

# **Annual Report**



International Labour Organization

International Finance Corporation WORLD BANKGROUP

2020 DATA

### FOREWORD



# Indonesia

Indonesia's garment sector had a positive growth trajectory entering 2020, and the Indonesian Textile Association (API) predicted an annual growth rate of 5 per cent. However, Indonesia's garment sector was badly hit by COVID-19, and now the country still faces a public health crisis. To respond to urgent needs on the ground, Better Work Indonesia adapted its support for factories and the wider garment sector to overcome the challenges brought about by the pandemic. This response included strengthening occupational safety and health support, testing remote monitoring of working conditions, keeping factories in close touch with national authorities and building on social dialogue structures and processes to find equitable solutions to the issues facing workers and their employers. The programme took strides forward on its path to ensuring sustainable compliance and strengthening labour market systems and institutions in Indonesia.



Australian Government Department of Foreign Affairs and Trade



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## COUNTRY CONTEXT



### Impact of COVID-19 on the sector

Together with India and China, Indonesia tops the list of countries in Asia most affected by the pandemic. The Indonesian economy contracted by 2 per cent in 2020 and is now in recession. In April 2020, API reported that COVID-19 restrictions had temporarily halted operations in 80 per cent of textile product companies across the country. According to the ILO, export levels in May and June 2020 were down 60 per cent compared to 2019. More than 165,000 workers in the registered factories had reduced working days, hours and wages. Almost 20,000 workers lost their jobs in 2020 with contract workers and women disproportionately affected.

#### **Major labour law reform**

In November 2020, the Indonesian Government issued a new Job Creation Law, as part of a sweeping set of legislative measures known as the "Omnibus Law," to stimulate economic growth and foreign investment. The new law introduces major changes to employment contracts, working hours, holiday entitlements, wages and termination rules. The lack of a fully consultative process leading to the enactment of the law and what some see as the unilateral lowering of standards for workers are two main aspects of the trade unions' opposition to the law. The law is under a judicial review by Indonesia's Constitutional Court following the lawsuits filed by some of the major trade union confederations in Indonesia.

#### **Trade agreements**

Indonesia's access to the USA's Generalized System of Preferences — a preferential tariff system — has been renewed, but it only applies to certain garment products. Negotiations linked to the EU-Indonesia Comprehensive Partnership Agreement continue. Indonesia has also signed up to the Regional Comprehensive Economic Partnership Agreement with ASEAN, and its six free trade agreement (FTA) partner countries, but this is not expected to have a significant impact on the sector. Indonesia recently increased import duties on garments from China, Vietnam and Bangladesh to protect the domestic US\$ 16.4 billion garment industry.

#### GARMENT SECTOR STATISTICS

By the end of
2020, garment
export value had
plunged to US\$5.8
billion from US\$7
billion the previous
year. The USA is the
sector's primary
export market
(36 per cent of
the total), followed
by Japan,
Germany, South
Korea and China.

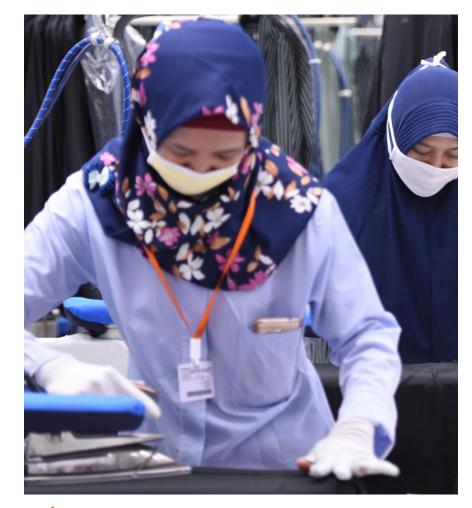
 The sector is an important source of employment for women, who comprise an estimated
per cent of the approximately
530,000 workers in 344 exportoriented garment factories.

2020 was marked by two major events, the COVID-19 pandemic and the passing of the Omnibus Law, the new labour regulation. Throughout the year we worked hard to be up to the task facing us and tried to be a stabilizing and supporting force to our partners."

