Indonesia needs to develop its innovation capacities if it is to sustain growth and address the key social challenges it faces. How can its intellectual property (IP) rights policies support Indonesia’s innovation system? The publication *National Intellectual Property Systems, Innovation and Economic Development* focuses on providing answer to this question. It also offer insight on how to use it to promote revenue generating innovation, by supporting high-level inventions as well as tapping into traditional knowledge to create value for marginalized groups. This country study is based on a general framework developed in the same publication, designed specifically to facilitate the analysis of national IP systems for countries at various stages of development. It draws from a review of the Indonesian IP system based on interviews with representatives from the Indonesian Ministry of Science and Technology, the Directorate General of Intellectual Property Right, other government agencies, research institutions, universities and companies. A country study of Colombia’s IP system based on the same framework can also be found in this publication.

**Indonesia’s socio-economic and innovation context**

The IP system can make significant contributions to innovation and development, but it has to be tailored to the local context:

- **Economic performance.** The Indonesian economy grew on average by 4.3% per year during the past decade. Located in one of the most dynamic regions of the world and with the 4th largest population in the world the country has a sizeable potential domestic market and attracts substantial foreign investments. These conditions can help support efforts to strengthen innovation performance.

- **Poverty and inequality** are major challenges in Indonesia. The informal sector employs about 68% of the population. The importance of these challenges requires a focus on opportunities and challenges of IP for innovators in informal and traditional sectors.

- **Indonesia’s innovation performance.** Indonesia’s innovation system is characterised by weak investments in R&D and low patent applications (fig. 1). Moreover, Indonesia still has a low-tech based economy: very few actors have the capacities to produce innovation at a patentable level. However, a small number of universities in the public sector produce qualified scientists and leading research. These pockets of high-quality R&D and S&T offer high potential for revenue-generating IP. While the IP system itself can provide incentives for more R&D, a variety of weaknesses in Indonesia’s innovation system, such as shortcomings in human capital and weak linkages among actors of the system, require attention to boost research capacities to enable IP.

- **Indonesia has multiple traditional industries and a large repository of traditional knowledge**, offering a large pool of marketable knowledge (including e.g. batik textiles). It is, therefore, relevant for IP policy to focus on the requirements of these sectors, as well as on potential challenges they might face in their development.

**Important market failures** (weak infrastructures, bureaucratic inefficiencies and limited access to capital) affect innovation performance. This raises the need for complementary policies to help those users affected by them benefit from IP.

![Figure 1. Resident patent applications and gross domestic expenditure on R&D (GERD), 2011 or latest available year](image)

Source: OECD based on WIPO

**Organisation of the Indonesian IP system**

The co-ordination mechanisms bridging between bodies involved in IP policy for innovation are rather weak. Indonesia has one formal inter-ministerial coordination body, the *Task Force for IP Enforcement* (2006), but it does not focus on IP for innovation.

Last updated: January 2014
IP operations and procedures

The IP system can only support innovation if the legal and administrative conditions are such that inventors effectively receive ownership of their IP. Indonesia continues to face several types of challenges (fig. 2). Steps undertaken to address those challenges include:

- The IP office is currently working with WIPO to improve its IT system with the objective of automating processes more effectively so as to gain efficiency.
- The creation of the Arbitration and Mediation Agency for IP Rights to offer solutions for IP dispute resolution that is less complex, requires less time and imposes lower costs.

Figure 2: Indonesia’s challenges regarding IP operations and procedures

<table>
<thead>
<tr>
<th>Application process</th>
<th>Examination process</th>
<th>Post-application process</th>
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<tbody>
<tr>
<td>• User confidence and trust need strengthening</td>
<td>• Creating a comprehensive database can help raise efficiency</td>
<td>• Digitisation of IP applications and further efforts are needed to improve disclosure</td>
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<tr>
<td>• Access to services beyond IP office headquarters is limited</td>
<td>• Examiners’ profiles that match applications can help bring improvements</td>
<td>• Enforcement and litigation challenges need further attention</td>
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<td>• Awareness about IP needs strengthening</td>
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Adapting to IP users

Innovators in traditional and informal sectors. Awareness about IP among producers in traditional industries and their institutions is limited. Geographical indications are seen as relevant but potential still needs to be exploited. This requires improving management and benefit sharing systems. Current efforts aimed at creating a joint database of traditional knowledge across several ministries and organisations of traditional knowledge can help support the development of business opportunities.

“How Catching-up” and “leading” businesses. Some of Indonesia’s leading businesses such as Dexta Medica have demonstrated how traditional knowledge can provide business opportunities. The use of IP among SMEs remains low in spite of application fee discounts. This is also the case for utility models. One reason is that awareness about IP and its potential contributions is very low. The lack of IP services in regions outside of Jakarta is another constraining factor.

Public research institutes. The current system denies researchers any monetary returns from the commercialisation of their inventions. Short-term budgetary allocations are also hindering potential commercialisation, as funding does not extend over the full product development life cycle. A further challenge is that many research projects do not take sufficient account of the existing state of the art. Several universities have created Technology Transfer Offices. Their performance is reduced by their often informal status, a substantial lack of resources and limited co-operation across different institutions.

How can Indonesia’s IP system contribute more to national innovation performance?

- Indonesia’s IP policy should emphasize effective co-operation with the actors in Indonesia’s innovation governance system with an explicit focus on innovation and high-level policy support.
- Additional efforts aimed at increasing exchanges on IP policy with experienced policy makers and country experts can help improve policy design.
- Indonesia can increase the efficiency of IP application processing by prioritizing automation. The quality of the examination process should also be improved.
- The new Arbitration and Mediation Agency for IP Rights should receive necessary policy support to operate effectively.
- Expanding the provision of online and local IP services would help attract new users from regions other than Jakarta.
- Indonesia has to adopt a scheme whereby public sector researchers receive a share of returns from their inventions.
- IP incentive policies have to shift away from a “quantity” approach towards a “quality” approach, as the current focus on quantity generates effects that are counterproductive to strengthening the IP and innovation systems by raising the number of low-quality IP applications.
- IP related to traditional knowledge, genetic resources, folklore and GI is particularly relevant for Indonesia. Policy should encourage communities to generate economic value based on their assets, as these uses will bring biggest payoffs.
- Depending on the activity, trademarks, design and utility models can help involve a larger group of innovators. Therefore, Indonesia should address the weak use of utility models by residents. Unregistered design rights can also be a way to support SMEs in fast-moving industries such as fashion. Moreover, exploring opportunities for IP in agriculture should be a priority.

For more information

Project Website: [http://oe.cd/ip-studies](http://oe.cd/ip-studies) or [www.oecd.org/sti/inno/ip-studies.htm](http://www.oecd.org/sti/inno/ip-studies.htm)