

To understand about applicable wage condition this present time, it requires a survey so that information pertaining to minimum wage level which is paid by companies to their workers could be obtained. Usually from such survey, information about concentrated area where companies pay minimum wage could be obtained. Capability of a company to pay minimum wage is one of some important considerations. If minimum wage level is far over company's capability to pay, it would certainly cause losses to the company, workers, and society in general as well. This is either because there is an increase in price of the product, or lowering operation made by the company since the company is unable to pay higher wage.<sup>7</sup> In general, to observe companies' capability to pay wage, data and information pertaining to relevant sectors development where the companies are present are required. Therefore, data on production, prices, and costs development of the sector should be collected before average capability of the companies to pay wage in relevant sector be obtained.

Until now, the survey is still carried out to generate the value of the sufficient standard of living (kebutuhan hidup layak-KHL) as a basis the minimum wage in each district/city. The survey is conducted by a special team formed by local wage council. The team consists of representatives of the various parties as elements of local government, employers, trade unions and the central statistical agency. KHL value generated from the results of the survey will be considered in the meeting of local wage council members to formulate the value of the minimum wage proposal. The proposal will then be recommended to the regents/mayors to be submitted to the Governor who has the authority to set a minimum wage that applies. Minimum wage setting mechanisms such as these are susceptible to political conflict between each other parties. The value of the minimum wage that should have been a reflection of the good business relations between entrepreneurs and workers, not a political product defined by regional heads. Therefore, non-wage instruments is needed as a complement efforts to improve the welfare of workers.

## 2.2. Non-Wage Instruments

### 2.2.1. Organization of Training Program for Workers

Assuredness aspects of work needs to be pursued by the government through the implementation of programs of quality training. This is a manifestation of responsibility as mandated by the Local Government Regulation (PP) No. 38 of 2007. In the PP, noted that the government also contributed to the training and development efforts for the improvement of labor productivity. Thus, local governments take responsibility for organizing various employment training activities. Training is needed in order to improve the quality of human resources. It is important that human resources are ready to enter the labor market challenges that require higher skills and productivity.

The training programme for worker is one of private business development programmes (PPUS) that becomes one of assessment indicators used in the arrangement of KPPOD's Regional Economic Management. The private business development program (Program Pengembangan Usaha Swasta-PPUS) carried out by local government could become an effective means to improve worker's skill through training. Until now, business companies face many obstacles due to availability of skilled workers to increase their business productivity. Therefore, implementation of training for quality workers by Local Government would give significant impact upon increased number of skilled workers. This could become pull factor for investors to start business in the respective region. Thus, realization of training for worker without charges at any kinds might have a positive impact on creation of a conducive investment climate in the region.

The training program is important to improve the skills and productivity of workers. In addition, there are several other reasons that emphasizes the importance of the implementation of training programs for workers, as follows:<sup>8</sup>

- a. Workforce prepares to enter the labor market often do not understand how to do the job correctly.
- b. Changes in the working environment and labor. Changes here include changes in process technology such as the emergence of new technologies or the emergence of new working methods. Therefore, in the implementation of training programs, the role of government also needs to involve private businesses to get a clear deskripsi the type of training required for

6. Payaman J. Simanjuntak, Wage Theory and System, (Jakarta: Himpunan Pembina Sumberdaya Manusia Indonesia, 1996), Log. Cit page. 65

7. Anthonius Purba, Wage System on Repayment of Services, Description of Planning and Implementation, (Jakarta: Gramedia Widiasarana Indonesia, 1995), Log. Cit. page 2.

8. Marihot Hariandja, Human Resource Management, (Jakarta: Grasindo), Log. Cit. page 168.

employment.

- c. Improve the company's competitiveness and improve productivity. Currently the company's competitiveness can no longer simply rely on the assets held in the form of capital, but also human resources which should be the most important element to enhance competitiveness. This is due to the human resources is a major determinant of competitiveness aspect competitive
- d. Adjust the existing regulations, such as the implementation of the employment standards issued by industry associations and government. This is important in order to ensure the production quality or health and safety

Increases in labor productivity is very important and positively correlated with the efficient use of economic resources in the production activities. The raising of labor productivity will increase output and ultimately profit business activities are carried out. The increase in earnings is expected to provide benefits to workers by increasing the nominal value of the given wage. Assuming that the rate of inflation is maintained at safe limits, then the increase in the nominal value of wages will have a positive impact on real wages increased as indicated by increasing the purchasing power of workers. It is a signal of improved worker's welfare.

### **2.2.2. Local Government Role in Industrial Relations Dispute**

Based on Article (1) of Law No. 2 of 2004, an industrial relations dispute is different opinion or views resulting in conflict between employer or employer association and workers/labours or trade union in relations to rights, interests, employment termination dispute, and dispute among trade unions (SPs) in a company.

Rights dispute arises from failure to fulfill one's right due to different understanding or interpretation in the implementation of labour laws, Work Agreement and Collective Labour Agreement. For example, worker wage that should be paid in accordance with UMK but was paid in less amount. Interest dispute arises from different opinions or positions on the drafting and/or change of work conditions stipulated in work agreement. For example, worker's interest in perform his/her religious duties is limited. Employment termination dispute arises from different opinion regarding employment termination. For example, a worker that was accused for having made mistakes; the evidence has not been found but he/she has already been terminated. Disputes among trade unions within one company rise from different opinions in membership, and implementation or exercise of rights and obligations. For example, struggle occurred to obtain membership and to obtain rights for negotiation.

Each type of the abovementioned disputes has different solution, depending on type of dispute and impact it may cause. However, in principle each type of disputes has to be settled by discussion/bipartite negotiation first. According to Law No 2 of 2004 concerning Settlement of Industrial Relation Disputes, settlement of the disputes can be divided into two ways, i.e. settlement of dispute outside Industrial Court (non litigation) and settlement of dispute through Industrial Court (litigation).

At settlement of dispute outside the Industrial Court, the first step to be made by the two parties is to use a negotiation/bipartite approach. If the negotiation results in an agreement, a binding collective agreement shall be made and be registered with the Industrial Court (PHI) to enable execution. However, if the negotiation fails to reach any agreement, either party may file their case at the District/City Worker Office by showing a note of bipartite negotiation result. The District/City Worker Office would offer other types of settlement, i.e. Conciliation or Arbitration; but if both parties do not choose any of them, the Worker Office would take Mediation type.

