

INDONESIA

Per capita incomes are converging towards OECD levels, but the gap remains very large mainly owing to a labour productivity shortfall. Further actions in the areas below would help to reduce this gap. In other areas, efforts have been made recently in climate-change mitigation policies by committing to greenhouse gas emission-reduction targets.

Priorities supported by indicators

Strengthen resources for secondary education and improve the overall efficiency of the education system

Public spending has risen markedly especially for primary education but is still relatively low at higher levels of education. Teaching quality is low especially in rural areas, harming attainment.

Actions taken: The Ministry of Education launched a 2005-09 strategy aimed at improving the governance, access to, and quality of education.

Recommendations: Make income transfer programmes conditional on children attending secondary school and finance the secondary school enrolment fee for disadvantaged children in order to boost enrolment rates. To improve teaching quality, regularly assess teachers' pedagogical skills.

Improve the regulatory environment for infrastructure

Regulatory authorities lack independence and pervasive regulatory uncertainties hinder private investment.

Actions taken: A 2009 electricity law paves the way to increased private participation in generation, distribution and transmission. The government has announced it would finance only 36% of a USD 157 billion investment plan from 2010 to 2014, with the private sector expected to fill the financing gap.

Recommendations: Reduce regulatory barriers and uncertainties to entice private investment. Grant independence to regulatory bodies, strengthen their public accountability, and establish new ones in sectors lacking them. Reform land expropriation procedures to shorten the time needed to reach fair compensation decisions.

Reform labour regulation to address the problem of informality

The rigid labour code provides strong protection to employees in the formal sector, thereby encouraging informal job creation and undermining labour productivity.

Actions taken: No action taken.

Recommendations: In order to make the insurance system against wage income loss more effective, introduce some form of unemployment benefits while simplifying dismissal procedures and reducing severance payments. In addition, cap real increases in the minimum wage to ensure they do not to exceed labour-productivity gains.

Other key priorities

Ease barriers to entrepreneurship and strengthen institutions to fight corruption

Despite some progress, the business environment continues to be less attractive than in regional peers. Excessive administrative burdens, high FDI restrictions in some sectors and corruption limit entrepreneurship.

Actions taken: In 2010, the government lowered FDI restrictions, especially in services. The 2009 law on local taxes limits the types of levies local governments can charge and promotes tax competition.

Recommendations: Simplify administrative procedures for establishing new firms by reducing the number of business licenses and setting up one-stop shops in districts where these are currently lacking. Reduce further FDI restrictions in telecommunications and transport. Continue efforts to fight corruption by reforming the tax office and further simplifying business licensing.

Phase out energy subsidies

Energy subsidies are economically costly, socially inequitable, environmentally damaging and inconsistent with the government's green strategy.

Actions taken: The 2010 Medium Term Development Plan states that fossil-fuel subsidies will be eliminated by 2014. The government has increased support to renewable forms of energy.

Recommendations: Stick to the planned timetable to eliminate fossil-fuel subsidies and extend the commitment to electricity subsidies, while offering more effective targeted income support to the poor and those households that are most adversely affected.

INDONESIA

Structural indicators

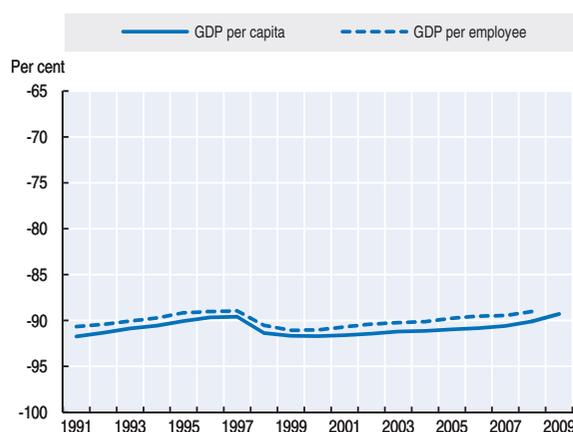
Average annual trend growth rates, per cent

	1998-2008	1998-2003	2003-08
GDP per capita	3.4	2.3	4.4
Labour utilisation	..	..	..
of which: Employment rate	0.6	0.4	0.9
Average hours	..	..	..
Labour productivity ¹	2.7	2.0	3.5
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

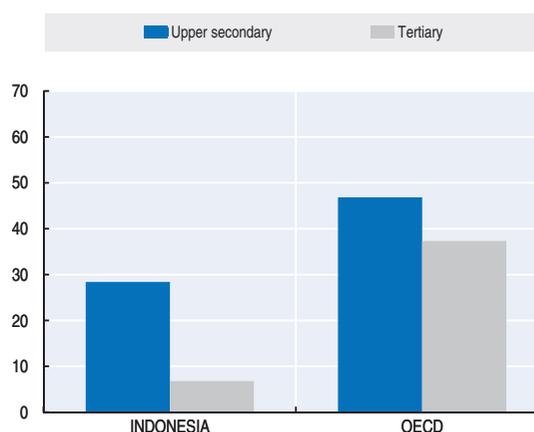
1. Labour productivity is measured as GDP per employee.

Source: Estimates based on World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM) Databases*.

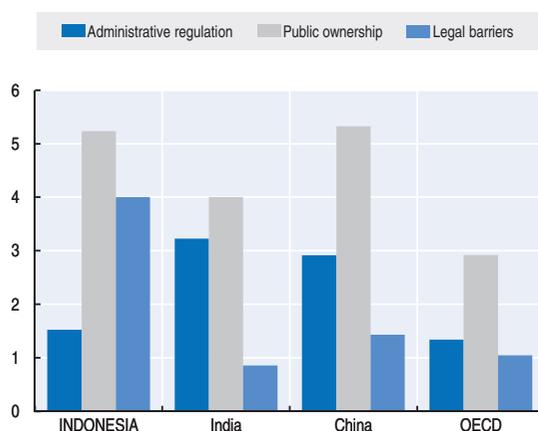
A. Gaps in GDP per capita and productivity remain very large
Gap to the upper half of OECD countries¹



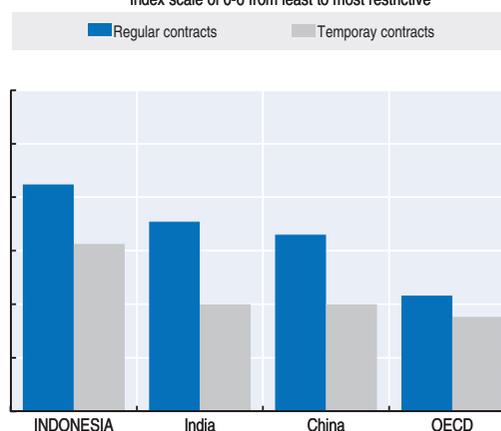
B. Secondary and tertiary education graduation rates are low, 2008²



C. Product market regulation is stringent, 2008
Index scale of 0-6 from least to most restrictive



D. Employment protection legislation is strict especially for regular contracts, 2008
Index scale of 0-6 from least to most restrictive



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).
2. Graduation rates for single year of age. Upper secondary graduation rates refer to general programmes. Tertiary graduation rates refer to first degree graduation at tertiary-type A level.

Source: Chart A: World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM) Databases*; Chart B: OECD (2010), *Education at a Glance*; Chart C: OECD, *Product Market Regulation Database* and Woelf, A. et al. (2010), "Product Market Regulation Extending the analysis beyond OECD countries", *OECD Economics Department Working Papers*, No. 799. Chart D: OECD, *Employment Database*;

StatLink  <http://dx.doi.org/10.1787/888932373951>