

BEYOND 2015

INDONESIA

REALIZING INDONESIA'S POTENTIAL

WORLD BANK, JAKARTA

POTENTIAL IN WAITING

Global scale

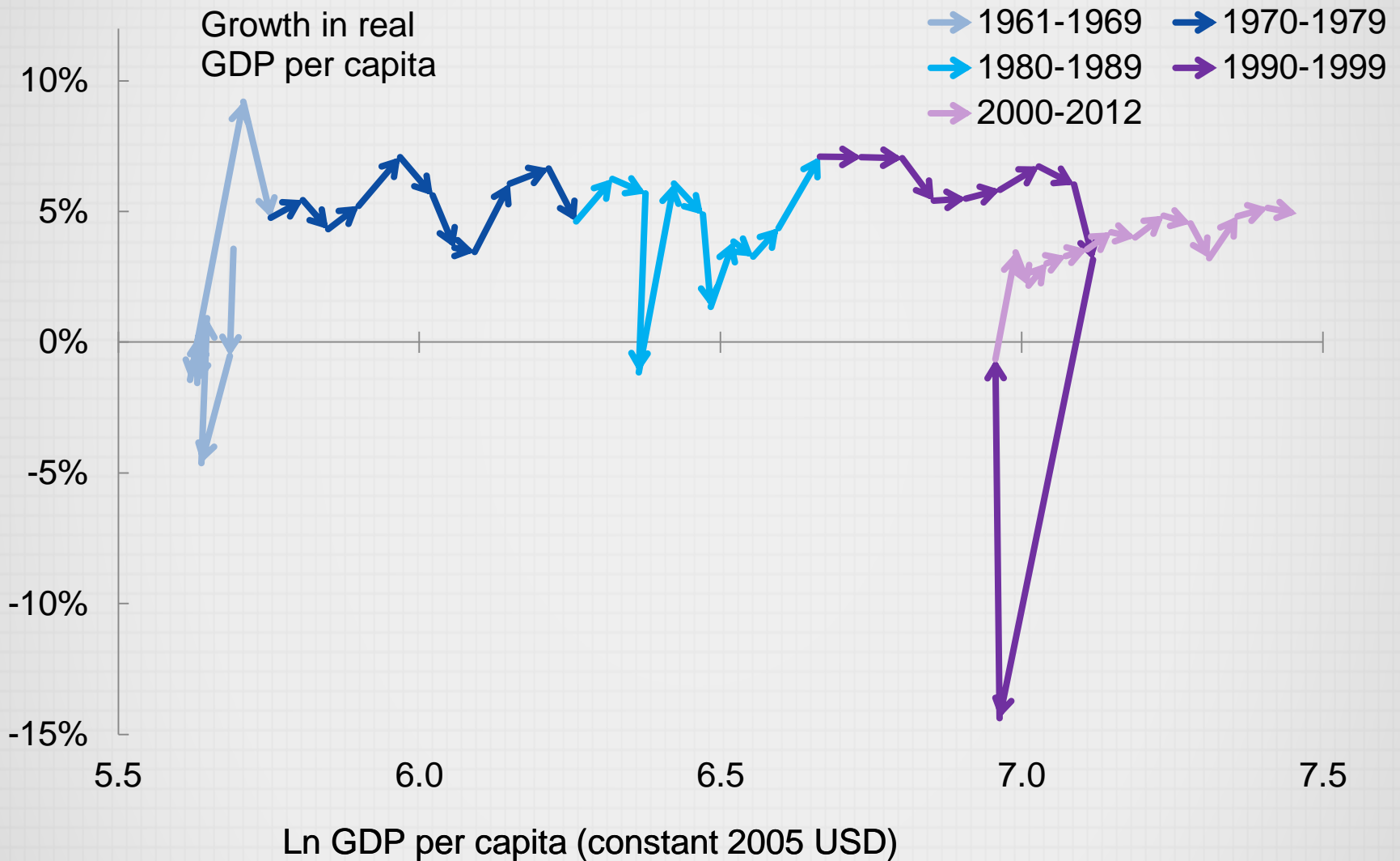


Endowments

Powerful drivers of growth

- Demographics
- Urbanization

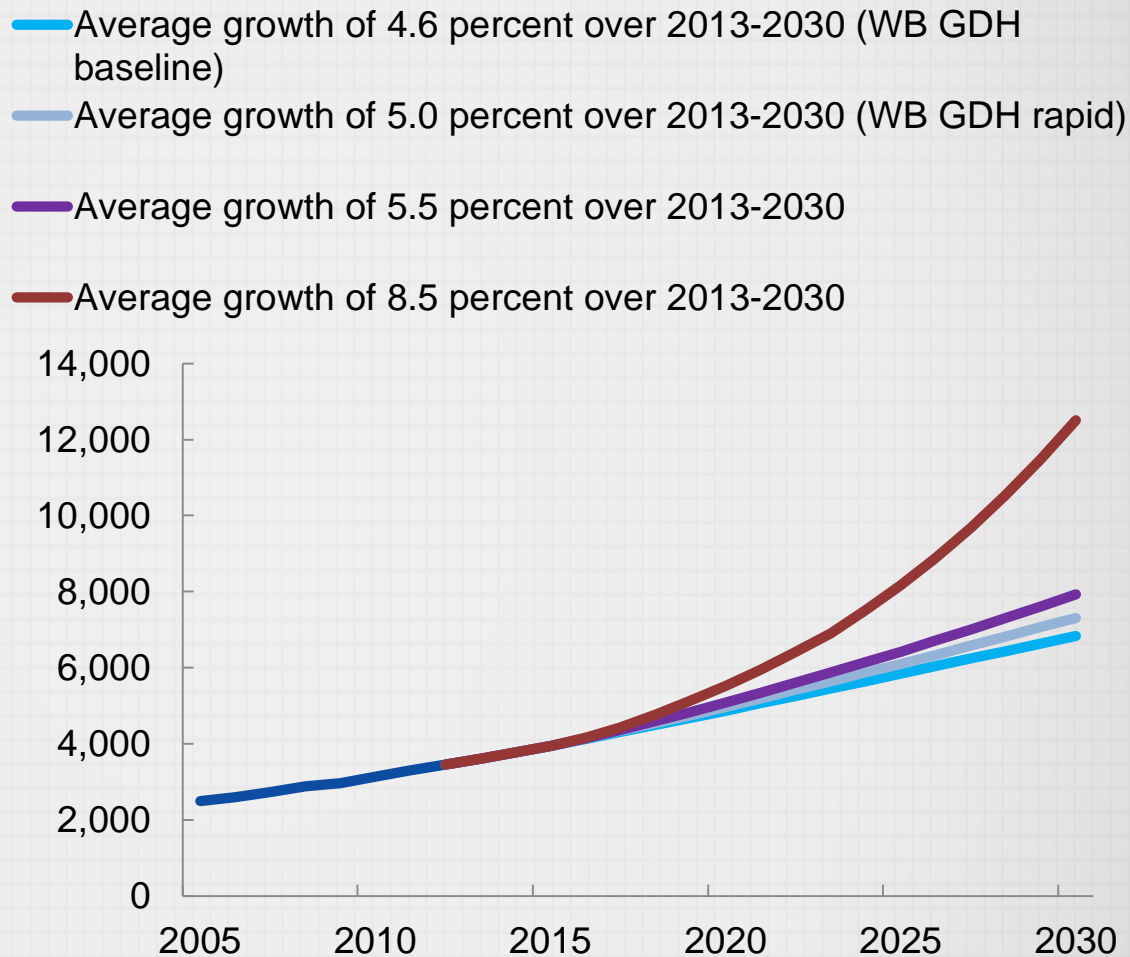
CRISIS MANAGEMENT AND RECOVERY



Source: World Bank

BUT NOT ENOUGH FOR HIGHER GROWTH

- Reaching high-income status by 2030— i.e. a per-capita income of US\$12,000— requires **9 percent growth over the next 16 years**
- Avoiding the Middle Income Trap requires **growing at least above the current 5-6% “trend” growth**