Maria João Vasquez, Better Work Indonesia programme manager

### Safeguarding workers' rights and welfare during the pandemic

In 2020, Better Work Indonesia's focus and strategy were redirected to support factories and stakeholders in mitigating the negative impacts of COVID-19 and understanding and implementing the labour policy changes introduced across the country through the Omnibus Law. The strategies put in place by the programme to help factories, workers and international brands navigate the crisis included regular activities such as advisory services and assessment, but also capacity building, issuance of guidelines and social media outreach. Throughout all these areas, the strategies were implemented despite travel restrictions and social distancing measures. Better Work Indonesia's interactions with national stakeholders, including the Indonesian Government, trade unions, and employers' associations, are outlined below, focusing on the national policy responses to deal with the pandemic and its resulting economic crisis, as well as the social partners' efforts to protect the garment sector.





# Focus on factory operations and effective measures against the crisis

One of the key changes affecting operations in 2020 was the adaptation of Better Work services into a full virtual format. As part of the interim factory services policy during the pandemic, Better Work Indonesia factories were not assessed. Nonetheless, Better Work Indonesia continued to engage in monitoring the situation through virtual advisory services and monitoring of <u>factory data</u>. The focus has been on the wages and entitlements situation, factory operations (including termination and workers in furlough), and the occupational safety and health (OSH) response for COVID-19 in the workplace. The programme team also developed communications campaigns, a specific OSH COVID-19 protocol and distributed masks and other protective equipment to workers, with support from the ILO's German Federal Ministry for Economic Cooperation and Development (BMZ) project.





PROMOTING GENDER EQUALITY

# Gender equality continues to be a priority

It is well-established that women, who represent 80 per cent of workers in the enrolled factories, have been disproportionately affected by the pandemic. A key concern was to continue protecting workers and women's rights and the continuity of employment, during the pandemic. The advice and guidance issued by Better Work Indonesia during this period reflected gender considerations and specific awareness raising and campaigning efforts focused on women's rights as well as issues related to managing work-life balance during COVID-19. The number of female supervisors continues to grow in Better Work Indonesia factories (65 per cent in 2020) and despite an initial delay brought on by the pandemic, the programme resumed to provide gender equality and inclusion training (online). In other words, advisory services and training were tailored to respond to the needs and demands brought about by COVID-19 without neglecting important foundational work around gender equality and social dialogue.



### Companies rely on advisory data to evaluate sourcing risk

Due to difficulties in carrying out assessments in 2020, most of the 62 brands affiliated with Better Work Indonesia have accepted the information on compliance generated through advisory services and felt that these data fulfilled their requirements. According to surveys conducted with the affiliated brands, the programme's response to the pandemic was strong and kept them abreast of the country's situation and government responses. The team hosted six webinars in 2020 for brands on COVID-19 related issues and the Omnibus Law, among other topics.

Additionally, most buyers maintained their support for the roadmap to a highperformance approach initiated in 2019, which encourages factories to set their own targets based on their self-identified needs. The staff organized training with buyers such as H&M and Ralph Lauren on workplace dialogue, grievance mechanisms, gender and inclusion and OSH implementation during the pandemic.

In 2020, Better Work Indonesia also shifted all reporting and activities to digital platforms, which are amazing alternatives at this vulnerable time. We adopt those reports and integrate them in our internal system, to ensure close dialogue and development are in place to our business partner facilities. This new normal will bring opportunities to reflect and learn from our past while fulfilling the requirements of the present, and building toward the hope of a more meaningful tomorrow."

**Frank Gonsalves Blin,** country manager at H&M Group Indonesia Production Office



### Advocating for economic stimulus for the sector

In March 2020, the Indonesian Government announced a COVID-19 fiscal stimulus package worth IDR 405.1 trillion (US\$ 24.6 billion), focused on health care, social safety net measures, and business recovery programmes for micro-enterprises. A previous government programme - the "Kartu Pra Kerja" – was redirected to provide subsidy and skills training to unemployed workers from both the formal and informal sectors. A fully-fledged unemployment insurance programme was also promulgated in November 2020 as part of the Omnibus Law. The ILO and Better Work Indonesia have been advocating and providing technical support for years for unemployment insurance. With the ILO, the team has advocated for policies to support larger enterprises affected by the pandemic and specific measures to protect employment and income during the crisis. This work contributed to the government allocating IDR 37.7 trillion (around US\$ 2 billion) for a wage subsidy programme. Workers who earned less than IDR 5 million (US\$ 340) per month and were registered in the social security program (BPJS) received an IDR 600,000 (US\$ 40) stimulus in the last part of 2020. It is estimated that around 15.7 million people benefited from the scheme, including workers in factories enrolled in Better Work.



