

Conference Paper

Wage Subsidy as an Effective Form of Incentive for Employers Who Employs Persons with Disability to Create an Inclusive Labour Market

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ABSTRACT

The government is mandated by disability legislation to ensure the employment rights of individuals with disabilities. To expedite the realization of these employment rights, the government must enact policies that facilitate the integration of disabled individuals into the labor market, one such approach being the provision of incentives to employers. These incentives aim to encourage the hiring of persons with disabilities and one viable option is wage subsidies. This research aims to investigate whether wage subsidies represent the most effective strategy for expediting the fulfillment of employment rights for individuals with disabilities. This study employs a qualitative approach, conducting a literature review based on legal regulations and relevant scholarly literature. The study concludes that wage sub-sidies indeed serve as a valuable mechanism to incentivize entrepreneurs' employers to hire disabled workers, as they allow for the implementation of programs that do not unduly burden employers while promoting the employment of individuals with disabilities.

Keywords: Disability, wage subsidy, employers incentives

Introduction

Indonesia took a step forward in respecting, protecting, and fulfilling the rights of persons with disabilities by ratifying the Convention on Rights of Person with Disabilities (CRPD) in 2011 (Wardah, 2022). The progressive step was continued by the promulgation of Law Number 8 of 2016 as a refinement step of Law Number 4 of 1997 concerning Persons with Disabilities. These concrete legal steps are taken solely to fully and equally support persons with disabilities in enjoying human rights and all fundamental freedoms. As a consequence, the government must realize all rights of persons with disabilities which are also fully and equally enjoyed by non-disabled citizens. One of the rights of persons with disabilities is related to the right to work or to get a decent job. The government needs to cooperate with other elements in the society to fulfill the rights to work of the person with disabilities, and one of the elements of society is entrepreneurs as an employer.

Entrepreneurs are defined as people who are running a business (trade, industry, etc.), and people who are trying in the field of trade. In running their business, entrepreneurs as employers generally need Human Resources (HR) to help their company's business. Employers recruit to fill the need for human resources according to certain skills and qualifications. If the employer has found candidates that match the expected skills and qualifications, at that time there is also a candidate with a disability, then who will the employer choose? That question cannot be answered, but the author has high hopes that employers can recruit workers who are persons with disabilities because normatively the state encourages respect, protection, and fulfillment of the rights of persons with disabilities. So what can convince employers to hire people with disabilities? Of course, the government needs to take steps, one of which is providing incentives to entrepreneurs who employ people with disabilities so that the potential for employment among people with disabilities will increase.

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The incentive program for entrepreneurs as a step to support respect, protection, and fulfillment of the rights of persons with disabilities is one of the mandates of the Convention on the Rights of Persons with Disability which has been ratified by Indonesia with the promulgation of Law Number 19 of 2011. The development of the framework of legislation regarding persons with disabilities has been strengthened by the enactment of Law Number 8 of 2016 concerning Persons with Disabilities. The law requires the government and local governments to provide incentives to entrepreneurs who participate in respecting, protecting, and fulfilling the rights of persons with disabilities. The development of regulations at the central level regarding incentives for entrepreneurs who employ persons with disabilities is making progress, with the issuance of Presidential Regulation Number 67 of 2020 concerning Requirements and Procedures for Giving Awards in Respect, Protection, and Fulfillment of the Rights of Persons with Disabilities and The Regulation of the Minister of Manpower of the Republic of Indonesia Number 3 of 2021 concerning Guidelines for Giving National Awards to Companies and State-Owned Enterprises Employing Workers with Disabilities. The two rules are a form of embodiment of Article 86 of Law Number 8 of 2016 concerning Persons with Disabilities regarding incentives, but the incentives in these regulations are not financial incentives.

Incentives in the form of awards do not mean they cannot stimulate employers to recruit workers with disabilities, but of course, the incentives with financial benefits will be more attractive to entrepreneurs who have the responsibility to employ persons with disabilities based on Law Number 8 of 2016 concerning Persons with Disabilities. One of the incentive policy options that can be taken by the government to stimulate employers to recruit workers with disabilities is a wage subsidy. Wage subsidy for persons with disabilities in this context means that the government provides wage subsidies to employers who employ persons with disabilities. To put it simply, for example, an entrepreneur employs a person with a disability with a monthly wage of Rp. 4.000.000. then the government with a wage subsidy scheme helps employers pay part of the wage of workers with disabilities. Wage subsidy schemes like this provide clarity of financial benefits for entrepreneurs as employers, employers are met with human resource needs, and employers get relief in paying workers with disabilities, meaning that employers and the government have taken one step ahead in efforts to fulfill the right to work for people with disabilities.