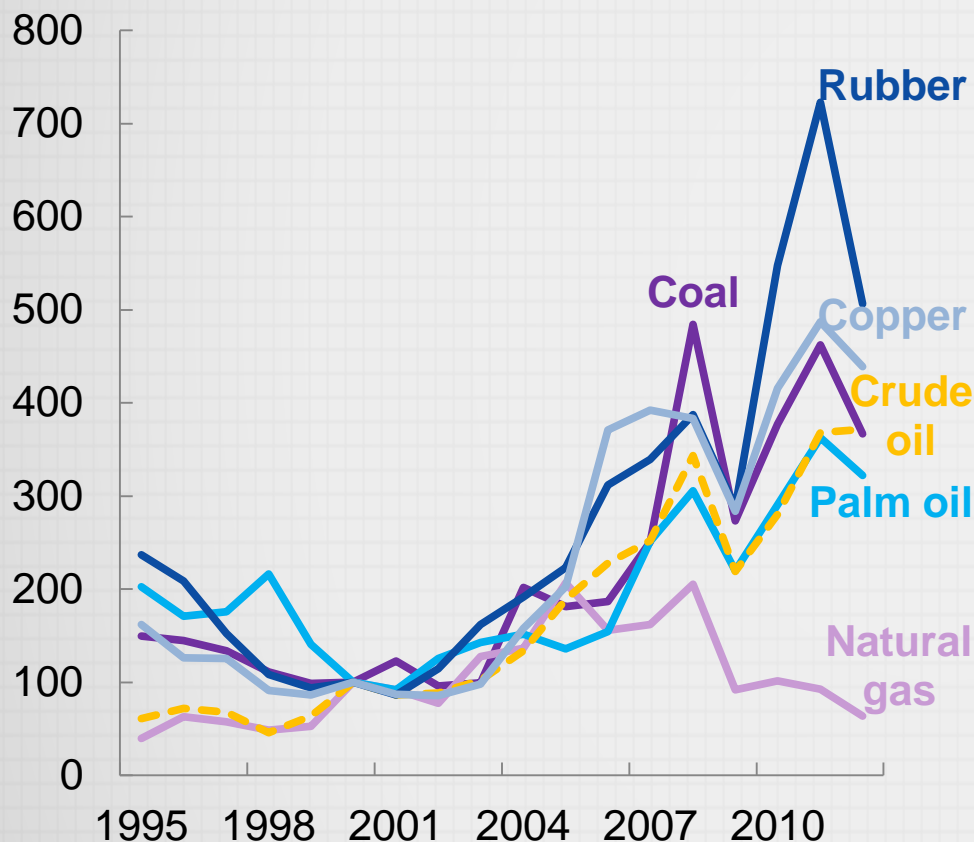


Note: GDH is Global Development Horizons

COMMODITY BOOM IS LOSING STEAM

Global commodity boom..

