



INDONESIA'S MULTIPLE MINIMUM WAGE STANDARDS IN THE APPAREL AND FOOTWEAR SECTORS

THE ISSUE

On October 5, 2020, Indonesia's Parliament passed the Omnibus Law (2020 Job Creation Law),¹ introducing significant amendments in a range of areas, including changes to Manpower Law 13/2003 ("Manpower Law") regarding minimum wage:

- Minimum wage rates will be determined at the provincial level by the governor;
- Sectoral minimum wage rates will be abolished; and
- Micro and small enterprises (Usaha Mikro dan Kecil) are exempted from implementing the obligation to pay minimum wages.
- The wages for employees of micro, small, and medium enterprises (MSME) shall be determined mutually between the employer and the employee.²

The new provision maintains the obligation of governors to determine the provincial minimum wage under certain conditions including economic growth and the inflation rate. However, the new practice for setting minimum wage weakens minimum wage provisions by eliminating sectoral minimum wages. This change may lead to the imposition of a lower minimum wage across all cities and districts within a province regardless of cost-of-living differences.

¹ <https://myemail.constantcontact.com/Alert--Indonesia-s-New-Omnibus-Law.html?soid=1103529695246&aid=rw3KERTFydk>

² According to the Indonesian Law Number 20 (2008) on Micro, Small and Medium Enterprises, an MSME is an entity owned by an individual or individual business unit, excluding foreign-owned or foreign-invested firms, and is defined by both assets (excluding land and buildings) and annual sales. They also have a limited number of human resources, particularly at the micro level (1-99 employees), so usually most of garment/textile factories would not qualify.

FLA CODE ELEMENT: COMPENSATION



Every worker has a right to compensation for a regular work week that is sufficient to meet the worker's basic needs* and provide some discretionary income.

Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any benefits required by law or contract. Where compensation does not meet workers' basic needs and provide some discretionary income, each employer shall work with the FLA to take appropriate actions that seek to progressively realize a level of compensation that does.

FLA Benchmarks:

C.1 General Compliance Compensation

C.1.1 Employers shall comply with all national laws, regulations and procedures concerning the payment of compensation to workers.

C.1.2 In any case where differences or conflicts in national law and FLA Workplace Code arise, employers are expected to apply the highest standard.

C.1.3 In any case where national laws, regulations and procedures do not address the payment of compensation to workers, employers shall follow all standards in the FLA Workplace Code that apply to administration and payment of compensation and shall provide an employment contract that includes stipulation of compensation payment to workers.

C.2 Minimum Wage

Employers shall pay workers at least the legal minimum wage or the prevailing industry wage, whichever is higher, for regular working hours.

BACKGROUND

Prior to the passing of the 2020 Job Creation Law in Indonesia, there were hundreds of minimum wage standards for different special regions and cities within Indonesia. This created confusion for apparel and footwear brands and suppliers as they worked to uphold minimum wage requirements. Additionally, the existence of sectoral minimum wages for certain labor-intensive industries resulted in conflicting or unclear minimum wage standards in many parts of the country.³

The 2020 Job Creation Law eliminates sectoral minimum wages, which were much higher than most provincial and city minimum wages. This brief emphasizes the FLA's minimum wage standards, clarifies the wage provisions of the 2020 Job Creation Law, and provides the minimum wage for FLA company affiliates to uphold for all regions and cities from which these companies source.⁴

RELEVANT FLA STANDARDS

The FLA Workplace Code of Conduct⁵ defines labor standards that aim to achieve decent and humane working conditions. The FLA Code standards are based on International Labour Organization standards and internationally accepted good labor practices. Companies affiliated with the FLA are expected to comply with all relevant and applicable laws and regulations of the country in which workers are employed and to implement their workplace code in applicable facilities. When differences or conflicts in standards arise, affiliated companies are expected to apply the highest standard.

The FLA Workplace Code of Conduct element on Compensation states (in part): “Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract.” The Compensation code element language is unequivocal in setting out that payment of the higher minimum wage is not optional and cannot be modified.

RECOMMENDATIONS

In order to uphold the FLA Workplace Code of Conduct and Compliance Benchmarks, the FLA recommends that companies and suppliers:

- Apply the highest of the minimum wage standards applicable to a particular city or province;
- If a factory was paying a higher sectoral minimum wage in 2020, ensure that the factory continues to pay this prevailing wage until December 31, 2021, regardless of any changes to the legal city and provincial minimum wages. In all cases, companies must then uphold the higher minimum wage to remain in compliance with the FLA Workplace Code of Conduct.
- If it is found that a factory lowered wages in 2021 based on the new Omnibus Law, ensure that the factory applies the higher standard and provides retroactive payments beginning at the start of 2021.
- Micro, small, and medium enterprises (MSME) should be included in the application of these recommendations.

3 The FLA has provided guidance on some of these topics: <https://www.fairlabor.org/report/exclusion-workers-minimum-wage-setting-indonesia>

4 This issue brief is referring to minimum wages to be paid for the workers who worked less than one year (Art 88E, Act 11/2020 & Art 24, Gov. Regulation PP 36/2021), workers with more seniority should be paid according to scales of wage structure.

5 <http://www.fairlabor.org/our-work/labor-standards>

These recommendations are supported by national legislation. The Indonesian governor decrees generally state that employers paying higher than the city or regency minimum wage are prohibited from reducing the wage levels already established for workers.⁶ Even though the sectoral minimum wage (UMSK) will no longer be regulated under the Omnibus Law, employers should pay the higher wage. Local regulations are consistent in prohibiting employers from lowering the minimum wage for workers and failure to implement minimum wage will be subjected to penalty.⁷

The table below includes all regions and cities from which FLA company affiliates source and the different minimum wage standards for each. While awaiting additional regulations and guidance from the Indonesian government, the FLA expects implementation of the higher minimum wages in these regions and cities.

