The Social Security and Unemployment Trends during COVID-19 Pandemic in Indonesia

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I. Introduction

The global COVID-19 pandemic has caused multifaceted issues to our society as well as affecting the global labor outlook that has been associated with unemployment and social security everywhere, including Indonesia. In particular, low-skilled and/or unskilled workers are the most vulnerable when COVID-19 spreads, with them being forced to reduce their work hours, thus reducing their salary or even experiencing something as severe as losing their jobs permanently. According to the latest data from the Indonesia Central Bureau of Statistics [Badan Pusat Statistik (BPS)], the open unemployment numbers as of August 2021 are dominated by low-skilled labors (senior high school or lower) and vocational graduates, which comprises around 88% of Indonesian workforce. With already low bargaining power, these workers become even more vulnerable as a result of the reduction in working hours, work rights went unprotected, even reaching to the point of mass termination of employment due to pandemic. These factors threaten their livelihoods and further bounce the number of unemployment rates that have already sit at 4.1% in 2020, above the average unemployment rate in the Southeast Asia. Not to mention that the labor market is dominated by workers in the informal sector which are typically characterized by unstable income and lack of access to social security and health insurance.

To improve labor protection, the Indonesian government has taken a number of measures such as reforming the labor law as well as introducing additional social safety net programs streamlined into the Law No. 11 of 2020 regarding Job Creation. The new legislative change initially aims to improve the labor market competitiveness as well. Further, the government has also introduced programs such as the 12-year compulsory education program for children, education aid for adults, and internship.

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1. Based on statistics of unemployment during pre-crisis, peak and most recent among 36 countries. See: OECD, 2021.
2. Rahman et al. 2022.
7. The 12-year compulsory education program, formally known as “Program Pendidikan Menengah Universal” is regulated in the Ministry of Education and Culture Regulation No. 80 of 2013 regarding Universal Middle Education Program.
8. Non-Formal Education Equalization School or locally known as “Kelompok Belajar” is a program aimed to expand the opportunities of society members, especially the poor to improve the knowledge, skills and mental attitudes needed to develop themselves and to work for a living. The two legal standing of Non-Formal Education Equalization Program are regulated within the Law No. 20 of 2003 regarding the National Education System and Ministry of Education and Culture Regulation No. 81 of 2013 regarding the Establishment of Non-Formal Education Units.
programs\(^9\) for tertiary students; aiming to upskill the labor force in the long term. However, when COVID-19 reached a global scale in early 2020, it caused a significant disruption in the social, political, and economic order, especially since the newly introduced Job Creation Law did not factor in the pandemic. The data in this report is prepared using normative research methodology by compiling information from official government instances, NGOs and think-tank organizations. This report aims to address the following research issues:

1. Evaluating the implementation of the security programs and its contribution towards workers’ welfare especially during the pandemic.

2. Evaluating the trends of employee termination during the times of pandemic, especially the cause and how the officials are trying to weather the bad influence caused by it.

At the end, the report will outline the current state of government policy and how it fares so far. This report is hoped to contribute in the evaluation of social policy affecting the working class so that contingent factors such as the pandemic could be factored in its design.

II. Labor market in Indonesia prior and post Omnibus Law

A. Prior the implementation of the Omnibus Law

Before the passing of Law No. 11 of 2020 regarding Job Creation, known as the Omnibus Law, it was preceded by Law No. 13 of 2003 regarding Employment. Prior to this, complaints concerning welfare of the workers have been prevalent. As an example, religious holiday allowance is often disputed each year. On one side, the law was too rigid and burdensome for the companies as the sum of the payment does not correlate with the productivity or achievement of the worker. Henceforth, a number of aspects of the law still need to be reviewed to reach a better balance for employers and employees. Another presented challenge for the Indonesian government is that the current labor law is not competitive enough comparatively to other countries based on the following aspects:

a. Severance payment

The regulations regarding severance payment are still considered rigid, making Indonesia a country that is avoided by footloose industries\(^{10}\) as opposed to countries such as Vietnam or the People’s Republic of China. In Indonesia, the regulation regarding severance pay is a maximum of 9 months of wages for the working period of 8 years and over.\(^{11}\) Compared to Vietnam, workers are entitled for 1.5-month severance pay for each year of work without a maximum value.\(^{12}\) As for China, workers with the working period of 5 to 10 years are entitled to a 5-month salary severance pay; workers with the working period of 10 to 20 years are entitled to 10-month salary severance pay; and workers with the working period of over 20 years are entitled to 20 months of severance pay.

