



Economic Growth : Did Indonesia push its luck too far?

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Questions to be addressed

- What are the lessons learnt from the Indonesia's growth story post AFC?
- What are the challenges in the future?
- Will Indonesia be able to shift into high gear?



Indonesia's growth: good but not enough

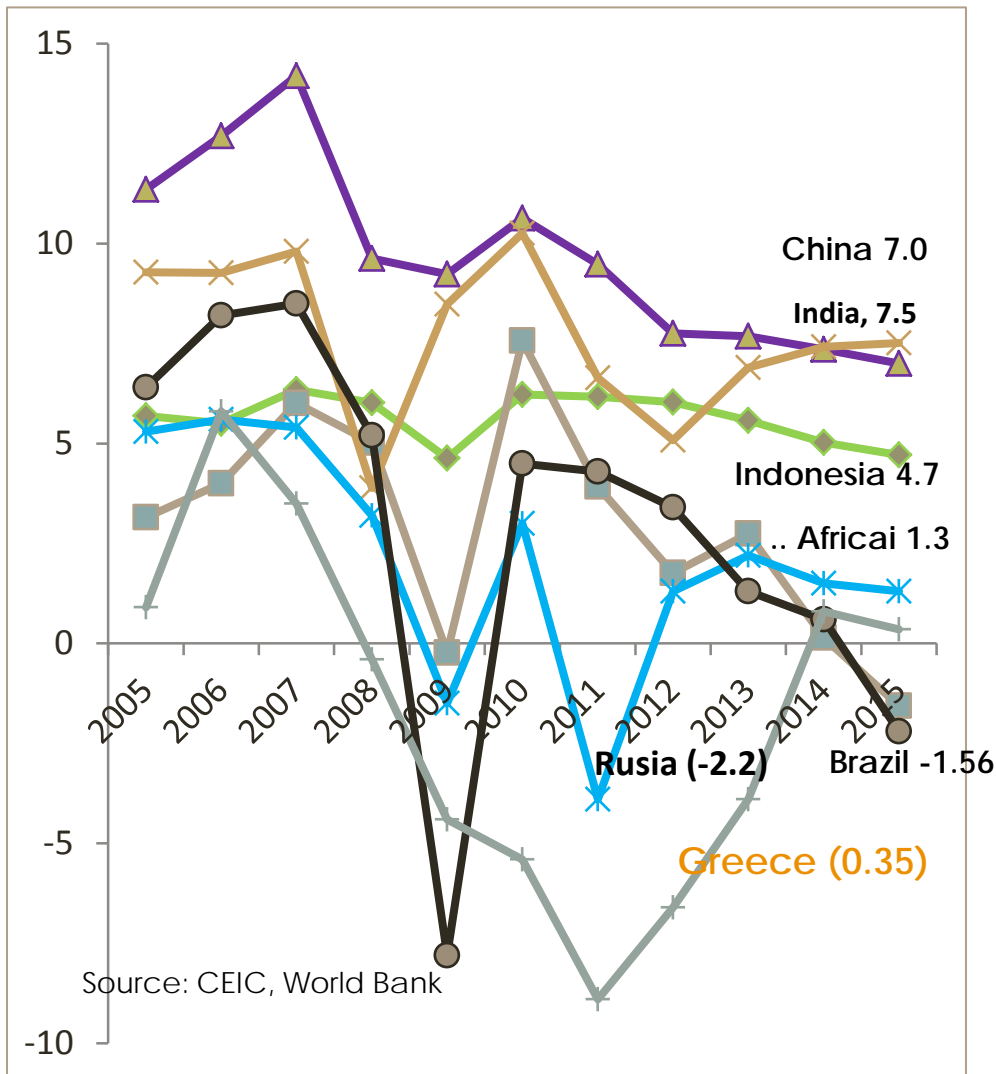
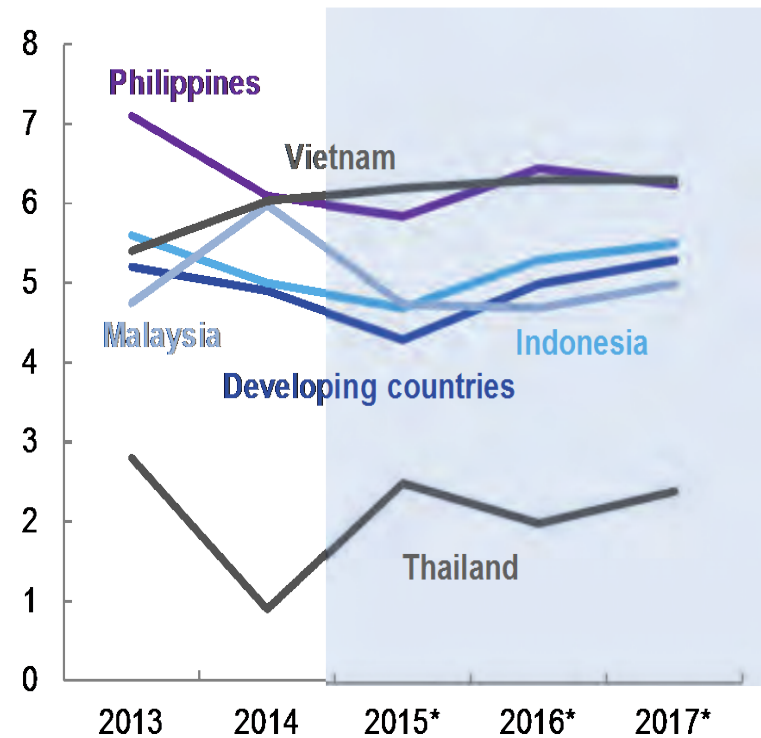