(Index, 2005 = 100, real 2005 US\$ terms)



Source: World Bank

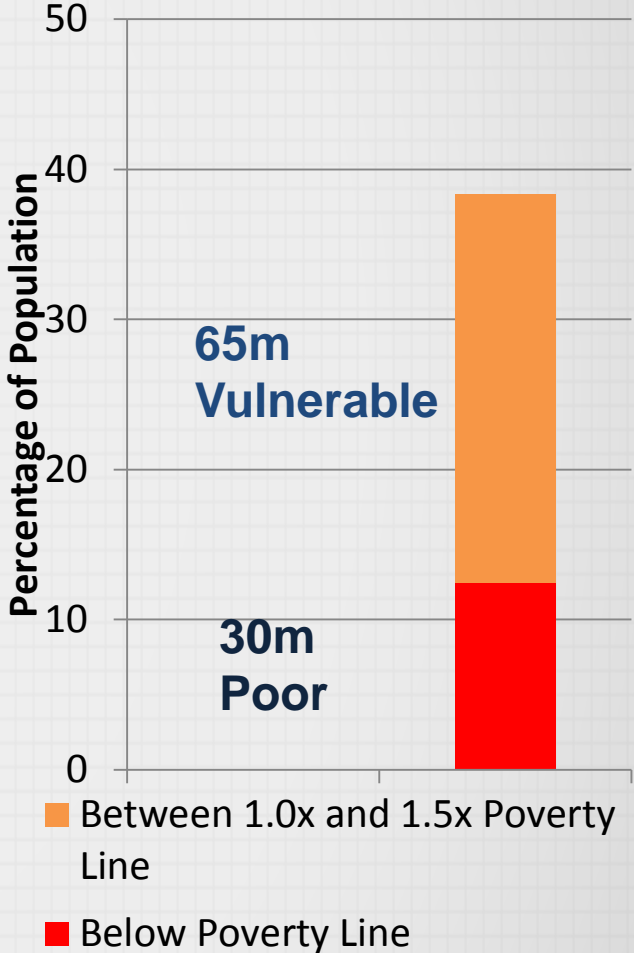
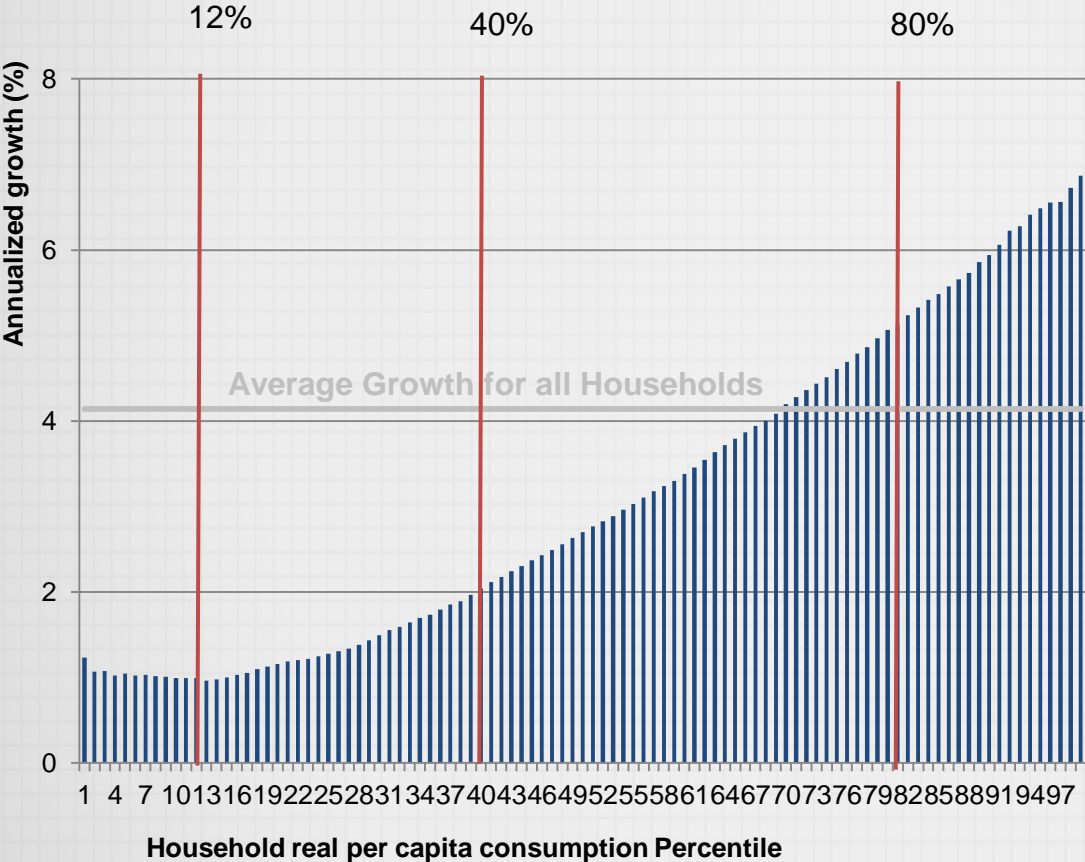
..reflected in export structure

