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Reducing the Financial Burden of Indonesian Migrant Workers

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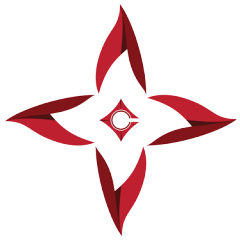
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CIPS

Center for Indonesian
Policy Studies

Proposals for Inclusive Growth
and Village Prosperity

CIPS Policy Recommendations No. 1: June 2015

Reducing the Financial Burden of Indonesian Migrant Workers

By Arianto A. Patunru
and Rofi Uddarojat

www.cips-indonesia.org

Executive Summary and Policy Recommendation

In 2014, more than 400,000 Indonesians officially left their villages and joined millions of Indonesians who are working in foreign countries. They mostly come from low-income households in rural and remote parts of Indonesia. Through their regular remittances to local bank accounts they support their families and villages at home with more than USD 8 billion per year (2014). The World Bank estimated these remittances have lowered the poverty rate in Indonesia by 26.7% during 2000 – 2007. They are of tremendous importance for 'inclusive growth' and equitable opportunities for the Indonesian countryside.

Government rules and regulations are often intended for the protection of Indonesian workers. One of the objectives is to keep workers from violence or sexual assaults abroad. This is certainly a noble cause. However, as in the case of many well-intended policies, implementations might go overboard. For example, in 2011-13, 99.5% of all Indonesian migrant workers have reportedly not been subjected to violence or sexual harassment abroad. In light of this number, some government measures and procedures might unnecessarily prevent, reduce or delay legal migration. This policy analysis addresses two concerns in particular:

Firstly, the government moratorium from May 2015 bans Indonesians from working in 21 Middle Eastern countries. It causes losses for low-income families in rural Indonesia worth 37 trillion Indonesian Rupiah (USD 3 billion) per year. To avoid these losses, some workers may choose to migrate illegally, which exposes them to criminal practices of human traffickers.

Secondly, the application process set up by the Indonesian government is too lengthy and costly. Applying to become a domestic household helper abroad costs about IDR 8 million (600 USD) and takes about 3-4 months. The fees are equal to about

2/3 of an annual minimum wage in many parts of the island of Java. This creates a huge financial burden for the workers who typically come from low-income families. In addition, the complexity of regulations causes them to be dependent on recruitment agencies and brokers, who can take advantage of this situation. It has been reported that agencies charge the migrant when they were actually meant to cover the bureaucratic fees themselves. Finally, the complicated process might push workers into illegal migration, which exposes them to human traffickers.

In order to ensure the continued flow of remittances to Indonesian families and villages, the decision by the Indonesian government from May 2015 to ban Indonesians from working in twenty one Middle Eastern countries needs to be revoked. Moreover, the Indonesian government needs to reduce the complexity of the application process. At least, the mandatory permission by the head of the family should be abolished for all migrants of adult age. Local healthcare centers (Puskesmas) need to be authorized to administer the compulsory health checks without involving brokers or recruitment agencies. Finally, the compulsory training programs that take up to two months need to be significantly shortened and evaluated.

Background

The number of Indonesians who leave their country every year and seek employment abroad has reduced continuously¹. During the period of 2008 to 2014, their number shrank by one third from 644,731 to 429,872 (Table 1). According to the National Board for the Placement and Protection of Indonesian Migrant Workers (BNP2TKI) the numbers have been going down from 2011 to 2014 because the Indonesian government had imposed moratoria for Saudi Arabia, Jordan, Kuwait, and Syria.

At the same time, the proportion of those who became domestic household helpers (informal sector) and those who were going to work in factories, plantations and on sea vessels (formal sector) has changed substantially. Only about 5 years ago, the vast majority of migrants went to work as maids and nannies in foreign households but, in 2014, their number only represented 42% of all migrant workers. The majority of 58% went to work in the formal sector.

