Youth Unemployment: A Lost Generation

BY JAN LEPELTAK - CONCORD CONSULTING

Rahmat is a motorcycle taxi driver in Jakarta’s Mega Kuningan area. Motorcycle taxis, or ojek, are a popular alternative to regular taxis, not so much because they are cheap, but rather because they can wiggle their way through the capital’s notorious rush-hour traffic. This way, ojek drivers save their customers – including expatriates – valuable time.

Not surprisingly, Rahmat is busiest in the morning when people rush to the office and again when they head home at night; in between he finds plenty of time for small talk with the many other ojek drivers waiting with their bikes at street corners. The 32-year-old has a high school degree, but did not pursue further education and has been working as an ojek driver for years.

Rahmat’s experience is shared by many young Indonesians who are struggling to find a full-time job that will provide them with a steady income. Others have given up the search altogether. Rahmat is neither unemployed nor poor by official standards. He says he earns roughly Rp100,000 a day, but on a bad day it could be less than half that.

Assuming he works every day, he would be making about Rp3 million per month, twice as much as the standard minimum wage paid in the formal sector. But he has few options for career advancement, and it is doubtful that the money he makes can cover his and his wife’s retirement needs one day, let alone a good education for their two young children.

Ojek drivers work in the informal labor market, where two-thirds of Indonesia’s workforce makes a more or less precarious living. The majority of informal workers operate in agriculture and fishing, often helping out in their own families, while the construction sector also employs mostly informal workers.

By contrast, jobs in public administration and the health sector tend to be formal ones, and manufacturers in the main industrial centers also have a higher proportion of formal employees. Informal sector workers usually pay no income tax, but neither do they enjoy social security or job protection. To take advantage of this situation, even formally registered companies often employ informal staff. Informal work arrangements hide some inconvenient truths about employment in Southeast Asia's biggest economy.

The official unemployment rate dropped to 6.3% in February this year from 6.8% a year earlier, continuing a decade of declining rates, figures from the Central Statistics Agency (BPS) show. On the face of it, 6.3% is not particularly high, but the question is how much unemployment this accounts for, since the details of the employment data look much more alarming.

Almost 32% of those working are classed as either underemployed or part-time employed, meaning they are working fewer hours than they would like to, and their share of the workforce has gradually increased over the last two years. Almost all of these people work in the informal sector, and their income is often below the minimum wage. Underemployed, part-timers and the unemployed together account for a startling 35.8% of the economically active population above 15 years of age.
Informal or occasional work is particularly widespread among young and less-educated Indonesians, who have a hard time finding employment in the formal sector.

Youth unemployment in Southeast Asia is higher than in other regions of the world, and Indonesia has the worst record within the region. The proportion of informal work increased sharply in the recent financial crisis and has yet to return to early-2008 levels.

While the overall employment situation in Indonesia is much less healthy than the headline figure – and government rhetoric – would have us believe, employment conditions among the young are outright dire. Youths around the world are more at risk of unemployment than adults, but in Indonesia, the difference is particularly stark, according to the International Labor Organization (ILO).

“On the global average, young workers are three times more likely to be jobless than those above 25 years of age, but in Indonesia their risk is five times greater. Around one in four of those aged between 15 and 24 are unemployed,” Tendy Gunawan, the ILO’s program coordinator for youth unemployment in Indonesia, told Concord Strategic.

This figure does not account for at least as many who are underemployed or have given up the job hunt. The longer young people have been out of school but not adequately employed, the harder it is to reintegrate them into the labor market once macroeconomic conditions improve.

Joblessness is a tragedy for those directly affected, but it is also a strain on their families and communities, who rely on their income. High local unemployment can stifle economic activity and prompt young people to migrate out of the area in search of better prospects elsewhere, further hampering local development. Furthermore, as youths struggle to make ends meet, the legality of ways to do so frequently takes a back seat. Studies have found high youth unemployment to be closely correlated with higher crime rates, mostly petty crime, but violence as well.

In urban settings Indonesia’s unemployed youth are more likely to resort to burglary and robberies than their working counterparts. Idleness also ingrains a sense of disillusionment, boredom and a loss of self-respect in young people, lowering the threshold for them to engage in illicit behavior like motorcycle races or drug abuse.

