

## Research Insights

# How can Indonesia increase female workforce participation?

Female workforce participation has huge economic potential, yet only half of all women of working age in Indonesia are in the labour force. This study provides insight into how labour market policy could help stimulate Indonesia's economic growth through greater employment of women's skills.

# Why should we encourage more women to work?

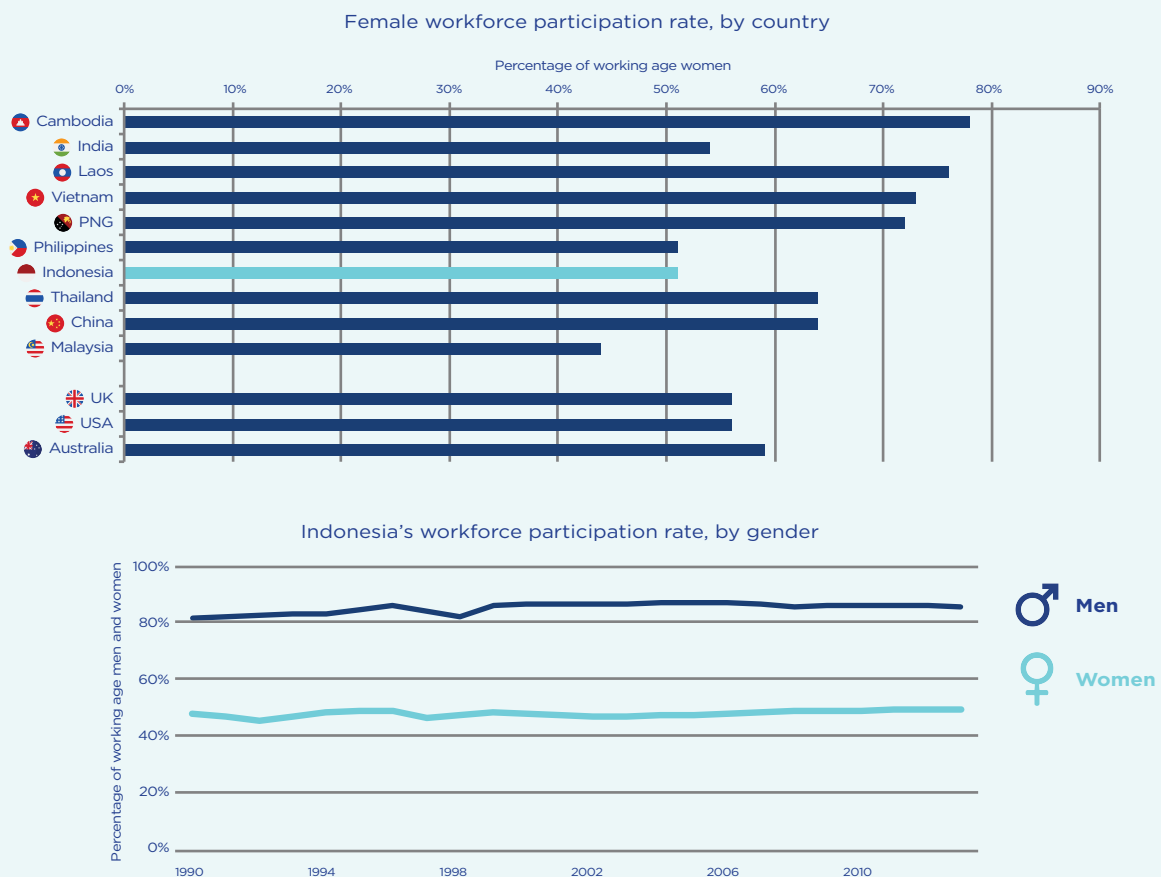
Over the past two decades, female workforce participation in Indonesia has remained largely unchanged at around 51 per cent of all working age women, which is low by international standards (Figure 1) and contrasts with the situation in many countries where it has been increasing over time. This is puzzling given ongoing industrialisation in Indonesia over this period along with increases in female education attainment.

Increased participation and retention of women in labour markets around the world has been shown to increase productivity and firm profitability. Estimates suggest that increasing Indonesia's female workforce participation to the G20 target of 58.5 per cent in 2025 would increase annual GDP growth by 0.67 percentage points—which corresponds to an increase in GDP of USD\$123 billion, or USD\$432 per capita.<sup>1</sup> This suggests that labour market policies in Indonesia should be aimed at better utilising the skills of the female half of its population so as to enhance economic growth. This question is relevant for both developing and developed countries alike.