Table 1
Indonesian Migrant Workers Departures Annually

No	Year	Numbers	Formal Sector	Informal Sector
1	2008	644.731	29%	71%
2	2009	632.172	17%	83%
3	2010	575.804	27%	73%
4	2011	586.802	45%	55%
5	2012	494.609	52%	48%
6	2013	512.168	56%	44%
7	2014	429.872	58%	42%

Source: BNP2TKI Annual report 2014

These numbers correspond with changing gender proportions of Indonesian migrants. While the World Bank calculated in the early 2000s that 90% of Indonesian migrant workers were women,

their number had reduced to 57% (243,629) in 2014 (Table 2). The increased percentage of male migration was primarily caused by the sharp decline in female migration.

Table 2
Proportion of male and female migrant workers

No	Year	Numbers of Migrant Workers	Female	%	Male	%
1	2010	575,804	451,120	78%	124,684	22%
2	2011	586,802	376,686	64%	210,116	36%
3	2012	494,609	279,784	57%	214,825	43%
4	2013	512,168	276,998	54%	235,170	46%
5	2014	429,872	243,629	57%	186,243	43%

Source: BNP2TKI, Annual Report 2014

The migrant workers generally come from households with low income and education levels. In 2014, 32% of the departing migrants had only finished primary school (SD), 38% just reached junior high schools (SMP), while only 25% graduated from senior high schools (SMU)². When abroad they earn monthly salaries that exceed minimum wage expectations at home by two to five times³. They also acquire locally unavailable skills sets and an invaluable exposure to international practices and experiences.

Through their regular remittances to local bank accounts in Indonesia, migrant workers support their families and villages at home. In 2014 alone they transferred more than USD 8 billion (Table 3), compared to the capital inflow of about 28 billion USD from foreign direct investment and an insignificant inflow of foreign aid during the same year (Chart 1). Migrants' remittances reach economically less developed areas, mostly on the islands of Java and Sumatra and in the province of

West Nusa Tenggara. In these areas the money is being used for household consumption, school education, start-up businesses, productivity gains, and local infrastructure projects. Researchers of the World Bank studied the impact of their remittances by using panel data of the Indonesian Family Life Surveys in 2000 and 2007⁴. Their conclusion was that remittances had lowered the poverty headcount in Indonesia by 26.7% and they reduced the poverty gap by 55.3%⁵. Remittances also increased marginal expenditures on food consumption by 8.5%. Based on these findings the World Bank report states "international remittances appear to have a large statistical effect on reducing poverty in Indonesia". To put it differently, migrant worker remittances significantly contribute to the inclusive growth of the Indonesian economy, which is understood as broad-based growth across sectors providing an equality of opportunities in terms of access to markets and resources⁶.

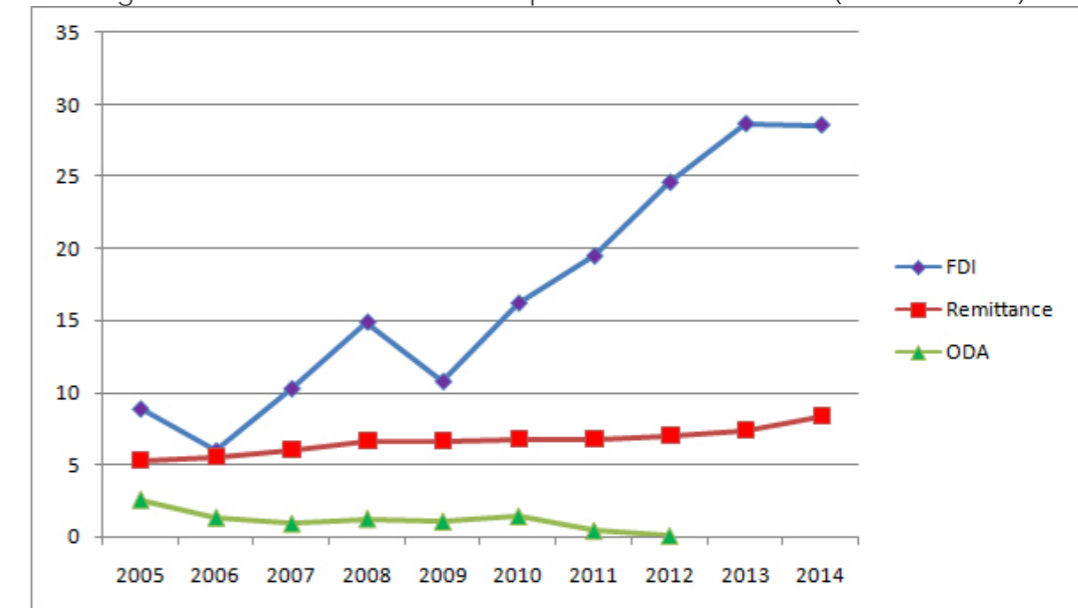
Table 3

Annual remittances of Indonesian migrant workers (2005-2014)

