X. EMPLOYMENT

A. Employment Regulations

The Department of Manpower is the government agency that regulates employment practices in Indonesia. It supervises employment conditions, acts as mediator in labor disputes, operates training institutes, issues work permits to expatriates, sets minimum wages, and handles other human resources matters.¹

B. Wage Rates

Indonesia has competitive wage rates for unskilled workers in Asia, but considerable differences exist between industries and geographic locations. For example, wages in the oil sector are higher than those in the agriculture sector, and wages in urban Jakarta are higher than in rural Java and other islands. The Ministry of Manpower regulates the minimum wage for each province or city. For example, the Ministry has issued a Regulation setting the monthly minimum wage rate in Jakarta at Rp. 426,250 as of January 1, 2001.

C. Leave and Holidays

There are generally 13 paid public holidays in a year. Based on Government Regulation No. 21 of 1954, employees are entitled to a maximum of 12 working days of paid annual leave. An employee is entitled to receive sick leave for a period of up to 12 months. A female employee is entitled to a three month paid maternity leave. Employees are also given paid leave for occasions such as the birth of a child (one-day) and a death in the family (two days).

D. Fringe Benefits

Indonesian workers are generally entitled to fringe benefits from their employers. Some of these are:

- payment of income tax due on salaries and wages;
- an annual bonus of one month’s pay (usually paid at Lebaran, the annual Moslem festival)
- medical expenses
- travel and meal allowances

E. Termination

It is normal procedure for employers to have new employees (permanent only) undergo a three-month probationary period. During this three-month period the employers, at their discretion, can dismiss these new employees. However, after this three-month period, dismissal requires the permission of the Committee for Settlement of Labor Disputes of the Department of Manpower. Should permission be granted, the company is required to provide severance payment, merit payment or service payment to the terminated employee. ²

Employee termination and the calculation of severance pay, merit pay and service pay must comply with the manpower regulations, which currently refer to the Decree of the Minister of Manpower No.150 of 2000. The amount of the severance payment depends on the number of years of service. Therefore, the longer the period of service, the higher the severance pay as well as the merit pay and the service pay. The service pay varies from one month to seven months gross salary. However, in special cases, the payment of severance pay, merit pay and service pay can be higher than the above stipulation. Again, this depends on the agreement between the employer and employee. With regard to employment termination, the

common practice is to give an employee three written warnings prior to terminating service. ³

F. Social Security

The cornerstone of Indonesia’s social security system is known locally as Jaminan Sosial Tenaga Kerja (JAMSOSTEK). ⁴ Companies that employ at least ten persons and have a payroll of at least Rp. 1 million a month must participate in an employee social security program provided by PT JAMSOSTEK, a limited state-owned social insurance company. PT JAMSOSTEK provides benefits to employees for workplace accidents, death, health care and retirement. Employer and employee contributions to JAMSOSTEK vary by industry and program. Employees only contribute a share of their income to the retirement program; contributions for the other programs are borne exclusively by the employers. These rules while applicable to expatriates, are not mandatory for them, and expatriates may withdraw their accumulated premiums when they leave the country.

G. Summary of Employment Considerations

It is extremely difficult to assess all the possible situations which may arise from labor and employment because of the numerous possibilities. Entity managers and investors will certainly want to take into consideration is the possibility for a mobilized strike. While there is no current data set on strikes in the textile production area, we recommend that all employees who pass the three-month probationary period and become full-time contractual employees

³ The above information was compiled using information from http://www.ilo.org/public/english/employment/gems/eeo/cover/indo_main.htm.

⁴ See http://www.disb2b.com/front/index.php
should have provisions built into their contracts that immediately terminate the employees if they are involved in any activity which hints of striking and the like. This may be a big issue for the entity in its nascent stage, and investors and decision-makers in the organization should give great care to balance the worker regulations mandated by the Indonesian labor laws and entity autonomy.

The mediation and arbitration organizations discussed in Part II should be used whenever possible. Clauses in employment contracts should require mediation and arbitration before an employee may turn to the court system.