Mediation is a settlement of dispute between worker and employer through a negotiation intervened by one or more neutral mediators. A mediator is a government official, appointed by the Minister of Worker to **settle the four types of industrial relation disputes** in accordance with his/her area of authority in a district or city. If both parties agree with the mediation result, a collective agreement shall be made and be filed at the Industrial Court. However, if the mediation fails to reach an agreement, the mediator shall issue a written recommendation and either party who has objection to such written recommendation shall file the dispute to the Industrial Court.

Conciliation is a settlement of dispute between worker and employer through a negotiation which is intervened by one or more neutral conciliators. A conciliator is not a government official but a qualified person that has been given the authority to be a conciliator and appointed by the Minister of Worker. A conciliator has similar authority and settlement process with those of a mediator; the difference is in the types of dispute that he/she performs. **A conciliator can only perform settlement on interest dispute, employment termination (PHK), and dispute among trade unions (SPs) within one company.**

Rather different from Conciliation and Mediation, Arbitration is a settlement of dispute between worker and employer through a written agreement made by the concerned parties in order to resolve interest dispute and dispute among trade unions within one company that are intervened by an Arbitrator. Arbitration award or decision is a peace certificate (registered at Industrial Court) and shall bind the

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parties and shall be final, meaning that such award/decision issued by an Arbitrator has the same legal power with that issued by a court's judge and usually is a win win solution.

Local government's role through Local Worker Office is very important in reaching an agreement to resolve industrial relation dispute between worker and employer. Local government is expected to be a fair and neutral mediator in heading negotiation between worker and employer. Capacity of the local government as a mediator to accommodate two interests that are exactly opposite of each other is very important to assure fairness and legality for the two parties. The local government's achievement in heading mediation process would certainly produce serenity which in turn would have an impact on creation of conducive business climate. This is very important as a means to improve worker's welfare while keep paying attention on competitiveness and economic capability of the business company.

### **III. RESEARCH METHOD**

#### **3.1. Kinds and Sources of Data**

Data required for analysis in this study consist of secondary and primary data. Secondary data regarding worker is required for mapping fluctuation of some worker variables to find out real condition happening year by year at the research destination city. It is expected that the data could be obtained from the local government through the local worker office. Some of secondary data needed are as follows:

1. Year by year data on number of workers based on levels of education, sex, age, etc.
2. Year by year data on worker placement at each economic sector
3. Year by year data on micro and small enterprises (UMK)
4. Year by year data on KHL value for worker
5. Year by year data on sectoral productivity at the local city
6. Year by year data on worker productivity at the local city
7. Data recapitulation on implementation of worker social security at the region
8. Data pertaining to local regulations on worker.

In addition to secondary data, primary data is also needed for analysis in the study. Such primary data includes various information pertaining to wage and worker systems at the research destination city.

#### **3.2. Data Collection Method**

In order to answer the queries formulated in this study, it is required to collect data, information, ideas, and opinions from various relevant stakeholders.

Collection of various informations is carried out by use of a method of in-depth interview. The method is a qualitative research technique using an intensive individual interview to explore resource person's perspective regarding city minimum wage, worker's work productivity, and the importance of worker local regulation formulation to improve the role and responsibility of the local government in improving welfare and productivity of workers at the researched city. Such technique is chosen due to flexibility in its implementation. Although the in-depth interview method is focused to discuss about worker, however in implementation it still provides adequate rooms for researchers and resource persons to explore the issue within the interview guidelines framework as has been determined formerly.

#### **3.3. Selection of Resource Persons**

In order to obtain a comprehensive perception, a certain number of resource persons are selected to represent stakeholders, from the sides of employer (represented by APINDO), of workers (represented by KSPI), and of local government (represented by Local Worker Office) of Batam City and Surabaya City. The resource persons representing the three parties are viewed as having perceptions and opinions which are contradictory to each other, therefore in-depth interview is assumed to be an appropriate method to enable researchers to explore information from each party more deeply. Detailed information that comes from each resource person concerning worker issues is very important for the study analysis.

#### **3.4. Analytical Method**

Various information and data, either primary or secondary that have been collected are analyzed to answer queries in this study. The analytical method used are descriptive analysis and regulation review.

##### **3.4.1. Descriptive Analysis**

Descriptive analysis in the study is used to explain data resulted from observation and interviews of resource persons without statistical test. Such analysis is conducted with an aim to obtain an illustration of worker condition at Surabaya City and Batam City by means of data and information presented in tables and figures. As has been known, there is no statistical calculation and test in a descriptive analysis, therefore an inference can not be drawn from the study. However, the analysis result might provide good information for use in making a decision regarding worker.

Descriptive analysis used in this study as a supplement to deepen the analysis, as a help to understand the worker issue and to provide a general picture of using wage and non-wage instruments in order to improve worker's welfare.

### 3.4.2. Regulation Reviews

Regulation review method in this study is carried out to analyze existing local regulations of worker at some regions. The aim of the analysis is to review impact of wage and non-wage instruments as means of worker's welfare improvement at the regions. By such analysis a general picture of the roles of local government and employer in improving welfare of local workers could be obtained.

### 3.5. Research Scope

This research is focused on **identification of non-wage instrument kinds applicable to be implemented in order to improve worker's welfare at a certain region, in addition to wage instrument that is paid by employer to the worker up till now**. Case study in this research is conducted at two selected regions only, i.e. Batam City and Surabaya City. Finding result obtained from the research at the two regions obviously does not represent worker problems in general for all regions in Indonesia, therefore it should not be used for generalization. However, such result finding could be viewed as typology and tend of occurrence, and should be used as one of considerations in formulating a policy concerning worker at other regions in Indonesia.

## IV. RESEARCH FINDING AND DISCUSSION

### 4.1. Identification Result upon Worker Local Regulation Review

In order to assess role and involvement of local government in regulating worker affairs at its region, an identification upon some local regulations on worker which prevail until now has been carried out. The result of such identification can be seen in the following table 1.