Material and Methods

This research aims to investigate whether wage subsidies represent the most effective strategy for expediting the fulfillment of employment rights for individuals with disabilities. This study employs a qualitative approach, conducting a literature review based on legal regulations and relevant scholarly literature. The primary source of this research is the Law Number 8 of 2016 concerning Persons with Disabilities.

Results and Discussion

Persons with disabilities are a group that is vulnerable to poverty due to low job opportunities, low opportunities not because people with disabilities do not have the skills to work. Persons with disabilities have a tendency not to get job opportunities, on the one hand, the rights of persons with disabilities are the same as non-disabled people. The rights of persons with disabilities are often ignored through direct or indirect discrimination. Persons with disabilities, especially women with disabilities, face enormous attitudinal, physical, and informational barriers to equal opportunities in the world of work (Istifarroh & Nugroho, 2019). Society tends to perpetuate the stigma that the physical limitations of people with disabilities are correlated to their level of intellect. They are still considered less educated and lacking in employable skills due to their limitations. The perception that they are incapable in all aspects is a root cause of various issues. Stigma against people with disabilities can also arise from the expectation that they contribute less to the well-being of families and communities, as well as the belief that they are

burdensome (Mulyani et al., 2022). This is evidenced by data released by the Ministry of Manpower which states that the lower participation rate of the disabled workforce is due to limited employment opportunities to discrimination, including the possibility of stigma against persons with disabilities (Pebrianto, 2022). Based on these facts, of course, there needs to be a policy from the government that encourages entrepreneurs to participate in increasing employment, especially for people with disabilities.

Wage subsidy for persons with disabilities in this context means that the government provides wage subsidies to employers who employ persons with disabilities. To put it simply, for example, an entrepreneur employs a person with a disability with a monthly wage of Rp. 4.000.000 then the government with a wage subsidy scheme helps employers pay part of the salaries of workers with disabilities. Wage subsidy schemes like this provide clarity of financial benefits for entrepreneurs, employers are met with human resource needs, and employers get relief in paying workers with disabilities, meaning that employers and the government have taken a step forward in efforts to fulfill the right to work for people with disabilities.

For example, the application of wage subsidies for employers who employ persons with disabilities in several countries, including Sweden, Belgium, Bulgaria, and Poland. Employers in Belgium can claim compensation for workers' salaries from 40% to 60% and each year the replacement cost will decrease. Sweden offers employers a wage subsidy of up to 80% within four years. Bulgaria provides compensation in the form of a wage subsidy for employers employing persons with disabilities for six months, or nine months if employing persons with disabilities under the age of 30. Whereas in Poland it provides wage subsidies for employers in the form of partial reimbursement (maximum 70%) in the first six months of employing persons with disabilities, and full reimbursement in the following six months (Norre & Cabus, 2020). Wage subsidy may give advantages to employers based on the implementation from another country, it is analyzed based on short-term and long-term advantages, namely:

Table 1. The advantages of wage subsidy program for workers with disability and the employers

| Advantages of Wage Subsidy | Short-Term | Long-Term |
|---------------------------------------|---|--|
| Immediate Financial Support | Provides immediate relief to employers by offsetting a portion of the employee's wages, reducing the financial burden of hiring individuals with disabilities | Offers sustained financial support over an extended period, contributing to the long-term stability of employment for individuals with disabilities. |
| Increased Hiring Opportunities | Encourages employers to hire individuals with disabilities by making the cost of employment more manageable in the short term. | Facilitates ongoing employment opportunities, fostering a diverse and inclusive workforce by reducing the financial impact on employers over an extended period. |
| Skill Development | Enables employees with disabilities to gain work experience and develop new skills, enhancing their employability. | Supports continuous skill development and career growth, contributing to the long-term employability and advancement of individuals with disabilities. |
| <i>To be continued...</i> | | |

| | | |
|-------------------------------------|---|---|
| Enhanced Workplace Inclusion | Promotes diversity and inclusion in the short term by providing opportunities for individuals with disabilities to enter the workforce. | Contributes to a more inclusive work environment in the long run, as sustained employment fosters a culture of diversity and acceptance within the organization. |
| Employer Awareness-Building | Raises awareness among employers about the benefits of hiring individuals with disabilities, fostering a positive attitude toward diverse hiring practices. | Reinforces the importance of hiring individuals with disabilities in the workforce, encouraging employers to view diversity as an integral part of their long-term business strategy. |
| Retention and Loyalty | While short-term subsidies may not directly address retention, they can create a pathway for employers to recognize the value of retaining employees with disabilities. | Supports employee retention over the long term, as the subsidy helps offset costs associated with accommodations and other support services, fostering loyalty among workers with disabilities. |

