Indonesia 2030 rich nation, prosperous people
Solid growth created jobs and reduced poverty

5.5% GDP growth

1.8 million jobs/year

<10% poor
But Indonesia faces challenges to get to the next level of development

- Slowing growth, weak productivity
- Low salaries
- Small middle class
Indonesia can grow faster and create middle class jobs – but the government needs to implement difficult reforms in 5 areas
1. Create world-class human capital

Most Indonesians do not have the skills for Industry 4.0 or even Industry 2.0

15-year-olds in large Indonesian cities like Jakarta learn less than children in Vietnamese villages

54% of today’s workers were stunted as children

Indonesians die 6 years sooner than Chinese, Malaysians Thais, or Vietnamese

This human capital gap costs Indonesia IDR 5,300 trillion a year or 36 percent of annual GDP

Rich Nation, Prosperous People
1 Create world-class human capital

Launch a national campaign to boost the quality of basic education

Partner with the private sector to teach new skills for workers

Invest more and better in healthier families

How?

Lead a national education quality initiative; recruit the best teachers; and reward schools and districts that deliver results.

Create a skills council to ensure training respond to market needs; adopt and enforce quality standards for skills training; establish a labor market information system.

Increase tobacco taxes and direct revenues to preventative health care and a strong social protection system.
2 Build even more infrastructure, faster

The Government started to close Indonesia’s $1.5 trillion infrastructure gap...

...but huge gap needs a huge and sustained response

- Budget resources and implementation capacity are limited
- Local governments lack resources and capacity
- SOEs are financially and operationally overstretched
- Indonesia has been punching below its weight in attracting private investments

Indonesia needs more connectivity, reliable & clean energy, and water & sanitation infrastructure to close the gap

Rich Nation, Prosperous People
2 Build even more infrastructure, faster

**How?**

- Reform and harmonize laws, regulations, and institutions; set tariffs so that those who can afford to pay, do; offer the private sector good projects.
- Do not assign only prime projects to SOEs; expand sales of existing SOE assets to the private sector.
- Increase public expenditure on infrastructure, strengthen capacity of government agencies and create more financing avenues for strong local governments.

**commit to attract more** private sector **investment**

**SOEs** need to make room for the private sector

**boost** government resources and implementation capacity
3 Import capital from job creators, not speculators

Low export revenues, weak FDI flows and a small financial sector…

…lead to an over-reliance on ‘hot money’ from portfolio investors…

…which contribute to higher interest rates and currency vulnerability…

…and limit the creation of middle-class jobs

Real interest rates are 3.2 percentage points higher in Indonesia compared to Vietnam, in part because lower exports and FDI, and a smaller financial sector.

Rich Nation, Prosperous People
3 Import capital from job creators, not speculators

- **attract** export-oriented FDI
- **create legal certainty to** build confidence of entrepreneurs
- **create a deeper, broader, more resilient financial sector**

How?

- Eliminate foreign equity limits in the DNI; reduce import tariffs and some non-tariff measures; and ease restrictions on work permits to bring few key skills not available locally.
- Rationalize local-level regulations, and truly empower coordinating ministries to veto ministerial regulations if line Ministries do not follow proper procedures.
- Implement laws and regulations to promote long-term investments and develop new financing products, for example by revising capital market, pension, and bankruptcy laws.
4 Manage your natural assets

>5 million hectares

difference between actual coverage of oil palm plantations in Sumatra detected by satellite and what is reported by KLHK, equivalent to 63 percent of reported plantations or more than 9 Balis

millions of hectares

in Forest Estates are planted or being mined without permits or concessions; millions more degraded as holders of concessions and permits abandoned the land after selling the timber

USD 16.1 billion

cost of 2015 forest fires, linked to land clearance

USD 3.2 billion

annual revenue loss from plastic bag pollution, this includes fisheries, tourism, production cost of plastic, as well as clean up costs
4 Manage your natural assets