Commodities	Share in Indonesia's total exports (%)	Share of Indonesia in total world imports (%)
Coal	13.8	17.0
Natural gas	10.8	5.0
Crude Palm Oil	9.3	52.4
Crude oil	6.5	0.7
Rubber	4.2	14.6
Copper	1.4	5.0
Nickel	1.3	17.6
Coffee	0.7	4.2
Cocoa	0.5	6.0

Source: BPS; World Bank

GROWTH WITH EQUITY?

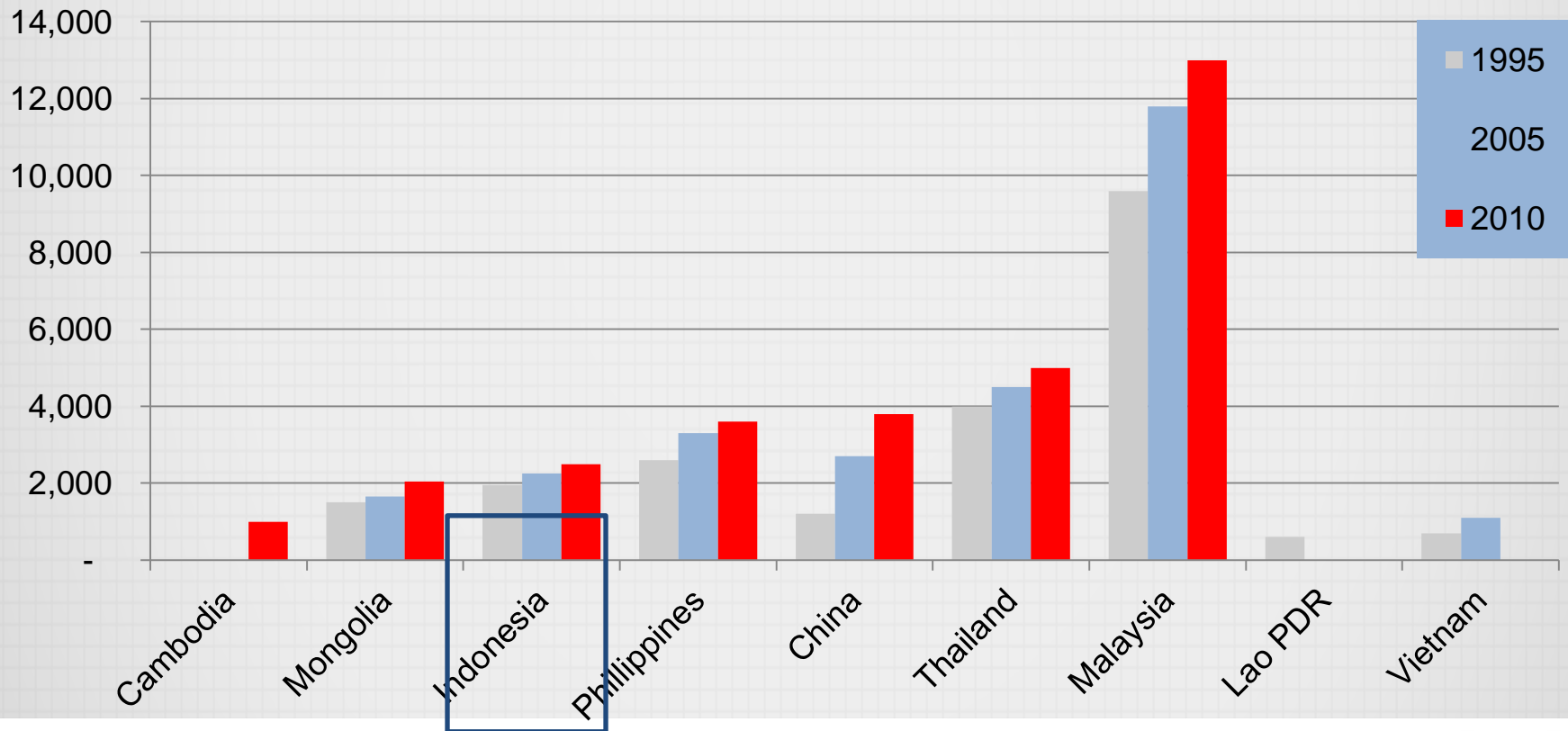
Growth incidence curve, 2003-2011



OPPORTUNITY: CLOSING THE PRODUCTIVITY GAP

Labor productivity gap account for 92% of global income gap

Value Added per Worker (2005 PPP\$)

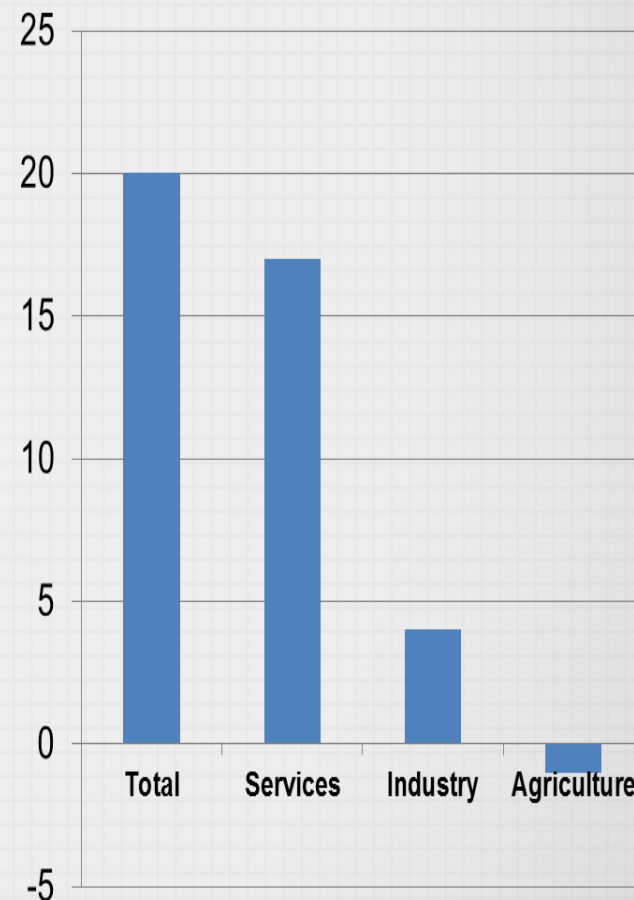


HOW TO CLOSE PRODUCTIVITY GAP

Sector productivity relative to agriculture

Sector	2000-2003	2005-2008	2009-2012
Agriculture	1.0	1.0	1.0
Low-end services	2.4	2.5	2.2
Manufacturing industries	5.7	5.8	5
Transport and communication	2.8	3.5	5.5
Financial services	21.5	20.5	14.6
Mining and quarrying	46.8	26.7	18