#### A DIRECT CHANNEL BETWEEN FACTORIES AND THE GOVERNMENT

Better Work Indonesia engaged with the provincial governments of West Java, Central Java, Jakarta, and the central government to host 12 special sessions on COVID-19-related topics, most of them together with national authorities. The sessions had more than 1,000 participants from both factory management and workers. It was a unique opportunity to interact directly with the Ministry of Manpower and the provincial governments amid the pandemic. In close consultation with the Indonesian Government and ILO, the team also developed specific COVID-related products, tools and guidance. They kept stakeholders informed about the applicable labour laws and regulations during the pandemic, including disease transmission, prevention, and management (see the Better Work Indonesia COVID-19 website for more details).



### Government, unions and employers agree on joint commitment to support factories and workers

From early 2020, Better Work Indonesia organized discussions with the Indonesian Government, trade unions, employers' associations and international brands on how best to support factories and workers in dealing with the negative impact of COVID-19. Those discussions shaped the Joint Commitment — an agreement made in August 2020 between APINDO (the Indonesian Employers' Organization), Indonesia's Textile Association (API) and the three main garment and footwear trade union federations.

The Joint Commitment outlines the sector's priorities to protect workers and the sustainability of the industry during the pandemic. It is accompanied by an action and implementation plan negotiated by employers and unions with recommendations on providing income support to



furloughed workers, implementing OSH protocols, and a general economic stimulus plan for the industry. The Joint Commitment was put on hold in the latter part of 2020 as attention shifted to the Omnibus Law. In parallel, the government's economic stimulus package continued, and buyers' orders substantially improved in the last quarter of 2020. Despite subsequent tensions created by the Omnibus Law, the Joint Commitment is still seen as a good departure point for the sector's social partners to build upon.

#### OWNERSHIP AND SOCIAL DIALOGUE INCREASED IN 2020

Despite the challenges of 2020, independence and ownership among the programme's factories have increased. Almost 80 per cent of factories produced reports on how they are addressing issues and improving compliance with the regulations (self-reporting using the progress report tools made available by Better Work). Social dialogue indicators were also up despite a rise in industrial disputes. Overall, the number of factories demonstrating effective social dialogue and the ability to resolve disputes increased from 32 per cent in 2019 to 39 per cent in 2020. On grievance mechanisms, factories moved up from 24 per cent of factories having a good system in 2019 to 37 per cent in 2020. Transparency is key to effective social dialogue. Without such fundamental information, prejudice toward each other may be inevitable at a time when trust should be nurtured."

**Edi Kustandi,** secretary of International Relations Federation of trade union textile, clothing and Leather of Indonesia's Workers Union

If companies do it for the business continuity, we do it for humanity; my fellow workers must be safe and must not be exposed to the virus."

Mario Prostasius, chairperson of Federation of Metal Workers Union PT Sepatu Mas Idaman





# "Partnership at Work" Foundation (Yayasan Kemitraan Kerja) providing services to factories in the long term

Better Work Indonesia's sustainability strategy focuses on supporting national constituents and stakeholders to address the labour market policy issues that affect the sector and wider economy. Robust social and policy dialogue structures are essential to make and sustain progress over time. Sustainability also means increasing ownership and capacity of employers and workers in the factory improvement process, in line with Better Work's factory services model. Finally, yet crucially, Better Work Indonesia's sustainability strategy incorporates a strong institutional building element – the Foundation Partnership at Work - which aims to provide services to factories for the long term and support wider policy-level goals. The Foundation has been operating since 2017 and has been recently evaluated both internally and externally. The key conclusions drawn from this process are the following:

 The Foundation is an important source of expertise, knowledge, experience and networking.
It has a strong reputation for the implementation of factory services, and this must not be compromised.

 Key national stakeholders see a continued role for Better Work Indonesia in terms of its convening power and as a generator of data for evidence-based policy making.

• A more direct partnership (including funding) by the Indonesian Government should be explored. The Foundation needs to be agile and use new technology.