Year	ID (trillion)	USD (billion)
2005	68,586	5,296
2006	72,005	5,56
2007	77,755	6,004
2008	85,707	6,618
2009	85,681	6,616
2010	87,287	6,74
2011	87,157	6,73
2012	90,524	6,99
2013	95,834	7,4
2014	108,084	8,346

Source: Bank Indonesia

Chart 1
Migrant workers' remittances compared to FDI and ODA (in billion USD)



Source: Compilation of data from Bank Indonesia, National Investment Board (BKPM), and World Bank⁷⁸⁹¹⁰¹¹

The media generally reports about migrant workers when spectacular cases of violence occur. Rape, torture and other forms of physical and mental abuse are among the worst incidences of violence against Indonesian migrant workers. According to government statistics, 8,603 cases of violence and sexual abuse have been reported during the 3 years from 2011 to 2013. During the same period,

a total of 1,593,579 Indonesian migrant workers went for employment abroad, which means that 0.54% or about 1 out of 185 workers experienced violence and sexual abuse within those 3 years¹². Even though there must be more unreported victims of violence, who do not appear in these statistics, the overall majority of Indonesians have not experienced abuse while working abroad.

Table 4

Recorded Problems of Indonesian Migrant Workers 2010-2014

No	Type of Problem	2010	2011	2012	2013	2014
1	Termination of Employment	22.123	11.804	9.088	8.152	90
2	Problem With Employer	4.358	6.695	7.221	3.231	47
3	Unpaid Salary	2.874	1.723	2.139	1.235	514
4	Violent Abuse	4.336	2.137	1.633	971	105
5	Violent Abuse	2.978	2.186	1.202	474	22

Source: BNP2TKI, Annual Report 2014

Policy Analysis

Implication of the Indonesian moratorium stopping work migration to the Middle East

Since the execution of an Indonesian maid in 2011 the Indonesian Ministry of Manpower has

restricted Indonesian household helpers to work in Saudi Arabia and five other neighboring countries. When Saudi Arabia executed two more Indonesian maids in April 2015 the Ministry of Manpower issued a moratorium that legally bans Indonesians from seeking employment in Saudi Arabia and twenty other countries in the Middle East. The new moratorium is aligned with plans of Indonesia's president Joko Widodo to stop the migration of Indonesian workers all together. After a state visit to Malaysia in February 2015 he stated that he had felt ashamed when discussing matters of

Indonesian migrant workers in bilateral talks with Malaysia because doing menial chores abroad allegedly undermines Indonesian pride and dignity¹³. Addressing a political party congress he said "I have instructed the manpower minister to make a clear road map (...) to stop the programme. We must have pride and dignity."¹⁴ The government of Indonesia must certainly seek to improve the legal protection of Indonesian citizens abroad. However, it must also consider the effects of such a moratorium on Indonesian

citizens. The moratorium that stops work migration to the Middle East will prevent annual financial remittances of USD 3 billion from reaching low-income households and villages in Indonesia (Table 5)¹⁵. This constitutes a tremendous loss of income and opportunities for the affected households and hampers inclusive economic growth. Moreover, the decline in migration mostly affects women. It reduces their opportunities of increased income and a related improvement of gender relations in the Indonesian society.