Figure 2: The outlook for developing countries is subdued, though slightly better for Indonesia (average annual GDP growth, percent)



Note: * World Bank forecast
Source: World Bank staff projections

Indonesia's balance sheet

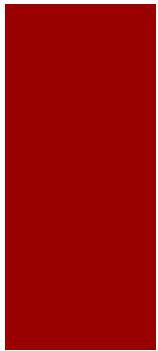
Assets

- Macroeconomic stability
- Demographic dividend
- Strong consumptions
- Relative high GDP growth
- Political stability
- Natural resources (?)

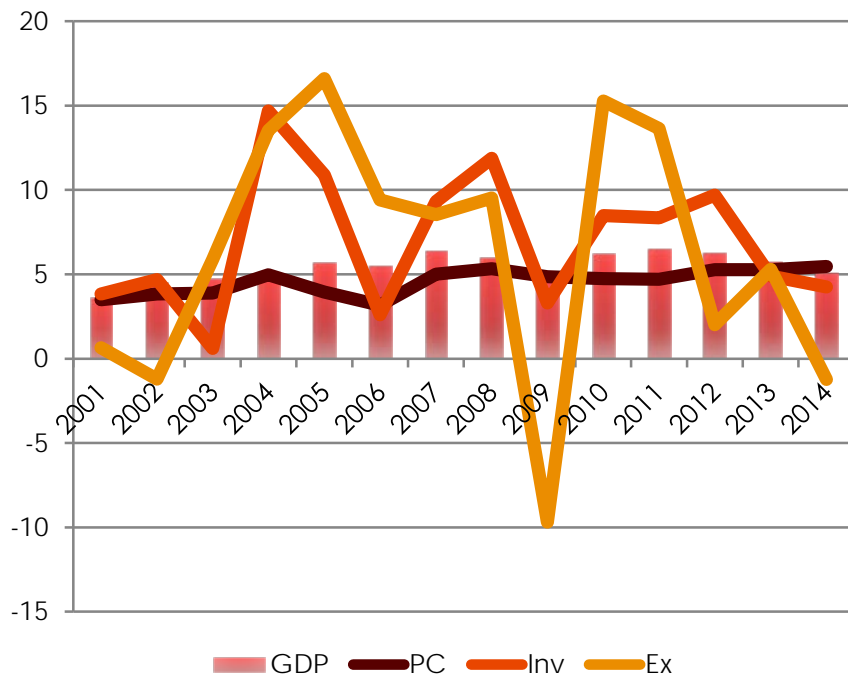
Liabilities

- Poor quality of infrastructure
- Poor quality of human resources
- Low productivity
- Declining competitiveness (esp. labor intensive manufacturing)
- Inequality
- Financing
- Investment climate

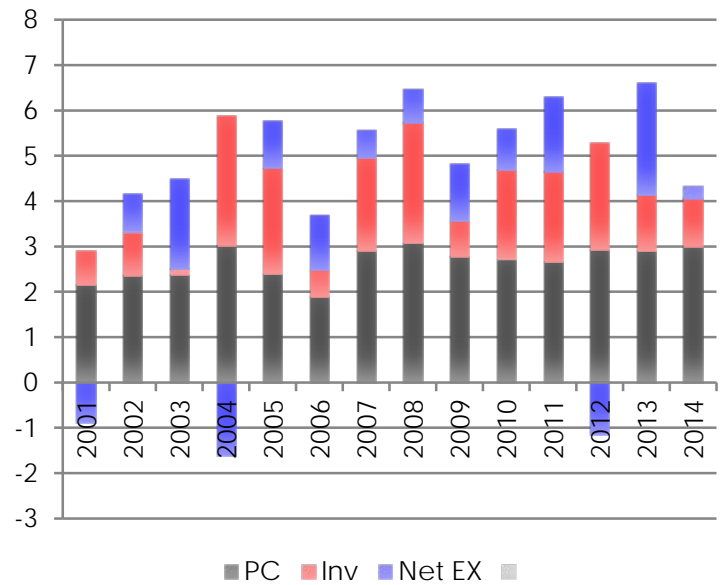
Private Consumptions and investment were important sources of growth