 Whatever institutional form the Foundation will take in the future, a close relationship with the ILO and national partners needs to be maintained. How the Foundation will exactly complement the ILO's and national partners' work in the future still needs to be further defined.

One of the key sustainability objectives was to achieve financial sustainability of factory service delivery over time. Most recently, those plans have been impacted by key changes in the way its factory services are delivered in the context of COVID-19 as well as its collaboration with the Social and Labour Convergence Program. Based on the above recommendations and

changing circumstances, Better Work Indonesia is currently updating the plan for the next institutional phase of the Foundation, which will be done in consultation with national partners and donors in the course of 2021.

#### SOCIAL MEDIA OUTREACH

# Instagram live sessions reached thousands of workers

Keeping garment sector workers and stakeholders informed and connected has been a goal for the team throughout the pandemic. During 2020, Better Work Indonesia made the most of its social media channels — mainly Facebook and Instagram — to host regular live streams with various speakers. The team invited life skills coaches, labour law, gender and public health experts and representatives from government, trade unions, and employers to speak about a broad range of relevant topics.

The Instagram Live campaign reached more than 4,000 workers. Topics included strategies to cope with the lockdown and mental stress, awareness-raising around avoiding the Ramadan Mudik (travel back home for Idul-Fitri or the end of Ramadan holiday), women's rights, preventing layoffs and promoting financial literacy. Twenty live sessions were hosted in total, each one creating a direct channel between workers, union members and factory management to interact directly with Indonesian policymakers using the social platform's chat function.

The factory has seen the benefits of the social media campaign, as all the information was conveyed in simple language with concrete examples that are easier to understand."

D. Wildan Fauzie, ST, HR Manager of PT Leetex Garment Indonesia

### **93**% OF THE FACTORIES FELT SUPPORTED BY BETTER WORK, SURVEY FOUND

At the end of 2020, the team conducted a survey with all the registered factories on Better Work Indonesia's response to the crisis and found out that:

### 93%

felt supported and that the programme was still there for them even if assessments were suspended.

### 66%

approved of the practice of relying more on advisory data<sup>\*</sup> in the absence of the assessment data because:

- It is the best policy given the pandemic situation
- It is an opportunity for factories to be more independent
- Sense of belonging to the improvement plan
- Communication during advisory has been sufficient to generate data
- Data from the advisory progress reports is more continuous as it covers a 12-month cycle and is not only based on one moment in time such as assessments

\*originated by the improvement plan and progress reports that are issued by both the factories and Better Work Indonesia to document the progress in addressing and improving on issues

# TACKLING CHALLENGES

# Addressing regulatory change and industry needs

Besides dealing with the COVID-19 crisis, Better Work had to face another challenge: a new labour that is part of an Omnibus Law enacted by government to stimulate economic growth and foreign investment. The regulation has been heavily criticized by trade unions and civil society groups and is challenged in court. Despite this turbulent period, the garment industry is implementing the Social and Labour Convergence Program (SLCP), a multi-stakeholder effort to promote convergence of audit data and reduce duplication, with Indonesia as the first Better Work country piloting a combined approach.





# Dealing with regulatory change and controversy

The regulatory environment in Indonesia underwent controversial changes in 2020. The Better Work Indonesia team has risen to the challenge of understanding these far-reaching reforms, their impact on stakeholders across the garment sector and the respective positions of the programme's partners. The most significant reform is the Job Creation Law (2020), on which the ILO and the team have provided extensive technical comments. The staff is working closely with the Ministry of Manpower to adapt Better Work's compliance approach in line with the new regulations, which came into force in February 2021. Also, minimum wages have been adjusted at both the national and regional government levels in response to the pandemic. Better Work Indonesia is working with the tripartite constituents to clarify and address the complexity associated with the new regulations.



### Contributing to efforts to reduce audit duplication amidst COVID-19

Since 2019, Better Work has been piloting the Social and Labor Convergence Program (SLCP). The initiative brings together over 200 signatories, including apparel companies, manufacturers, private monitoring schemes, NGOs, and governments, to align their processes on measuring compliance to labour standards in factories.

The main goals as stated by the SLCP are to steer the industry towards a practical model that ensures compliance with national labour laws and ILS, stakeholders' engagement and influence, ends assessment duplication, and creates a foundation based on social dialogue to solve identified problems. Expanding the programme in Indonesia proved to be challenging during the pandemic, given the sector's business contraction. The national stakeholders agreed to support further collaboration with SLCP but have raised issues with the use of converged data to compare factories and countries in non-favourable terms, and about how the SLCP will contribute to the improvement of working conditions.