Table 5
Remittances of Indonesian migrant workers by regions (2014)

Region	USD	IDR
East Asia and Pacific		
Malaysia	2,540,742,074	32,267,424,339,800
TOTAL	4,602,298,860	58,457,704,522,000
Middle East And Africa		
Saudi Arabia	2,266,079,972	28,779,215,644,400
TOTAL	2,915,985,944	37.033.021.488.800
Europe		
TOTAL	135,219,281	1,717,284,868,700

Source: Ministry of Manpower¹⁶

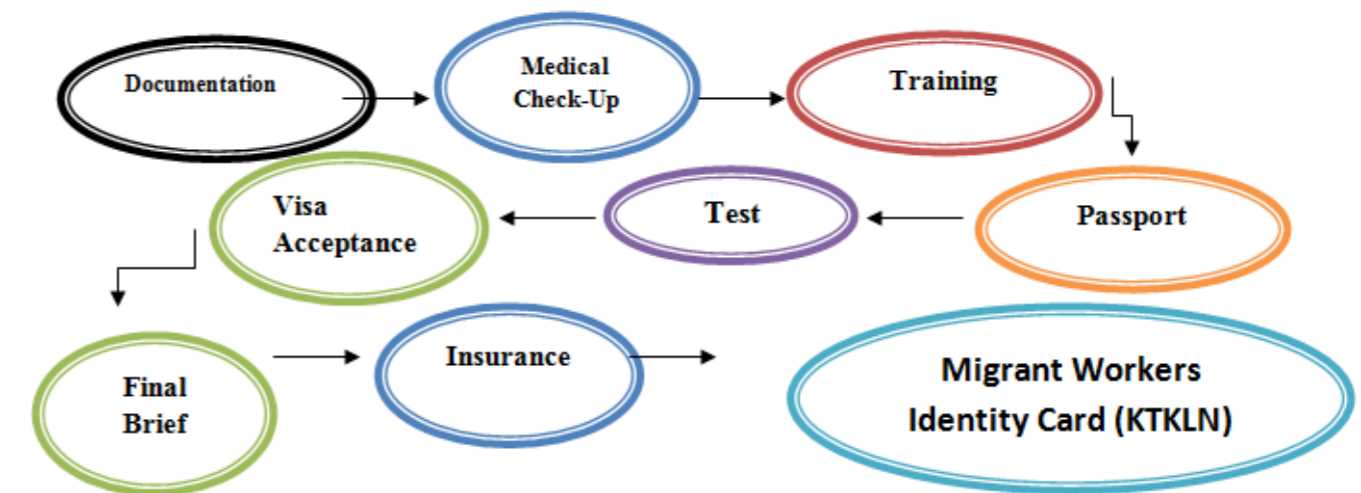
Impact of the Regulatory Requirements for the Recruitment of Migrant Workers

An Indonesian with only basic work skills and few income opportunities at home has to undergo lengthy procedures when seeking employment abroad. The following documents and procedures are necessary to apply for recruitment and to be sent abroad by specialized agencies (see also Chart 2):

- ❖ Identity card (KTP) and family card (KK), which are mandatory for all Indonesians.
- ❖ Permission by the head of the family officially witnessed by the head of the village government.
- ❖ Recommendation letter from the district branch of the Ministry of Manpower.
- ❖ Medical certificate that states the migrant is healthy and not pregnant.

- ❖ Clearance letter by the police that the person has no criminal record.
- ❖ Completion of a training course, which is mandatory only for people seeking employment in the informal sector, i.e. in foreign households.
- ❖ Passport application conducted parallel to the training course.
- ❖ Certificate of successful completion of the training course issued by the National Professional Certification Agency (BNSP).
- ❖ Visa approval.
- ❖ Insurance certificate issued by a consortium of insurance companies which have government authorization (Ministerial Decree PER-23/MEN/V/2006).
- ❖ Final pre-departure briefing organized by the National Agency for the Placement and Protection of Indonesian Migrant Workers (BNP2TKI).

Chart 2
General Procedure of Migrant Workers Applicants



Source: Authors' compilation

All the above-mentioned requirements need to be fulfilled in order to be a documented and legal migrant with a certain amount of government protection. Others have avoided the process and left the country as undocumented migrants¹⁷. They may have chosen to do this because they were not eligible to being recruited due to their age, health issues or an existing criminal record. Others may have chosen to migrate without following the mandatory process because of the time and money required for all procedures. Indeed, financial expenses and the time spent on fulfilling bureaucratic requirements create a serious burden for low-income workers.