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9. This program, locally known as “Kampus Merdeka” [Independent Campus] is a breakthrough program pioneered by the Ministry of Education and Culture in cooperation with state universities with the purpose of providing opportunities to hone students’ interests and talents. By participating in the various programs provided, students are expected to be able to develop their potential according to their passions and talents more flexibly, https://kampusmerdeka.kemdikbud.go.id/web/about/kata-pengantar-direktur-belmawa, accessed on January 27, 2022.

10. Footloose industry is a general term for an industry that can be placed and located at any location without effect from factors or production such as resources, land, labor, and capital. These industries often have spatially fixed costs, meaning that the costs of the products do not change despite where the product is assembled and generally non-polluting. Examples of products from these industries are diamonds and computer chips.


b. Termination of employment

Indonesia needs to reassess the amount of severance pay, years of service and compensation of rights that are burdensome for employers. In addition, workers are also entitled other payment such as service payment and compensation pay. The regulations related to the termination in Indonesia require a bipartite process if the worker refuses to be laid-off. If an agreement was not reached through the bipartite process, then the authority for the settlement shifts to the tripartite process such as mediation, reconciliation, or arbitration. In case of failure at the stage of tripartite process, either side can go to Industrial Relations Court. In Industrial Relations Court, the usual civil court procedures will be taken which requires long time and cost for the settlement. Those factors in the ruling are making foreign investors having higher risk of the cost in case liquidate the company. In Vietnam, termination of employment must be through mutual agreements, except for voluntary dismissal or redundancy. Severance pay is excluded for workers that have committed a crime, are absent for five days in a month, and workers with repeated offenses. Furthermore, the termination of employment decisions being legal or not is not within the jurisdiction of the court. In Thailand, the court has the authority over termination issues as well as deciding the amount of compensation of which the workers are entitled.

B. Post the implementation of the Omnibus Law

As Law No. 11 of 2020 regarding Job Creation was passed in November 2020 and its derivative regulations were passed in February 2021, it has brought a new look to the application of law in Indonesia. The labor cluster in the Omnibus Law was one of the most crucial issues as the ramification of economical and operational restriction for businesses as a response to the pandemic.

Regardless, the Job Creation Law and the implementing regulations created polemics concerning to the derivative regulations, particularly Government Regulation (“Gov Reg”) No. 35 of 2021 regarding Fixed Term Employment Agreement (FTEA), Outsourcing, Working Hours and Resting Hours, and Termination of Employment, as well as Gov Reg No. 36 of 2021 regarding Wages. Other than being considered as lacking formality and being non-concrete, Job Creation Law is also thought to be improperly ratified in the middle of the pandemic. In relation to Gov Reg No. 35 of 2021, it is also stipulating the responsibilities for employers to monetarily compensate FTEA employees, previously this was not stipulated in the Law No. 13 of 2003 regarding Employment. Overall, Gov Reg No. 35 of 2021 regulates requirements, technicalities, and the amount of the monetary compensation but does not classify the premise regarding which party ends the FTEA; only that if the FTEA is over, then the worker is entitled to a compensation amounting one month salary if the worker works for one year continuously. Meanwhile if the working period is less than one year, the amount will be adjusted in pro-rata.

Other than the above compensation, referring to Article 62 of Law No. 13 of 2003, the party which ends a FTEA in the middle of the contract period, must pay for compensation amounting to the remaining balance of the contracted period. Considering these two factors, if the employer is in the position of the party that ends the FTEA, then it will result in the ambiguity that the workers have an absolute claim for compensation, potentially burdening and even harming the employers. In substance, the dispute that occurs between employees and employers is not a new thing, but with the Gov Reg No. 36 of 2021 regarding Wages, the phenomenon known as the “effort to turn life around” returned with workers seeking for a wage increase with a higher value compared to the formula that has been implemented within the regulation. Additionally, the salary slip and composition of the salary can be disclosed to a third party such as labor union which can assess the salary and its evaluation of the amount.