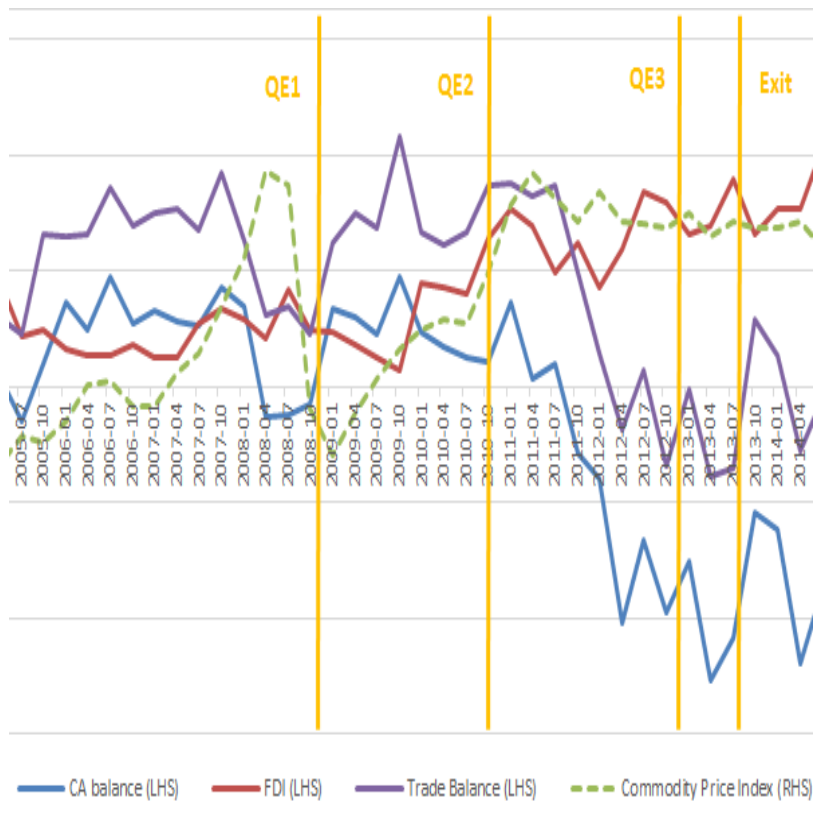
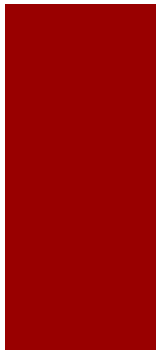
Indonesia
GDP growth by expenditure
(%)



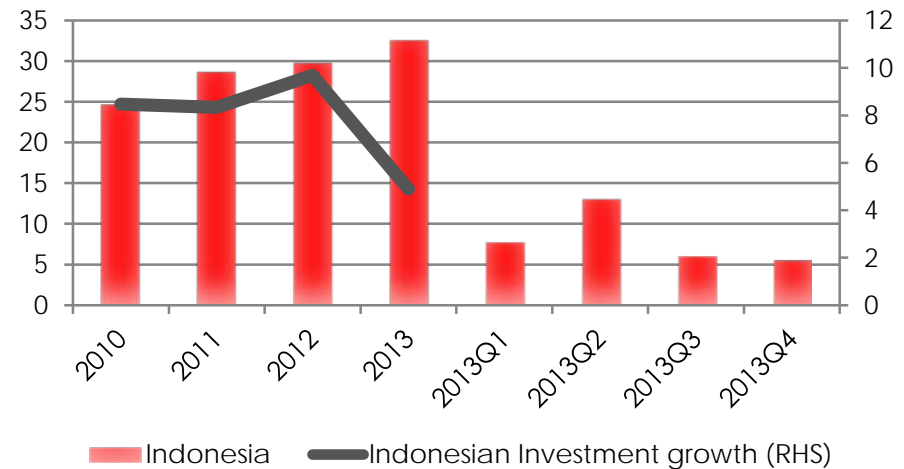
Source of GDP growth:
by expenditures (%)



The song remains the same: commodities and investments boom

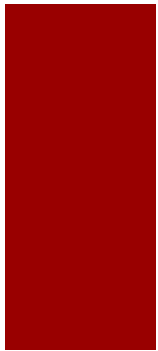


Emerging Market Private
External Financing to
Indonesia (\$ bn)
and Indonesia investment
growth (%)

