

Case City Report: Kupang, East Nusa Tenggara

## SMALL CITIES, URBANIZING REGENCIES

The Front Lines of Indonesia's Employment,  
Migration and Urban Challenges

November 2018





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Published in November 2018 by JustJobs Network Inc.

### Acknowledgments

This report is part of a research program examining small cities in India and Indonesia from the perspective of employment, migration and youth. This initiative is made possible through generous funding from the International Development Research Centre (IDRC) and the Think Tank Initiative (TTI). We thank those institutions, and particularly program officers Seema Bhatia-Panthaki and Navsharan Singh, for enabling us to explore critical development issues in creative and fulfilling ways.

The research that informs this report was conducted by Perkumpulan Pikul, in collaboration with the JustJobs Network, in 2017 and 2018. In particular, Pikul would like to thank Conny Herta Tiluata and Septiani C. Suyono for their sincere dedication to data analysis and collection, and also Rido Hambandima, Elisabeth Umbu Tara, Arry Pellokila, Dedi Pah, Ciko Jacob, and Alfrid Riwu for their hard work in carrying out the field survey. We appreciate that the Vice Mayor of Kota Kupang and the Badan Perencanaan Pembangunan Daerah Kota Kupang were supportive of this research.

The report was a collaborative effort, authored primarily by Gregory Randolph of JustJobs Network and Pantoro Tri Kuswardono of Perkumpulan Pikul.

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### Cover photo

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## Introduction

In Indonesia and across the developing world, the focus of urban policy and scholarship has frequently revolved around large cities. Indonesia's urbanization process is popularly imagined as a deluge of rural migrants flooding into Jakarta in search of livelihood opportunities – leading to notorious “closed city” policies in the capital and periodic calls for moving the national capital elsewhere.<sup>1,2</sup> In reality, the processes of structural transformation, urbanization and economic development in Indonesia have always been far more complex, as suggested by Terry McGee's famous description of Java as a collection of *desakota* regions – an intense, undulating mixture of rural and urban economic activity that refuses to obey any simple boundary between village and city.<sup>3</sup>

As Indonesia's urbanization and economic development processes continue to unfold – with the country recently becoming more than half urban – the importance of urban environments beyond Jakarta continues to grow. Over the last 20 years, medium-sized cities of 500,000 to 1 million people have performed best in maximizing the benefits of agglomeration economies.<sup>4</sup> Most of the growth in Indonesia's urban population is now occurring in small and medium-sized cities; with the country's urban population projected to grow by 30.7 million people between 2010 and 2025, 85 percent of new urban dwellers will be absorbed by urban

areas of less than 750,000 people.<sup>5</sup> The other critical trend is that the phenomenon described by McGee – *desakota* – is spreading, especially in parts of Java where firms in sectors such as manufacturing are moving in search of lower-cost labor and land. Rural-to-urban transformations are occurring throughout parts of Indonesia that have no official designation as cities, or jurisdictional *kotas*. As of 2015, about 60 percent of Indonesia's urban dwellers now live outside the country's 98 designated *kotas* – meaning they live in peri-urban or “urbanizing” regencies (*kabupaten*) – and the share is rising, up from 57 percent in 2010 and 28 percent in 1971.<sup>6</sup>

*Against the backdrop of urban growth led by small and medium-sized cities and urbanizing regencies (kabupaten), Indonesia faces the major challenge of creating productive employment opportunities for its expanding workforce.*

Against the backdrop of urban growth led by small and medium-sized cities and urbanizing regencies,<sup>i</sup> Indonesia faces the major challenge of creating productive employment opportunities for its expanding workforce. The time for realizing the country's much-anticipated “demographic dividend” is no longer in the future. Indonesia's working-age population has been expanding

<sup>i</sup> We define an ‘urbanizing’ kabupaten as one whose urbanization rate was at least 27 percent – half the rate of Indonesia as a whole – in 2015.

rapidly in recent decades, and its dependency ratio is expected to reach its lowest point by 2030.<sup>7</sup> The juncture at which Indonesia finds itself today is the same period of demographic transition in which the world's advanced economies made major strides in expanding the middle class through productive jobs.

Indonesia's window of demographic opportunity, therefore, coincides with the growth of small and medium-sized cities, 'rurban' and peri-urban places. In other words, urban areas outside of Indonesia's biggest cities are on the front lines of some of the country's greatest development challenges: lifting people out of poverty, facilitating and managing migration, creating economic opportunities for youth, and harnessing the productive potential of urbanization.

Non-metropolitan cities – defined as *kotas* outside of the nine largest metropolitan regions<sup>ii</sup> – have rates of in-migration higher than large cities or their suburban peripheries (see **Figure 1**). About half of the rural migrants to these small and medium-sized cities are moving in search of educational opportunities – suggesting that Indonesian youth searching for economic mobility and employable skills are increasingly turning toward provincial and district capitals, as opposed to big cities like Jakarta, Surabaya and Medan.<sup>8</sup> Meanwhile, in the urbanizing *kabupatens* that now characterize large swaths of Indonesia's most densely populated islands, a complex mixture of migration patterns is evolving – permanent moves by urbanites to suburban and peri-urban areas, circular migration

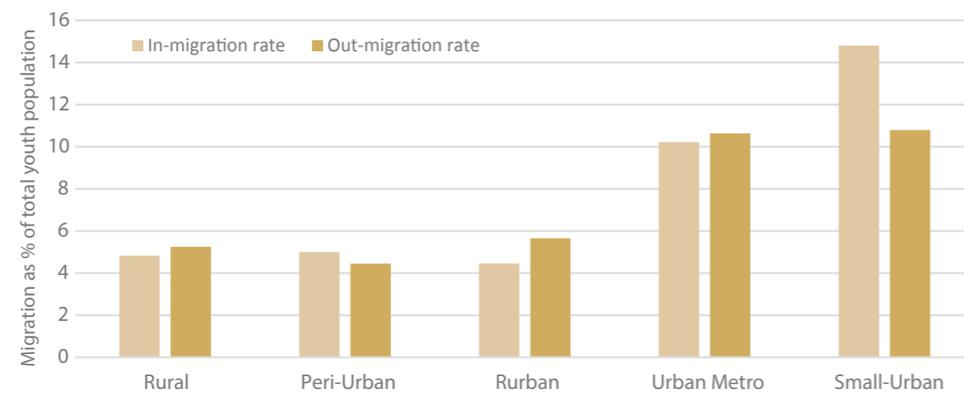
between rural and 'rurban' settlements for factory employment, and increasing levels of commuting in many different directions.

This diverse range of urban settlements – from small towns to peri-urban regencies – represent a mixture of opportunity and risk for young people seeking productive urban livelihoods. On the one hand, data suggest they are budding centers of entrepreneurship: as compared to 3.1 percent in large cities, 3.7 percent of youth workers (ages 15-29) in small cities and 6.1 percent in urbanizing regencies are business-owners who employ at least one other worker. On the other hand, greater shares of young people find themselves in marginal or precarious work. Almost 17 percent of youth working in non-metropolitan cities and 39.6 percent in urbanizing regencies are own-account, unpaid or casual workers; in big cities, the figure is only 11.4 percent.<sup>9</sup>

Whether Indonesia proves successful in harnessing the opportunities of urbanization and demographic transition will hinge in large part on its ability to promote local economic development and job creation in small cities and urbanizing regencies. This involves expanding the potential indicated by aspiring young migrants seeking education and skills and fostering conducive climates for small and medium-sized businesses to grow.

This policy brief focuses on a city in eastern Indonesia, Kupang, where these imperatives are clearly evident. It will utilize secondary data to explain the context of Kupang – including its history and local economy – share findings of original primary data collected in 2017 and 2018, and offer policy recommendations toward expanding Kupang's potential as a center of social and economic mobility in eastern Indonesia.

**Figure 1**  
**In-Migration and Out-Migration Among Youth (15-29)**  
**Across Subnational Geographies in Indonesia<sup>iii</sup>**



Source: SUPAS 2015

<sup>ii</sup> Indonesia's nine major metropolitan areas are defined in a 2012 report prepared by the World Bank (Ellis, P. (2012). *The Rise of Metropolitan Regions: Towards Inclusive and Sustainable Regional Development in Indonesia*. Jakarta: World Bank. Retrieved from: <http://www.worldbank.org/en/news/feature/2012/08/13/towards-inclusive-and-sustainable-regional-development>). They are defined as the urban core and peripheral suburbs that surround the following cities: Balikpapan/Samarinda, Bandung, Denpasar, Jakarta, Makassar, Manado, Medan, Semarang, and Surabaya.

<sup>iii</sup> In the graph, urban metro refers to *kotas* (officially designated cities) lying within Indonesia's nine major metropolitan areas (see Footnote 1); urban non-metro refers to *kotas* outside of these major metropolitan areas; peri-urban refers to urbanizing *kabupatens* (regencies) lying within one of the major metropolitan areas; and rurban refers to urbanizing *kabupatens* outside major metropolitan areas. An urbanizing *kabupaten* is defined as one with an urbanization rate at least half that of Indonesia as a whole – 27 percent as of 2015, when Indonesia was 54 percent urban.

## Kupang: Setting the Context

Kupang is the capital of the East Nusa Tenggara province, located in the southeastern corner of Indonesia. Despite persistent development and governance challenges in the city, it remains an island of relative prosperity in one of the country's poorest provinces. While Kupang's score on the Human Development Index is nearly on par with Jakarta's, the surrounding rural regencies are among the least developed in Indonesia, for a number of historical and geographic reasons (see **Table 1**). The city's rapid growth and change

must be understood in the context of its role as a political and economic hub for a region that witnesses high levels of distress migration.

