

## INDONESIA

### Priorities supported by indicators

#### **Strengthen resources for secondary education and improve the overall efficiency of the education system (2011)**

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

**Actions taken:** The National Education Strategy Plan is being implemented with the view to reducing disparities in access, enhancing the quality of teaching and improving management and accountability.

#### **Improve the regulatory environment for infrastructure (2011)**

**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 expedite reaching fair compensation decisions.

**Actions taken:** A draft Land Acquisition Law that seeks to secure land acquisition procedures for infrastructure projects has been submitted to Parliament. The President has announced a new master plan for improving connectivity between provinces.

#### **Reform labour regulation to address the problem of informality (2011)**

**Recommendations:** In order to improve the labour income insurance system, introduce some form of unemployment benefit while simplifying dismissal procedures and reducing severance payments. Also, cap real increases in the minimum wage to ensure they do not to exceed labour-productivity gains.

**Actions taken:** A regulation set the minimum wage increase at 15.4% in 2011 in the province of Jakarta (which amounts to about three times the economy-wide increase implemented in the first half of 2010).

### Other key priorities

#### **Ease barriers to entrepreneurship and investment and strengthen institutions to fight corruption (2011)**

**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. Further reduce FDI restrictions especially in telecommunications and transport. Continue efforts to fight corruption by reforming the tax office and further simplifying business licensing.

**Actions taken:** In May 2011, the government temporarily stopped allowing foreign investors to develop new oil palm plantations.

#### **Phase out energy subsidies (2011)**

**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.

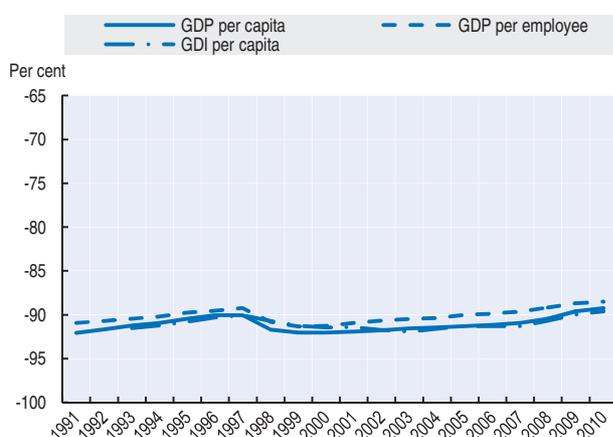
**Actions taken:** The planned rise in electricity tariffs for January 2011 was postponed. In April 2011, the overall amount of energy subsidies were increased compared to what was planned in the budget. In the State Budget, the government is scheduled to reduce electricity and fuel subsidies for 2012.

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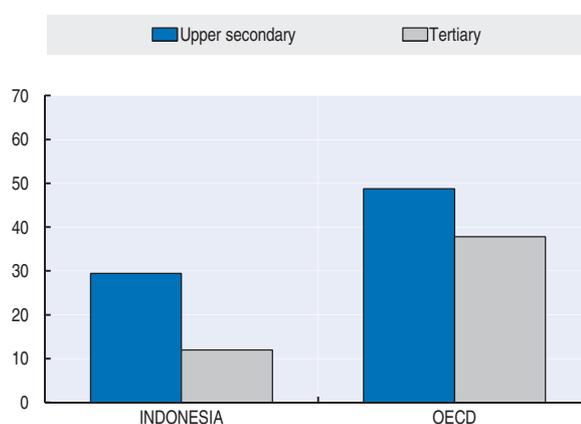
- Per capita incomes are converging towards OECD levels but the gap remains very large, owing mainly to a labour productivity shortfall.
- Among priority areas, progress has been made to strengthen education and infrastructure. By contrast, no significant action has been taken to reform labour market regulation, and policy changes in the areas of business environment, the phasing out of energy subsidies and limitation of real minimum wage increases have gone in the wrong direction.
- In other areas, the government launched a National Plan of Action on Food and Nutrition in 2011 to fight against maternal and youth malnutrition.

## Performance and policy indicators

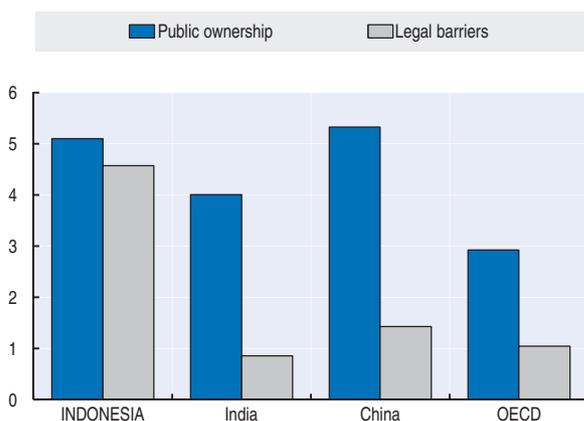
**A. Gaps in GDP per capita have diminished rather slowly**  
Gap to the upper half of OECD countries<sup>1</sup>



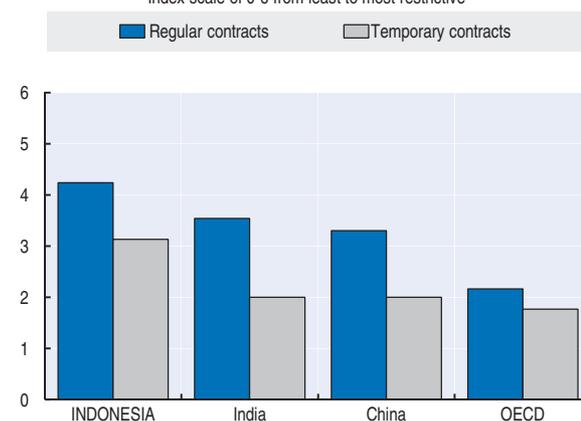
**B. Secondary and tertiary education graduation rates remain low,**  
2009<sup>2</sup>



**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, GDP per employee and GDI per capita (in constant 2005 PPPs).
2. Graduation rate at upper secondary level for single year of age from the general programmes and graduation rate for single year of age at tertiary-type A level (first degree). For upper secondary education, average of OECD countries excluding Greece and the United Kingdom; for tertiary education, average of OECD countries excluding Greece and Luxembourg.

Source: Chart A: World Bank (2011), *World Development Indicators (WDI)* and ILO (2011), *Key Indicators of the Labour Market (KILM) Databases*; Chart B: OECD (2011), *Education at a Glance*; Chart C: OECD, *Product Market Regulation Database* and Woefl, A. et al. (2010), "Product Market Regulation: Extending the Analysis Beyond OECD Countries", *OECD Economics Department Working Papers*, No. 799, OECD Publishing; Chart D: OECD, *Employment Database*.

StatLink  <http://dx.doi.org/10.1787/888932565395>