- **Complete the OneMap** in forest estates to end land encroachment
- **Conserve** critical coastal and peatland areas to maximize their potential
- **Make Indonesia the world leader of geothermal energy**

**How?**

- Apply the OneMap to forest estate areas consulting with local communities, and unify maps and land registries.
- Identify, zone and enforce protection areas with high conservation values, and improve solid waste management to protect coastal areas.
- Further reduce fossil fuel subsidies; reform energy tariffs; and consider a carbon tax to develop renewable energy resources such as geothermal.
5 Collect more, spend better

Revenue collection is currently **well below** Indonesia’s peers – and the country’s needs

**Indonesia does not spend enough** on infrastructure, health, social protection...

...because it **does not collect enough** revenues...

...and the Government still spends large amounts in inefficient subsidies

Even when the Government spends in the right areas, it is often ineffective: for example, teacher salaries doubled, but results from education improved **little**
5 Collect more, spend better

**collect more** at the central and local levels

**reallocate spending** from inefficient subsidies to more effective programs

**take government performance** to the next level

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**How?**

Collect more through a package of reforms of VAT, income and excise taxes; boost local property tax collections; improve compliance with a new IT system in DG Tax.

Ineffective spending that can be reallocated includes: LPG subsidies; transfers to PLN; fertilizer subsidies; and mortgage subsidies.

Focus all of Government on delivering national priorities: track outcomes not only outputs; build capacity; reward performance in agencies and local governments.
Indonesia can become a rich country and Indonesians a prosperous people – with reforms

- Create world-class human capital
- Build even more infrastructure, faster
- Import capital from job creators, not speculators
- Manage your natural assets
- Collect more and spend better
dan...

implementasi

implementasi

implementasi
choose **your targets** in few key areas

Set and announce specific, clear targets for the five priority areas

Agree on performance targets in each area, for each minister and all heads of agencies

**collect data** to measure performance

Collect the right data on inputs, outputs, and outcomes, to measure progress toward your targets

Foster positive competition and learning between subnational governments and ministries by **publishing data**

**monitor** regularly and give feedback

“Whole-of-government” system of coordination, including regular meetings on your targets with relevant ministers

Hold public events periodically to reinforce commitments to your targets and reforms

pick a **capable team**

Make each of your targets the responsibility of a single person capable and empowered to coordinate the delivery of your targets
Additional slides
1 Create world-class human capital – Student performance

Children in large cities in Indonesia are effectively one year behind their peers in Vietnamese villages and 1.5 years behind Chinese children in Beijing, Shanghai, Jiangsu and Guandong.

**PISA scores (15-year olds): OECD average in 2000: 500**

- **Reading**: 449 (Indonesia large city (> 1M pop)), 476 (Vietnam village (< 3,000 pop)), 494 (China (Beijing, Shanghai, Jiangsu, Guangdong))
- **Math**: 440 (Indonesia large city (> 1M pop)), 485 (Vietnam village (< 3,000 pop)), 531 (China (Beijing, Shanghai, Jiangsu, Guangdong))
- **Science**: 444 (Indonesia large city (> 1M pop)), 514 (Vietnam village (< 3,000 pop)), 518 (China (Beijing, Shanghai, Jiangsu, Guangdong))

*Source: OECD PISA*
1 Create world-class human capital – Skills training

Partner with the private sector to ensure current workers are ready for Industry 4.0

partner with the private sector to ensure that skills respond to market needs

allocate public resources only to training providers that meet quality standards

guide the TVET system by a timely and reliable labor market information system

How?

Establish the Indonesia Skills Council with strong participation of the private sector to oversee the overall training system and approve training packages

Make only accredited training providers eligible for public resources, including public vouchers; others should design and implement an improvement plan to remain eligible for public resources

Establish a labor market information system to provide timely and reliable information on occupations on training institutions, employers and job seekers
2 Build even more infrastructure, faster – SOE leverage

Indonesian construction SOEs had debt-to-equity ratios well above Emerging Market (EM) averages for their sectors.