There are a number of significant differences in Gov Reg No. 78 of 2015 and Gov Reg No. 36 of 2021 although both have specifically regulated wages in relating to the minimum wages to be calculated. The main difference is that in Gov Reg No. 78 of 2015, the minimum wage was stipulated using Decent Living Component (DLC). The use of DLC itself was previously regulated in Law No. 13 of 2003 and its components were regulated in the Ministry of Manpower Regulation No. 18 of 2020 regarding the Ministry of Manpower Regulation No. 21
of 2016 Amendment regarding DLC. The calculation was amended on Gov Reg No. 36 of 2021 using the upper threshold and lower threshold calculation of the components. The labor union judged that to achieve fairness, the regulation regarding wages should have kept including DLC because it reflects the needs of the party receiving pay to continue a livable life.

When DLC is not used as a part of the wage calculation formula in Gov Reg No. 36 of 2021, then this will result in a massive pushback from the worker side because it will be considered as not fulfilling the value of fairness. For workers, the absence of DLC will be significantly felt especially for workers who are impacted by the reduced working hours as a result of operational hour restriction because of the pandemic.

III. The Impact of COVID-19 to the labor market in Indonesia

As the employment sector was hit by the pandemic the government started enforcing a large-scale social restriction\(^\text{13}\) and community activities restrictions enforcement,\(^\text{14}\) which were derived from World Health Organization’s (WHO) social restriction policy. These restrictions then led to a ‘new normal’ - a state of adjustment by multiple layers of the community to adapt towards changes caused by COVID-19 in order to control the spread.\(^\text{15}\)

In the workplace, one of such adjustment includes the remote working mode. However, not all companies in Indonesia could equally implement and/or follow the new normal trend due to the vast variety of occupations. Some are also forced to lay off their employees to reduce operational costs. As a result, there is a hike of unemployment between 2019 and 2020 which deviated from the previous years’ trend caused by the pandemic\(^\text{16}\) (Figure 1).

\[\text{Figure 1. Unemployment in Indonesia before and after COVID-19}\]

\(\text{Source: Official Statistic News [Berita Resmi Statistik], November 5, 2021.}\)

\(\text{13. “Pembatasan Sosial Berskala Besar” or simply known by the acronym PSBB, is a term of health quarantine in Indonesia which is defined as “Restriction of certain activities of residents in an area suspected of being infected with a disease and/or contaminated in such a way as to prevent the possibility of spreading the disease or contamination.” It is regulated within Law No. 6 of 2018 regarding Health Quarantine.}\)

\(\text{14. “Pemberlakuan Pembatasan Kegiatan Masyarakat” or simply known by the acronym PPKM, is a policy enforced in several areas that became the center of COVID-19 spread, namely on the islands of Java and Bali. It is regulated within Instruction of the Ministry of Home Affairs No. 1 of 2021 regarding The Implementation of Activities Restriction to Control the Spread of Corona Virus Disease (COVID-19).}\)

\(\text{15. WHO, “New Normal.”}\)

\(\text{16. Indonesia Central Bureau of Statistics [BPS], 2021.}\)
Technological developments that ease remote working also have the potential to cause laying off workers. Along with technology development that aims to ease human work and performance, various automation using artificial intelligence (AI) technology have begun to spread. Future projections by World Economic Forum (WEF)\(^\text{17}\) are that there will be approximately 43.2% of global companies conveying that they will reduce their workers as a response and integration towards the ever-evolving technology.

Typically, remote working jobs are associated with mid- to high-skilled labors. These labor groups are also associated with higher disposable income, hence higher savings which are likely ease the transition to the ‘new normal.’ On the opposite, low-skilled groups are more likely to subject to redundancy and termination during the pandemic, as their nature of work renders remote working impractical.