The financial expenses as shown in Table 6 vary between IDR 8.4 million (USD 635) and IDR 30.9 million (USD 2,300) depending on whether the

migrants seek to work in the informal or in the formal sector respectively. These figures have not taken into account that workers in the informal sector receive a bonus payment of IDR 2 million¹⁸. Those who seek employment in the formal sector need to pay a 'finder's fee' of about IDR 25 million¹⁹ to the recruitment agency. Finder's fees vary substantially depending on the agency, the employer and the destination country. The organization Business for Social Responsibility (BSR) conducted interviews with migrant workers in Semarang / Central Java and were told that finder's fees of up to IDR 6 million had also been paid in the informal sector while those in the formal sector ranged only between IDR 500,000 and 1 million²⁰. These numbers were not confirmed in the interviews conducted for this policy paper.

Table 6
Fees paid during the application process

Procedure	Items	Fees for Informal Sector Employment	Fees for Formal Sector Employment
1. Documentation	Family Permission	IDR 100,000	IDR 100,000
2. Documentation	Police Clearance	IDR 300,000	IDR 300,000
3. Medical Check-Up	Health Certificate	IDR 800,000	IDR 800,000
4. Documentation	Passport	IDR 300,000	IDR 300,000
5. Training and Test	Language and Skills Training	IDR 2,500,000	None
6. Insurance	Work Insurance	IDR 400,000	IDR 400,000
7. Fee	Broker's Fee	IDR 4,000,000	IDR 4,000,000
8. Fee	Finder's Fee	None	IDR 25,000,000
TOTAL		IDR 8,400,000	IDR 30,900,000

Source: Interviews with 13 Migrants, Brokers, and Chairman and Vice Chairman of Association of Training Centers for Migrant Workers (AP2TKI)

Workers who seek employment in the formal sector usually need to pay the fees themselves. It is less common that the recruitment agencies get the fees covered by the employers abroad²¹. Agencies often loan the amount to the workers and then withhold part of their salaries within the first six months of employment or during a longer period of time. According to the BSR study in Semarang, interest rates can range from 7% to as much as 50% of the loaned amount²².

If migrants get employed in the informal sector, the recruitment agency is supposed to cover the expenses that occur during the recruitment process. Costs for getting the initial documents are to be covered by brokers, who identify workers for the recruitment agencies. The brokers should have their costs reimbursed by the agencies once they accept and take over the applicants. The agencies then should cover all other expenses until the

migrant workers' departure to their destination countries. In reality, however, workers in the informal sector have also been made to pay for the expenses themselves. The Indonesian government as well as civil society organizations that support migrant workers in Indonesia are aware there are agencies and brokers who have taken advantage of the low level of school education of the migrant workers. So far, however, this problem has not been resolved.

Besides bearing the actual costs of the recruitment process, workers who apply for employment abroad also spend a lot of time on the application process. There are significant opportunity costs for the workers when they need to visit government offices or when they have to fulfill mandatory steps of the recruitment process. Besides, time spent on the application process reduces the generation of higher incomes abroad.

Table 7

Time spent on the application process

Procedure	Application for Informal Sector Employment	Application for Formal Sector Employment
Family permission confirmed by head of village government	7 days	7 days
Recommendation from the Manpower Ministry	1 day	1 day
Police clearance	5 days	5 days
Medical Check-Up	1 day	1 day
Training	60 days	none
Visa Application	14 days	14 days
Final Brief	1 day	1 day
Final Brief	1 day	1 day
Total	90 days	30 days

Source: Interviews with 13 migrants and 1 recruitment broker

The numbers in Table 7 only provide a rough picture because the actual situation depends on the location and the people involved. A worker usually has to pay a particular fee to the head of the village government who officially recognizes and stamps the permission given by the head of the family. IDR 100,000 (stated in Table 6) should be sufficient to get the official recognition within about a week. It is common experience in Indonesia that the paid amount correlates with the speed of the process. The recommendation letter by the Manpower Ministry and the clearance statement by the police are both being arranged by brokers who have the contacts required to deal

with officials in these institutions. A limited number of medical centers have the authority to conduct the mandatory health checks for the migrant workers, which takes the whole day. Finally, it will also be arranged for the workers to get their certificates from insurance companies. Throughout this process, applicants are basically dependent on the recruitment agencies and brokers who maintain the necessary information and also the contacts within the institutions involved. Only the simplification of this process can reduce the dependence of the workers on these agencies and brokers.