Based on the identification result upon some Worker Local Regulations, it is found that in general policies/regulations concerning Worker at the regions only arrange for administrative services on licensing and are levy-oriented. In general, the regions have no rules on detailed mechanism regarding wage or non-wage components that should be borne by companies, since such rules refer directly to those issued by Central government. Rather, worker local regulations emphasize more on licencing and obligations that shall be performed by all companies. Local regulations on Worker arranged by local government are limited only at worker licensing services such as worker placement licensing service,

**Table 1.**  
Identification of Local Regulations on Worker at Some Regions

No.	Name of the Local Regulation	Regulation Content					
		Retribution on licensing services	Wage	Worker Training	Worker Protection	Industrial Relations	Social Security
1.	Bangka District Local Regulation No. 8 of 2003 concerning Worker Services Retribution	√					
2.	North Bengkulu District Local Regulation No. 12 of 2003 concerning Worker Services Retribution	√					
3.	Bogor District Local Regulation No.4 of 2009 concerning Change of Local Regulation No.7 of 2003 regarding Worker Licence Retribution	√					
4.	Bogor District Local Regulation No.6 of 2003 concerning Worker Management			√			
5.	Gresik District Local Regulation No.14 of 2005 concerning Change of Local Regulation No.08 of 2002 regarding Retribution on Worker Services Licence	√		√			
6.	Jember District Local Regulation No.12 of 2003 concerning Worker Retribution	√		√		√	√
7.	Kapuas District Local Regulation No.12 of 2002 concerning Local Levy on Worker Licence Services	√					
8.	Karimun District Local Regulation No. 11 of 2004 concerning Worker Services Retribution	√					√



9.	West Kutai District Local Regulation No. 24 of 2005 concerning Worker Services Retribution	√				√	
10.	Mojokerto District Local Regulation No.4 of 2009 concerning Change of Local Regulation No.2 of 2007 regarding Worker Services Retribution	√					
11.	Muaru Jambi District Local Regulation No.04 of 2003 concerning Worker Services Retribution	√					√
12.	Pasir District Loc. Reg. No.11 of 2003 concerning Foreign Worker Licence and Levy on Expertise and Skill Development of Indonesian Worker	√		√			
13	Pemalang District Loc. Reg. No.4 of 2008 concerning Worker Retribution	√					
14	Pemalang District Local Regulation No.5 of 2008 concerning Worker Licence Retribution	√					
15	Sidoarjo District Local Regulation No.5 of 2008 concerning Worker Services	√		√		√	√
16	Sumbawa District Local Regulation No.12/2003 concerning Worker Services	√		√			√
17	Cilegon City Loc. Reg. No.6 of 2005 concerning Worker Services in the area of placement and Training of Worker			√	√		√
18	Cilegon City Loc. Reg. No.12 of 2004 concerning Worker Services Retribution	√					
19	Cimahi City Local Regulation No. 6 of 2010 concerning Worker Implementation			√	√	√	√
20	Makassar City Local Regulation No. 9 of 2004 concerning Rules, Protection, and Worker Services at Makassar City Jurisdiction			√		√	√
21	Surabaya City Local Regulation No.1 of 2003 concerning Worker Services	√					
22	Tanjung Balai City Loc. Reg. No. 14 of 2004 concerning Retribution upon Examination of Safety and Health norms						√
23	Yogyakarta City Local Regulation No. 13 of 2009 concerning Worker Implementation		√	√	√	√	√
24	Kuningan District Local Regulation No. 15 of 2011 concerning Worker Implementation			√		√	√
25	Cilegon City Local Regulation No. 2 of 2009 concerning Worker Services			√	√		√
26	Tangerang City Loc. Reg. No.3 of 2004 concerning Programme of Personal Accident Insurance Outside Working Hours for Worker/Labor at a Company			√			√
27	Karawang District Local Regulation No. 1 of 2011 concerning Worker Implementation		√	√	√	√	√
28	Pasuruan District Local Regulation No. 22 of 2012 concerning Worker Implementation System		√	√	√	√	√

Source: KPPOD, processed

job fair, worker obligation to report, deviation of working hours, supervision of the use of machinery, plane, installation, and materials. Ironically, the local regulations do not arrange for clear standards of procedure, cost, and time needed for services. The rules are more emphasized on retribution amount that should be paid by business companies to get services.

In addition, such local regulations do not accommodate in detail industrial relations as well as tripartite relations as communication means that could be used for discussion about all worker problems including non-wage components determination. Although some of them have been accommodated, but they are not spelt out in detail and clearly (there is no consequences when certain rules are not performed). For example, Cilegon City Local Regulation No.6 of 2005 concerning worker services retribution.

Local government intervention on worker matters is not directly imposed on wage determination mechanism, but is more on creation of job opportunity through worker protection. In order to decrease unemployment rate in its region, many local government make a policy that requires every company at the region to hire local workers from the region. Another example is a policy made by local government of Cilegon City, i.e. local regulation No.6 of 2005 concerning Retribution upon Worker Services. The local regulation requires all company to accept worker that has limitations (disabilities) at the minimum one person of 100 persons that meet the qualifications. By such local regulation the local government tries to bring equitable opportunity to all the people in getting a job including to those have disabilities. An example of the regions that give protection to local workers is Cimahi City by its local regulation No.6 of 2010 concerning worker implementation. The local government requires each company in hiring worker to give priority to local worker, while still taking into consideration worker's skill required by the company. In fact, such local regulation that requires companies to prioritize local worker to be hired is a violation to the mandate of the Article 4 of the Law No.13 of 2003 concerning Worker. In such Article it is mentioned that all Indonesian citizen has the right to have the same opportunity to get a job at all Indonesian regions. Issuance of a certain local regulation that prioritizing local worker to be hired means a limitation of working opportunity to workers from outside the region.

Identification result upon some local regulations also indicates that until now local regulation on worker has not arranged clearly about partnership pattern between local government, companies, and workers/ trade unions. The fact that there are still many labour demonstrations at some regions indicates that partnership pattern between local government, companies, and workers which is accommodated in

tripartite relation has not been run in optimum way and has not been able to minimize conflict upon worker. Furthermore, there are local regulations that just regulate the amount of retribution which shall be paid by companies during legalization processes of company regulation and collective working agreement. For example, Gresik District local regulation No. 14 of 2005 and Kapuas District local regulation No. 12 of 2002 stipulate retribution amount that shall be paid by employer during legalization processes of company regulation and collective working agreement which resulted from bipartite discussion involving employer and worker representative. Such local regulations that emphasize upon retribution indicate that there are no supports from local government to urging successful bipartite relation as a means to settle disputes that may occur between employer and workers in the framework of industrial relations development.

One of local government roles as regulator is that it shall be able to create a local policy which could be a reference and a strong legal base when an appropriate solution is needed in a conflict between a company and worker. Good practices in local regulation No.6 of 2010 of Cimahi City is a clear stipulation in relationship between tripartite cooperation institution and regional wage council, and tripartite surveys conducted four times a year to determine value of KHL. Such efforts to maximize tripartite institution might be conducted by means of continual communication and involvement of all the relevant parties to discuss all the problems concerning worker including the mechanism of wage and non-wage determinations that conform to collective agreement made between all related parties through tripartite industrial relations.

