

MARCH 3, 2025

Addressing a lack of proper pay structures for workers in Indonesia's apparel sector

THE ISSUE

Indonesia's Labor Law No. 6/2023 and Government Regulation No. 36/2021 on wages outline the rules for implementing minimum wages. However, many employers are not properly preparing for, or implementing, these wage structures, resulting in negative impacts on worker wages and non-compliance with legal requirements and labor standards.

BACKGROUND

Under this regulation, workers with less than one year of seniority at their current employer are entitled to the minimum wage, while those with one year or more of seniority must have their wages guided by a structured wage scale.¹ This framework ensures that the legal minimum wage serves as a baseline.

However, some employers in Indonesia have demonstrated resistance to compliance. This was demonstrated by the recent legal challenge by the Indonesian Employer Association (APINDO), which attempted to have the requirement revoked. This lawsuit was ultimately dismissed by the Supreme Court.²

Other contributing factors to the lack of implementation of appropriate wage structures include low employer awareness regarding legal obligations and the absence of effective worker representation in many workplaces. In addition, some companies opt for symbolic wage adjustments for senior workers that do not align with legal requirements.

FLA RECOMMENDATIONS

Companies should ensure their suppliers in Indonesia have a defined wage structure and scale that complies with both legal requirements and FLA standards by considering the following points:

1. Wage structure and scale development:

¹ Typically, employers will consider the worker's skills and the job position to determine the basic wage and fixed allowance. Seniority allowances are typically calculated based on job tenure in the current company, not the former one.

² Bekasi, SPSI. "Serikat Pekerja Menang, Mahkamah Agung Tolak Gugatan Kasasi Apindo." *SPSI BEKASI*, 12 Aug. 2024, <https://spsibekasi.org/2024/08/12/serikat-pekerja-menang-mahkamah-agung-tolak-gugatan-kasasi-apindo/>

- Prepare the wage structure and scale considering worker job groups (i.e. positions based on the level of responsibility and job duties, otherwise called the grading system), education, skills, and experience.
 - Ensure the wage structure and scale outlines basic wages for each position, including allowances (i.e. those not tied to performance such as childcare or transportation) provided to workers.
 - Ensure workers' compensation considers what workers require for basic needs and savings. Benchmark wages and benefits to living wage indicators, such as the Global Living Wage Coalition and International Labour Organization's (ILO) principles, to estimate living wage.
2. **Worker engagement:**
- Prepare the wage structure and scale with active participation and feedback from worker representatives or trade unions.
 - Ensure collaborative decision-making through negotiations or consultations with workers to align wage structures with worker expectations and labor laws.
3. **Implementation:**
- Conduct a detailed job analysis for each role, develop comprehensive job descriptions, and rank positions based on responsibilities and requirements.
 - Confirm the structured wage scale complies with local laws and promotes internal equity by assigning appropriate wage levels for each position.
 - Notify workers of the wage structure and scale prior to implementation.
 - Establish a written procedure for the annual review and revision of the wage structure and scale to maintain compliance and relevance.
4. **Submission to local authorities:**
- Submit the wage structure and scale to local authorities when submitting company regulations or renewing collective labor agreements.

Developing an effective wage structure and scale in workplaces ensures fair compensation, enhances productivity, reduces wage disparities, and promotes better worker wellbeing. Compliance with legal requirements also prevents administrative penalties and fosters stronger trust between employers and employees.

ADDITIONAL RESOURCES

1. [Fair Labor Code](#)
2. [FLA Workplace Code of Conduct and Compliance Benchmarks \(Manufacturing\)](#)
3. [FLA Workplace Code of Conduct and Compliance Benchmarks \(Agriculture\)](#)

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