TABLE 1: MINIMUM WAGE STANDARDS IN INDONESIA⁸ (2020-2021)⁹

Province (Provinsi)	City (Kota) / Regency (Kabupaten)	Year 2020 (in IDR)			Year 2021 (in IDR)	
		Provincial Min Wage (UMP)	City/Regency Min Wage (UMK)	Sectorial Min Wage (UMSK)	Provincial Min Wage (UMP)	City/Regency Min Wage (UMK)
DI Jogjakarta	Sleman	1,704,608.25	1,846,000	N/A	1,765,000.00	1,903,500
	Bantul		1,790,500	N/A		1,842,460
Riau Island	Kota Batam	3,005,460	4,130,279	N/A	3,005,460.00	4,150,930
DKI Jakarta Province		4,276,349	N/A	4,280,000	4,416,186	N/A
West Java	Kabupaten Sukabumi	1,810,351.36	3,028,531.71	N/A	1,810,351.36	3,125,444.72
	Kabupaten Bandung		3,139,275.37	N/A		3,241,296.7
	Kabupaten Majalengka		1,944,166.36	N/A		2,009,000
	Kota Cimahi		3,139,274.74	N/A		3,241,929
	Kabupaten Bogor		4,083,670	N/A		4,217,206
	Kabupaten Subang		2,965,468	N/A		3,064,218.08
	Kabupaten Purwakarta		4,039,067.66	N/A		4,173,568.61
	Kabupaten Bekasi		4,498,961.51	4,502,037.00 (No. KBLI: 1810 Apparel Industry)		4,791,843.9
	Kota Cianjur		2,534,798	N/A		2,534,798
	Kabupaten Karawang		4,594,324	N/A		4,798,312
Kabupaten Garut	1,961,085	N/A	1,961,085			
Central Java	Kota Semarang	1,742,015.22	2,715,000	N/A	1,798,979.12	2,810,025
	Kabupaten Semarang		2,229,880.5	N/A		2,302,797.59
	Kabupaten Boyolali		1,942,500	N/A		2,000,000
	Kabupaten Sragen		1,815,914.85	N/A		1,829,500
	Kabupaten Brebes		1,807,614	N/A		1,866,722.9

⁶ This requirement is unchanged from the provincial government's decree on the 2021 minimum wage. Source: <https://www.lexology.com/library/detail.aspx?g=dff3b2b7-199d-474e-a1b7-c1a4196dcd18>

⁷ Imprisonment for 1 year to 4 years and/or a fine of at least Rp.100 million to maximum Rp. 400 million (Act 11/2020 and Art 185 of Omnibus Law).

⁸ <https://wageindicator.org/salary/minimum-wage/indonesia>

⁹ The FLA appreciates the support from adidas, Fanatics, Fast Retailing, and Hanesbrands Inc. on providing data for this table.

Central Java	Kabupaten Jepara	1,742,015.22	2,040,000	N/A	1,798,979.12	2,107,000
	Kabupaten Grobogan		1,830,000	N/A		1,890,000
	Kabupaten Demak		2,432,000	N/A		2,511,526
	Kabupaten Rembang		1,802,000	N/A		1,861,000
	Kabupaten Pati		1,891,000	N/A		1,953,000
	Kabupaten Klaten		1,947,821.16	N/A		2,011,514.91
	Kabupaten Pemalang		1,865,000			1,926,000
	Kabupaten Slatiga		2,034,915	N/A		2,101,457
	Kabupaten Sukoharjo		1,938,000			1,986,450
	Kota Surakarta		1,956,200	N/A		2,013,810
East Java	Kabupaten Sidoarjo	1,768,777	4,193,581.85	4,529,068.4	1,868,777.08	4,293,581.85
	Kabupaten Madiun		1,913,321.73	N/A		1,951,588.16
	Kabupaten Probolinggo		2,319,796.75	N/A		2,350,000
Banten	Kota Tangerang (Sector IV: Leather, Footwear)	2,460,996.54	4,199,029.92	4,329,199.85	2,460,996.54	4,262,015.37
	Kabupaten Tangerang (Sector IIIA: Textile, Apparel)		4,168,268.62	4,376,682.05		4,230,792.65
	Kabupaten Tangerang (Sector IIIB: Leather/ Shoes)		4,168,268.62	4,272,475.34		4,230,792.65
	Kabupaten Serang (Sector II: Textile, Leather, Apparel, Bag & Shoes)		4,152,887.55	4,264,887.55		4,215,180.86
	Kabupaten Lebak (Textile, Leather, Apparel, Bag & Shoes)		2,710,654.00	N/A		2,751,313.81
	Kabupaten Cilegon		4.246.081.00	4.443.081 ¹⁰		4,309,772.64

¹⁰ The sectoral minimum wages in Kota Cilegon are grouped into three categories based on the industry; apparel manufacturing is not included in these three categories.

About the Fair Labor Association

The FLA is a multi-stakeholder organization combining the efforts of businesses, universities, and civil-society organizations to improve conditions for workers around the world. Occasionally, the FLA publishes briefs on current issues in the global supply chain. We intend for these briefs to provide an overview of the various perspectives on a given issue. At all times, the FLA expects its business affiliates to comply with all legal requirements, as well as the provisions of its Workplace Code of Conduct.