From research result made upon existing local regulations on worker, it is found that there are just few regulations that contain social security for workers. There are local regulations on worker which accommodate regulations on social security through provision of welfare facilities for workers. One example is local regulation No.6 of 2010 of Cimahi City. Such local regulation arranges welfare facilities that shall be provided by companies, i.e. provision of meals of 2,500 kalori at the minimum or in cash equivalent to 2,500 kalori in accordance with the price of meals at the closest restaurant excluding workers working at night, transportation/picked up transportation, uniform every year, adequate and representative sport facilities, and recreational facility of one time per year at the minimum.

Implementation of social security also covers healthy and safety protections for worker. One example is Jember District local regulation No.12 of 2003 which contains regulation concerning supervision upon work safety and healthy norms and company licence to hire female worker to work at night. Ironically, it is

not to give protection on health and safety for worker, instead, it just emphasize more on the amount of retribution that shall be paid by employer to obtain services in supervision of work safety and healthy. In addition, the local regulation also determines the amount of licensing cost that shall be paid by companies hiring female workers to work at nights. Thus, such local regulations that regulate worker social security just emphasize upon amount of retribution which shall be paid by companies.

Based on review result upon local regulations concerning worker, there are many local regulations that regulate training for workers. However, many regulations are emphasizing upon amount of taxation that shall be paid by companies to obtain permits for conducting training, legalization of skill training certificate and vocational skill tests. In fact, training for worker should be the responsibility of companies together with local government. In Mojokerto District local regulation No.4 of 2009 it is mentioned that training would be conducted by local training council (DLKD) that consists of local government, companies, and workers. However, in fact the cost for training by DLKD becomes a burden to the companies. Such situation indicates that there is a transfer of responsibility from local government to companies.

Until now, there are only few local regulations on worker that arrange for a wage system to be implemented in the region. This condition has an impact on many problems arising in relation with wage system in the regions. Nevertheless, there are some local regulations on worker that can be used as good examples in developing a wage system, i.e. local regulations on worker of Yogyakarta City, Karawang District, and Pasuruan District. Such local regulations have stipulated wage kinds that have to be received by worker. This aspect is important to be included in a local regulation as a protection for a worker by means of wage instrument that shall be paid by employer. In addition, local regulations have accommodated company obligation to arrange structure and wage scale taking into consideration level, position, work duration, education, and competence. Availability of structure and wage scale in each company become very important aspects to minimize possibility of new problem arising, that is wage increases demand for higher level worker (upah sundulan). A protest related to this kind of wage often happens as a problem following minimum wage increase. Therefore, availability of local regulation on worker that stipulates wage aspect is very important to provide protection security for workers through a wage instrument to improve their welfare.

Local regulation on worker in Pasuruan is also one good example of regulation. This regulation has been consisted of a thorough and comprehensive employment arrangement that includes human resource development, increase of productivity and

competitiveness of the workforce, the expansion of employment opportunities, employment services and the development of industrial relations and labor protection. This regulation has also been set up pension provisions that were not previously regulated distinctly in Employment Law No. 13 of 2003. This shows that this law has given considerable attention to welfare benefits for workers who approaching retirement period. However, article 56 which regulates pension provision is still needed to be reviewed. The important thing to be revisited is the provision related to worker age limit to apply for retirement. In addition, the amount of severance pay for retired workers as defined in Article 54 is also needed to be reviewed. The amount of severance pay that is stipulated by law instruments without any consideration to financial ability of each company would reduce the competitiveness of the products, especially for small and medium enterprises (SME). Thus, a review of the rules set out in an employment regulation is still needed to be done. It is important to ensure that a controlled substance under these regulations in addition to assure the protection of labor, also continued to support the sustainability of business activities in the area.

Batam City and Surabaya City that become research areas in this study have not had local regulations which could be used as a base and a reference in formulating regulations on worker. In fact, Surabaya City in the past time has applied local regulation No.1 of 2003 which regulated services on worker. However, since 2007 such local regulation has no longer been effective. This is due to the substance that was focused more upon retribution and taxation for various worker licensing and not included protection upon labour welfare through wage and non-wage components. Meanwhile, at Batam City so far there has never been any local regulation that arranges worker affairs.

From identification result, it can be said that in some regions there have been local regulations on worker that arrange wage and non-wage components to assure creation of worker welfare. These local regulations reflect local government's commitment in creating worker welfare assuredness. However, formulation of such local regulations should also consider characteristic of each company in the region. This is because each company has its own financial capability, economic sector, and business scale that are different from each other. A clear classification on company that is obliged to provide non-wage component for worker welfare improvement is required. For those companies of micro, small, and medium scales of business (UMKM) that have limited assets and turnover, there should be an exception or dispensation not to fulfill all the welfare facilities that shall be provided according to the local regulation. In addition, companies of labour-intensive sector should also be given dispensation to provide welfare



facilities based on their ability. Another regulation is needed to follow up existing ones to regulate welfare facilities that shall be provided by companies of special characteristic.

## 4.2. General Conditions of Minimum Wage Development at Batam City and Surabaya City

The value of city minimum wage is determined by referring to sufficient standard of living (KHL) survey result that is conducted by city wage council; such value is determined to be higher or at least the same with the value resulted from KHL survey. Therefore, the minimum wage received by worker could be used to achieve sufficient standard of living, thus conforms to the mandate contained in the Article 89 sub article 2 of the Act No.13 of 2003 on Worker. Development in values of District Minimum Wage (UMK) and KHL at Batam City for the period of 2007 until 2013 can be seen at the following Figure 1.

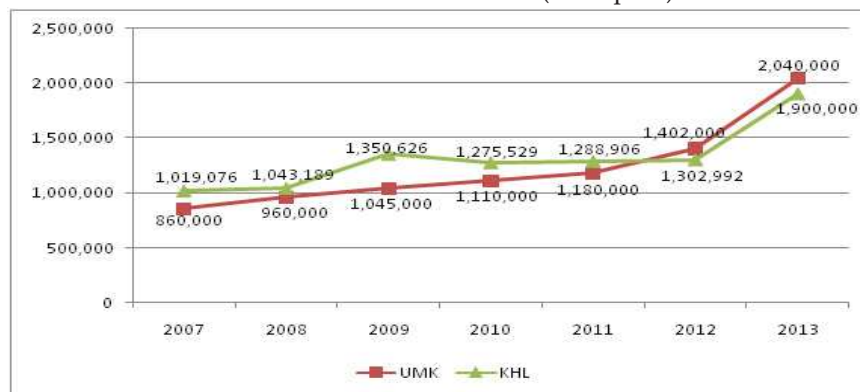
Figure 1 shows that since 2007 until 2011, UMK values at Batam City was below its sufficient standard of living. The minimum wage value of Batam City

has just been determined over the KHL value in 2012 and 2013. However, in fact KHL survey at Batam City as a reference in determining minimum wage has not had technical standard for implementation. Implementation of the KHL survey of Batam City only refers to Ministerial Decree No.13 of 2012. There has been no rule that can be used to determine location of survey technically (whether it should be at traditional or modern market), position of calculated price, and detailed classification of components and kinds of needs that are considered in the survey at the regions.