Better Work Indonesia will continue working closely with national constituents and brands supporting the SLCP to ensure that the data collected are used in a protected and accountable way.

# TACKLING CHALLENGES

#### **GROUND REPORT**

# Workers grasp at straws amid furloughs

Having spent almost half of her life working for the same factory, 48-year-old sewing worker Nila Kusumawati could not be any more shocked when she heard the news of her leave in June 2020. It was the first time, and she hopes it will also be the last one.

Nila is the main source of income for her family of four as her husband has been doing odd jobs but primarily jobless. The pandemic has also put a dent in the earnings of her children, one of whom is a nurse and the other a retail worker. While she is glad to have received compensation, the amount was much lower than her normal wage.

Her months of being at home were filled with worries and questions: "When will I get called back?"

Refusing to dwell on it, Nila opted to accept sewing orders to make masks and flags throughout her furlough. She also tried selling clothes. She did not earn a lot, she says, but these jobs helped take her mind off of the uncertainties laying ahead of her.

At last, the factory, garment manufacturer PT Gaya Indah Kharisma in Banten, called her back for full-time work in October 2020. She is among the lucky ones; as of March 2021, ten of the factory's 140 furloughed workers are yet to be called back to work. Some of her friends in other factories are still furloughed or working a reduced number of days.

PT Gaya Indah Kharisma has been forced to furlough its workers with compensation following an up to 40 per cent dip in orders and the bankruptcy of one of its US buyers. Those furloughed were older workers who would be most at risk when catching the virus. From its total workforce of 900 workers pre-pandemic; the number has declined to around 700.



"We tried our best efforts to get our workers back to work," the company's President Jeremy Kim says. The company has been among the ILO-BMZ's wage subsidy programme recipients, which pays IDR 15,000 (US\$1) of the, at least, IDR 30,000 (US\$2) of compensation per working day for basic wage and fixed allowance multiplied by the number of furloughed days. The programme aims to encourage employee retention and promote social dialogue as one of the requirements to be an eligible recipient.

Better Work Indonesia has been suggesting that factories avoid resorting to layoffs or no work, no pay schemes, pointing to the possibly prolonged economic impacts brought about by such drastic steps. However, it has been equipping workers to face the worst-case scenario; there have been Instagram lives directly reaching out to workers on entrepreneurship, financial planning during an emergency, and others on labour issues and rights.

### ISSUES AND ACTIONS

#### ISSUES

#### **CORRECTIVE ACTIONS TAKEN**

Public health restrictions due to the pandemic prevented core on-site services from being carried out for most of 2020

Better Work Indonesia adapted its service delivery to a virtual mode, with the support of Better Work Global and the Indonesia Training Team. This transition to online happened relatively quickly. The team developed and delivered four new virtual training modules to respond to factories' needs during the pandemic, including leading through crisis and positive mental health. Training curricula on industrial relations, management systems and inclusion were also adapted for online. In total, 1,670 participants from enrolled factories took part in training and industry seminars in 2020.



The suspension of Better Work Indonesia's inperson activities limited the team's interaction with workers outside of the bipartite committees (LKSB) and OSH committees (P2K3)

Many of the partners turned to social media during the crisis to access up-to-date information as well as share information about their situation. This pushed Better Work Indonesia to use its platforms (principally Instagram and Facebook) to reach workers beyond the committees. These platforms are still one of the main ways for the team to remain in contact with its partners and the public.



Industrial relations disputes escalated in 2020, especially during the end of Ramadan when a religious allowance is usually due but was postponed due to the pandemic.

The programme staff had to make an extra effort to help resolve between 30 to 40 disputes and try to keep the peace, from a distance. This was done by maintaining close formal and informal contact and by involving the national authorities in dispute resolution. Providing clarification and advice on COVID-19 rules to management helped ensure that the participant factories were compliant. In parallel, the team continued investing in industrial relations training and capacity building, including on grievance handling, a trend that is expected to continue in 2021.