### HISTORY

From the 17<sup>th</sup> to 19<sup>th</sup> centuries, Kupang developed as a gateway for sandalwood and beeswax trading – though it remained a small port during this period – and during the colonial era, the city was also a military outpost for the Portuguese and later the Dutch.<sup>10,11,12</sup>

Table 1

**The City of Kupang in the Context of East Nusa Tenggara, 2017**

Kota/ Kabupaten	Open Unemployment Rate, 2015	Life Expectancy	Average Years of Schooling	Per capita annual expenditure	HDI	Poverty Rate (%)	GDP growth Rate, 2012-2015 (%)
<b>East Nusa Tenggara (Province)</b>	3.30%	66.1	7.2	7,350	63.7	21.90%	5.00%
East Sumba	2.90%	64.1	6.7	9,093	64.2	31.00%	5.14%
West Sumba	3.80%	66.2	6.5	6,997	62.3	29.30%	5.03%
Alor	1.90%	60.5	7.8	6,553	59.6	21.70%	4.88%
Flores Timur	5.50%	64.5	7.1	7,442	62.9	10.80%	5.16%
Rote Ndao	2.50%	63.4	7	6,320	60.5	28.80%	5.48%
Malacca	1.10%	64.3	6.3	5,726	58.9	16.50%	5.11%
Kupang	3.50%	63.5	7.1	7,301	62.8	22.90%	5.13%
<b>Kota Kupang</b>	<b>12.50%</b>	<b>68.6</b>	<b>11.5</b>	<b>13,028</b>	<b>78.3</b>	<b>9.80%</b>	<b>6.83%</b>
Manggarai	4.10%	65.8	7	7,056	62.2	21.90%	5.12%
Sabu Raijua	2.80%	59	6	5,120	55.2	31.10%	5.11%
Belu	2.50%	63.4	7.1	7,251	61.4	16.00%	5.81%
Timor Tengah Selatan	1.70%	65.7	6.4	6,676	61.1	29.40%	5.35%
Timor Tengah Utara	0.60%	66.2	7.1	6,164	62	23.50%	5.09%

Source: BPS, Statistics Indonesia

Map 1

**The City of Kupang in the Context of East Nusa Tenggara**



Administrative Map of East Nusa Tenggara Province, 2010

In the first half of the 20th century, during the “Pax Neerlandica” period, Kupang remained a city driven by the shipping and administrative activities associated with resource extraction throughout southeastern Indonesia.<sup>13</sup>

Kupang’s role in the Indonesian urban system did not change significantly following Indonesian independence. The economic development paradigm that had been established during colonial times persisted – with Java experiencing industrialization and outlying islands, including those in the region where Kupang is located,

primarily functioning as centers for resource extraction. Industrial activities were – and for the most part remain – much more limited in places like Kupang as compared to the more densely populated islands of Java, Bali and Sumatra.

While historically Kupang held little distinction over other cities in the region in terms of economic activity, its importance began growing after 1958, when the city became the provincial capital of East Nusa Tenggara and witnessed an expansion of public sector employment. State-driven growth and development accelerated

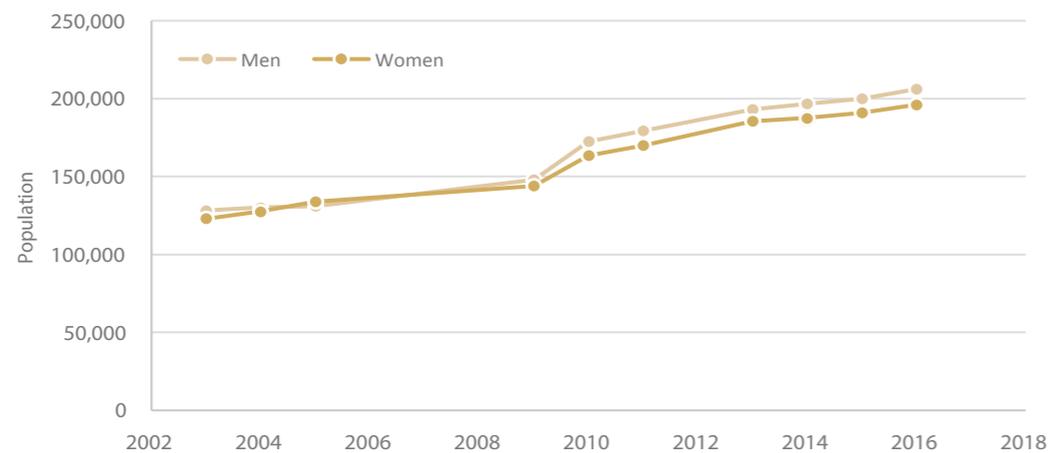
further following decentralization in 1998, as greater authority and more resources were transferred to local governments. Over the last 13 years, Kupang's population has expanded rapidly – from 291,794 in 2009 to 402,286 in 2016 (see **Figure 2**) – as the service sector has expanded and the volume of migration from rural parts of East Nusa Tenggara has grown. Migration of men has caused the male population to rise more quickly than the female population in Kupang.

### ECONOMY AND WORKFORCE

Because Kupang never developed a large manufacturing sector, economic activity and employment remain heavily concentrated in the services sector – especially informal and non-tradable services. The male workforce in Kupang is employed across a fairly diverse set of service sector activities: finance, transportation,

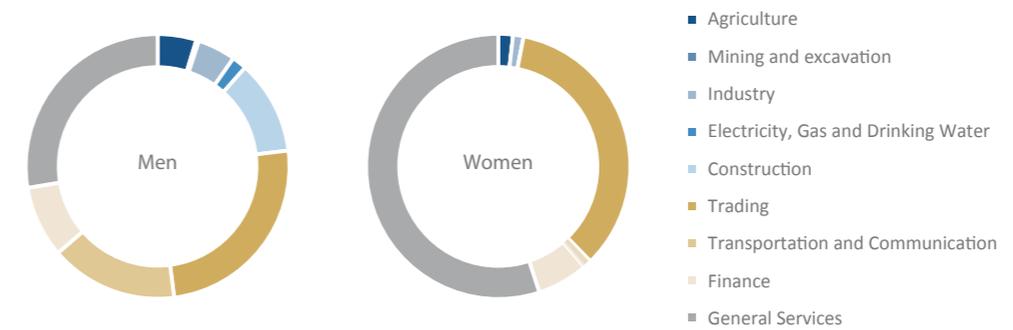
construction and trade, in addition to general services – a category that includes entertainment, sports and recreation, cultural activities, non-profit activities, and household activities (i.e. domestic work). Women, on the other hand, are predominantly employed in general services and trade (see **Figure 3**). The composition of Kupang's GDP (see **Figure 4**) makes even more evident the prominence of the service sector – especially sub-sectors that tend to host large shares of informal workers. Construction is the largest contributor to Kupang's economy, while vehicle repair and trading ranks second. Sectors such as information and communication, finance, and real estate – while ranking among the biggest contributors to GDP – employ relatively few workers, meaning that they tend to host more productive, if scarce, employment. This bifurcated labor market structure, which has been referred to as

Figure 2  
**Population Growth in Kupang, 2003-2016**



Source: Kupang City BPS, 2005-2015

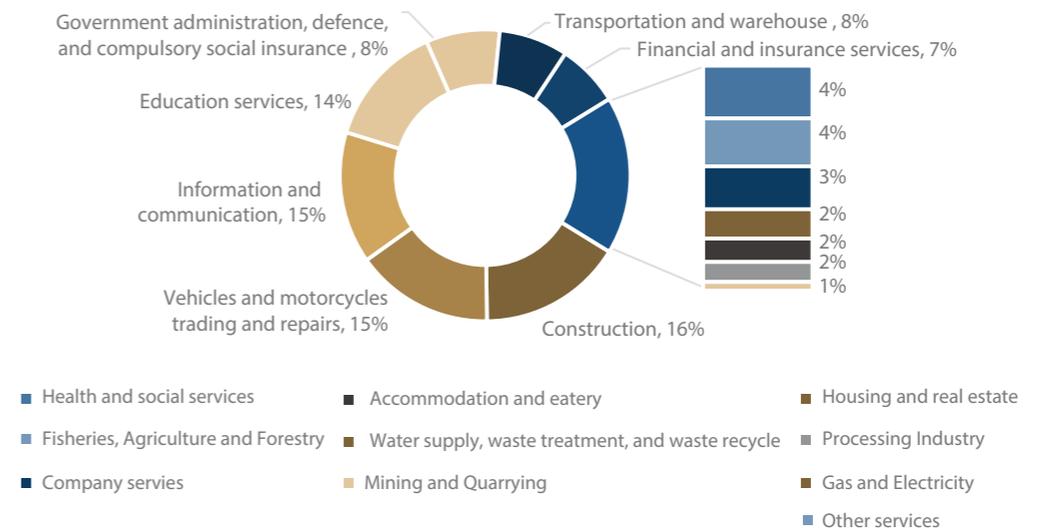
Figure 3  
**Sectoral Composition of Employment in Kupang, 2015**



**Note:** General services – a category that includes entertainment, sports and recreation, cultural activities, non-profit activities, and household activities (i.e. domestic work).