The absence of technical rules for survey implementation has caused KHL value resulted to be less accurate in reflecting value of sufficient standard of living at each region. The KHL value resulted from the survey is not consistent with inflation rate movement. Figure 2 below, show movement of KHL value and inflation rate at Batam City during the period of 2007 – 2012. It can be seen in the Figure that at Batam City movement of KHL value resulted from the survey every year is not in the same direction with inflation rate movement.

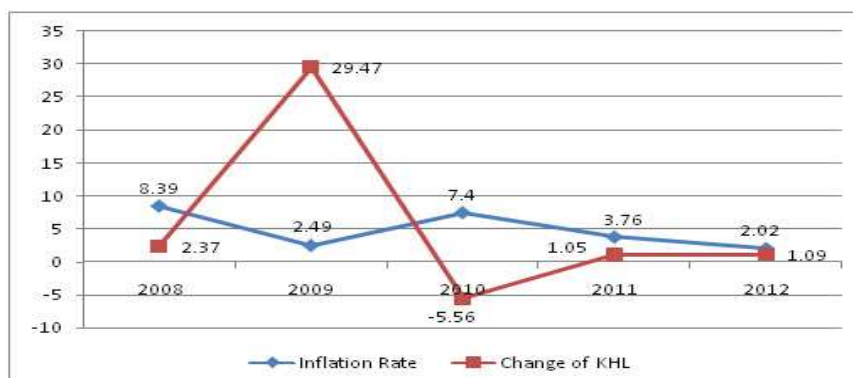
Based on the data in the Figure 2, the inflation rate at Batam City in 2009 has been lower compared to that

**Figure 1.**  
District Minimum Wage (UMK) Value and Sufficient Standard of Living (KHL) of Batam City for the Period of 2007 - 2013 (in Rupiah)



Source: Local Worker Office of Batam City, 2013, processed

**Figure 2.**  
Comparison of Surveyed Sufficient Standard of Living and Inflation Rate at Batam City for the Period of 2008 – 2012 (in Percent)



Source: Central Statistics Board (BPS) and Local Worker Office of Batam City, 2012

of the year before. Ironically, KHL value at 2009 has just been increased significantly, i.e. 29,47 per cent compared to that of the previous year. Similarly, in 2010, when the inflation rate increased significantly to 7,4 per cent, the value of KHL established in the same year has decreased by 5,56 percent. If the survey conducted accurately, the increase of KHL value in 2009 would not be much greater than the inflation rate at the same year. Inconsistency between inflation rate and KHL value shows that technical steps taken in survey implementation at Batam City are still problematic.

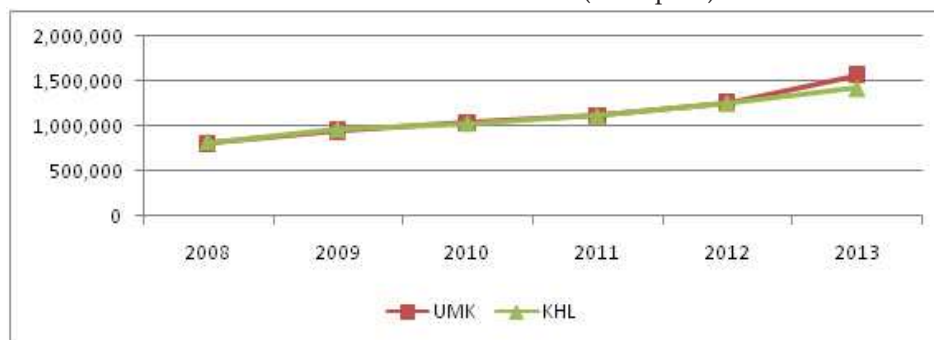
UMK values of Surabaya City during the period of 2007 – 2013 can be seen from Figure 3. During the period, minimum wage has been directed to reach sufficient standard of living. Similar with Batam City, at Surabaya City there has not been any technical guidelines that can be used as reference in conducting KHL survey. Therefore, it is required to prepare a special guidelines for use as a standar for implementation of KHL survey at Surabaya City.

Similar with that of Batam City, at Surabaya City there has not been any special regulation issued to determine technical guidelines for use in survey implementation. This has an impact upon resulted

KHL value which is less accurate in providing sufficient standard of living value for each region. The KHL value resulted from the survey is not consistent with the movement of inflation rate every year. The Figure 4 below shows movement of KHL value and inflation rate at Surabaya City for the period of 2007 to 2012. From the Figure it can be seen that KHL value of Surabaya City has been increasing every year while inflation rates has been fluctuating. Based on tha data shown at Figure 4, the inflation rate at Surabaya City in 2009 was 3.39 per cent. Ironically, KHL value in 2009 has just been increasing significantly to 17.75 per cent compared to that of the preceding year. If the survey was accurate, such increase in KHL value at 2009 would not be higher than the inflation rate at the same year. Inconsistency between inflation rate and KHL value shows that there is still a problem in technical step during survey implementation at Batam City.