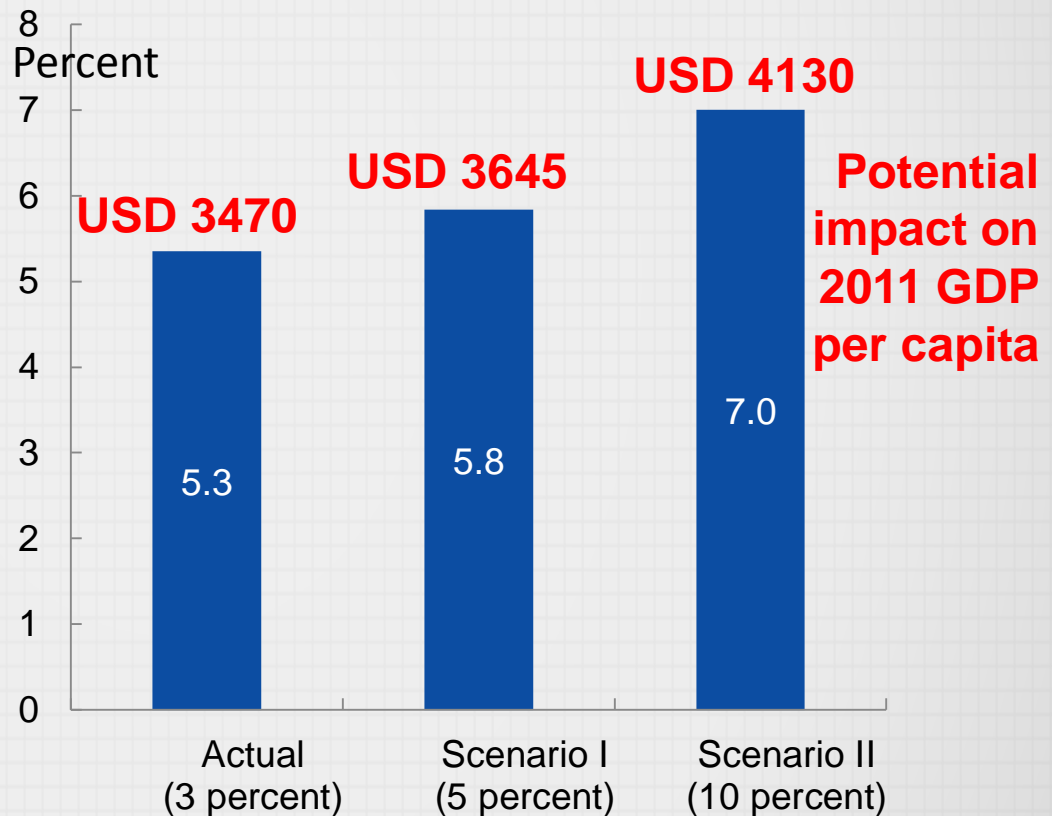
Job creation, 2001-2012 (m)



PRIORITY: CLOSING THE INFRASTRUCTURE GAP

- Post-1997 Infrastructure investment = **3 percent growth of capital stock**
- Road length grew by **35 %**; Vehicle purchase grew by **300 %**
- Capacity of Jakarta rapid transit: **25 %**
- Doubling of energy demand: needed **USD 10 billion investment**
- Dwell time: **8 days in Tanjung Priok** versus 2 days in Singapore

Average real GDP growth over 2001-11 under different scenarios of infrastructure capital stock growth



HOW TO **CLOSE** THE INFRASTRUCTURE GAP

- **Spend more:** Boost public spending from 2.5 % to **4.5 %** of GDP. Reallocate energy subsidies to infrastructure envelope.
- **Reallocate personnel expenditure** - now **40 percent** of total expenditure budgets – to sub-national governments.
- **Spend better:** Improve efficiency and quality of public investment, and coordination.
 - Strengthen project prioritization, selection and preparation.
 - Integrate national, regional and sector plans (e.g. MP3EI roadmap for action).
 - Alternative means of financing for the municipalities that are ready.
- **Tackle Land:** Address Land Acquisition issues.
 - Operationalize improved clarity and transparency from the 2012 Land Acquisition Law and Presidential Regulation.
- **Leverage:** encourage private sector financing.
 - Strengthen framework for PPP schemes.

PRIORITY: CLOSING THE **SKILLS GAP**

The Right Skills = Higher Productivity

- More Indonesians have higher degrees, but **not the ones needed**.
- Mismatched: **50 %** of senior secondary and **15 %** of tertiary education graduates **work in unskilled positions**.
- Unhappy Employers: **70 % of manufacturers** say 'very difficult' to fill skilled positions.
- Only **5 %** of labor force receive formal on-the-job training