A wage subsidy scheme like this will benefit entrepreneurs, especially micro, small, and medium entrepreneurs who absorb a lot of labor in Indonesia. Data from the Ministry of Cooperatives and Small and Medium Enterprises states that 96.92% of the workforce in Indonesia is absorbed by micro enterprises (89% or 109.8 million), small enterprises (4.81% or 5.92 million), and medium enterprises (3.07% or 3.79 million) in 2019. The data shows that micro, small, and medium enterprises have enormous potential to play a role as government partners in carrying out the obligation to fulfill the right to work for people with disabilities, which number around 20 million in Indonesia.

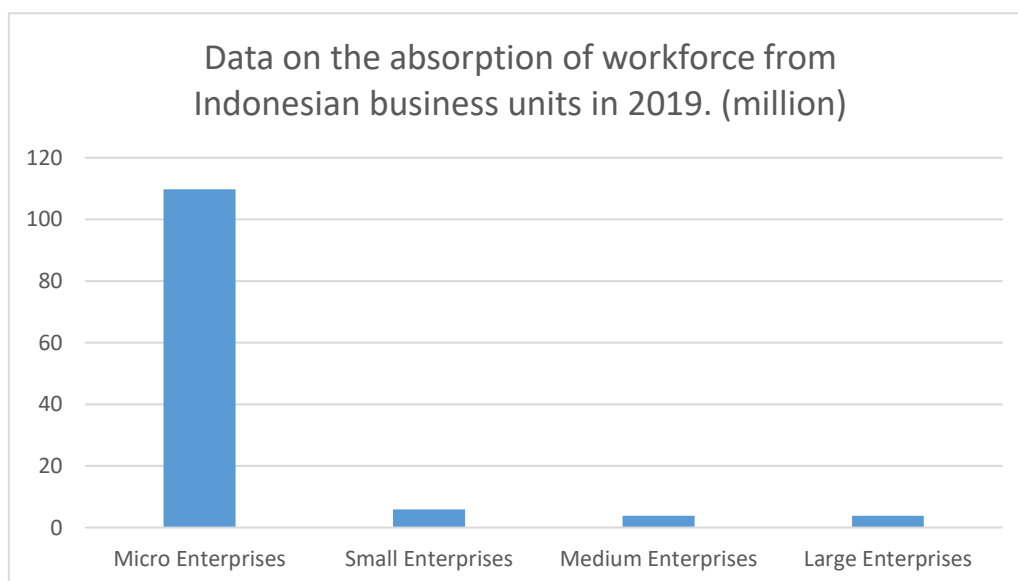


Figure 1. The data regarding employment by entrepreneurs in Indonesia

The diagram shows the enormous potential for employment of persons with disabilities. People with disabilities will be very likely to be absorbed by micro, small, and medium entrepreneurs. Of course, to maximize employment, the government needs to pay more attention to micro, small, and medium entrepreneurs, encouraging them to participate in incentive programs by employing people with disabilities.

When compared with the tax relief incentives applied by the United States, namely the Working Opportunity Tax Credit (WOTC), the wage subsidy would have a faster impact in stimulating entrepreneurs. Based on several studies, it is stated that WOTC is less attractive, WOTC is only of interest to a small number of entrepreneurs who take advantage of this program.

The Work Opportunity Tax Credit (WOTC), while offering benefits for employers who hire workers from specific target groups, including individuals with disabilities, comes with certain disadvantages when compared to wage subsidy programs. One notable drawback is the indirect nature of WOTC's financial incentives. Unlike wage subsidies, which provide immediate cost reductions by directly offsetting payroll expenses, WOTC functions as a tax credit, offering a reduction in federal tax liability over time. This indirect financial benefit may not provide the same level of immediate relief for employers facing immediate budget constraints. Additionally, WOTC involves a more complex administrative process, requiring employers to navigate eligibility criteria, documentation, and tax filing procedures. This complexity can pose challenges for smaller businesses with limited resources or those unfamiliar with tax credit programs. In contrast, wage subsidies often offer a more straightforward and readily accessible form of support for employers hiring workers with disabilities, making them an attractive option for businesses seeking immediate financial incentives and simplified administrative processes.