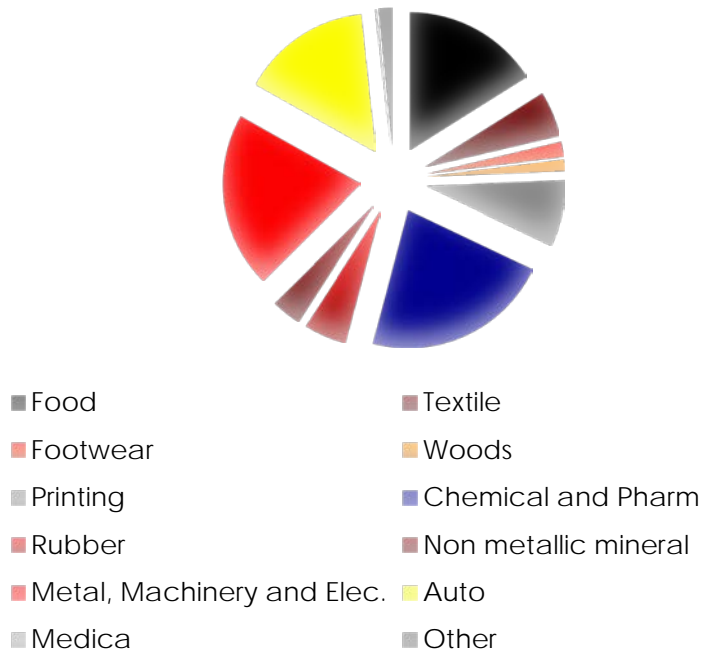


Investment: dominated by domestic market oriented sector...

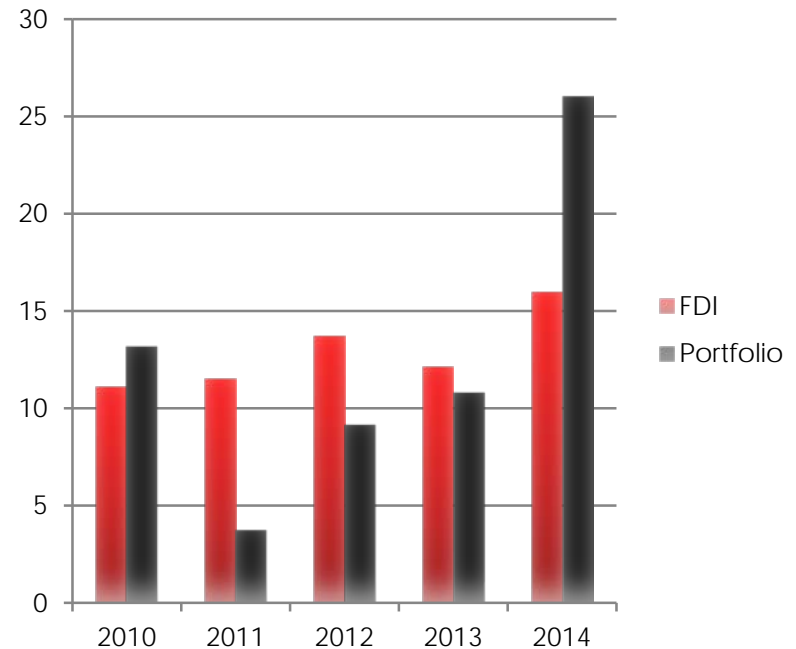
Portfolio investments remain important



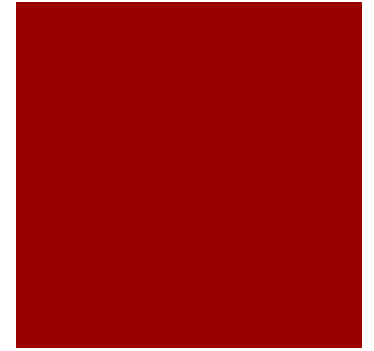
Indonesia: Investment realization, by sectors 2000-2014