**Source:** Kupang City Statistics Center, 2015

Figure 4a  
**Sectoral Contribution to GDP in Kota Kupang**

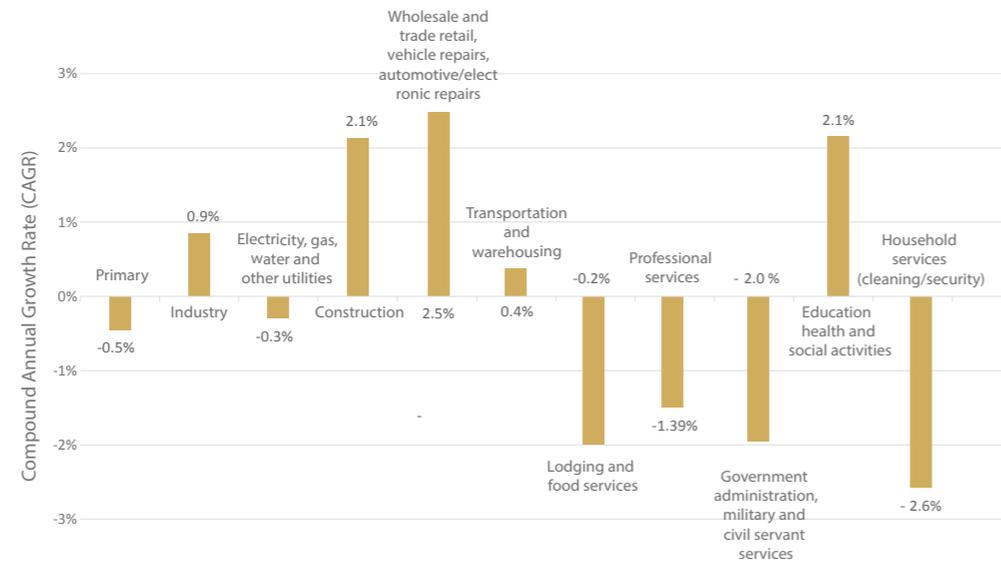


**Note:** Modern services include: Information and communication; Finance and insurance; Property services; Arts, entertainment and recreation

**Source:** Badan Pusat Statistik, 2016

Figure 4b

**Compound Annual Growth Rate of Sectors in Kupang, 2008-2016**



**Note:** Professional services include Compulsory social insurance, Company services, Information and Communication; Finance and insurance; Property services; Arts, entertainment and recreation;

**Source:** Kota Kupang Central Bureau of Statistics, 2008-2016

“polarized”<sup>14</sup> or, more simply, as a labor market of “lousy and lovely” jobs,<sup>15</sup> is characteristic of economies that rely heavily on the services sector. In Kupang’s case, however, there exist far more “lousy” than “lovely” jobs.

The economic and employment profile of the city demonstrates that Kupang’s growth is driven primarily by consumption. The city’s net exports are consistently negative. In 2017, for example, the value of exports was less than one-quarter the value of imports.<sup>16</sup> Despite the relatively small share of the workforce employed directly by the government, the consumption-oriented economy is fueled by state spending. While government

administration only ranks fourth among sectors in terms of its contribution to GDP, this masks the fact that government expenditure propels many sectors across the economy – construction, education, and hospitality (due to government-sponsored meetings and conferences), not to mention the purchasing power of civil servants. In fact, in the period 2010-2016, state spending accounted for an average of 22.2 percent of Kupang’s GDP.<sup>17</sup> By comparison, the figure in Indonesia as a whole over the same time period was 9.4 percent.<sup>18</sup>

Because state investment in Kupang has also come in the form of educational institutions,

its workforce possesses relatively high levels of education, with the number of college graduates more than doubling between 2009 and 2016, reaching 14 percent of the total workforce.<sup>19</sup> This compares favorably with other urban areas across Indonesia and the country as a whole, where only 6.5 percent of the workforce has a university degree.

Despite this fact, the formal economy in Kupang remains very small, with most workers engaged in small-scale enterprises and many in precarious employment arrangements. Own-account workers are about one-fifth of the city’s workforce, and the share is much higher among youth and migrants. Those who are wage workers are unlikely to work in large firms or with contracts; among the almost 1,700 enterprises operating in Kupang, almost 70 percent have only 2 to 5 employees. Poor labor market conditions combined with increasing educational enrollment may help to explain why labor force participation has dipped in recent years, especially among men. One positive development, however, is a sharp decline in unpaid workers in Kupang between 2010 and 2015 – from 5.3 percent to 0.7 percent of men and 15.9 percent to 5.0 percent of women, according to official statistics.<sup>20</sup>

**GEOGRAPHY**

While both economic and administrative activities were initially established in Kupang’s Kota Lama (Old Town) district – at the northern tip of the city along the coast – the growth of the bureaucracy and the population spurred expansions in all directions, but especially to the east (see **Map 2**). Today, while Kota Lama

has the highest population density of all the six sub-districts (*kecamatan*) of the city, it also hosts the smallest number of people – with growth largely occurring in Kota Raja, Oebobo and Kelapa Lima. The districts of Alak and Maulafa are the most sparsely populated – best understood as peri-urban, although they lie within the city boundaries (see **Map 3**).

*The formal economy in Kupang remains very small, with most workers engaged in small-scale enterprises and many in precarious employment arrangements.*

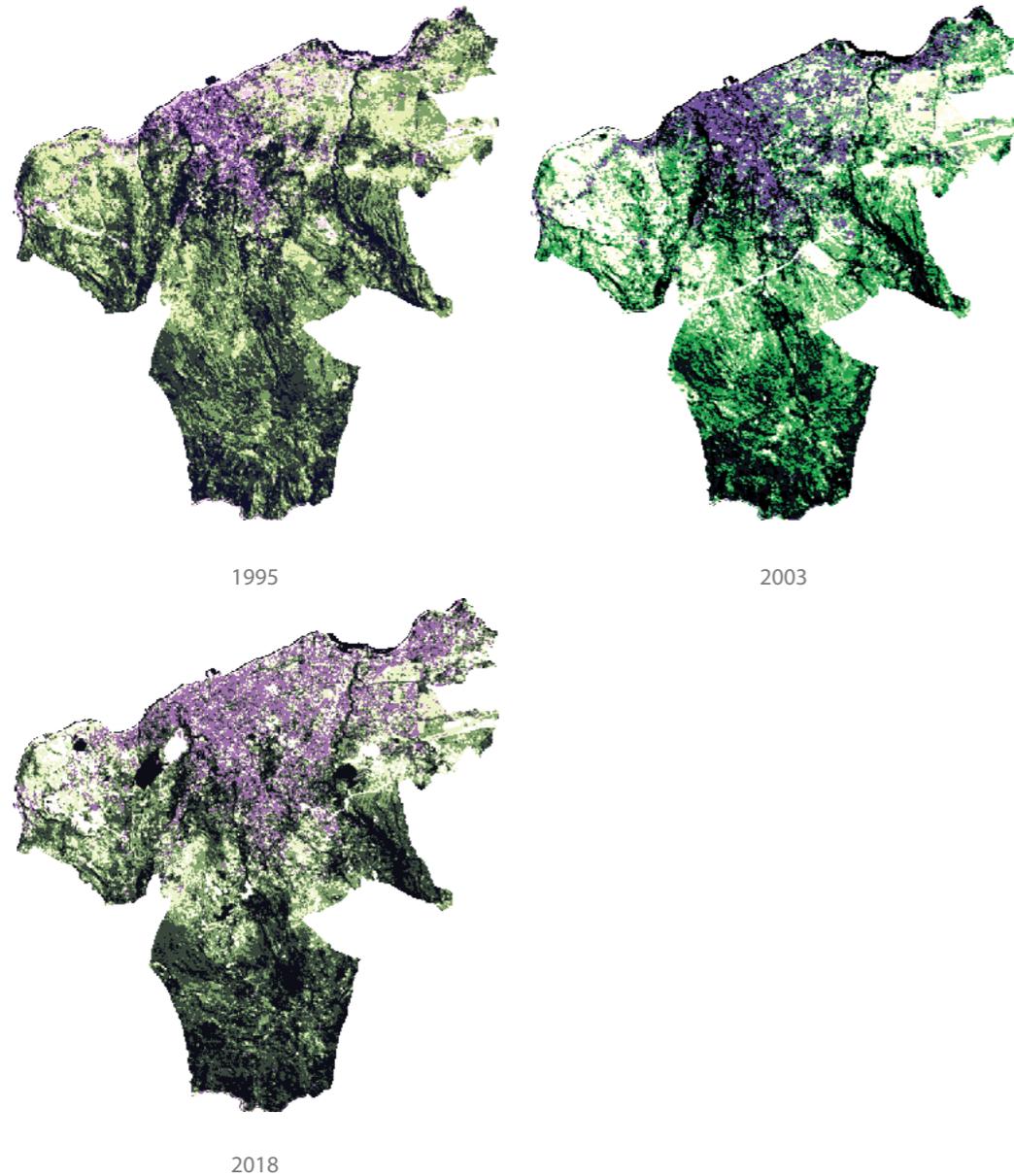
A few patterns in Kupang’s spatial economy are worth noting. Kelapa Lima hosts some of Kupang’s largest universities and much of its student population, in addition to many of the city’s fishing communities and some of its tourism sites. Oebobo is where provincial government offices have tended to locate. Alak hosts Kupang’s limited industrial activity – including the notoriously unprofitable state-run cement enterprise, PT Semen – along with Kupang’s port and the logistics and warehousing activities associated with it.