**Debt-to-Equity Ratio of selected infrastructure SOEs (2016)**

**Debt-to-Equity Ratio**

<table>
<thead>
<tr>
<th>Construction</th>
<th>Debt-to-Equity Ratio</th>
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<tbody>
<tr>
<td>PT. Adhi Karya</td>
<td>2.69</td>
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<tr>
<td>PT. Jasa Marga</td>
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<tr>
<td>PT. Waskita Karya</td>
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<td>PT. Wijaya Karya</td>
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<tr>
<td>PT. Hutama Karya</td>
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<tr>
<td><strong>EM average 1/</strong></td>
<td><strong>0.96</strong></td>
</tr>
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<table>
<thead>
<tr>
<th>Transport-related</th>
<th>Debt-to-Equity Ratio</th>
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</thead>
<tbody>
<tr>
<td>PT. Pelindo I</td>
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<tr>
<td>PT. Pelindo II</td>
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<tr>
<td>PT. Pelindo III</td>
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<td>PT. Angkasa Pura I</td>
<td>0.97</td>
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<tr>
<td><strong>EM average 1/</strong></td>
<td><strong>0.60</strong></td>
</tr>
</tbody>
</table>


1/ Book debt to equity ratio, industry average. Refers to industry classification “Engineering and construction” and “Transportation”, respectively.
2 Build even more infrastructure, faster – Power reliability the key challenge

Indonesian firms experience more frequent electricity outages than other ASEAN countries, lasting close to 6 hours each.

- **Number of electrical outages in typical year**
  - Thailand: 2.4
  - Malaysia: 1.2
  - Philippines: 1.2
  - Vietnam: 2.4
  - Indonesia: 6.0

- **Average duration of typical outage, hours**
  - Thailand: 1.7
  - Malaysia: 3.8
  - Philippines: 3.0
  - Vietnam: 7.5
  - Indonesia: 5.7

*Source: World Bank Enterprise Survey; World Bank staff calculations*
4 Manage your natural assets – Reported vs planted areas of palm oil in Sumatra

Actual plantation area observed with satellite imagery much larger than reported area to KLHK

Example of reported KLHK concession areas. ... and actual geospatially verified ecosystem accounts

Source: KLHK and World Bank WAVES analysis
4 Manage your natural assets – Renewable energy

Invest in the energy system of the future and diversify the energy mix

- **modernize regulations** to make Indonesia a hub for innovative energy
- **set standards** to push businesses into using energy responsibly, lowering costs and pollution
- **eliminate pricing distortions** so renewables like geothermal can compete on equal footing

Issue regulations that facilitate geothermal exploration, promote cheap solar PV technology, and enable public-private collaboration on energy R&D

Set and enforce energy efficiency standards, including fines for energy wastage by firms; and set vehicle emissions standards for cars

Eliminate fossil fuel subsidies and incentives for coal use; apply carbon tax

Rich Nation, Prosperous People
5 Collect more, spend better

Revenue collection is currently well below Indonesia’s peers – and the country’s needs

Rich Nation, Prosperous People
5 Collect more and spend better – Central gov’t

Improve the management of the central Government bureaucracy

- Make coordinating ministries coordinate
- Create and empower inter-agency implementation teams
- Strengthen link between planning and budgeting

Coordinating Ministers should be responsible for delivering inter-ministerial programs, and serve as arbiters of differences between line ministries.

Set up task teams to include different ministries and agencies, public-private, and central-local collaboration. Learn from success of tourism and nutrition initiatives.

Create a single planning document that all work on; put in place a single web-based monitoring system; and implement PP17.
5 Collect more and spend better – Local gov’t

Boost local government performance

- Condition transfers on data provision
- Monitor and reward performance
- Target lagging regions effectively

Require performance data for DAK disbursement, including input, output and outcome data

Focus on a few indicators; publish results to promote competition and public accountability; give better-performing local governments more autonomy; and target poor performers with capacity support

Strengthen DAK Afirmasi to focus on meeting infrastructure backlogs in lagging regions; set clear, time-bound targets
Thank You