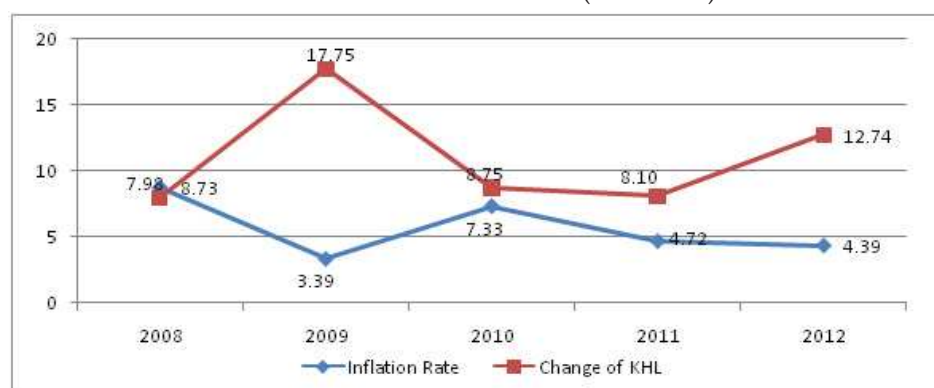
Based on the above explanation, a technical guidelines which can be used as reference in KHL survey implementation at each region is needed. This is because each region has its own characteristics which are different from each other. Determination of market location to be the locus of survey, position of price to be included in calculation, detailed classification of

**Figure 3.**  
District Minimum Wage (UMK) Value and Sufficient Standard of Living (KHL) of Surabaya City for the Period of 2007 – 2013 (in Rupiah)



Source: Local Worker Office of Surabaya City, 2013, processed

**Figure 4.**  
Comparison of Surveyed Sufficient Standard of Living and Inflation Rate at Surabaya City for the Period of 2008 – 2012 (in Percent)



Source: Central Statistics Board (BPS) and Local Worker Office of Surabaya City, 2012, processed

items needed, and components to be included in KHL survey should be further stipulated. By having such guidelines, it is expected that the KHL survey would result in an accurate value of sufficient standard of living at each and every region.

Determination of minimum wage presently is still facing various constraints; some of those are concerning mechanism of KHL survey implementation and agreement process in the frame of tripartite industrial relations. Such constraints have caused wage not to be the only instrument that can be used for improvement of worker's welfare. Therefore, it is required to prepare other instruments in the form of non-wage in addition to wage instrument which is paid by employer. Provision of non-wage instruments is very important as realisation of government social responsibility to increase the welfare of workers community.

### 4.3. Non-Wage Instruments in relation with Worker Welfare Improvement

Non-wage instruments are needed in order to increase the welfare of workers in addition to wage instrument which is received by worker as payment for his/her work result. Holding of non-wage instruments should be the responsibility of local government along with support from business companies. Referring to the Government Regulation No. 38 of 2007 concerning Distribution of Government Management between Government, Provincial Government, and Regency/ Municipality Government, there are at least three programs and facilities of non-wage instrument which become the responsibility of local government in holding non-wage instruments as another effort to increase workers' welfare. As for the programs and facilities of non-wage instruments include organizing training programs for workers, increasing the role of government in resolving industrial disputes, social security and fostering the implementation of employment in the company.

#### 4.3.1. Training Programme for Worker

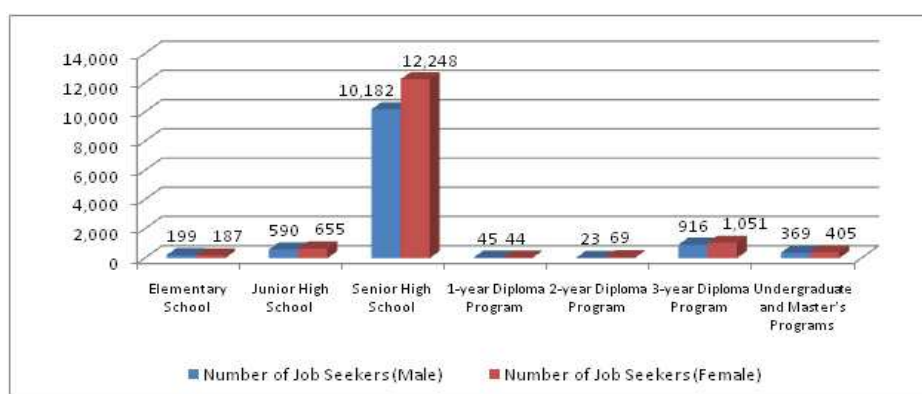
In accordance with the instruction stipulated in the Government Regulation No 38 of 2007, Local Government is also responsible in worker affairs. One of the worker areas that needs active role of Local Government in its implementation is Development of Training and Productivity of Workers.

Improvement in worker productivity is very important as an effort to improve efficiency and effectivity of production activities. Productivity level of a worker is influenced by his/her skill in accordance with his/her level of education. The irony is that the job fair in Indonesia presently is still dominated by job seekers of high school graduate level whose skill and expertise are low. Such situation also occurs at Batam City. Currently labour market at Batam City is still dominated by job seekers having last education of high school. It can be seen from Figure 5.

Figure 5 shows that total number of job seekers at Batam City having high school as his/her last education reaches 22,430 persons. Economic activities in Batam City as a Special Economic Zone are mostly dominated by industrial sector, therefore available job opportunities need workers with special skills. One of the industries which has been developing rapidly at Batam City is dockyard industry. This industry needs many workers having skill in welding the ships body. Therefore, job seekers at Batam City who are dominated by high school graduates need special training to be ready to enter the world of work.

An effort to improve productivity needs to be conducted through various training programme. Such training programme is needed to improve competitiveness of the job seekers at the job fair. In order to improve worker productivity, commitment and active role of Local Government to conduct various required training programme are needed. Ironically, so far Local Governments pay very little

**Figure 5.**  
Number of Registered Job Seekers at the Local Worker Office of Batam City  
based on Education Level in 2011 ( persons)



Source: Local Worker Office of Batam City, 2011, processed

attention upon realization of social infrastructure development through training for job seekers. As an example, Batam City local government through its Local Worker Office has not prioritized sufficient budget allocation for holding training for job seekers, as can be seen at the following Table 2.

Data in Table 2 show that budget allocation for holding training and skill improvement for job seekers at Local Worker Office was only 8.9 per cent of the total budget allocation. Expenses made were focused mostly on improvement on office administration services which allocation reached 45 per cent of the total budget allocation. Such situation indicates that the government presently has not paid much attention on the importance of holding training as one of non-physical, long term investment forms.

Limitation on budget allocation for training and skill improvement activities has an impact on just few training be conducted for job seekers. Training Programmes conducted by Local Worker Office of Batam City during 2011 can be seen from the following Table 3.

Based on data in Table 3 it turned out that during 2011 the Local Worker Office of Batam City was able to conduct only two kinds of training, i.e. Training on productive, labour-intensive business and Training on welding. The two kinds of training have been attended by 108 participants only. In fact, in 2011 there were 26,983 job seekers needed guidance and training. Duration of the training in average is only one week. Such a short time training was certainly

not sufficient to provide participants with adequate skills they needed. Improvement in quality and productivity of worker would be difficult to reach if the training conducted in such a short and limited time.