The training courses take up to 2 months and are by far the lengthiest component of the application process for informal migrants. Trainings have four main objectives: 1) technical skill development, 2) provision of knowledge and understanding of the situation, conditions, culture, religion, and risks of working overseas, 3) improvement of communication and language skill, and 4)

awareness of legal rights and obligations. They are being conducted by training centers (Balai Latihan Kerja, BLK), which are mostly owned by recruitment agencies. Migrants who have worked abroad before can sometimes go for shorter trainings²³. After completing the training program, the applicants take the test of competency administered by the National Professional Certification Agency (BNSP).

Policy Recommendations

Remittances of Indonesian migrant workers from the Middle East amount to about IDR 37 trillion (USD 3 billion) per year. These remittances have a significant effect on reducing poverty. They lead to investments in education, nutrition, infrastructure, technological progress and entrepreneurship in remote parts of Indonesia with lower income levels. The ban on the placement of migrant workers in the Middle East from May 2015 needs to be lifted while the Indonesian government continues its efforts to ensure the safety of Indonesian workers in those countries.

On average, the application process for those who seek employment in the formal sector takes at least a month, while migrant workers who are going to work in foreign households need to wait three or even four months. The length, complexities and also existing uncertainties within the application process have two main consequences. 1) They delay the migration, lead to a loss of income, and may encourage people to avoid the process and become undocumented migrants without any protection. 2) They also maintain a dependency of migrant workers on recruitment agencies and brokers with specialized knowledge and relevant contacts.

While it is difficult to supervise the practices of more than 500 officially registered agencies²⁴ and an even larger number of brokers, it would be easier and more effective to reduce the number and complexity of government procedures, which

contribute to the dependence of migrant workers on agencies and brokers. Some easily implementable initial steps include:

- ✦ Abolishing the family permission letter. All legal migrants are adult and should not require the permission of the heads of households. These letters currently only serve to free the agencies and brokers of any suspicion that their clients are victims of human trafficking. However, there is no proof that these letters do indeed prevent human trafficking.
- ✦ Article 49 in Law No. 39/2004 states that the medical check should be conducted by health facilities and institutions appointed by the government. It would simplify the application process if all local healthcare centers (Puskesmas) were being appointed to conduct these mandatory medical checks. This would also fall in line with the new role of these centers in the universal healthcare policy of the Indonesian government.
- ✦ The duration of the training courses needs to be shortened to a maximum of 30 days. An external evaluation should also establish the actual impact of these training courses on the life and work of migrant workers abroad. The current curriculum of more than 180 pages needs to be reviewed and adjusted by external training experts.

Notes

¹ Numbers in this report reflect only officially documented workers because there is no reliable information about the number of undocumented Indonesian migrant workers. According to estimates made in 2012 the total number of Indonesian workers abroad lies between 4 and 6 million but there are no reliable statistics available. See Palmira Bachtiar, *Chaotic Statistics of Indonesian Migrant Workers*, Jakarta Post, 26 January 2012.

² National Authority for Placement and Protection of Indonesian Migrant Workers (BNP2TKI), *Data Penempatan dan Perlindungan Tenaga Kerja Indonesia 2014*, Annual Report of BNP2TKI, 6 January 2015 Edition.

³ In 2014, according to the Manpower Ministry, minimum wages in most Javanese districts were set between 1.1 million and 1.5 million Indonesian Rupiah or between USD 85 and USD 115 per month. In comparison, the expected wage of a migrant worker abroad amounts to between IDR 2.9 million and 6 million, or between USD 220 - 450 per month. Laporan Tahunan BNP2TKI, *DData Penempatan dan Perlindungan Tenaga Kerja Indonesia 2014*, Edisi 6 Januari 2015.

⁴ Richard Adams H. Jr. dan Alfredo Cuecuecha, *The Economic Impact of International Remittances on Poverty and Household Consumption and Investment in Indonesia*, World Bank Policy Research Working Paper 5433, 2010, p. 20

⁵ The poverty headcount simply counts all the people below a poverty line, in a given population. The poverty gap describes the depth of poverty by considering how far, on the average, the poor are from that poverty line.

