# INDONESIA

- While large, Indonesia's GDP per capita gap relative to the upper half of the OECD is continuing to narrow, reflecting strong labour productivity growth as the economy continues to shift away from low-productivity primary sectors to services and manufacturing. Labour utilisation is already relatively high in Indonesia but has also continued to contribute to rising GDP per capita.

- Progress is being made in a number of previous priority areas including education outcomes and the provision of infrastructure. However, none was made in reducing foreign direct investment (FDI) barriers and rigidities in the labour market, including capping increases in the minimum wage. Measures to improve the regulatory environment for infrastructure have been taken including streamlining land acquisition and setting up an investment co-ordinating body.

- The targeting and coverage of programmes designed to increase access to education should be improved, and measures to improve the quality of teaching should continue. Infrastructure investment needs to be stepped up, especially through efforts to encourage private-sector participation. Measures to slow the rate of growth of minimum wages need to be taken, especially as they tend to be used as a reference for increases across the whole wage structure.

- Progress has being made in reducing government fuel subsidies, but more needs to be done. Eliminating fuel and electricity subsidies would allow a reprioritisation of spending in areas aimed at promoting equitable and sustainable growth, including ramping up spending on education and infrastructure. Reforms in this area would not only boost growth but also raise equity and environmental sustainability.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	4.2	4.5
Labour utilisation[1]	0.4	0.8
Labour productivity	3.8	3.7

B. Gaps in GDP per capita and productivity have diminished rather slowly
Gap to the upper half of OECD countries[2]
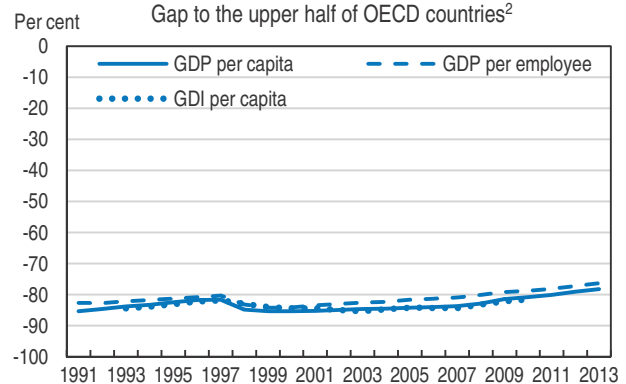
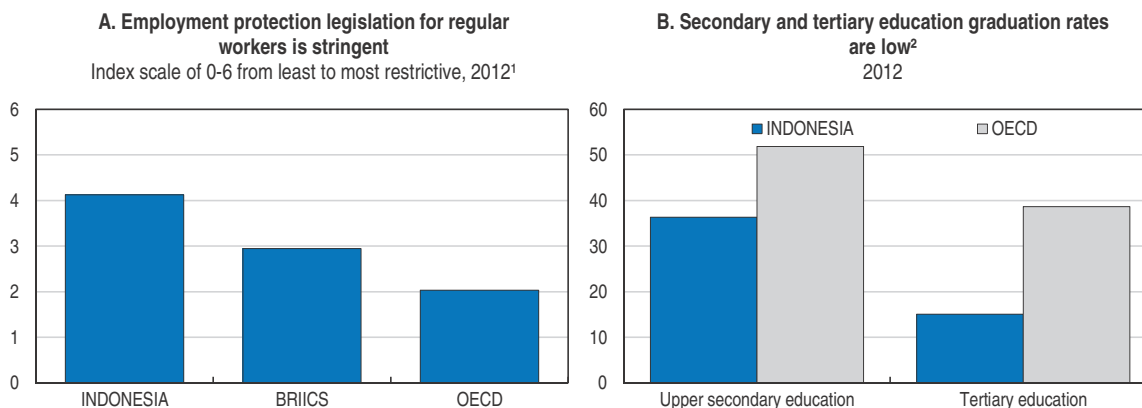1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts Database*; World Bank, *World Development Indicators (WDI) Database*; and ILO, *Key Indicators of the Labour Market (KILM) Databases*.

StatLink ⬛ *http://dx.doi.org/10.1787/888933178069*

INDONESIA

Policy indicators

A. Employment protection legislation for regular workers is stringent
Index scale of 0-6 from least to most restrictive, 2012[1]

B. Secondary and tertiary education graduation rates are low[2]
2012

1. 2013 data for the OECD average.
2. Graduation rate at upper secondary level for typical age from the general programmes and graduation rate for typical age at tertiary-type A level (first degree).

Source: Panel A: OECD, *Employment Protection Database*. Panel B: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eag-2014-en*.

StatLink ⟶ *http://dx.doi.org/10.1787/888933178493*

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance outcomes in education.   Public spending on education has fallen below the government's target, and both outcomes and teaching quality remain poor.

