The Asian Financial Crisis and Indonesia’s Labor Intensive Work Program

In the 20 months since the Asian financial crisis in July 1997, the Indonesian economy has continued to plunge deeper into recession with related impacts on the country’s social and political fabric. The worsening economic conditions were characterized by a sharp fall in the international value of the rupiah, inflation rate of 78% in 1998, and export industries contracted by nearly 40% during the same period. The 1998 National Socioeconomic Survey indicated that unemployment had been predicted to reach 11% by the end of 1998. This was a sharp contrast to the pre-crisis rate of 5%. Although open unemployment is not a direct measure of the hardship faced by those affected by crisis, it did indicate the contracting income-generating activities. Combined with the high inflation rate, this has resulted in a severe decline in real income. The consequence of the loss in purchasing power has been a sharp increase in the number of people below the poverty line.

An indication of the extreme pressure on households is the disproportionate increase in the number of women in the labor force, including the elderly and the very young who are mostly engaged in marginal or low productivity employment. The dramatic rise of women in the labor force—increases of 1.8 million women compared to 1.3 million men—suggested that women who were able to stay out of the labor force can no longer afford to do so. At the same time, the weakening labor market has failed to cope with this excess demand and the female unemployment rate exceeds that of males by 40–50%. These signs indicated that households were not able to cope with the pressures of the crisis. Some time will elapse before the economy recovers and, without assistance targeted to vulnerable groups, the damage to their well-being would be long lasting. The crisis also has led to increased social unrest, which can be mitigated by timely provision of social safety net programs.

Supporting the Government’s Response to the Crisis Community and Local Government Support Sector Development Program

The Government initiated a crash program of employment generation through labor-intensive work (PK) programs to address the problem of large numbers of workers being laid off (particularly in the manufacturing, industry, services, and construction sectors). The objectives of the PK programs were to provide:

- employment for newly laid-off construction workers in major cities,
- stimulate economic demand for goods and services,
- provide work for the unemployed and poor,
- support activities with ongoing benefits to the community, and
- promote the role of nongovernment organizations (NGOs).

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To support government initiatives in mitigating the effects of the crisis, the Asian Development Bank (ADB) approved the Community and Local Government Support Sector Development Program (CLGSSDP) designed to help the poor, including newly laid-off workers in urban areas and associated labor-supplying rural areas, through the provision of job opportunities and improvement of basic infrastructure. The main objective of the CLGSSDP (the project) was to improve socioeconomic well-being and generate employment through improved service delivery for an estimated 450,000 families living in poor communities as part of the crisis alleviation program. The policy component of the project aimed to contribute substantially to increasing the country’s administrative and fiscal autonomy and decentralizing environmental management.

Generating Employment in Times of Crisis

The Result. Designed in response to the Asian economic crisis, the project was oriented toward economic recovery and employment generation. The project directly benefited about 6.4 million households (equal to 32 million people), most of them poor, by providing improved water supply, irrigation, drainage, public toilets, school buildings, sanitation, markets, boat piers, with associated impacts on public health, economic opportunities, and quality of life. It also aided about 460,000 households (equal to 2.3 million people), mostly poor, who obtained employment during construction, providing them with much needed help in the aftermath of the economic crisis. The achievement of the investment project in terms of number of beneficiaries exceeded the targeted 15 million.

Women participated in decision making and contributed labor during construction. Income enhancing opportunities, as well as quality-of-life concerns, played an important role in women’s decision making, and in some instances, they have become public figures. About 16% of those participating in all group activities were women. Relatedly, women accounted for about 16% of facilitators and comprised about 9% of laborers. NGOs played an important role as facilitators in mobilizing community and women’s participation. More than 3,500 facilitators were engaged in the project. These facilitators were provided by at least 79 local NGOs, mostly local.

The project contributed to mitigating some of the adverse impacts of Indonesia’s economic crisis. It was implemented in 9 provinces and 79 districts and cities. More than 12,200 villages implemented participatory planning, monitoring, and evaluation approach, which empowers communities to become the planners and implementers of their own development.

The project’s targeted impact has been convincingly pro-poor and its main impact of improved socioeconomic well-being has been considered accomplished. Although it was primarily aimed at crisis alleviation rather than poverty reduction, the underlying assumption was that the poor deserved assistance since they were most affected by the crisis.

Lessons Learned. The project demonstrated that it was possible for the Government and ADB to develop an effective large-scale emergency response program in a timely manner through labor work program as a form of social safety net. This public work program offered a means of providing assistance to the unemployed in need of an occupation with the main objective of income maintenance.

This project was successful in setting up self targeting and conditions of the crisis alleviation program, particularly wages, so that only the neediest apply. Long after its completion, many of the project’s features continue to be incorporated in government programs designed to provide community infrastructure and generate employment. In particular, block grants and measures to mobilize community participation have been introduced to other programs, and will continue to be utilized in both crisis and non-crisis situations. Some of the projects that have pursued similar schemes were the Kecamatan Development Program (KDP) and the Urban Poverty Project (UPP). Since 2008, the Government has launched a broad poverty reduction program which works with similar objectives and methods.
About the Asian Development Bank
ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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Endnotes
2 PNPM Mandiri is the Government’s National Program for Community Empowerment.

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