FDI and Portfolio investment in Indonesia



Source: CEIC

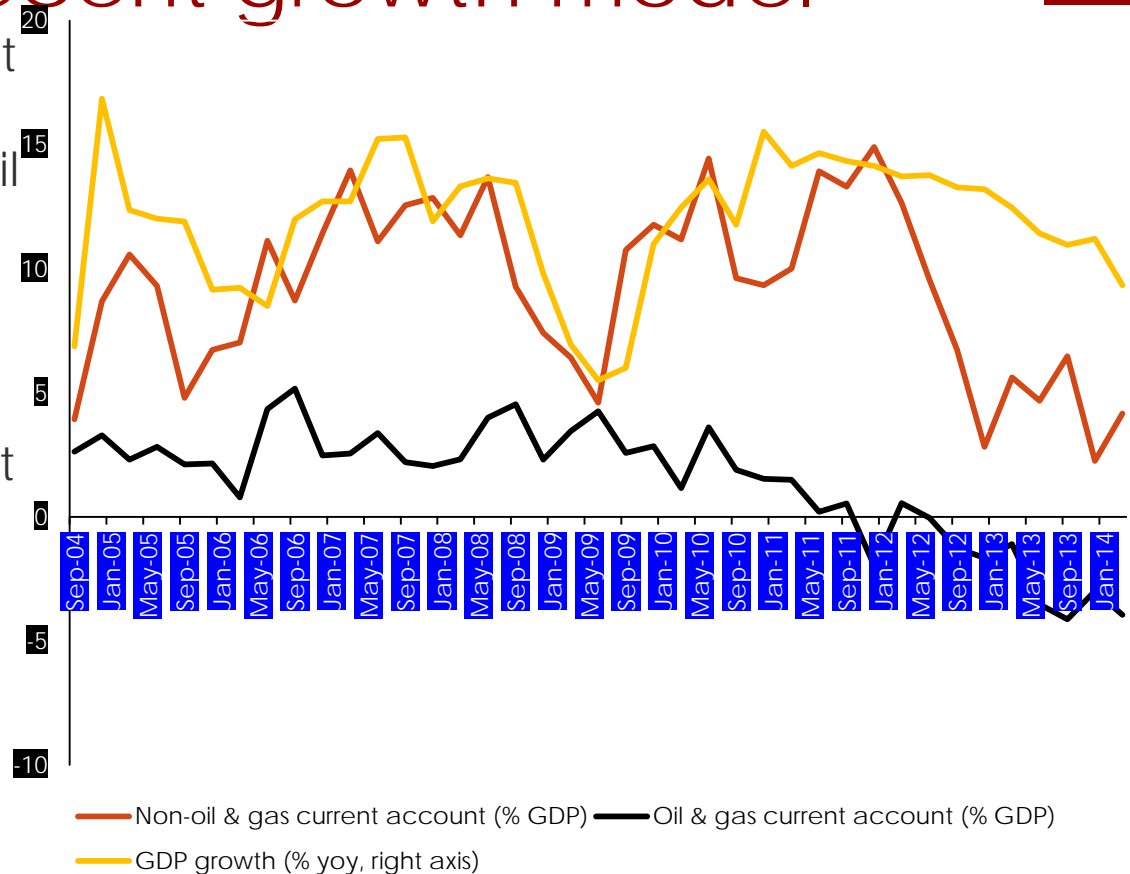


CA deficit/GDP and Private Capital flows

percent

There is something wrong about Indonesia's recent growth model

- Deficit in current account is widening since 2012, mainly due to deficit in oil and gas balance
- But surplus of non-oil and gas exports has also declined, suggesting that exports has not growing



Source CEIC

Managing the macro economy during the taper tantrum



$$CA = (S - I) + (T - G)$$

Stability over growth:

Expenditure reducing policy:

Cut I, and G (fuel subsidy transfer to cash transfer)

Expenditure switching policy

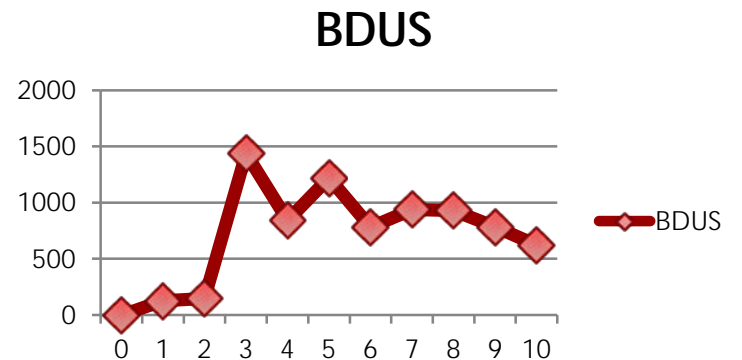
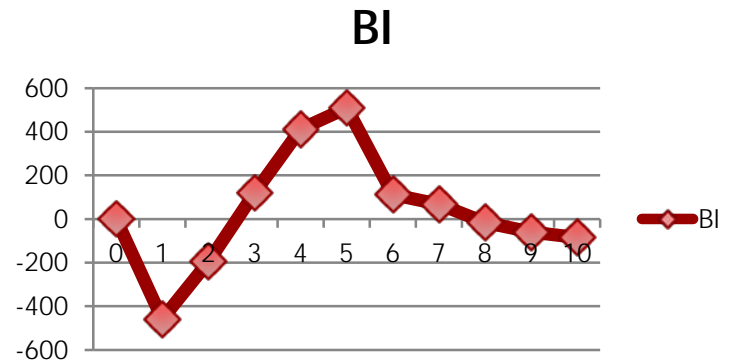
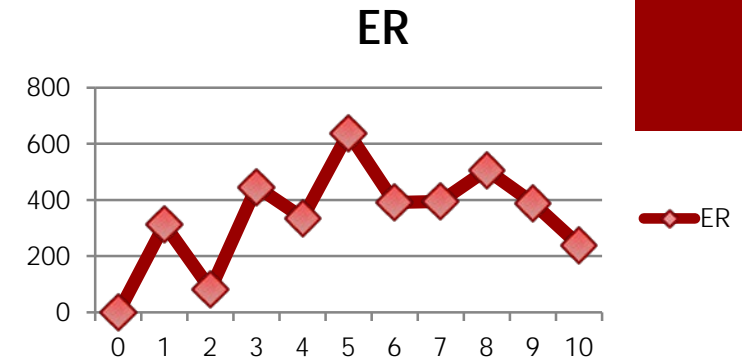
Allow ER to depreciate