**GOVERNANCE**

Despite the large presence of government bureaucracy in Kupang, which has played a major role in the city’s growth, a mixed story defines its governance indicators. Even with Kupang’s relatively high score on the Human Development Index, the city government received a score in the Yellow, or medium, Zone on compliance with public service standards in 2017 – meaning it has not improved public service delivery over the past

Map 2

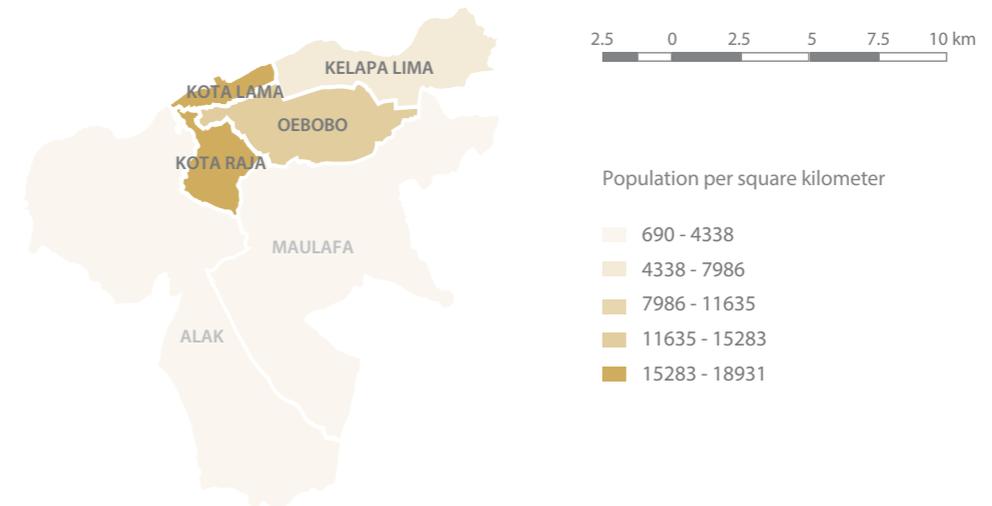
**Kupang's Urban Expansion, 1995-2018**



Source: USGS EarthExplorer LANDSAT 5, LANDSAT, and LANDSAT 8, spectral analysis using SAGA-GIS.

Map 3

**Population Density of Sub-Districts (Kecamatan) of Kupang, 2016**



Source: Geospatial data combined with Kupang city BPS data (2016).

three years.<sup>21</sup> Several local government agencies in the city do not meet minimum operational standards set forth in national laws. The state of East Nusa Tenggara also ranks fourth-highest among Indonesia's 30 provinces on corruption level, according to Indonesia Corruption Watch (ICW). According to ICW, the province saw 30 corruption cases in 2015 alone, leading to a loss of around IDR 26.9 billion (about US\$ 2 million) in public money.<sup>22</sup>

The government entities present in Kupang, as in other city (*kota*) jurisdictions throughout Indonesia, are a combination of vertical agencies that are extensions of central government

ministries and local government agencies (*Organisasi Pemerintah Daerah*, or OPD) that are accountable to a locally elected mayor. The planning process at the city level in Indonesia yields a *musrenbang*, or neighborhood-level development plan. According to Kupang's *musrenbang*, the local government's economic development strategy aims to boost tourism and transportation as growth sectors in the city. Because of its close link with tourism, the *musrenbang* also prioritizes the creative economy – such as handicrafts. The city government has also pledged to support micro, small, and medium enterprises as well as cooperatives, partly by improving the business licensing system.

## Migration, Work and Life in Kupang: Findings from Primary Data

An extensive survey with 500 working youth (ages 15-29) in Kupang was conducted in 2017 alongside detailed qualitative interviews and focus group discussions with working youth, government officials, business owners, and civil society organizations. Taken together, these data offer an important glimpse into who is coming to Kupang in search of opportunity, what their experiences of the labor market are, and the kind of relationship they develop with the city. This section will speak to these three concerns before identifying their intersections and the important issues they raise for policymakers concerned with the positive role that Kupang could play in creating opportunities for youth, and in particular young migrants.

### WHO IS COMING TO KUPANG?

The vast majority of youth migrants to Kupang come from rural regencies within the province of East Nusa Tenggara (NTT) (93.9 percent), with most of the remainder coming from Java (3.8 percent). In our sample, we defined a youth migrant as a person aged 15 to 29 who migrated to Kupang from elsewhere at the age of 15 or older – i.e. someone who came of their own volition. Among those surveyed in our research, 87 percent were first-time migrants, meaning that the move to Kupang was the first migration they undertook. Among NTT migrants, the greatest share come from the regencies on Timor Island –

i.e. those reachable by land from Kupang – though other areas of NTT are also well represented in the migrant population. For example, 13.6 and 12.1 percent of youth migrants to Kupang in the sample come from Rote and Savu, respectively, islands that are accessible only by ferry.

*While the level of human development in Kupang parallels that of prosperous parts of Indonesia, the surrounding regencies from which migrants come are among the poorest in the country.*

While the level of human development in Kupang parallels that of prosperous parts of Indonesia, the surrounding regencies from which migrants come are among the poorest in the country (see **Table 1** above). The poverty arises due to geography – agriculture suffers from relatively little rainfall and low-productivity soil – in addition to governance. For much of colonial and modern Indonesian history, the southeastern corner of the archipelago was neglected by administrations in Jakarta. As described above, successive leaders largely used the islands of NTT for extractive industry rather than locating extensive infrastructural or industrial development there.

Despite drawing from a limited geography – surrounding islands and regencies within the same province – Kupang’s migrant population is extremely diverse, given that the province of NTT

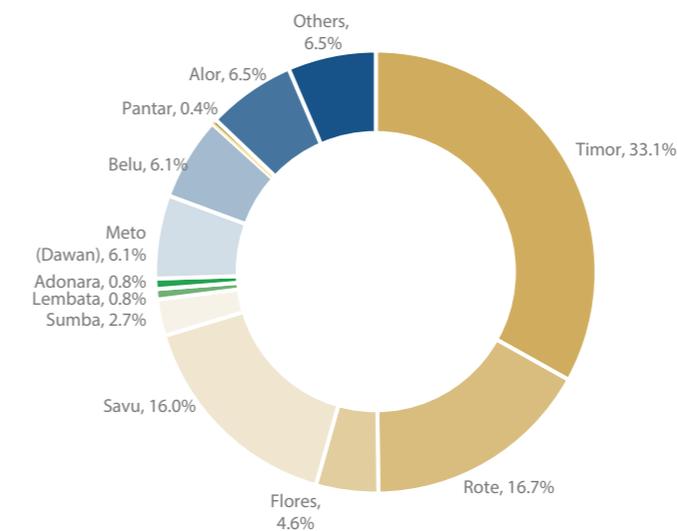
consists of many different ethnic and linguistic groups (see **Figure 5**). The diversity in the city plays an important role in shaping the experience of migrants, who describe it as both a challenge and as part of the excitement of migrating to the city.

Given the fact that NTT’s rural regencies are sparsely populated and underdeveloped, most of the places from which migrants originate have little economic activity beyond agriculture. In our sample, 53.7 percent of migrants come from families where the primary breadwinner works in agriculture – compared to 17.6 percent of those surveyed who are Kupang natives. Many of those who participated in the research expressed that Kupang’s labor market drew them not because of the quality of jobs but because it

offers opportunities to earn *cash* – reflecting the fact that some migrants’ origins lack a cash-based economy, with households largely relying on subsistence agriculture.

Kupang draws both male and female migrants, though recent population data suggest that more men are migrating than women (see **Figure 2** above). Both male and female migrants are generally single (78 percent), and female migrants are more likely to be single than male migrants: 76.1 percent of male migrants are single, while 81.3 percent of female migrants are. The only parts of NTT that send more women than men to Kupang are Belu and Flores Timur. Qualitative interviews suggest that the higher incidence of female migration from these places could be related to women’s lack of land ownership and

Figure 5  
**Distribution of Youth (Ages 15-29) Migrants in Kupang by Ethnicity, 2017**



**Note:** The ethnic groups shown in the figure generally correspond to the geographies in Map 1  
**Source:** Authors’ calculation based on primary data

inheritance, meaning they have fewer incentives to farm their family's land.

Kupang is a major destination for education migrants. Nearly a third of the migrants in our sample said that the pursuit of education and skill development opportunities was their primary motivator in migrating. In Indonesia as a whole, about half of the rural-to-urban migrants moving to non-metropolitan cities are seeking education.<sup>23</sup>

*The high levels of territorial inequality in NTT – between Kupang and the regencies across the rest of the province – are manifested in different employment and economic outcomes for migrants as opposed to Kupang natives.*

While quality of education is considerably different between Kupang and the regencies from which migrants originate, migrants and non-migrants do not have substantially different levels of educational attainment. Gender appears to be a more important factor in determining one's education level. About 70 percent of migrant men in our survey sample have completed upper secondary school – either SMA (*Sekolah Menengah Atas*), the academic track, or SMK (*Sekolah Menengah Kujuran*), the vocational track. The figure is considerably higher for migrant women, at over 85 percent. One difference, however, between non-migrants and migrants, is access to vocational high schools; the former are more likely to have degrees from SMK institutions. Moreover, non-migrant women have the highest

rates of graduation from college – with about one-quarter holding a bachelor's degree. This compares favorably with Indonesia as a whole – where about 8.6 percent of youth and 9.8 percent of young women hold a university degree.

