

Indonesia: Country Diagnostic Study

Critical Constraints to an Inclusive and **Green** Growth

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Presentation Outline

- I. Background
- II. Some Observations-Some Challenges
- III. Critical Constraints
- IV. Constraints but not Critical

I. Background

- Study is a joint effort by ADB, ILO and IDB.
- Started in August 2009.
- Follows growth diagnostic approach, and extends it to **Inclusive and Green Growth**.
- Two phases;
 - Phase I (Overarching Diagnosis)
 - Phase II (In-depth Studies).
- Due for completion in March 2010.

II. Some Observations

- Growth has been good, but not as good as in pre-crisis period.
- Per capita GDP is still low and falling farther behind.
- Growth in per capita GDP far behind the level required for [Visi Indonesia 2030](#).
- Economic growth has not been pro-employment.

II. Some Observations

- Poverty is declining, but the pace has slowed down.
- Large proportion clustered around poverty lines.
- Gap between rural and urban poverty incidences has widened.
- Large disparities in poverty incidence across provinces.
- Recent rises in income inequalities.
- Degradation of natural resources and environment, and rising global environmental challenges

III. Critical Constraints

- A. Inadequate and inefficient infrastructure—both at national and sub-national levels,
- B. Weaknesses in governance and institutions,
- C. Unequal access to and poor quality of education, and
- D. Insufficient mainstreaming of environmental concerns including climate change in development planning.

A. Inadequate and Inefficient Infrastructure

- Indonesia fares poorly in availability and quality of Infrastructure.
- Inadequacies in infrastructure are more severe in outer islands.
- One of the top constraints for both existing and potential investors.
- Inadequacies in transportation networks and electricity supplies are the most critical constraints.

Transportation Networks

Road Transport

- Low road densities – (50% of average for Philippine, Malaysia and Thailand for total and 78% for paved length)
- 36% of length classified as damaged in 2007.

Ports

- Main ports rank behind most other in S.E. Asia.
- Smaller ports are also inefficient.

Rail Transport

- Underdeveloped network and poor operational performance

Air Transport

- Over-stretched infrastructure and safety issues

Electricity Supplies

- Low electrification rates (less than 60%) and per capita consumption (16% of Malaysia and 28% of Thailand)
- High inefficiencies in transmission and distribution (11% losses).
- 10,000 industrial manufacturing units rely on own generation, not an option for SMEs
- Distorted incentive structure - tariffs set below cost recovery levels.

Regional Disparities – Outer Islands have Poor Infrastructure

- District and village roads are less developed and of poorer quality in outer islands – 15% villages in Papua connected with asphalt roads vs 77% for West Java.
- Poorer access to electricity in outer islands – 28% Villages connected in Papua vs 100% in West Java.
- Inadequate irrigation facilities leading to low crop productivities (2.8-3.5 t/ha in Kalimantan, Pappua and Maluku compared to 5.4-5.5 t/ha in Java).
- Poverty and inequality implications.
- Investment flows follow regions/islands with better infrastructure – 91% of FDI and 60% of domestic investment was in Java in 2008.

B. Weaknesses in Governance and Institutional Aspects

- Improvements on all dimensions of governance between 2003-08.
- Voice and accountability ranking highest in SE Asia.

Control of Corruption

- Decentralization made corruption fragmented and unpredictable
- Investors report corruption as a major investment constraint

Government Effectiveness

- Efficient delivery of services remains a problem – especially in decentralized services
- Poor coordination between various levels
- Decentralization also caused over regulations often inconsistent with national laws and regulations

Political stability and absence of violence

- Main reason seems to be terrorism, social violence, and civil riots
- Terrorism continues to be a threat to foreign direct investment

C. Unequal access to and poor quality of education-especially secondary

- Education, particularly, secondary is a key to accessing economic opportunities.
- Low net school enrollment rates – 67% at Junior and 45% at Senior levels.
- Large disparities in Senior Secondary enrollment between:
 - Expend. groups – 22% for lowest vs 70% for highest
 - rural/urban areas – 36% for rural vs 56% for urban
 - and provinces – 36% for Papua vs 62 for Aceh

D. Insufficient mainstreaming of environmental concerns in Development Planning

- Understanding and awareness of local and global implications of growth are weak.
- Sufficient policies are in place but lack of capacities to implement and enforce.
- Resources are limited to implement mitigation and adaptation measures.
- Market failures are distorting incentive structure.

IV. Constraints-but not Binding

- Cost of Finance
- Human Capital
- Macroeconomic management
- Labor Market Rigidities
- Market Failures
- Access to Health and other Services
- Access to Social Safety Nets

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