High youth unemployment, therefore, comes at a significant social and economic cost. Indonesia is running a high risk of creating what Gunawan calls a “lost generation” of young people, who are becoming less employable by the day. Why is it so hard for young Indonesians to find what the ILO calls “decent work,” or adequately-paid, sufficiently-secure, full-time jobs that match their qualifications and allow them to advance professionally? The obvious place to look for answers is the education system.

Nine years of basic education, comprising six years of elementary school and three years of junior high, are compulsory for all Indonesians. In reality, though, many children never graduate from junior high, let alone stay on for another three years of senior high school.

As a consequence, education levels are low in Indonesia compared to other Southeast Asian countries. “About 70% of the workforce has only graduated from primary school or middle school,” said Gunawan. According to a recent study by the ILO, the World Bank and UNICEF on child labor and youth unemployment – Understanding Children’s Work (UCW) – more than one-third of Indonesian youth enter the labor market with only primary education or less.

“If you have a low-skilled workforce and low-skilled unemployment, that is an alarming situation,” Gunawan warned. “If it remains like this, we will have a low-skilled generation who will be unable to compete, which is especially worrying as the free-trade agreement will allow people from other ASEAN countries to work in Indonesia. This is a great challenge for Indonesia’s workforce.”

The Association of Southeast Asian Nations (ASEAN) is seeking the establishment of a single economic space, a plan that envisions the free movement of goods and services as well as skilled labor between member countries beginning in 2015.

School enrollment, participation and dropout rates have changed for the better over the course of the past decade, but still contribute to low skill levels, especially in remote areas in the country’s eastern provinces. The Papuan highlands are among the least developed regions in Indonesia, and for many residents, access to education is a daily struggle. Schools in scarcely populated region are few and far between and many children have to walk for hours to reach them. The schools that do exist tend to be poorly equipped and understaffed.

There have been numerous news reports that not only students, but teachers as well, frequently fail to turn up for class. Many teachers are contract-employed, poorly paid, and themselves have a low level of education, making teaching at public schools unattractive for well-qualified professionals who can find better work in the private sector.

Both public and private institutions offer basic education. While tuition at public schools is officially free for the compulsory nine years, families still have to pay fees for extracurricular activities, field trips and in some cases for certain classes, too. They also have to buy uniforms and learning materials such as stationary and books, as well as cover transportation costs.

These expenses are more than some parents can bear, and they are the main reason why children fail to enroll or drop out early. Further selection between the haves and have-nots occurs in the three years...
of high school education, which requires tuition fees that can be very high even at public schools.

This is one reason for low social mobility in Indonesia, where children from impoverished families find it hard to break out of a vicious circle of low income and low educational background. The UCW study found that two-thirds of the children not enrolled in school were engaged in some form of work to support low family income. The problem of low attendance by those who are enrolled is also closely intertwined with child labor.

As many as 2.3 million children between the age of seven and 14 are engaged in employment. “Most working children do manage to participate in some amount of schooling, but the amount of time they spend in class is much less than for non-working children, undermining their learning potential and opportunities for the future,” the ILO, the World Bank and UNICEF conclude. An ILO survey tracking the careers of 2,500 young Indonesians from lower socio-economic groups found that “early school dropout contributes to a large pool of unemployed youth who lack the knowledge and skills to find decent work.”

The ILO’s program officer for child labor and education in Jakarta, Dede Sudono, names three main reasons for early failure to enroll, early dropout and low attendance: Inability of families to afford educational expenses, lack of schools available in the area, and inability of children from families with low educational background to keep up with what is being taught in class.

Primary school net enrollment rates were below 60% in poor districts compared to more well-off districts that have universal enrollment, based on World Bank data from 2010. Net enrollment rates for secondary education have improved, but are still low compared to other countries in the region. Indonesia is also trailing behind its neighbors in enrollment in both early childhood education and higher education, the World Bank found.

The government, to be fair, is not standing by idly. With the help of NGOs, international organizations and foreign governments it has launched various programs to address child labor and improve access to education, including cash assistance to families in need.