These rates of educational attainment, however, must be seen in light of a labor market that creates relatively few opportunities for young people – bringing down the opportunity cost of continuing one's studies. Among those surveyed, 11 percent said that it took them longer than one year to find the job in which they are currently employed. Secondary data show that the "NEET" (Not in Employment, Education or Training) rate is relatively high in Kupang and in other regencies throughout NTT. For example, in Belu, from which 6 percent of the migrants in our sample originate, almost 40 percent of youth are NEET. In Rote and Timor Tengah Selatan the rate is 21 percent and 16 percent, respectively. Even in Kupang, the NEET rate among migrants stands at 18 percent, reflecting the fact that the labor market does not necessarily provide an escape from unemployment.

#### WHAT IS THE MIGRANT EXPERIENCE OF KUPANG'S LABOR MARKET?

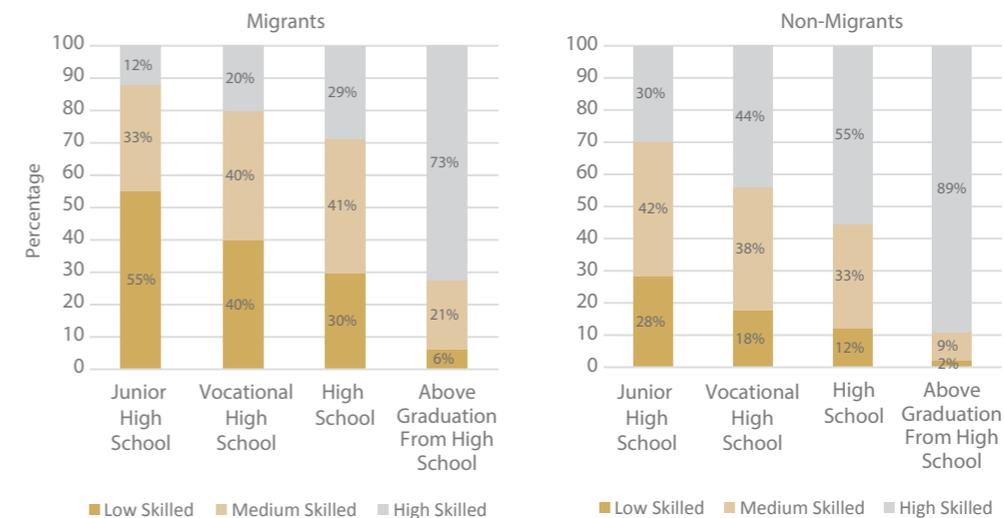
The high levels of territorial inequality in NTT – between Kupang and the regencies across the rest of the province – are manifested in different employment and economic outcomes for migrants as opposed to Kupang natives. Despite their relatively similar levels of education, migrants in Kupang are more likely to wind up in precarious and low-paying jobs. In fact, regression analysis shows that even after controlling for

education, gender and other significant factors, migration status is a statistically significant determinant of the skill level of one's occupation, with migrants substantially more likely to end up in low-skilled occupations, such as manual labor or domestic work (see **Figure 6**). This difference can be attributed to numerous "unobservable" factors – such as quality of education, employer bias, social networks, or even tacit knowledge and social capital associated with being raised in an urban environment. Nevertheless, the difference in type of job does not necessarily translate into major differences in earning capacity between migrants and Kupang natives, with the income

distribution of young migrants only slightly lower than that of native youth (see **Figure 7**) – showing that the number of high-quality and high-paying jobs in Kupang's labor market remains limited even for young people with built-in advantages.

Migrant men tend to be employed in daily wage jobs that require no specific skill but only a willingness to endure the hardships of manual labor. As several participants in focus group discussions put it, "if you are not shy (*malu*), you can find any job in Kupang." For example, a large share of the port workers responsible for transporting goods from ships to vehicles are

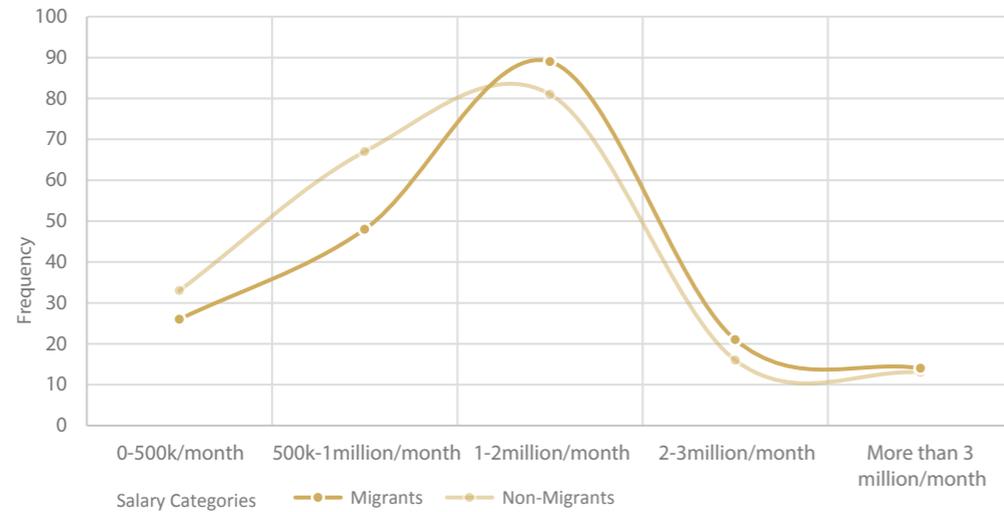
Figure 6  
Probability of Obtaining a Job by Occupational Skills, Youth Migrants vs. Non-Migrants (Ages 15-29), 2017<sup>iv</sup>



**Note:** Non-Migrants are those who were already living in Kupang when they reached the working age of 15 years.  
**Source:** Authors' calculation based on primary data

<sup>iv</sup>A fitted regression model has been used to predict these probabilities at margins. A "Margin" is a statistic computed from predictions from the fitted regression model while manipulating the values of covariates.

Figure 7  
Income Distribution of Youth Migrants and Non-Migrants (Ages 15-29) in Kupang, 2017



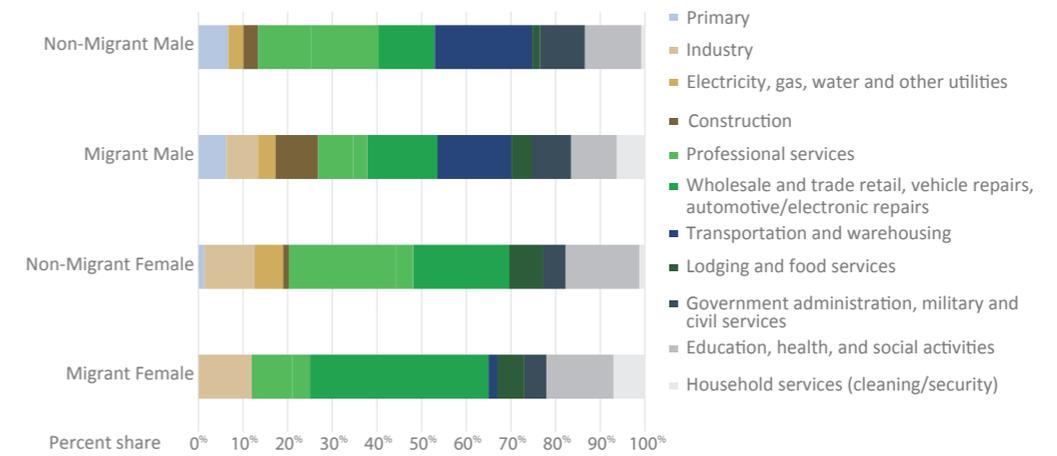
Source: Authors' calculation based on primary data

migrants from Timor Island. Over a third of migrant men are in these kinds of low-skilled occupations. Migrant women tend to be involved in retail jobs; about 40 percent are engaged in wholesale and retail trade, a majority of whom describe their job as "sales & service related." Higher-skilled jobs in the formal services sector and administrative jobs are generally held by Kupang natives, along with the city's small Javanese population (see **Figures 8-9**).

Various quality of work indicators reflect the marginalized position of migrants in the workforce. After controlling for other relevant factors, migrants are less likely than non-migrants to have a written contract with their employer. For example, migrants – both men and women – are

twice as likely to report a history of workplace injuries. While relatively few in number, all those who report that they have suffered physical violence in the workplace – from co-workers or a supervisor – are migrants. The experience of precariousness, however, takes different forms among migrant men and women. Men often depend on unskilled, daily wage jobs and frequently suffer from underemployment; in qualitative research, some report that they regularly skip meals due to their meager earnings. However, the insecurity that male migrants face in the labor market stems from the lack of attachment to any single employer, a condition that also proffers flexibility and contributes to men's perception of the city as a place of freedom and social exposure.