Opening import (removed quota for meat), lowering import tariff for soybean

Granger causality test and Cumulative IR (use generalized impulse): on Current Account

Pairwise Granger Causality Tests
Date: 11/13/15 Time: 00:40
Sample: 2004Q1 2014Q1
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
BI does not Granger Cause BDUS BDUS does not Granger Cause BI	39	0.35817 0.97079	0.7016 0.3890
CA does not Granger Cause BDUS BDUS does not Granger Cause CA	39	0.05292 7.37765	0.9485 0.0022
ER does not Granger Cause BDUS BDUS does not Granger Cause ER	39	0.47168 2.00221	0.6280 0.1506
CA does not Granger Cause BI BI does not Granger Cause CA	39	1.36440 3.58307	0.2692 0.0387
ER does not Granger Cause BI BI does not Granger Cause ER	39	0.25046 0.81128	0.7799 0.4527
ER does not Granger Cause CA CA does not Granger Cause ER	39	7.31257 6.15250	0.0023 0.0052



Lessons learnt from post AFC:
declining competitiveness?



Indonesia made slow progress in export diversification; appreciation of exchange rate could be one of the reasons

Figure 11 Relatively Slow Progress in Diversifying Export Products

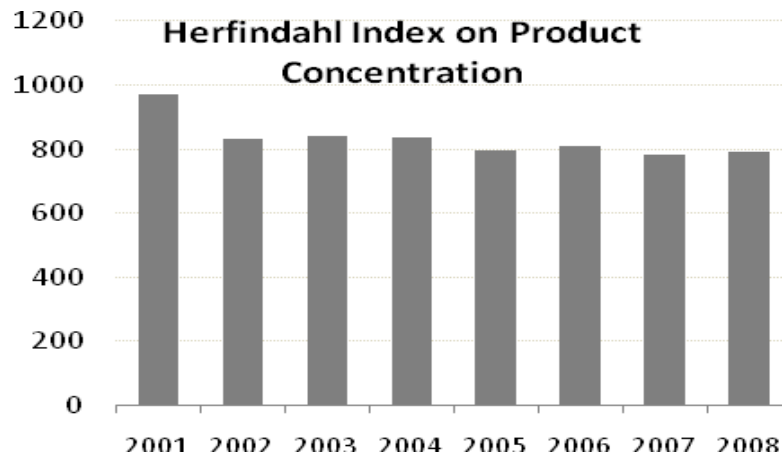
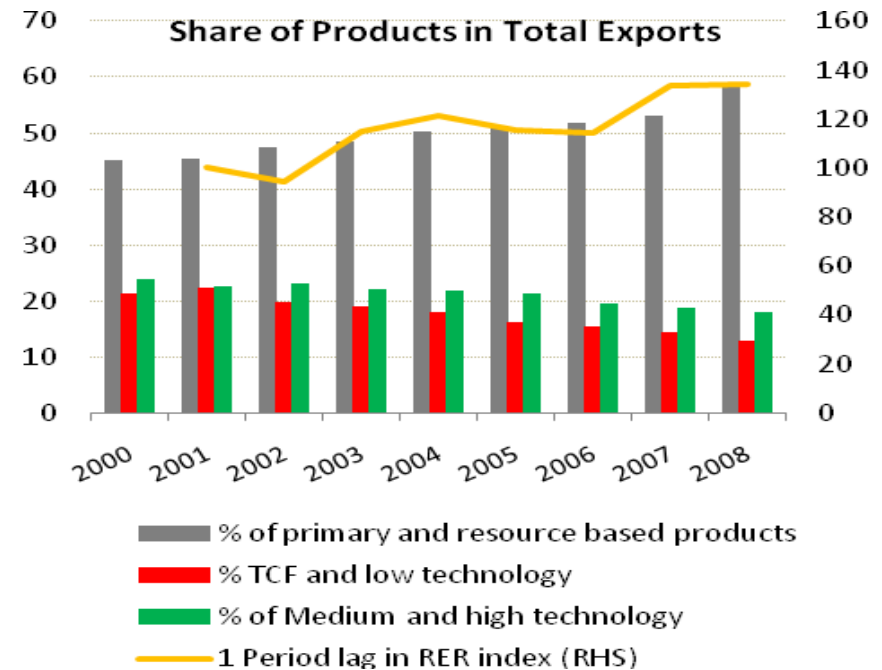