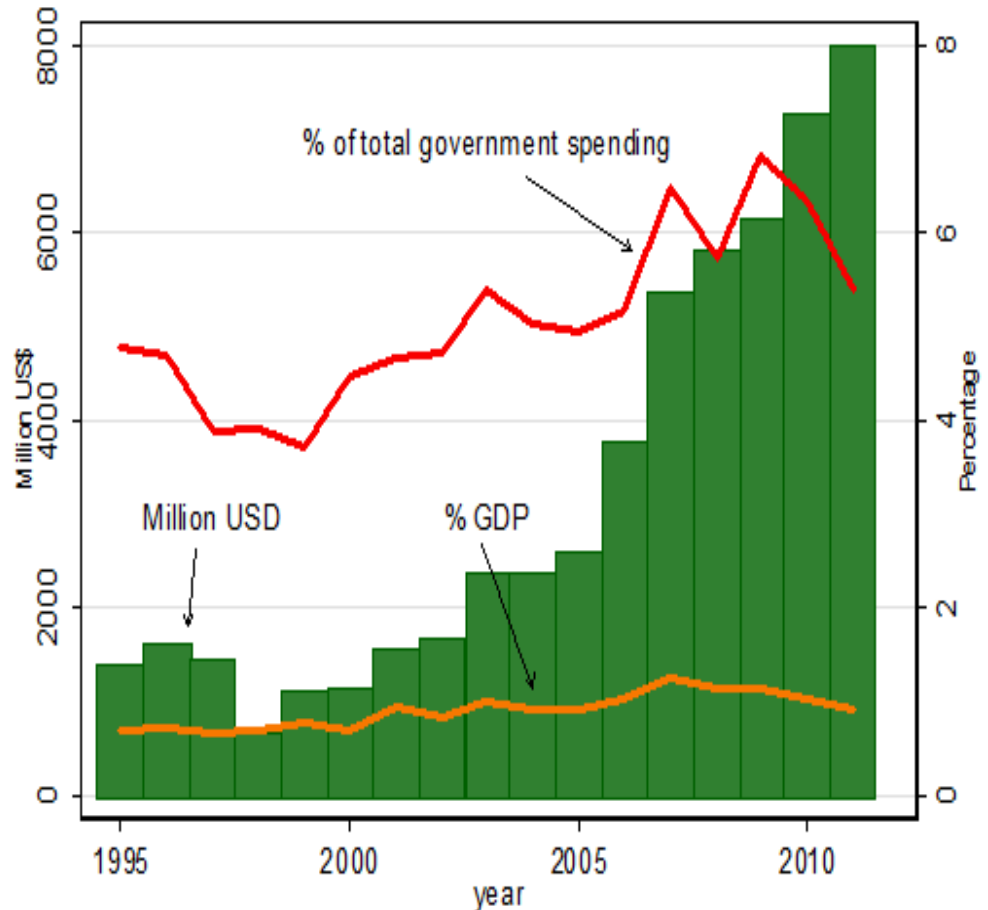
HOW TO **CLOSE** THE SKILLS GAP

- **Assure Quality:**
 - Improve the **quality assurance system**.
- **Link and network:**
 - Support **linkages** between institutions and employers.
- **Respond:**
 - Provide more courses and **degrees that employers need**.
- **Train and Upgrade:**
 - Create **more training institutions** that deliver specific skills in value-added, strategic sectors.
- **Start Early:**
 - Improve **basic education**, starting with early childhood education.
- **Target:**
 - Design **targeted services** for hard-to-employ work-force.

PRIORITY: IMPROVE PUBLIC SPENDING

More public spending has not led to better quality of infrastructure or services.

- Staffing at Directorate General of Highways is **5 times more** than elsewhere.
- Road maintenance costs more per kilometer than other countries -- *US\$159K versus a range of \$70-100K.*