Conducting a quality training programme is an important activity as a realization of Local Government's responsibility and active role in empowering its workers. Therefore, in 2013 the Local Worker Office of Batam City would conduct training programmes to increase worker's productivity. Having given such programmes, workers would get certain expertise and skills which standards are acknowledged through issuance of certain certificates of professions. Therefore, involvement of Agency for Certification of Profession (LSP) is very important in facilitating worker to have such certificate of expertise which has been acknowledged in worker market, and which in turn would result in high productivity of the worker. As a result, it is expected that in the future the worker would be paid in accordance with his/her expertise.

It is obvious that to conduct training programme at the Local Worker Office of Batam City in such condition of limited budget would be difficult. To overcome this problem, budget for training programmes in the future would be drawn from retribution upon Placement Permit for Foreign Worker (IMTA). The regulation would have been effective since March 2013 as a follow up of legalization of the Local Regulation concerning IMTA at the Batam City. The local regulation has determined the amount of retribution, i.e. USD 100

**Table 2.**  
Summary of Direct Expenses of the Local Worker Office of Batam City in 2011

NO.	ACTIVITY	REALISATION (Rp)
1	Improvement on Office Administration Services	364.221.428
2	Improvement on Infrastructure and Facilities for Apparatus	131.165.000
3	Improvement on Quality and Disciplines of Apparatus	48.937.750
4	Training and Skill Improvement of Workers	71.426.000
5	Operational Costs of City Wage Council and Tripartite LKS	79.951.000
6	Operational Costs of Industrial Relations Dispute Settlement	36.814.000
7	Monitoring dan evaluasi Tenaga Kerja	70.037.000
<b>TOTAL REALISATION</b>		<b>802.552.178</b>

Source: Local Worker Office of Batam City, 2011, processed

**Table 3.**  
Training Program at the Local Worker Office of Batam City funded by Local Government Budget in 2011

NO.	KIND OF TRAINING	PARTICIPANT (PERSON)
1	Training on Productive, labour-intensive business	88
2	Training on welding	20
<b>TOTAL PERSON</b>		<b>108</b>

Source: Local Worker Office at Batam City, 2011, processed



per month, and has stipulated that 70 per cent of the funds would be allocated for development of local worker's expertise and skill, while the remaining funds would be allocated for field operational costs, law enforcement, administrative arrangement, and costs that may be arisen due to possible negative impact of IMTA extension.

This year revenues from IMTA retribution is targeted to reach Rp 24 billion. The aim of determining IMTA is to decrease the number of foreign workers working in Indonesia, especially at Batam City. By applying IMTA, it is expected that in the near future the number of foreign workers could be decreased significantly, therefore the number of Indonesian workers would be increased and having higher level of productivity. In order to use its budgets properly, then the planning and design of a variety of training programs to improve the productivity agenda that is absolutely needed. It is important to pay attention about the type of training required of workers in the labor market and the business world, as well as establish an adequate implementation period. Thus, the training activities conducted will reach the level of optimal effectiveness and efficiency in an effort to increase expertise, skills and competencies of workers.

Low budget allocation for training programme reflects lack of awareness and commitment of the government in building social infrastructure for long term benefit. In fact, human capacity empowerment is one of the important efforts to promote workers of high competitiveness so that they would be able to improve their welfare. Therefore, it is important to make a regional policy which regulates clearly the amount of budget allocation needed for conducting worker productivity improvement programmes. In addition, it is also important to have guidelines that can be used as a benchmark for good training standard. The aim of having such guidelines is to direct the training programmes as to meet certain standards of competence that are required for improving productivity of the workers in effective and efficient way.

### 4.3.2. The Role of Local governments in Settling Disputes in Industrial Relationship

Industrial relationship between management of the company and workers needs to be well developed in order to achieve harmony between the two sides. Good industrial relationship is the responsibility of local governments at the city/regency level together with the central government and provincial government, as stipulated in Government Regulation no. 38 year 2007. The regulation clearly stated that local governments at the city/regency level should be active in settling industrial relationship disputes, some of which are through conflict prevention and settlement of disputes. Nevertheless, in reality industrial relationship between management and workers sometimes run into a dead-end due to the different interests of both sides. On one side, workers demand better welfare through wage increases which will add to the burden of business owners. On the other hand, business owners also need to consider the financial condition of the company. Capacity to expand business is needed to create new jobs and absorb extra labours which will positively impact the effort to reduce unemployment. Therefore disputes between workers and management needs to be fairly mediated by the government so that the best solution is reached in order to settle the existing dispute.

During 2011, there were several disputes of industrial relations which happened in Batam City. Those conflicts can be categorised into four types, which are interests dispute, right dispute, employment termination dispute and dispute among trade unions. Data of industrial relations disputes in Batam City can be seen in Table 4 below.

Data on Table 4 shows that the number of industrial relationship disputes cases registered in local worker office of Batam city have a tendency to fluctuate during 2007 to 2011. The number of industrial relationship disputes cases registered in 2008 is the highest compared to other years. One of the reason is due to the absence of a budget specifically

**Table 4.**  
Summary of Registered Industrial Relationship Disputes Cases (Perselisihan Hubungan Industrial - PHI)  
at the Local Worker Office of Batam City, 2007-2011

YEAR	NUMBER OF CASES (PHI)	TOTAL LABOR THAT LOOKS
2007	183	4912
2008	235	2335
2009	162	1714
2010	164	460
2011	138	719
2012	170	714

Source: Local Worker Office of Batam City, 2011, processed

allocated for the the operational activity of industrial relations settlement as direct spending in 2007 and 2008. Moreover, in 2009, the operational activities of industrial relations settlement has not received attention in the allocation of direct expenditure. Only in 2010 till 2012, operational activities for the purposes of industrial relations settlement has been included as one of the post to get direct budget allocation of local worker office of Batam city.

In 2011, there were 138 cases of industrial disputes reported to the local worker office of Batam city. Based on the data in Table 2, the budget which is realized for the activity of industrial relations settlement amounted to 36 million dollars. The funds are used to finance the required purposes mediation in resolving disputes. Meanwhile, for the handling of 170 cases registered in 2012, the realized budget is 48 million dollars (source:Local Worker Office of Batam City, 2013). This indicates an increase of performance and efficiency in resolving industrial disputes that occur between the businessmen and workers.