Figure 12 Increasing Share of Primary and Resource Based Products



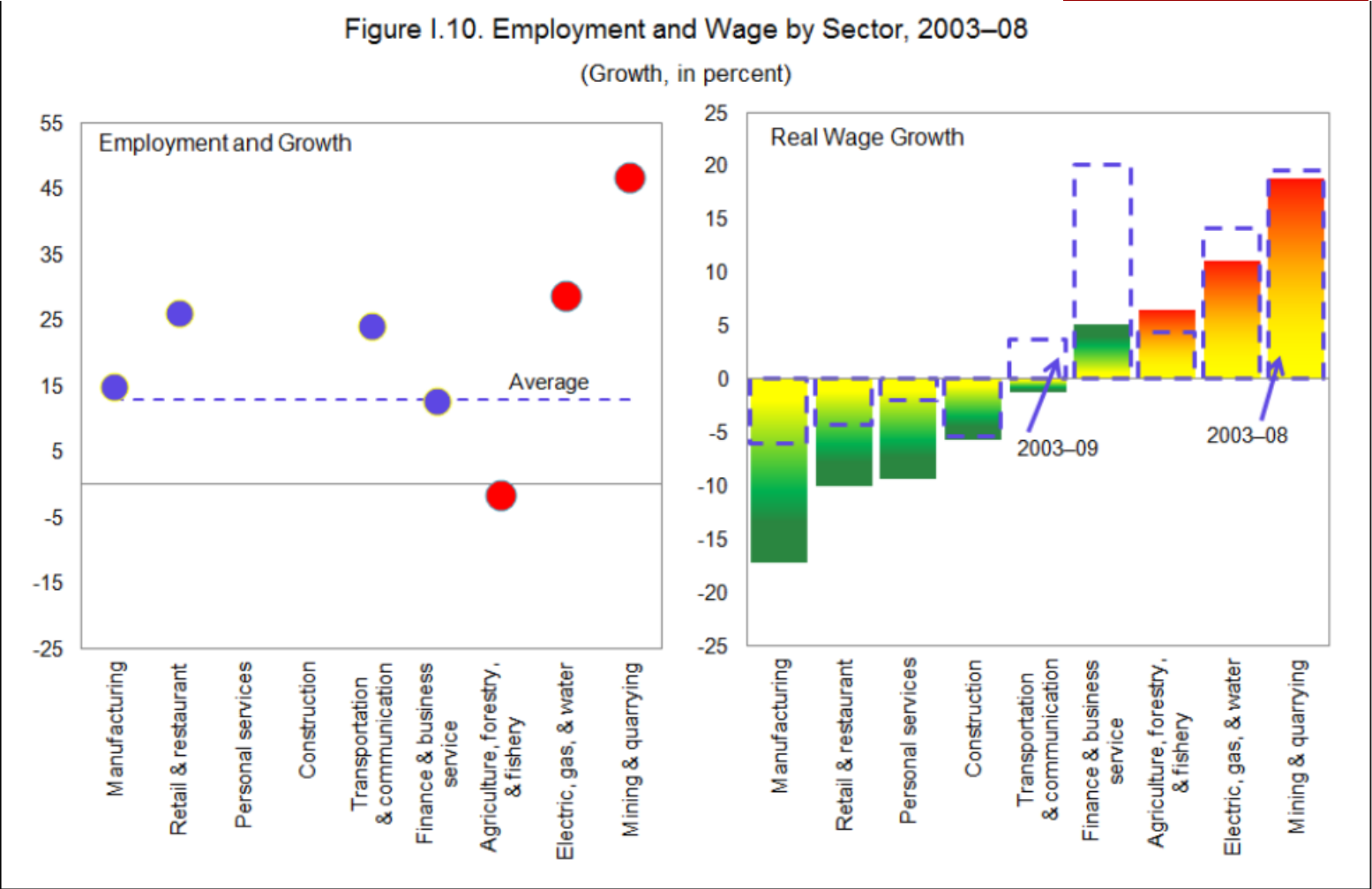
Source: Bank Indonesia and authors' calculation using UN-Comtrade data. Classification is based on Lall (2000)



Employment and wage

Figure I.10. Employment and Wage by Sector, 2003–08

(Growth, in percent)



Source: IMF (2010)

Then should Indonesia dump export led growth strategy?

