

▶ **Wage subsidy**

International practices in time of crisis

Food for thoughts for the Government of Indonesia

Summary

Overall, we would like to congratulate the government for its commitment to support workers in Indonesia. This short note aims at contributing international practices to the design of wage subsidy scheme in Indonesia. An effective wage subsidy scheme:

- Aims at preventing unemployment and compensating for the temporary reduction in working hours or the suspension of work without a break in employment relationship;
- Requires an employer to maintain employment and pay in a regular payroll cycle wage for hours that an employee performs work and compensation for hours that the employee is requested not to work; and
- Receives an application from the employer and subsidises a part of paid amount in the previous payroll.

The proposed wage subsidy assistance scheme in Indonesia may become more effective if it is considered as a function of employment retention in the scheme's design.

Common feature of wage subsidy

- **Objective:** In response to a sudden halt of economic activity, many countries have used wage subsidies to prevent unemployment and to compensate for the temporary reduction in working hours or the suspension of work without a break in employment relationship. This is reflected in the ILO Convention 168, Article 10.
- **Benefit and requirement:** The subsidy compensates the reduction of earnings associated to the reduction of working hours. Eligible employers have to maintain employment relationship; continue to pay wages for hours in which workers continue to work; and comply with legal obligations such as social security contribution and full or reduced wage payment as compensation for work stoppage. Temporary arrangements including reduction of working hours and applicable duration have to be implemented based on laws and mutual agreements between workers and employers.
- **Payment:** Employers are often required to pay affected employees the full or reduced amount of wages as compensation in a regular payroll cycle according to laws and agreements with employees, and receive from the subsidy scheme an equivalent or partial amount of the compensation paid for hours in which workers did not work.

Common feature of wage subsidy

- **Worker's benefits:** The scheme helps prevent unemployment; preserve purchasing power and consumption; and promote social dialogue.
- **Employer's benefits:** The scheme helps retain experienced employees (even teams of workers) and productivity; reduce the cost of maintaining employment; and avoid the high cost of separation, recruitment and training.
- **Government's benefits:** The scheme helps prevent large job losses, preserving purchasing power and poverty; promote a rapid recovery of economy once demand starts to increase; and enforce compliance of employers' obligations.

Difference from the recently introduced so-called wage subsidy assistance in Indonesia (I)

- **Objective:** The wage subsidy assistance scheme in Indonesia aims at assisting BP Jamsostek active members in smoothing consumption through direct cash transfers for four months. In contrast to international practices on wage subsidies, by design, the planned scheme would not help maintain employment, promote social dialogue or enforce compliance of employers' obligations. In this regard, the planned scheme can be regarded as cash transfers that narrowly target BP Jamsostek active members rather than wage subsidies based on employment relationship.
- **Enrolment:** The planned scheme adopts a one-time enrolment and target BP Jamsostek active members as of 30 June 2020, while the wage subsidy schemes commonly allow employers to apply anytime when they face declines in their business activities.
- **Benefit:** The planned scheme pays a flat amount of IDR 600,000 per member per month. The wage subsidy schemes commonly help employers compensate only hours that employers require employees not to work.

Difference from the recently introduced so-called wage subsidy assistance in Indonesia (II)

- **Role of employers and workers:** The wage subsidy assistance scheme in Indonesia does not require employers and workers to play any critical roles; and therefore the scheme is regarded as a cash transfer scheme entirely led by the Government. The wage subsidy schemes commonly require:
 - ✓ **Employers and employees** to discuss and agree on arrangements during work stoppage or furlough. The agreements at least include effective period, employees potentially affected and formula for calculating compensations for furloughed employees.
 - ✓ **Employers** to maintain employment and therefore comply with their obligations enforced by the labour and social security laws including social security contributions, wages for working hours and compensations for hours that employers require not to work.
 - ✓ **Employees** to monitor whether employers implement the agreements, comply with the laws and report fraudulent claims.



THANK YOU

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