Actions taken: Programmes to improve teacher qualifications through certification and training are continuing to be expanded: guidelines for teacher performance assessment and progression came into force on 1 January 2013. The targeting of conditional cash transfers aimed at facilitating access to education will improve with the development of a national poverty database.

Recommendations: Continue stepping-up spending in education. Encourage higher enrolment and quality at primary and secondary levels through regular teachers' assessments and professional development. More closely link teacher salaries to qualifications and performance.

Improve the regulatory environment for infrastructure.   Regulatory uncertainty, particularly at the regional level, is hampering private investment in infrastructure, including via PPPs.

Actions taken: A new land acquisition regime is slowly being implemented, which should smooth the way for the development of much needed transport infrastructure investment. The establishment in 2014 of an Infrastructure Prioritising Body (KP2IP) and a PPP centre within the Ministry of Finance are steps in the right direction.

Recommendations: Lift government spending on infrastructure. Focus on transportation, logistics, and on poverty-alleviating infrastructure. Consider issuing infrastructure bonds. Allow sub-central governments to participate in PPPs.

INDONESIA

Reform labour regulation and cap minimum wage increases to address the problem of informality. Rigidities in the recruitment of labour, including severance procedures, are inhibiting growth in the formal workforce. This is especially problematic as minimum wage increases tend to be used as the benchmark for increases across the whole wage structure.

Actions taken: The annual rate of growth of minimum wages still outstrips labour productivity growth in many provinces.

Recommendations: Introduce unemployment benefits, initially at a low level, make dismissal procedures more flexible, and reduce severance payments. In provinces where the minimum wage is deemed to be sufficient from an equity standpoint, limit real increases to be no more than labour productivity gains.

Other key priorities

Further reduce energy subsidies. Over 20% of total government spending goes to fuel and electricity subsidies. These subsidies disproportionately benefit richer households and lead to overconsumption and undesirable environment impacts.

Actions taken: Taken together, the reduction in fuel subsidies in June 2013 and in November 2014 increased the price of diesel and gasoline by 67% and 89%, respectively. This will bring both prices closer to world market prices.

Recommendations: Continue to phase out fuel and electricity subsidies, which will allow a reprioritisation of government spending programmes. Compensate the poor through existing poverty reduction schemes, as necessary.

Ease barriers to entrepreneurship and investment, and strengthen institutions to fight corruption. Businesses, foreign and domestic, face significant barriers to both formation and operation. Corruption remains an impediment to business growth and the efficient functioning of the civil service.

Actions taken: The authorities have been stepping up the fight against corruption, notably with increased staffing and trials of high-profile politicians. Reforms to the bureaucracy are also continuing, including a roll-out of reform programmes to the sub-national level.

Recommendations: Ease barriers to domestic and foreign investment by removing non-strategic sectors from the negative investment list and by removing logistics bottlenecks in ports. Boost the resources of the Corruption Eradication Commission in order to enable appropriate handling of all reported cases of corruption.
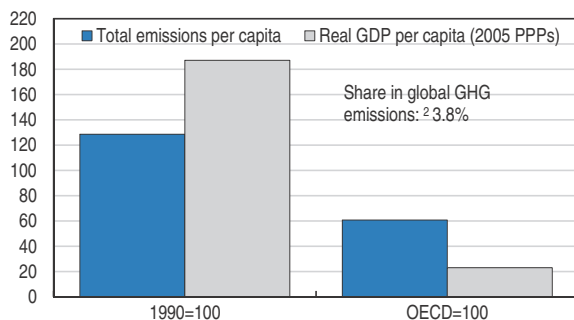
Reform areas no longer considered a priority in *Going for Growth*

For Indonesia, all priority areas from the 2013 issue of *Going for Growth* are maintained.

INDONESIA

Beyond GDP per capita: Other policy objectives

A. Emissions per capita have risen by less than GDP since 1990
2010[1]

Share in global GHG emissions: [2] 3.8%

B. Households in the upper part of the income distribution have benefited much more from growth in GDP per capita[3]
Average annual growth rate in real household income, 2005-11[4]
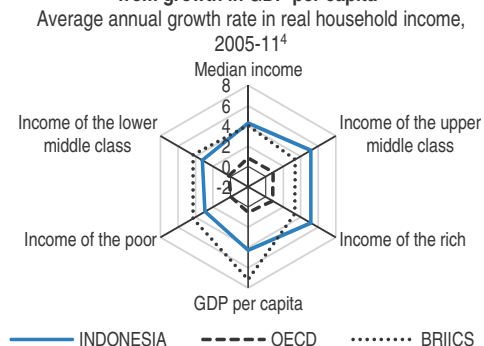
1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys on consumption expenditures and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data and generally an underestimation of inequality compared to measures based on income. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-10 for Indonesia.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

StatLink ᕬᕲ *http://dx.doi.org/10.1787/888933178921*