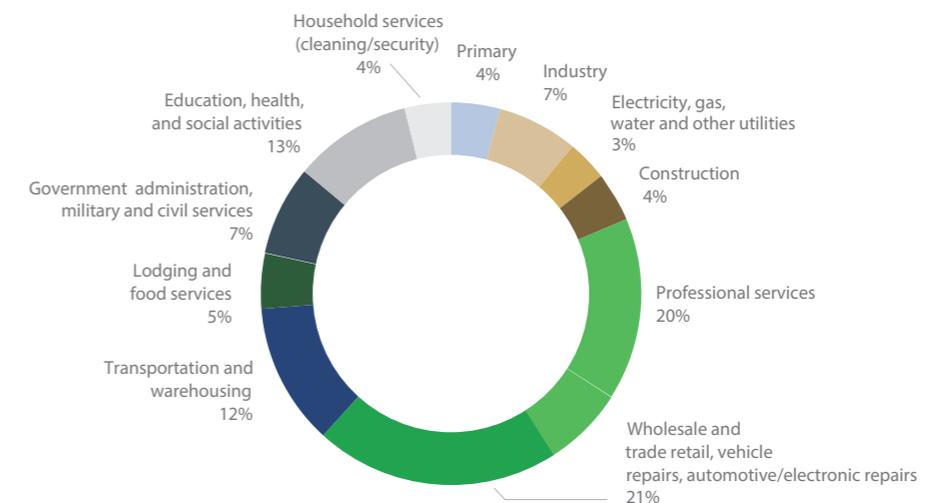
Figure 8  
Sector of Occupation by Gender and Migration Status of Youth (Ages 15-29), 2017



Note: Professional services include Compulsory social insurance, Company services, Information and Communication; Finance and insurance; Property services; Arts, entertainment and recreation;

Source: Authors' calculation based on primary data

Figure 9  
Sectoral Employment among Youth Workers (Ages 15-29), 2017



Note: Professional services include Compulsory social insurance, Company services, Information and Communication; Finance and insurance; Property services; Arts, entertainment and recreation;

Source: Authors' calculation based on primary data

In contrast, many migrant women, especially young women, work in retail shops where their employer provides a higher degree of security but places restrictions on their mobility and expects them to work long hours without additional compensation. According to our survey, migrant women are the group most likely to be given meals (50 percent) and lodging (20 percent) by their employer but the least likely to receive overtime pay (35 percent) – as compared to non-migrants and male migrants. In employment arrangements where female migrants are provided food and housing, some do not receive a wage at all; in fact, nearly 12 percent of women in the sample reported that they were not being paid for their work, 90 percent of which were migrants from Savu under the age of 20.

*Whether migrant or non-migrant, man or woman, Timorese or Rotenese, Kupang has very few institutions that can help youth navigate the difficulties that shape their experience of the labor market.*

Migration status is not the only important determinant of type of work in which young people are engaged; ethnicity plays a crucial role. Timorese male migrants – who generally hail from regencies on the same island as Kupang – are far more likely than other groups to be casual workers in the transportation and warehousing sector. Savunese female migrants, meanwhile, are most likely to work in retail shops. **Figure 10** gives a breakdown of employment sector by ethnicity in Kupang. The importance of networks – ethnicity-based and otherwise – is also reflected

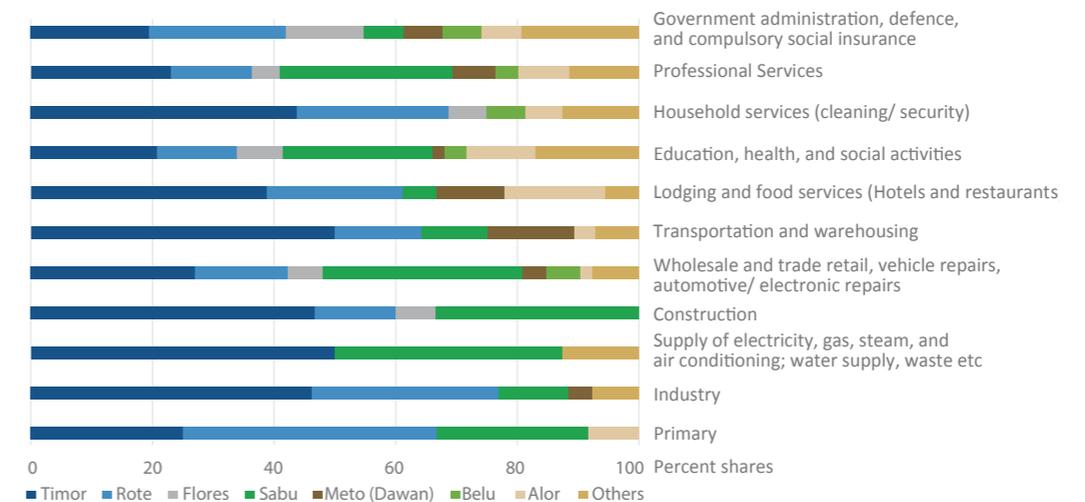
in the way that young people find their jobs. Not a single person surveyed said that an employment agency had helped him or her find a job, while nearly all said that they found their current work through family or friends.

Whether migrant or non-migrant, man or woman, Timorese or Rotenese, Kupang has very few institutions that can help youth navigate the difficulties that shape their experience of the labor market. Only 3 percent of the surveyed workers reported that they were members of a workers' organization or union. And the handful of respondents who are members of an organization reported that the union has provided only information and occasional direct benefits, such as health check-ups, suggesting that these workers' organizations function more like non-profit agencies as opposed to vehicles for improving working conditions or wages.

#### HOW DO MIGRANTS RELATE TO THE CITY?

Despite the hardships that migrants face in the labor market in Kupang, evidence suggests that their integration into the city is relatively successful, while shaped by the difficulties of their employment situations. On many factors that function as proxies for integration and access, migrants' outcomes are not significantly different from non-migrants. For example, 72 percent of migrant women turn to government-run centers – either hospitals or clinics (*puskesmas*) – to access health care. Eighty-two percent of non-migrant women rely on these government facilities. The gap between migrant and non-migrant men is even less – 65.3 percent versus 75.3 percent, respectively. Migrants are more likely than non-

Figure 10  
**Employment by Sector and Ethnicity of Youth Workers (Ages 15-29) in Kupang, 2017**



**Note:** Professional services include Compulsory social insurance, Company services, Information and Communication; Finance and insurance; Property services; Arts, entertainment and recreation;

**Source:** Authors' calculation based on primary data

migrants to utilize public transportation on their commute – men at double the rate (12.1 versus 20.4 percent), and women at 48.5 versus 32.4 percent. Neither are the rates of bank account ownership substantially different between migrants and non-migrants – though women generally are more likely to have an account.

The ethnic backgrounds that migrants carry to Kupang are shaped, reinforced and complicated by their experience in the city. Youth refer to one other as 'orang Rote' or 'orang Timor' (people from Rote, people from Timor); these identities not only give them a sense of community but also distinguish them collectively from 'orang Kupang' – the population born and raised in the city who are identified geographically as opposed to by

ethnic heritage. Many migrants highlight the experience of coming to the city and meeting people from different ethnic backgrounds speaking different languages. Some spoke of this as a challenge – something that can lead to misunderstanding and even conflict – but most see it as part of daily life and as a positive aspect of living in Kupang.

Nevertheless, it is clear that one's ethnic background comes with extended networks that are important in shaping migrants' relationship to the city and its economy. These family and kinship networks create a kind of "landing pad" and a safety net for youth migrants in Kupang. Some young people reported that they have gone through spells of unemployment that lasted six months

to two years; during this time, they have relied heavily on extended family networks to provide food and accommodation. These networks also provide linkages to the labor market. This helps to explain why, as **Figure 10** above shows, certain ethnic groups are over- or under-represented in particular kinds of occupations. These networks can be seen as a positive – providing a safety net and labor market information – but also as a negative. Stereotyping around different ethnic groups abounds, meaning that some young migrants are boxed into particular segments of the labor market.

*The high levels of freedom and flexibility available to male migrants make them far more likely to describe Kupang as a place of adventure and excitement, where they can socialize, build new kinds of friendships and explore “the city that has everything” – as one young man put it.*

Gender also plays an important role in influencing a migrant’s relationship to the city. As described above, men and women face different kinds of precariousness. The high levels of freedom and flexibility available to male migrants make them far more likely to describe Kupang as a place of adventure and excitement, where they can socialize, build new kinds of friendships and explore “the city that has everything” – as one

young man put it. Women are much less likely to describe their experience of Kupang this way – given their greater chance of winding up in restrictive employment and housing situations.

Migrants in our survey were very likely to think of Kupang as home. When asked how they conceive of “home,” 85.8 percent of men and 84.5 percent of women say “where I live” – in other words, Kupang – as opposed to “where I was born” or “where my family lives.” This is considerably higher than in other kinds of geographies where our survey was carried out – places where migrants’ employment outcomes are better and ethnic differences between migrants and non-migrants are less pronounced.

Why, given the hardships they face in Kupang, are migrants so likely to feel a sense of belonging? A number of factors are likely at play. Relatively high levels of access to public services and the ability to plug into family and kinship networks likely help foster a sense of inclusion in Kupang. On the contrary, perhaps the satisfaction that comes with overcoming the hurdles and hardships that the city presents, culturally and economically, creates a sense of having achieved something by migrating. Finally, the geography of NTT and the remoteness of many migrants’ hometowns make it practically difficult to go home (about a quarter of migrants visit home less than once a year) – therefore compelling them to build a relationship with Kupang.

## Kupang’s Key Challenges in Creating an Inclusive Labor Market

As Kupang experiences rapid population growth driven by migration from rural parts of East Nusa Tenggara and rapid economic growth driven by increasing infrastructure investment by the Indonesian government, it faces a particular set of challenges in creating a city and labor market that ensures newfound prosperity is shared and sustainable. In this section, we highlight these challenges before recommending particular approaches toward tackling them.