⁶ Elena Ianchovichina and Susanna Lundstrom, *Inclusive growth analytics: Framework and application*, World Bank Policy Research Working Paper Series 4851, 2009. p. 2

⁷ Bank Indonesia, *Indonesia's Balance of Payment Report 2007-2014*, Bank Indonesian Annual Publication, accessed on 10 June 2015 14:25 <<http://www.bi.go.id/en/publikasi/neraca-pembayaran/Default.aspx>>

⁸ International Organization for Migration, *International Migration and Migrant Workers' Remittances in Indonesia*, 2010, p. 23

⁹ Indonesian Investment Coordinating Board (BKPM), 'FDI Strategy Paper 2010, accessed on 10 June 2015 14:25 <<http://www.bkpm.go.id/img/file/FDI%20Strategy%20Paper%202010.pdf>>

¹⁰ Indonesian Investment Coordinating Board (BKPM), *Press Release: Domestic and Foreign Direct Investment Realization Steadily Increased, Beyond The Annual Target 2014*, 2015 28 January 2015, accessed on 10 June 14:33 2015 <http://www7.bkpm.go.id/file_uploaded/public/Bahan%20Paparasi%20TW%20IV%202014-Eng.pdf>

¹¹ World Bank, *Net Official Development Assistance and Official Aid Received*, accessed on 10 June 2015 14:59 <<http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>>

¹² Cases are being recorded in the airport by the Migrant Workers Service Center (BPK-TKI) under BNP2TKI when workers are coming back from their destination countries.

¹³ According to statistics by the International Labor Organization (ILO) there are also millions of domestic workers in Indonesia. See: ILO, *Domestic workers across the world: Global and regional statistics and the extent of legal protection*, Geneva 2013. The Indonesian president has not stated whether their work also undermines pride and dignity. See: International Labour Organization, *Domestic Workers Across the World: Global and Regional Statistics and Extent of Legal Protection*, accessed on 10 June 14:34 <www.ilo.org/wcmsp5/groups/public/---.../wcms_173363.pdf>

¹⁴ Asia Pacific Migration Network, *Jokowi to Halt Sending Indonesian Domestic Workers Overseas*, accessed on 10 June 2015 14:39 <<http://apmigration.ilo.org/news/you-are-here-home-world-jokowi-to-halt-sending-indonesian-domestic-workers-overseas>>

¹⁵ Indonesian migrants who are left without income alternatives at home might also be pushed into illegal migration, which leaves them even less protected.

¹⁶ Manpower Ministry Report, *Remittance Migrant Workers in 2014*, accessed on 10 June 2015 14:35 <<http://pusdatinaker.balitfo.depnakertrans.go.id/viewpdf.php?id=390>>

¹⁷ Most people assume the number of illegal migrants is much higher than that of documented migrants but there are no reliable numbers available.

¹⁸ The bonus payment has not been included because of allegations that workers are being charged to repay recruitment expenses (explained in the latter part of this chapter), which would include the bonus payment they may have received.

¹⁹ In our interviews conducted for this study we were told the finder's fees range from IDR 20 to 30 million. Interviews conducted to 13 Migrant Workers who has returned in Jakarta, Cirebon, and Wonosobo.

²⁰ Business Social Responsibility, *Step Up: Improving recruitment of Migrant Workers in Indonesia: Findings from a Research Visit to Semarang*, Indonesia, BSR Report, 2011, p. 13

²¹ Ibid. BSR found that it is the "more common practice" that workers pay 100% of the fees themselves.

²² Ibid.

²³ A representative of a migrant worker training center complained during our interview that all too often migrants are forced to attend the entire training again. Interviews conducted to 13 Migrant Workers who has returned in Jakarta, Cirebon and Wonosobo.

²⁴ The Ministry of Manpower reported 559 registered agencies in January 2013. The actual number of operating agencies might be higher because the lack of registration doesn't necessarily stop them from operating. Farbenblum, Bassina, Eleanor Taylor-Nicholson, Sarah Paoletti, *Migrant Workers Access to Justice at Home: Indonesia*, New York 2013, p.45



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