In addition to national economic benefits, greater female workforce participation has the potential to improve other facets of women's lives, for example, increasing women's contribution to household finances has been shown to give them more 'say' in household decision-making and improve the wellbeing of both women and children. Having an increased number of women with experience in the public sphere could also increase the probability of greater female political representation.

As Indonesia prepares to revise its labour laws<sup>2</sup>, it is crucial to consider the experiences and needs of women. Melbourne Institute researchers have examined the employment barriers facing women in Indonesia in a series of papers which provide insight into ways the government and private enterprise can improve women's opportunities to work.

Figure 1: Female labour participation in Indonesia has been low and unchanging



1. Figures compiled by the Australia Indonesia Partnership for Economic Governance, as cited at <http://www.bbc.com/indonesia/indonesia-42428508>.

2. As cited at <https://en.katadata.co.id/in-depth/2019/06/18/looking-for-ways-to-revive-industry-through-manpower-law-revision>

# Key Insights

## 1 A decline in female workforce participation emerges after marriage and childbirth

Drawing on the Indonesian Family Life Survey (IFLS) of 9,000 women over the course of 20 years, our research shows that more than 40 per cent of women aged 20 to 44 are not working one year after the birth of their first child (Figure 2). This corresponds to a significant 8.6 million women. The largest decreases in female workforce participation after childbirth occur among senior secondary school-educated women working in production, service or sales roles in manufacturing; wholesale and retail trade; and hotels. Tertiary educated women generally remain in the workforce after marriage and childbearing, as do self-employed women, which is consistent with their ability to afford childcare and have some control over where and when they work, respectively.

## 2 Childbirth is a barrier to employment in the formal sector particularly

The share of women working in formal employment, that is, as a wage-earning employee, decreases after marriage and the birth of each child. For example, 88 per cent of working women aged 24 and not married in Indonesia work in the formal sector, compared to just 50 per cent of working women with one child.

Most women who leave the formal sector following marriage and childbirth do not return to work afterwards, and only a small few switch to self-employment. This likely reflects the different skill set requirements of formal and informal sector workers.

## 3 There is significant wage discrimination against women in Indonesia

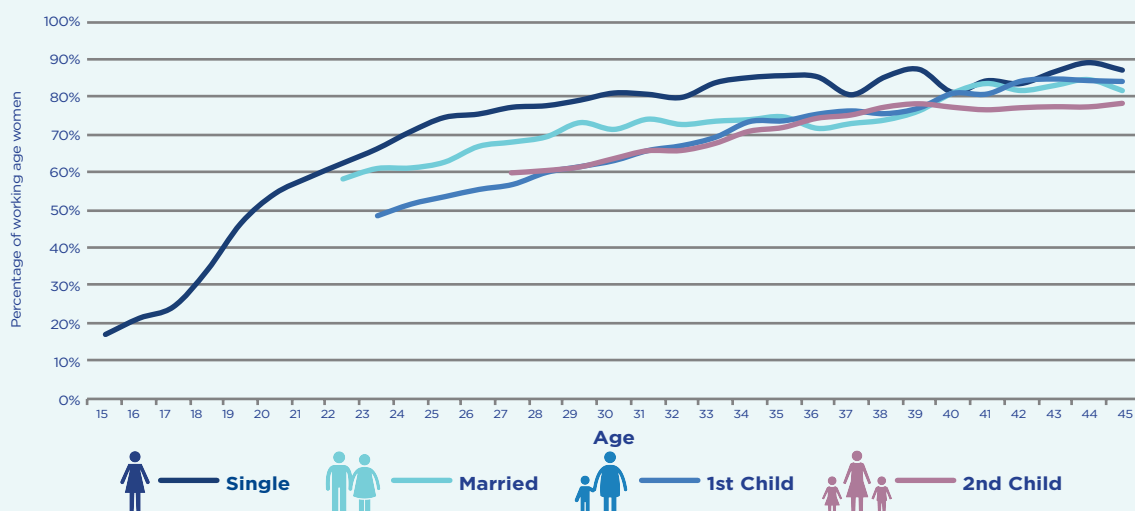
Female employees are paid 34 per cent less than males on average. The gender wage gap is largest for low-wage workers, with women in the lowest quintile of the wage distribution earning 63 per cent less than men on average. Women in the top decile of wage earners are also paid less than men but the gap is much smaller at 13 per cent.