Some opinions on why entrepreneurs rarely participate in the WOTC program are as follows (Danziger & Boots, 2008):

1. Employers may not be aware of the program;
2. Employers may be concerned about the completeness of the documents;
3. Employers may not want to ask workers to disclose their WOTC status for fear of creating a stigma;
4. Employers are concerned that the WOTC program can increase visibility in the "tax audit process";
5. Employers assess the benefits of WOTC are not worth the costs of managing the program itself.

Reflecting on the WOTC program implemented in the United States, of course, it is necessary to provide facilities for entrepreneurs to participate in the program. Documents that need to be prepared to participate in the wage subsidy program for entrepreneurs should not be burdensome and all confusing forms should be avoided so that small and medium-sized entrepreneurs are willing to join the program (Scott, 2013). The ease of participating in the incentive program for entrepreneurs of course still pays attention to the quality of data and documents that need to be fulfilled by entrepreneurs in participating in the wage subsidy incentive program.

Opting for a wage subsidy for hiring individuals with disabilities over the Work Opportunity Tax Credit (WOTC) presents several advantages. Wage subsidies provide direct and immediate financial relief to employers, offering a tangible reduction in payroll expenses from the outset. This direct subsidy can be particularly beneficial for businesses looking to quickly address budget constraints and enhance their ability to hire a diverse workforce. Unlike the more intricate administrative requirements of WOTC, wage subsidies often involve simpler application processes and eligibility criteria, making them accessible to a broader range of employers, including small and medium-sized enterprises. Furthermore, the straightforward nature of wage subsidies aligns well with the urgency of fostering inclusivity in the workplace, enabling employers to promptly support and integrate individuals with disabilities into their teams.

Overall, the tangible and immediate financial support, coupled with streamlined administrative processes, positions wage subsidies as a favorable choice for businesses seeking to actively promote diversity and inclusion by hiring individuals with disabilities.

In certain instances, individuals with disabilities were frequently viewed as inferior employees, relegated to lower-status roles, and considered inexpensive labor in subsidized jobs. However, it is evident that within a wage subsidy framework, people with disabilities can also be esteemed in specific positions (Gustafsson et al., 2014). The wage subsidies practically increase the recruitment of employees with disability based on the practices from other countries (Gupta et al., 2015), it is likely to be implemented in Indonesia as a way to improve the economic sustainability of disability communities and is likely to help the micro and small enterprises.

Conclusion

Incentives in the form of wage subsidies for employers who choose persons with disabilities are the right choice to accelerate employment among persons with disabilities. Subsidy incentives to entrepreneurs will change the habits of entrepreneurs in absorbing labor, employers will be more active in recruiting workers from people with disabilities which will create a more inclusive job market. Wage subsidies that are beneficial for employers will have a big impact in accelerating the fulfillment of the work rights of persons with disabilities, moreover, if the wage subsidies are effectively implemented by the micro and small enterprises in Indonesia, the impact would be significant and is likely providing financial sustainability to the disability community. The wage subsidies also is a step to fulfill the mandate of Law Number 8 of 2018 concerning Persons with Disabilities.

1. To absorb workers from people with disabilities and create inclusive and friendly employment opportunities for persons with disabilities, implementing regulations regarding incentives for employers who have persons with disabilities are needed;
2. Implementing regulations are in the form of Government Regulations by the mandate of Law Number 8 of 2021 concerning Persons with Disabilities; 3. The central government harmonizes regulations at the central and regional levels regarding incentives so that their implementation can be uniform, besides that it also coordinates the implementation of incentives from the central to regional levels (Province, Regency, and City);
3. The implementation of incentives for entrepreneurs can involve the Ministry of Manpower and the Ministry of Social Affairs in adjusting their respective duties and functions;
4. Incentives in the form of direct subsidies for employers who work with people with disabilities are a good scheme and have a direct impact on creating inclusive work.

Based on the conclusion of this paper, there are several recommendations to complete the purpose of this research, namely:

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