However, “we are struggling to ensure that the implementation of the programs benefits the rightful beneficiaries,” Sudono told Concord Strategic. She added that corruption in the allocation of government funds was an issue as well.

The Constitution mandates that central and regional governments devote at least 20% of their budgetary spending to the development of education, a target that has officially been met after the share roughly doubled in the first decade of the century.

The funds have gone, among other things, to the construction of new schools around the country, though it is unclear how much of this money actually trickles down to the classroom level.
According to a diplomatic cable from the US consulate in Surabaya to USAID which was leaked to Wikileaks, local governments have found ways to create the appearance of meeting the 20% requirement, for example by inflating their educational spending with programs that are only tangentially related to education.

While access to education has improved, the quality of education at many schools remains poor. Yohanes Surya, a professor of physics who has made it his mission to improve physics and math education in Indonesia, in a recent article for the Strategic Review quarterly described "cases where 17-year-old students could not figure out the answer to 9 + 5, let alone 4 x 5." The situation, says Surya, is particularly bad in Papua, where according to Surya, some ethnic groups do not know any numbers beyond 3, with any higher number referred to as “many.”

Aside from such extremes, competencies acquired at schools are often out of tune with the requirements of today's labor market, say employers. Another common gripe with Indonesian schools regards methodology. The teaching style is considered to be too theoretical and authoritarian, offering scant opportunities for practical learning and creative thinking – the very skills necessary to develop entrepreneurship and problem-solving capabilities.

Coupled with the low qualification of teachers and antiquated teaching methods, it is not surprising that most graduates from remote areas leave school with very poor educational standards. And low standards in junior high school education can only be rectified so much at senior high school and university.

The government on July 30 started nationwide tests to assess the competency of the country’s teaching force, but analysts have raised doubts about the effectiveness of the multiple choice questions featured in those tests.

So poor is the quality of education, says the ILO, that many supposedly successful graduates are unfit for the labor market, a point frequently raised by employers.

The ILO and other organizations are trying to bridge the gap between the qualifications schools supply and the qualifications employers demand. Back-to-school programs and various vocational training courses aim to provide the missing link between young people's educational standards and labor market requirements.

There is no question, however, that the public education system is in need of a thorough overhaul, if the country is to tackle the pressing concern of youth unemployment. Inaction will increase tensions between a small educated elite trained at expensive private schools or abroad, who enjoy excellent career opportunities, and the tens of million that don’t. While better basic education is a necessary condition to diffuse the ticking time bomb of underemployment among young people, it is by no means a sufficient one. Even the best schooling is of little use to a graduate if there is no job waiting at the end of it.

President Susilo Bambang Yudhoyono has made youth employment a priority for his administration and also called for a global coalition on the issue at the ILO’s International Labor Conference in Geneva last year. Touching on a crucial point, Yudhoyono stressed the importance to “invest more in sectors that generate jobs for youth.”

Almost one-third of Indonesia’s 240 million inhabitants are under the age of 15. Often touted as a demographic dividend for the country, this cohort of young people can quickly turn into a demographic liability when it pushes onto the crowded labor market to join the millions of others already tussling over a relatively small number of formal sector jobs.

The president’s statement shows that he is well aware of the fact that more job opportunities, not just a better education, are necessary to get the growing number of youths and young adults into decent work.

Education needs to play a key role in supporting Indonesia’s transition to a competitive middle-income country, equipping its citizens with the necessary education and technical skills to build competitive industries, reduce poverty and spur innovation.

It needs to be complemented by an accommodative investment climate to create demand, particularly in labor-intensive manufacturing sectors. This requires an investment-friendly regulatory framework and supportive transportation and communication infrastructure.

Education is one of the problems investors see with doing business in Indonesia, but tedious permit procedures, cumbersome bureaucracy on customs and taxes, weak law enforcement, unreasonably high retrenchment costs and generally unfavorable labor market regulations all feature higher on the list of factors that speak against investing in the country.

Amid the young demographic profile of the country and high population growth, creating enough jobs to absorb the millions of new entrants to the labor market every year will prove crucial to tackling youth unemployment and forestalling rising social tensions.

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