Differences in observed characteristics (such as educational attainment, experience and industry of employment) of men and women explain just 38 per cent of the gap. Most of the gender wage gap remains unexplained and reflects differential treatment of men and women by employers, which creates a disincentive for women to work.

## 4 Labour laws are restricting women's ability to work

Current labour laws in Indonesia restrict the ability of employers to offer women the kinds of flexible work arrangements which would enable them to fulfil their domestic responsibilities while remaining economically active in the workforce. The current laws allow part-time work solely for short-term contractors (*Perjanjian Kerja Waktu Tertentu, PKWT*) and for freelance workers (*Perjanjian Kerja Harian Lepas*) whose contracts cannot be extended for more than three months.<sup>3</sup> These types of roles do not offer secure employment and often provide less generous benefits<sup>4</sup>. Reform of the labour laws to allow more flexible working hours and conditions for permanent workers would be beneficial to female participation.

Figure 2: Women's labour market transition after marriage and childbirth (% of working age women)



3. Law of Employment and the Decree of the Minister of Manpower and Transmigration, No. 100/2014

4. Under the Decree of the Minister of Manpower, No. 150/1999, employers are required to provide worker benefits, such as work-related accident insurance, life insurance, pension and health care insurance. However, the implementation of this Decree is not strictly enforced.

# How can Indonesia get more women into the workforce?

Our analysis shows that without concerted policy action, Indonesia is unlikely to reach the G20 gender workforce parity target of 58.5 per cent female workforce participation. The significant negative impact of childbearing on women's ability to work in Indonesia suggests an urgent need to formulate policies to support women returning to work after childbirth, some of which include:



## Promoting shared child-rearing responsibilities

Evidence from abroad, particularly from Nordic countries, indicates

that government policies which promote the sharing of child-rearing responsibilities between parents can substantially increase women's ability to work while raising children. The general provision of paternity leave in Indonesia (which was recently made available to government employees), in addition to maternity leave, would provide greater opportunities for women to gain and maintain employment.



## Increasing the flexibility of work arrangements

Legislative changes that allow

employers to offer stable, ongoing part-time work and other flexible work arrangements (for example, relating to working hours, ability to work from home and job-sharing), with full employee entitlements, is a way of making employment more attractive to women. Provision of childcare facilities at workplaces would also support women in managing their work and family responsibilities.

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## Further Information

### Datasets:

The **Indonesian Family Life Survey** (IFLS) is a panel survey representative of 83 per cent of the Indonesian population living in urban and rural areas across Java, Sumatera, Bali, West Nusa Tenggara, Sulawesi and Kalimantan. (Poorer, more sparsely-populated and remote Eastern Indonesia is largely omitted.) The survey has tracked the same Indonesian households and their members since 1993. The data is unusual and valuable as it generates employment histories for over 9,000 women across a period of more than 20 years. It thus allows us to go farther than previous research in examining how women's work patterns change as they get married and have children.

The **Indonesian National Socio-Economic Survey** (Susenas) is a nationally representative, annual survey of about 200,000 households. We use data from the years 1996 to 2013.

The **Indonesian Village Census** (Potensi Desa, PODES) is a census of all (approximately 65,000) villages across Indonesia (similar to postcode level in Australia) and is conducted three-yearly. The Podes contains information on the demand side of the labour market, such as distance to jobs and the main source of income for households in the village. We use data from 1996, 2000, 2003, 2008 and 2011.

### References:

Asian Development Bank. 2015. Indonesia Factsheet, Mandaluyong City, Philippines: Asian Development Bank, 24 April. Available at <http://www.adb.org/publications/indonesia-fact-sheet>.

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### Further reading:

Newton, A. (2011) Women in Work. How can policy makers encourage female labour force participation? <http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/AliceNewtonPolicyNote.pdf>.

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This Research Insight represents the opinions of the author(s) and is not intended to represent the views of Melbourne Institute. Whilst reasonable efforts have been made to ensure accuracy, the author is responsible for any remaining errors and omissions.