In order to increase the efficiency and effectivity of the role of local government as facilitator in settling industrial relations disputes, certain local policies were needed which can be used as a reference for local governments in conducting its task as a mediator. The presence of such regulations or local policies are important to optimise mediation efforts in settling industrial relations disputes. The role of local government in mediation efforts is needed to encourage transparency and objectivity on the capacity of the company in facilitating the agreement when the dispute is related to the workers' demand for a better welfare. With full and equal information on the company's capacity, the two conflicting sides can understand one another in trying to find a solution to the existing dispute. Optimising the role of local governments through the : Local Worker Office as a mediator is certainly needed to ensure protection of worker's rights to increasing welfare while still considering the capacity of businesses, especially for business owners on the SME sector which are characterised as labour-intensive.

#### 4.4. Conclusion

Non-wage instruments is a very important effort given to improve the lives of workers. Operation of these instruments should be part of the responsibility of government as an complement instrument of wages paid by businesses to the workers. Yet from the 28 local regulations analysed, there is no single regulation which emphasising on the responsibilities of local government in the provision of non-wage instruments and the mechanism to implement it. Most of the existing local worker regulations puts more emphasis on rules regarding the service of permits and administrations, more in the sense of levies. Some of the existing local regulations regulates

intervention efforts that local governments can do in increasing the welfare of workers through non-wage instruments, which are through the policy of ensuring all companies conducting their business in that region to utilise local workers which live in the surrounding areas of the business. Identification on several other local regulations shows that, so far, local worker regulations made by local governments have not clearly outlined a partnership pattern between local government, companies, and workers/unions.

Existing worker regulations are varies between one region to the other. There are no specific standards on what aspects needs to be regulated in a local worker regulation. Based on this study, there are several important aspects which must be considered in making a local worker regulation which are equitable for the workers and for the companies. Those aspects are as follows:

1. Establishing a set of benchmark for the implementation of worker's training programme and standards of qualifications which are aimed to be reached
2. Outlining the standards for holding sufficient standard of living survey in order to determine minimum wages in each and every region.
3. Outlining the process and mechanism to decide on the structure and scale of wages where local government act as facilitator and mediator in the negotiation between management and workers
4. Deciding on the mechanism to establish a training school for increasing the productivity of workers, while including the role of company owners also
5. Regulating the mechanism of delaying the implementation of provincial minimum wage for the SME sector and other labour-intensive businesses while taking into account the capacity of such companies.
6. Identifying non-wage instruments that the local government can provide while considering the needs of workers in each region. For example, in Batam City facilities such as subsidised cheap commuter buses and apartments for-rent close to industrial centres act as important non-wage instruments provided by local government. This is due to the fact that most of the workers in Batam City live outside of town so that non-wage instruments needs to be provided for them so they can save on transportation costs.
7. Identifying non-wage instruments that businesses can provide especially for large scale companies while considering the needs of workers. For example, the establishment of a co-operative which sells primary products at a cheap and affordable price, provision of canteen, child care, nursing room, etc. Regulation on the provision of such non-wage instruments can be waived for SMEs and labour-intensive sectors.

The roles and responsibilities of local government as the representative of the State in the effort to improve

the welfare of workers are as follows:

1. Optimising its role as a good facilitator and mediator in handling industrial relations disputes between companies and workers
2. Holding training programmes to increase the skills and productivities of workers
3. Encouraging the implementation of private business development programme in its effort to empower the SME sector. Such programme needs to be aimed at workers so that workers can develop their skills through entrepreneurial activities that they manage by themselves.
4. Giving incentives to companies which are committed to increasing the productivity of workers through the establishment of training schools in accordance with the standards of qualifications needed.
5. Providing incentives to companies which supports the development of entrepreneurial activities for workers.
6. Supporting the creation of investment support especially for labour intensive sectors which utilises local resources.

#### **4.5. Recommendations**

A review of additional components calculated in the determination of sufficient standard of living is needed. The value resulted from the survey will be made as a benchmark in determining minimum wage in each region, therefore determination of components calculated in the sufficient standard of living survey became very crucial. There are several types of sufficient standard of living components as stipulated in the Regulation of the Minister of Manpower and Transmigration of the Republic of Indonesia no. 13 Year 2012 which are irrelevant to be included since it is not part of a sufficient standard of living and does not have a direct impact to increasing the productivity of workers. It is very important to reconsider the inclusion of such components and the types of items that are necessary/relevant to be included in the sufficient standard of living calculations so that minimum wage level can be determined proportionally in accordance to the capacity of companies while also considering the welfare of workers.

In addition, a sufficient standard of living (kebutuhan hidup layak-KHL) survey conducted by a local wage council team also needed to coordinate with local inflation control team (Tim Pengendalian Inflasi Daerah-TIPD). It is important to ensure that the sufficient standard of living survey is carried out in the period when inflationary conditions do not experience significant volatility. Strengthening the

involvement of local inflation control team is also required to provide their views on the value of KHL generated from the survey. Thus, the expected value of KHL already considering volatility of inflation expectations in the future so that this value has a high accuracy level as a basis for consideration of setting the value of the minimum wage.

It is very important to open opportunities and avenues to do business for the poor so they can participate in the process of economic development. The government should create a conducive climate so that economic development can be enjoyed by all levels of the society, especially the poor. Therefore, policies and programme which sides with the poor should be focused on the real economic sector (such as: agriculture, fisheries, manufacturing, SMEs), especially at the informal economic sector which forms the backbone of the poor. Creation of a conducive investment climate is also important as an incentive to attract the flow of capital into a certain region in order to create jobs which hopefully will be able to absorb new workers in large amount. This will be an important step to significantly reduce the number of unemployment in a region.

Local government needs to decide on the allocation of regional budget which is sufficient to fund the implementation of various non-wage instruments as a form of the responsibility of local government in accordance with the Government Regulation no. 38 year 2007 in order to increase the welfare of workers in each and every region. Increasing the quantity and quality of the implementation of private business development programme and interaction between local governments and business companies also need to be done. Such increase in interaction is important to strengthen the role of local government as a partner for business companies in consultation and helping them to develop their business. Additionally, local government also needs to be open to new innovations that can be done in developing business sector, especially at the micro, small and medium sized scale.

Each region also needs to have local regulations which specifically regulates the conduct of worker in each area. Such local worker regulation must have a good quality which is marked by the clear responsibilities of local government in the provision of various non-wage instruments in the effort to increase the welfare of workers in addition to the wage instruments paid by companies. Intensive supervision and facilitation by all stakeholders are also needed to ensure that such local worker regulation is effectively implemented on the field.







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