### CENTER OF PROSPERITY OR PRECARIOUSNESS?

Kupang straddles a sharp boundary between a thriving, increasingly middle-class Indonesia and another Indonesia defined by poverty, deprivation and the persistence of basic struggles like food insecurity. This juxtaposition plays out in its labor market. On the one hand, rural migrants see Kupang as “the city that has everything” – as one individual remarked during qualitative research – a place that offers, at minimum, a job that pays in cash, and potentially educational opportunity and chance at upward mobility. On the other hand, Kupang’s labor market remains largely informal and precarious. The influx of capital for infrastructure investments and the burgeoning hospitality sector have not created an abundance of secure, well-paying jobs, and Kupang’s minimum wage is essentially

unenforced. The central government in Jakarta views Kupang as a pole of growth and opportunity for eastern Indonesia, but the ground realities in Kupang paint a mixed portrait. The future of Kupang depends on its ability to evolve beyond an economy of state-led investment with wealth trickling down through myriad forms of informal economy employment.

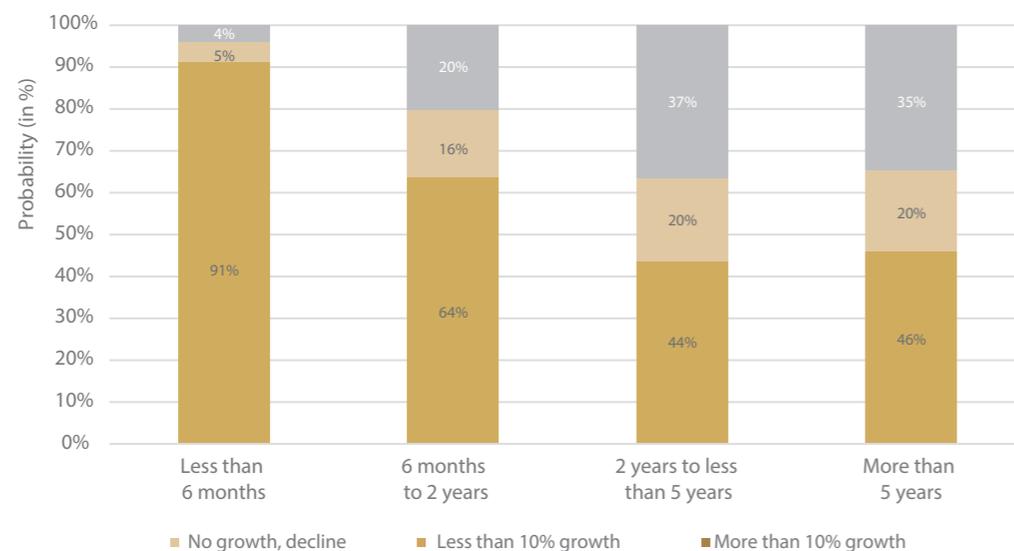
### THE UNHARNESSED POTENTIAL OF MIGRANTS AND YOUNG PEOPLE

In its current state, Kupang’s labor market is failing to harness the productive potential of the migrants coming from across rural East Nusa Tenggara. Despite having education levels comparable to Kupang’s native workforce, the young people seeking opportunity from across the province are likely to wind up in poor-quality jobs. In our survey, 47.6 percent of migrants are earning less than 1 million IDR (US\$70) per month. A migrant with a university degree has roughly the same probability (65 percent) of ending up in a high-skilled job as a native worker with only a high school (SMA) degree (see **Figure 6** above). Furthermore, employers are failing to invest in workers, particularly migrant workers. While the share of young employees from Kupang receiving on-the-job training is low (27.8 percent), it is still considerably higher than the share of migrant youth employees (25.4 percent).

The low return to education is most accentuated among migrants, but native Kupang workers struggle with the same problem. Controlling for other relevant factors, youth workers in Kupang with a university degree – migrants and non-migrants – have a 47 percent chance of experiencing zero or negative income growth even after working in a job for 2-5 years (see **Figure 11**). In fact, the lower one's education level, the more likely he or she is to experience income growth in a job in Kupang. While this could be cast in a positive light – that Kupang provides income mobility to those with little formal education – it must be viewed in the context of

growing aspirations of youth in the city, many of whom migrate to Kupang for education. The national trend in Indonesia is that small cities are more likely to see out-migration of skilled youth than are large metropolitan areas,<sup>24</sup> signaling that higher-skilled jobs are still concentrated in big cities. Kupang must forge a different path, with a diversity of jobs for youth with different levels of education that ensure prospects for career mobility, skill development and income growth. Otherwise, its increasingly educated youth population will grow increasingly frustrated with what the city has to offer.

Figure 11  
**Probability of Different Levels of Income Growth in Current Job for College Graduates (Ages 15-29) in Kupang, Based on Years of Experience, 2017**



**Dependent Variable:** Income Growth; **Independent Variables:** Migrant status, Education, Current Job Experience, Gender, Work Agreement, Organisation Membership Status, Average Monthly Income.

**Source:** Authors' calculation based on primary data

### MISMATCHED EXPECTATIONS AMONG WORKERS AND EMPLOYERS

One of the major frictions in Kupang's labor market – and a serious constraint in facilitating a stronger local business climate – is a mismatch between the aspirations and expectations that workers carry and the kinds of opportunities and work environments that employers are creating. The mismatch has its roots in a mutually reinforcing cycle: employers see their employees as lacking discipline and therefore do not place value on investing in skills training or effective systems for human resource management. Moreover, they do not offer high-quality working conditions – for example, paying the minimum wage or providing a contract. Workers, on the other hand, do not feel respected by their employers – many spoke of frequent “scolding” in qualitative research – and therefore act in ways that might perpetuate stereotypes about their lack of discipline. For example, workers and employers both report that “running away” from a job is a common practice; rather than resign officially, a worker will simply stop coming. This is, of course, a reflection of the informal nature of the labor market, but it also reveals the complex nature of the challenge that confronts policymakers if they seek to incentivize formalization of enterprises.

The “mismatch” challenge is greater for migrants, who face significant hurdles moving from a rural economy that barely uses cash to a modern labor market, with all its cultural and financial implications. Accentuating this gap in work culture is the fact that many migrants shift jobs frequently, between work as employees receiving

a fixed or hourly wage to own-account work, where they are their own bosses.

*One of the major frictions in Kupang's labor market – and a serious constraint in facilitating a stronger local business climate – is a mismatch between the aspirations and expectations that workers carry and the kinds of opportunities and work environments that employers are creating.*

As difficult as such issues are to address, greater trust between employers and employees might go a long way in promoting a more successful local private sector in Kupang. It appears that neither large corporate employers with streamlined human resource management nor small informal firms have the answer to this challenge. On the one hand, in qualitative research, large firms reported fewer issues with turnover and employee discipline. On the other hand, regression analysis from our primary data shows that job satisfaction is actually lower among employees of large firms, after controlling for a range of relevant factors.

### FRAGMENTED PUBLIC RESOURCES

State authorities – both local representatives of central government ministries as well as local government – realize the imperative of supporting local job creation and skill development. However, the current policy landscape divides public resources among at least a dozen different programs administered by a myriad of government entities. The fragmentation of government resources that share the objective

of supporting the local labor market has three important and negative consequences. First of all, it means that most of these programs are small and underfunded. Nearly all the government officials interviewed during qualitative data collection complained that the programs they are trying to run have too few resources to be successful. For example, the training program run by the Department of Industry and Commerce (*Dinas Perdagangan dan Industri*) covers only 20 people per year, and a program aimed at supporting local entrepreneurs run by the Department of Youth and Sport (*Dinas Pemuda dan Olahraga*), with a total budget of only IDR 5 million (US\$ 350), can only accommodate 10 to 20 people. Such miniscule programs are unlikely to address the major labor market challenges that Kupang faces – with migration alone swelling the youth population by over 11 percent between 2010 and 2015.<sup>25</sup>

Second, the programs being implemented in and around Kupang are not well coordinated with an aligned set of objectives. For example, the local department responsible for comprehensive economic planning (*Bappeda*) envisions Kupang as a center of tourism, but aside

from a single training program implemented by the Department of Manpower (*Dinas Ketenagakerjaan*) focused on hospitality, there is no clear, coordinated effort to support tourism-related skill development or entrepreneurship across ministries and departments.

The final consequence of the fragmentation of public resources is that government in Kupang is perceived as ineffectual. Nearly all those interviewed in qualitative research who represent non-governmental institutions – whether private sector or civil society – saw partnership with the government as futile. Moreover, none believed that government was involved in any significant way in addressing the job creation challenge in Kupang. This is not simply a public relations problem for local government.

Experiences from around the world confirm that vibrant local economies depend on strong coalitions between the private sector, civil society and the government. Whether or not government partnerships are perceived as worthwhile in today's Kupang, successful and inclusive local economic development is unlikely to occur in the absence of such coalition-building.

## Policy Recommendations

As primary investigations have shown, Kupang faces the urgent challenge of enhancing the quality and quantity of jobs in its local labor market. Currently, most young people struggle to access work opportunities that provide them with prospects for upward mobility alongside basic security and rights.

Kupang has an opportunity to harness the productive potential of its aspiring youth population, both those native to Kupang and those migrating from poorer communities across East Nusa Tenggara. To do so, large-scale government investment in infrastructure and educational institutions must translate into a job-rich, inclusive local economy.

As the recommendations below demonstrate, addressing this challenge will require thinking beyond the municipal boundaries of the city, strengthening rural-urban linkages between Kupang and its surrounding region and cultivating the growth of sectors not yet present in the city.

The recommendations given below are broadly aimed at promoting three aims: 1) Increasing the number of labor market opportunities available to young people in Kupang, including migrants; 2) Enhancing the quality of work in Kupang, especially for vulnerable youth in the informal sector; and 3) Improving the skills, employability and labor market access of youth.