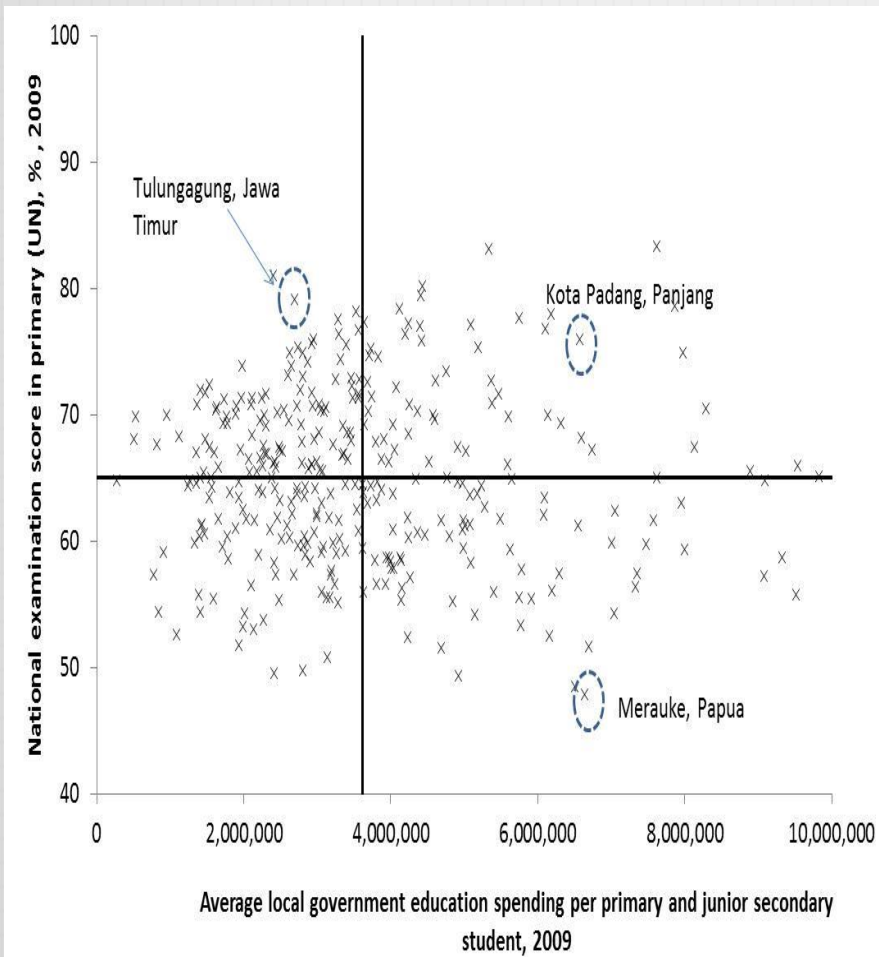
Source: WHO-NHA2013

HOW TO **IMPROVE** GOV'T SPENDING + SERVICE DELIVERY

- **Demand:** Have **local governments accountable to central government** for improving of service delivery (through transfer mechanism).
- **Differentiate:** **the specific needs and characteristics** of each local government in order to improve funding allocations.
- **Inform:** Provide the public with the information needed to assess the quality of services and to demand better services.
- **Incentivize:** Encourage local governments to **spend less on administration**.
- **Modernize:** Introduce **modern tools in Public procurement systems** > enhance efficiency and value for money.
- **Streamline:** **Reduce overlaps in bureaucracy and fragmentation** in institutional mandates, and ensure clear lines of accountability and faster decision-making.

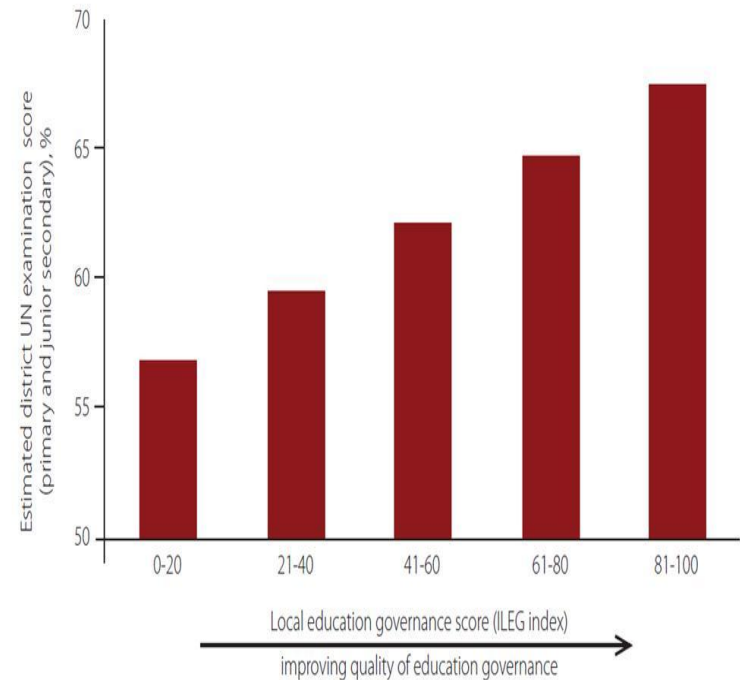
PRIORITY: IMPROVE GOVERNANCE

MONEY DOES NOT MATTER MUCH...



...WITHOUT GOOD LOCAL GOVERNANCE

Figure 0.4 Higher quality local education governance is associated with better education performance



Note: The results presented here show the estimated relationship between the ILEG index and the UN examination score having controlled for other factors that could determine district examination scores (e.g. poverty levels). See Appendix 4, Table 1 for the full results.
Source: Indonesian local education governance survey, 2009 and 2012

OPPORTUNITY: **GOVERNMENT SYNERGY**

- Elevate **coordination of poverty alleviation programs** under President's office
- Make local government spending through DAU and DAK **more pro-poor**



- Clear **division of roles** between central and local governments
- **Performance-based budgeting** and pro-poor transfer formulas for better incentives

OPPORTUNITY: INVOLVING COMMUNITIES

Communities can help improve accountability of governments. How?

- **Help implement social accountability tools** such as report cards.
- Provide **grants to CSOs and communities to improve health and education.**
- Combine PNPM block grants with supply-side interventions.



PRIORITY: CENTER OF GOVERNMENT

- **Strengthen:**
 - A stronger Center of Government to manage the policy process and resolve policy conflicts
- **Streamline:**
 - A streamlined bureaucracy for enhanced accountability
- **Strategize:**
 - More strategic management of human resources across the public administration



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WORLD BANK, JAKARTA, 2014