Beside of its contribution to the unemployment hike, the pandemic has also affected the labor condition for the working age population. In 2021 alone, there are 17.41 million workers who are underworked due to COVID-19, comprising 84% of the total working population affected by the pandemic (Figure 2). Henceforth, while this group is technically employed, it is not out of possibility that a portion of this group who are working a minimum wage would end up living under the poverty line due to the reduced income in addition to the typically low disposable income.

In the past three years, the open unemployment rate in Indonesia had experienced an increase, as shown in Figure 3. Specifically, there is an upward trend among low-skilled group (senior high school and lower). Workers of these education levels are the most likely to end up as low-skilled and/or unskilled workers, hence they are the most negatively affected by the spread of the pandemic. As this group comprised the majority of the workforce, there is an urge for upskilling, particularly as automation cannot be avoided.

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\(^{17}\) World Economic Forum. 2020.
IV. Government programs to protect the workers

In the effort to safeguard the national economy and the welfare of its workers, the Indonesian government has championed a number of social programs. These programs are designed to not only focus only on the working class, but all layers of Indonesian society in general. There are five kinds of assistance that are specifically aimed to help workers, that is:

a. Job Loss Security (JLS) 18

The Job Loss Security (JLS) program, implemented with Gov Reg No. 37 of 2021, is actually not specifically meant to aid during the pandemic, but it happens to be passed during the time of pandemic. It aims to assist workers who are terminated to survive and able to achieve employment again or create a new employment opportunity. The JLS program itself is supervised under the Indonesian Employees Social Security System (ESSS) as one of its programs. Unfortunately, this program has not yet been able to be fully implemented up to one year after Gov Reg No. 37 of 2021 was passed. The benefit receiver requirement for JLS are shown in Table 1.

19. “Badan Penyelenggara Jaminan Sosial Kesehatan Ketenagakerjaan,” locally known by the name “BPJS Ketenagakerjaan” is a government entity that provides protection to all Indonesian workers, no matter in formal and informal sectors, and also for foreigners who worked in Indonesia for at least 6 months. The legal standing is regulated within the Law No. 24 of 2011 regarding Social Security Administrator.

### Table 1: Benefit Receiver Requirement for JLS

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Feb-19</th>
<th>Aug-19</th>
<th>Feb-20</th>
<th>Aug-20</th>
<th>Feb-21</th>
<th>Aug-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Education</td>
<td>36,442</td>
<td>40,771</td>
<td>35,761</td>
<td>31,379</td>
<td>20,461</td>
<td>23,905</td>
</tr>
<tr>
<td>Elementary Dropouts</td>
<td>443,495</td>
<td>347,712</td>
<td>346,778</td>
<td>428,813</td>
<td>342,734</td>
<td>431,329</td>
</tr>
<tr>
<td>Elementary School</td>
<td>965,641</td>
<td>865,778</td>
<td>1,006,744</td>
<td>1,410,537</td>
<td>1,219,494</td>
<td>1,393,492</td>
</tr>
<tr>
<td>Junior High School</td>
<td>1,235,199</td>
<td>1,137,195</td>
<td>1,251,352</td>
<td>1,621,518</td>
<td>1,515,089</td>
<td>1,604,448</td>
</tr>
<tr>
<td>Senior High School</td>
<td>1,690,527</td>
<td>2,008,035</td>
<td>1,748,834</td>
<td>2,662,444</td>
<td>2,305,093</td>
<td>2,472,859</td>
</tr>
<tr>
<td>Vocational School</td>
<td>1,397,281</td>
<td>1,739,625</td>
<td>1,443,522</td>
<td>2,326,599</td>
<td>2,089,137</td>
<td>2,111,338</td>
</tr>
<tr>
<td>Academia/Diploma</td>
<td>274,377</td>
<td>218,954</td>
<td>267,583</td>
<td>305,261</td>
<td>254,457</td>
<td>216,024</td>
</tr>
<tr>
<td>Graduated University</td>
<td>855,854</td>
<td>746,354</td>
<td>824,912</td>
<td>981,203</td>
<td>999,543</td>
<td>848,657</td>
</tr>
</tbody>
</table>

Table 1. Benefit receiver requirement for the Job Loss Security

<table>
<thead>
<tr>
<th>Conditions required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Indonesian citizen</td>
</tr>
<tr>
<td>2 Less than 54-year-old when registering</td>
</tr>
<tr>
<td>3 Formally employed</td>
</tr>
<tr>
<td>4 Registered in both Social Security Administrator for Health (SSAH) and ESSS programs</td>
</tr>
<tr>
<td>5 Paid for at least six months of them consecutively before the termination of employment in the past 24 months</td>
</tr>
</tbody>
</table>

Source: Compiled by the author.