### 1. STRENGTHEN RURAL-URBAN LINKAGES TO MAKE KUPANG A HUB FOR AGRO-PROCESSING IN EASTERN INDONESIA

Given the limits of Kupang's current consumption-driven model of growth, the city must find ways of supporting production-oriented sectors such as manufacturing. Given its low population density and geographical distance from major urban centers, East Nusa Tenggara is not likely to become a major competitor for industries such as garment manufacturing. However, agro-processing is one kind of manufacturing sector that could develop in Kupang – especially when it comes to niche products whose raw materials come from the province.

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While the central government is promoting the concept of village-owned enterprises across Indonesia – seeking to locate value-addition activities in rural locations – a strategy that involves putting manufacturing facilities in villages is unlikely to succeed in East Nusa Tenggara, where villages tend to be small and isolated and where agricultural yields are lower than on islands like Java. In order to develop a competitive agro-processing sector in the province, the yields from agriculture need to

be centralized and then processed. Kupang is the most strategic location to do so, given its links to rural regencies throughout the province and its national and international connectivity through sea- and airport.

An economic development strategy built around agro-processing would require coordination between Kupang's city government, the provincial government of East Nusa Tenggara, and local governments in regencies across the province. Given the potential for rural development – through increased demand for agricultural products – village-owned enterprises may be persuaded to pool their resources and provide some of the capital necessary to set up agro-processing facilities in Kupang, especially given that central government fiscal transfers to villages have increased.

This would be an effective long-term strategy for village authorities: co-owning the agro-processing facility where agricultural produce is sent would enable village heads to ensure that their farmers' products are purchased at fair prices.

Honey, textiles, tamarind and palm sugar are some of the products around which Kupang could feasibly build a competitive advantage in agro-processing. Production might be small at first, supplying Kupang and a few other cities in eastern Indonesia. However, if the sector has a supportive policy environment and if coordination is effective between rural and

urban authorities across the province, Kupang's agro-processing sector could eventually serve large domestic markets like Java and Bali or even international markets.

## **2. INCREASE SCOPE FOR LOCAL ENTREPRENEURSHIP IN THE BURGEONING TOURISM SECTOR**

The tourism sector is one of the Kupang government's economic development priorities. However, so far local authorities envision Kupang primarily as a "transit city" rather than a destination by itself. Most efforts around boosting tourism have revolved around attracting large hotel chains to the city, as opposed to creating the kinds of unique experiences that tourists seek. Kupang ought to broaden the vision for its tourism sector and create pathways for local entrepreneurs to tap into the sector.

By marketing itself as a multicultural and cosmopolitan hub of eastern Indonesia, Kupang can harness the fact that much of the ethnic and linguistic diversity of East Nusa Tenggara is represented in its neighborhoods. The city's tourism strategy could center on a celebration of this diversity.

*Kupang ought to broaden the vision for its tourism sector and create pathways for local entrepreneurs to tap into the sector.*

For example, domestic and international tourists could experience the unique cultures of Flores, Alor, and Belu all in a three- or four-day

period through homestays, cooking lessons, language classes and lectures on local folklore.

This kind of "bottom-up" strategy would serve several aims: first, it would create opportunities for local entrepreneurs, as opposed to large hotels that are usually financed and managed by companies based in Java and Bali. Second, it would create employment opportunities for migrants from the islands and regencies that neighbor Kupang. Third, it would create a sense of civic pride around Kupang's diversity.

There is another way of ensuring that Kupang's growing tourism and hospitality sector serves a broader population than those employed directly by new hotels. The local government could introduce incentives for hotel chains in Kupang to source local goods.

For example, hotels that purchase a minimum percentage of their supplies (food, beverages, textiles, construction materials, etc.) from local vendors could receive a tax rebate from the local government.

This would encourage hotel chains to consider local supply chains rather than sourcing from national vendors located elsewhere, and could have the effect of spurring more growth in Kupang-based production – creating other kinds of opportunities for local entrepreneurs.

Hotels could also be encouraged to develop linkages with local businesses offering the kinds of cultural experiences mentioned above.

## **3. POOL GOVERNMENT RESOURCES TOWARD SUPPORTING THE GROWTH OF VIABLE ENTERPRISES**

The strategies outlined above – aimed at supporting tourism and agro-processing – require that Kupang-based entrepreneurs have the backing and resources required to grow their businesses. The local government's current approach is problematic for two reasons: First, it emphasizes the creation of more micro-enterprises run by self-employed individuals, as opposed to focusing on the growth of viable small and medium-sized enterprises; the latter strategy would create more and better jobs. Second, the policy framework for supporting local enterprises lacks coordination and effective management of resources. Rather than pooling resources and coordinating efforts across multiple agencies and ministries, the current approach spreads funds extremely thin; the result is that most programs are too small and under-resourced to have a real impact on the city's support system for local enterprises.

Kupang's government must funnel resources into one or two high-impact programs providing business development services. These programs ought to be comprehensive – providing entrepreneurs capital, training, and linkages to skilled workers, and ensuring evaluations of entrepreneurs' progress in growing their businesses. This would involve supporting a single enterprise over a multi-year program and combining existing programs, such as PEM (*Pemberdayaan Ekonomi Masyarakat*, or Community Economic Empowerment), that

provide startup capital, with other programs that provide business development services – training in financial management, strategic planning, and human resource management. A comprehensive scheme would also help to professionalize the way that Kupang's small business sector runs – addressing the negative cycle of employers' and employees' mutual dissatisfaction.

Entrance into such programs ought to be competitive – aimed at incubating the most promising enterprises. What Kupang needs is not a proliferation of self-employed micro-entrepreneurs, but a strong network of small and medium-sized enterprises that are capable of growing and creating jobs. Importantly, such a program should support any promising enterprise with a viable chance to grow and create productive employment.

Both migrants and business-owners who are native to Kupang should be able to access this kind of incubator – especially given that many migrants have come to Kupang for their education and have obtained skills that can support the city's economic development.

#### **4. ESTABLISH A DIGITAL PLATFORM AND MULTI-FUNCTIONAL CENTER FOR YOUTH JOB-SEEKERS**

Many of Kupang's youth face the challenge of seeking a high-quality job in a largely informal labor market. While the above recommendations seek to address the *demand* side of this problem, another issue is related to the city's lack of an effective labor market information system. Website-based job portals

are notoriously underutilized and poorly maintained. However, another solution, which has been piloted in different parts of the globe, is to create an SMS-based platform that requires no internet connection, only a phone capable of sending and receiving text messages.

*Many of Kupang's youth face the challenge of seeking a high-quality job in a largely informal labor market. The city lacks an effective labor market information system.*

Companies such as Souktel in the Middle East have been successful in helping youth access the labor market through these platforms, which involve building a profile for a young person based on their answers to simple questions sent by SMS regarding their education, skills, employment history and aspirations, and then sharing relevant job and training opportunities through regular updates. If the local private sector is actively involved in building and maintaining such a platform, it would be a useful tool for workers in Kupang. Migrants, many of whom have less experience navigating the city's labor market, would particularly benefit from such a system.

In addition to this digital platform, Kupang must address the needs of its most vulnerable youth migrants, many of whom are living and working in extremely precarious situations. Qualitative research revealed that some young people, especially those who have dropped out of school at early ages, are skipping meals and sleeping on the street. To support this

population, a multi-functional center could be established that provides access to public services, counseling, temporary shelter, lockers, and basic soft skills training.

It could also function as a place for young people in less vulnerable situations to access information about employment and training opportunities. A non-profit partner would be the most suitable party to administer such a center.

#### **5. LIVE UP TO THE IDEALS OF A "CHILD-FRIENDLY" CITY BY STEPPING UP ENFORCEMENT OF MINOR WORKER LAWS**

While Kupang has declared itself a "child-friendly" city, the prevalence of minors

working in precarious conditions, such as in the city's traditional market, calls into question the commitment of the city government to protecting children.

Indonesian labor law (no 13/2003) allows minors aged 13 to 15 to be employed only in light tasks, part-time, outside of school hours, and with permission from their parents. While draconian enforcement of these rules is not likely to support the most vulnerable child workers – rather pushing them further into the shadows – Kupang's government could work with local non-profit organizations to design effective intervention tools for supporting vulnerable minors.

## Conclusion: Creating an Inclusive, Job-Rich Economy in Kupang

Kupang is at an important juncture in its history: the city has the potential to grow into a hub of prosperity and diversity in eastern Indonesia, creating high-quality employment opportunities and pathways to economic mobility for the youth of East Nusa Tenggara.

On the other hand, there is a possibility that Kupang remains stuck with a labor market that provides few quality opportunities – unable to translate increased government infrastructure and investment into a job-rich economy, and unable to help the city's young people and migrants realize their potential.

Achieving a prosperous vision for Kupang will depend on recognizing migration as an

opportunity, not a liability; harnessing synergies between rural and urban development; promoting job creation through supporting small businesses and a vibrant local private sector, as opposed to encouraging the proliferation of one-man enterprises; streamlining government programs around job access, skill development and job creation; and ensuring the enforcement of policies aimed at supporting workers and vulnerable youth and migrants.

If implemented with effective leadership and collaboration between government, civil society and the private sector, this multi-pronged approach will ensure that Kupang enables the ambitions of its aspirational youth population.

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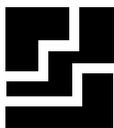
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