## OPPORTUNITIES AND LESSONS LEARNED

### Workers played a greater role in monitoring labour conditions

Better Work Indonesia's experience in 2020 has shown that employees can play a much bigger role than they previously did in monitoring working conditions in participating factories. The team interacted directly with workers via phone calls, WhatsApp and other media much more frequently than last year, and that information has been key to cross-checking data and the overall monitoring of the situation on the ground. The experience has also shown there are more efficient and less costly ways of monitoring compliance than assessments or audits, even if their full impact and results are yet to be fully understood.

### The essential role of social dialogue in a time of crisis

Social dialogue was instrumental as a solution to deal with difficult issues brought about by the pandemic, including wage reduction and factory closures. Ensuring that social dialogue structures and systems work was strategic. Not surprisingly, the staff observed high tension between workers and employers as factories navigated the damage caused by the cancelled orders. Trade unions are present in about 70 per cent of Better Work Indonesia factories and 37 per cent of factories have collective agreements in place. Bipartite committees are compulsory by law. Overall, the number of factories with effective and active bipartite committees increased from 36 per cent in 2019 to 39 per cent in 2020. On grievance mechanisms, 38 per cent of factories had good systems in 2020, up from 33 per cent.



# Unemployment insurance is institutionalized

After many years of receiving technical support from the ILO, unemployment insurance is now institutionalized as part of a broader reform of Indonesia's social protection system. This was a key advocacy goal for Better Work Indonesia and the garment industry, given many factories were closing down or moving and putting at risk contracted workers, who comprise half of the employees and have less job security. It is vital to ensure that this system is financially sustainable and that the appropriate mechanism to support workers returning to the labour market is put in place. The team will continue supporting the government and social partners in achieving this goal.

#### Social dialogue can only work when both parties try to put themselves in each other's shoes to come to a win-win solution."

**Dinar Titus Jogaswitani,** Director Wages at the Directorate General of Industrial Relations & Social Security Ministry of Manpower

## OUTLOOK 2021



### Prioritizing social dialogue and gender equality in the next decade

The outlook for 2021 is positive, even if the pandemic still looms in Indonesia and beyond. Most of the international buyers and employers' representatives partnering with Better Work are optimistic about the business prospects for 2021, but the situation is uncertain and may vary depending on the evolution of the pandemic. For Better Work Indonesia, 2021 will still be about COVID-19 response but also importantly about continuing to support factories' ownership and maturity, investing in social dialogue capacity and improving gender equality. The programme will also be celebrating its tenth anniversary in 2021.

#### IMPLEMENTING THE FACTORY AMBASSADOR ROLE

Better Work Indonesia will continue to focus on COVID-19 issues and response at the factory level. As part of making its factory services more agile, effective and sustainable, the team will be introducing a formal Factory Ambassador programme whereby factory staff will acquire Enterprise Advisor technical and soft skills which will continue to drive improvements.

#### **GRIEVANCE HANDLING AND GENDER EQUALITY**

Improving social dialogue through advisory and training, and promoting women's issues and representation in bipartite committees will remain high priorities in 2021. Supervisory Skills Training and other programmes will continue with a renewed focus on grievance handling to prepare stakeholders, given the expected challenges brought by the new labour law.

#### WORKING WITH BRANDS TO IMPLEMENT SLCP

The team will continue partnering with brands and buyers to ensure alignment to avoid audit duplication, especially during COVID-19, and ensure a smooth implementation of the SLCP. Regular engagement through quarterly calls will continue to provide clear information to the buyers' partners on the situation in factories, the industry and at a national level. Brands will continue being involved in policy-level discussions with the government and stakeholders. The staff will focus on mitigating the impact of new labour laws on garment factories and promoting buyer and supply chain accountability.

#### **PROVIDING RELIEF TO THE ENROLLED FACTORIES**

The team will reach out to the government at the regional level to improve coordination over labour inspection and industrial relations in a more formalized and systematic way. The work with trade unions will establish trust and transparency after such a turbulent period and continue building the capacity at factory and branch levels to engage in social dialogue. The team will work with APINDO on the roll-out of SLCP, on business accountability, and on providing relief to factories during COVID-19 through the ILO BMZ project.

Good regulations will only be meaningful when implemented well. Partnerships need to be built in a transparent environment with good communication, especially in making decisions."

**Dr. Ghazmahadi,** Director on labour inspection of OSH Ministry of Manpower