Those eligible are entitled to cash benefits of a total of 45% of monthly salary for the first three months and 25% for the next three, as well as job market information and training. The benefits of the program will be provided when the worker is terminated and the current maximum amount of the salary for calculating the contribution is IDR 5 million (USD 347.67).

However, since the benefit can only be claimed by those who have been registered in the ESSS program for at least 12 months, with half of the duration paid consecutively, workers terminated before they meet the eligibility will not be able to claim the benefit. This is concerning as low-skilled workers, as the most vulnerable group during the pandemic, are the most likely group to be negatively affected. Moreover, low-skilled workers comprised the majority of Indonesia labor force. Hence, there is a potential that the safety net itself will not provide the necessary security to the group that needs the most.

Therefore, due to its restrictive administrative requirement, JLS failed to be a safety net for the affected workers during crisis due to pandemic. This could be attributed to the fact that the program itself was designed pre-pandemic era and has not yet been properly adjusted to the current situation. To add, as of October 2021, there are only around 52.41 million workers registered to the ESSS. Hence, as COVID-19 arise, the program was rendered ineffective due to its administrative restriction and failed the current need. The ideal law is supposed to be developed and aligned with the society needs but in the case of JLS, it’s the opposite.

The interests of workers who are under contract for less than 12 months and with job insecurity cannot be optimally accommodated by this program. In addition, there is a need for flexibility in terms of payment for 6 consecutive months because workers who have been laid off before they have been paid cannot claim this program. Another concern is that the JLS program is, as of now has yet to be fully implemented. The government spokesperson has mentioned that they hoped JLS will be implemented for the social securities’ participants on this February of 2022. Taking this into consideration, it is too late because the legal basis has already set a year before, and the workforce are already struggling because of the pandemic.

b. Wage subsidy

Wage subsidy aims to ease the burden of day-to-day life of workers, other than that, wage subsidy will also help employers who are having difficulty in paying the wage of their workers during the pandemic, in

21. “Badan Penyelenggara Jaminan Sosial Kesehatan,” locally known by the name “BPJS Kesehatan” is a government entity that provides national health insurance for all Indonesian people, especially for civil servants, pensioners of civil servants and Indonesian National Police, veterans, pioneers of independence and their families and other business entities or ordinary people. The two legal standing are regulated within the Law No. 40 of 2004 regarding the National Social Security System and Law No. 24 of 2011 regarding the Social Security Administrator.
addition to the responsibilities for holiday bonus that has to be fulfilled by the employers in Indonesia. This program was last implemented in 2021, but up until now there is still no certainty if the aid will be continued in 2022 or not. This program aims to protect, maintain and improve the economic capacity of workers in handling the impact of COVID-19 pandemic. The distribution of subsidy is given to workers in the amount of IDR 500,000 (USD 34.77) per month for 2 months, which will be given as a lump sum of IDR 1,000,000 (USD 69.54). The terms are as follows:

1. Workers whose termination of employment happened after July 2021 still have the rights for wage subsidy if it complies with the provisions of the Ministry of Manpower Regulation No. 16 of 2021.

2. Workers registered as active participants of the ESSS of Employment program and have paid for their membership dues until June 2021, are entitled to receive the 2021 wage subsidy.

3. Workers who were proposed/designated as the receiver of 2021 wage subsidy are able to independently check their status at the official website of the Ministry of Manpower Republic of Indonesia.

c. Tax incentives

The Indonesian government, through the Ministry of Finance has issued Regulation No. 9/PMK.03/2021 regarding Tax Incentives for Taxpayers Affected by COVID-19 Pandemic. For the workers with a salary below 200 million rupiah yearly (roughly USD 14,000 per year), the income tax will be paid by the government.

However, there are several terms and conditions that must be fulfilled which includes: must possess a tax identity number and receive or earn income from certain employers. These incentives are given for the tax period of January 2021 up to December 2021.

d. Free vaccination programs

The Indonesian Ministry of Health, has established the free vaccination program in order to encourage the masses get vaccinated without worrying about the cost. Through this program, all brands of COVID-19 vaccines used for government programs must be free of charge.

e. Subsidy for electricity

Electricity subsidies can be interpreted as a form of assistance from the government so that people can pay electricity rates that are cheaper than their economic rates, especially during the times of pandemic where the amount of unemployment rates increase and people are struggling for their livelihood. Currently, the economic tariff for electricity is around IDR 1,400‒1,500/kWh (roughly 9.8 cents/kWh). However, with the subsidy from the government distributed through PT PLN (Perusahaan Listrik Negara [State Electricity Company]), those who receive the subsidy only need to pay around IDR 400‒IDR 600/kWh (roughly 2.8 cents/kWh), depending on the type of power used.

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28. Law No. 30 of 2007 regarding Energy and the Law No. 30 of 2009 regarding Electricity. As of now, all 450 VA (volt-ampere) household customers are still receiving electricity subsidies and the government is working to continue the reform of subsidy for electricity. See: https://fiskal.kemenkeu.go.id/fiskalpedia/2021/10/06/17-subsidi-listrik.
V. Conclusion

The report has outlined a number of profound impacts as a result of the pandemic towards Indonesian employment sphere, with several points that requires special attention are as follows:

1. To address the increasing unemployment and social security issues due to the pandemic, the Indonesian government has implemented a number of programs and amended its labor law. Among other programs, Job Loss Security is pivotal as a safety net. However, vulnerable workers, such as low-skilled workers, are less likely to enjoy the benefit due to its restrictive administrative requirement. Whereas, this group comprised around 65% of Indonesian labor force. Henceforth, the government needs to build a safety net aimed for working group with low job security, low bargaining power, and low skilled. In addition, easing the administrative requirements, particularly in contingent situation such as the pandemic would also increase the accessibility of the aid for low skilled labor.

2. Although the pandemic has also impacted middle and high-skilled workers as well, emerging technologies and new patterns of work (remote working) have significantly reduced the impact. These groups, particularly high-skilled workforce, enjoy a degree of working flexibility which has assisted them in minimizing loss of productivity while also reducing costs associated with fixed costs, thus securing the projected employment growth even amid the pandemic restriction. Therefore, training more workers to achieve these skills would be essential in addressing unemployment and job security in the future. In addition, with the increasing trend of automation and digitalization with the assistance of AI, low-skilled workers are more likely to be faced with inevitable obsoletion in the future. Due to COVID-19 alone, therefore, there is a merit for the government to identify and project sectors and skills that will have increasing demand in the future, particularly in the tech industry, and focus on training programs that would equip the labor force with the necessary and in-demand skills in the future.

The unemployment trend in Indonesia peaked in 2020, just as the pandemic hit. It was one of the worst in the past decade. The government even had projected the rate to increase entering to 2021. However, the number started to decrease in 2021. The reduction can be attributed to the mass vaccination program which was positively received by the public. In addition to that, the pandemic restriction has either compelled employers to deploy remote work, or go through redundancies, which both have forced the working population to remain indoor although the latter contributed to the spike in the unemployment rate.

*Laws and regulations mainly mentioned in this report are as follows.
Indonesia. Law No. 11 of 2020 regarding Job Creation.
Indonesia. Law No. 20 of 2003 regarding The National Education System.
Indonesia. Law No. 24 of 2011 regarding Social Security Administrator.
Indonesia. Law No. 30 of 2009 regarding Electricity.
Indonesia. Ministry of Education and Culture Regulation No. 80 of 2013 regarding Universal Middle Education Program.
Indonesia. Ministry of Education and Culture Regulation No. 81 of 2013 regarding The Establishment of Non-Formal Education Units.
Indonesia. Ministry of Health Regulation No. 23 of 2021 regarding The Third Amendment to the Ministry of Health on No. 10 of 2021


References


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