Comovements between Innovations in Private Consumption with Innovations of GDP Components ^a

Lags	Components of GDP		
	Government consumption	Gross fixed capital formation	Exports
0	0.12	0.06	0.24
-1	-0.16	-0.04	-0.27
-2	-0.22	-0.01	-0.41
-3	0.26	-0.07	0.29
-4	0.20	-0.13	0.49

Source: Estimated from BPS National Account

^a Comovements between innovations of each component derived from original data that spans from 2000-I to 2008-IV. Here growth is expressed as annual (year-to-year) growth

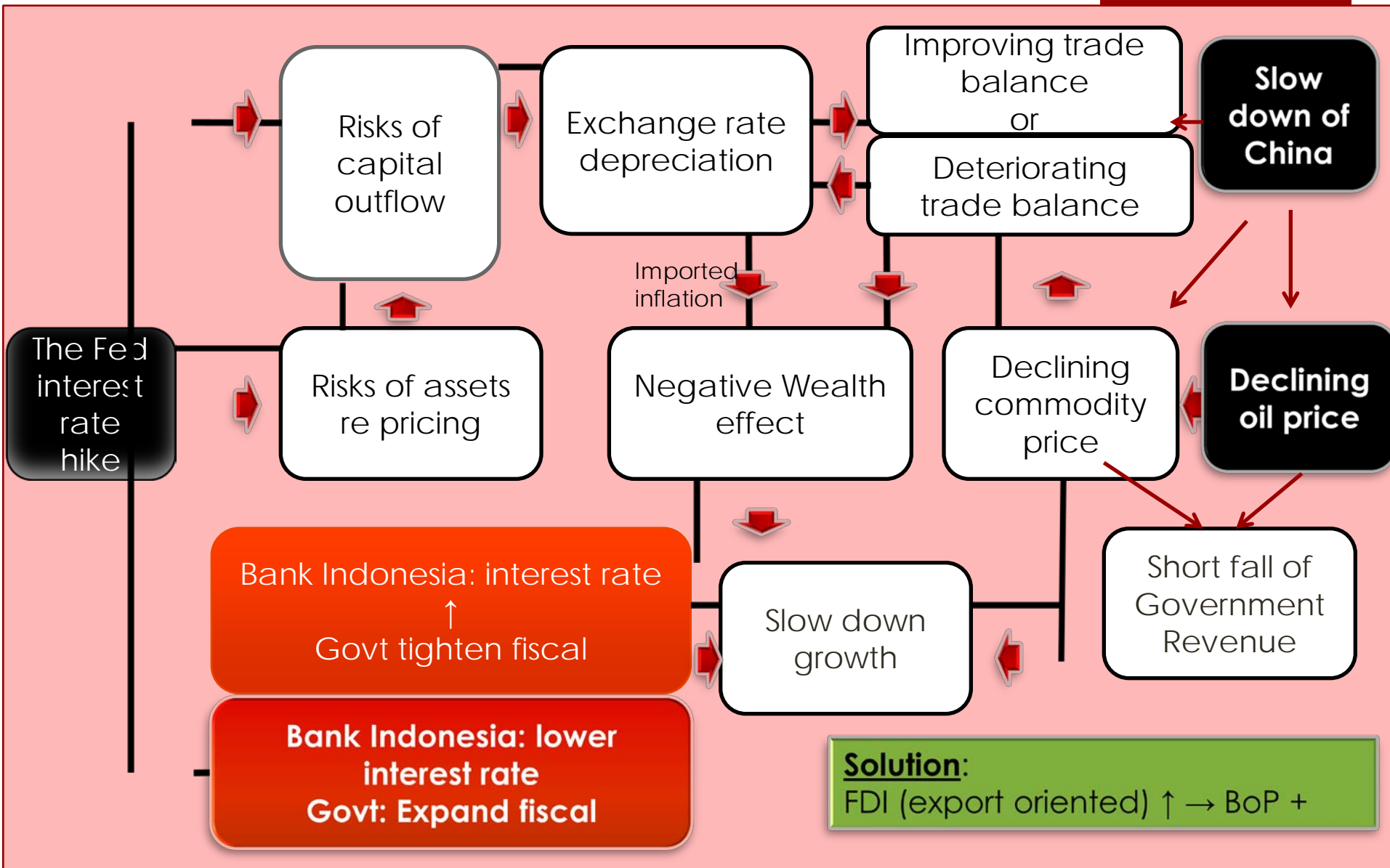
What are the lessons learnt?

- Capital inflow → real ER appreciation → CA deficit → increase vulnerability; rupiah should have been depreciated earlier; however sterilization cost was very expensive
- High current account deficit makes economy become vulnerable, especially if it is financed by portfolio or FDI on domestic market oriented
- Bank Indonesia should have raised the interest rate earlier; government should have tightened the fiscal even once QE started) → politically difficult
- Structural reform (labour, investment, trade policies) should have been done earlier, but politically was difficult (no crisis) (bad times make good policy)

**What are the future
challenges?**



The macroeconomic impact of the global volatility



Shifting into high gear?



Export volatility and concentration

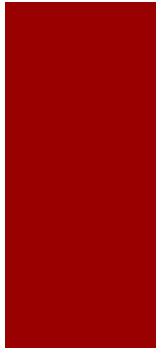
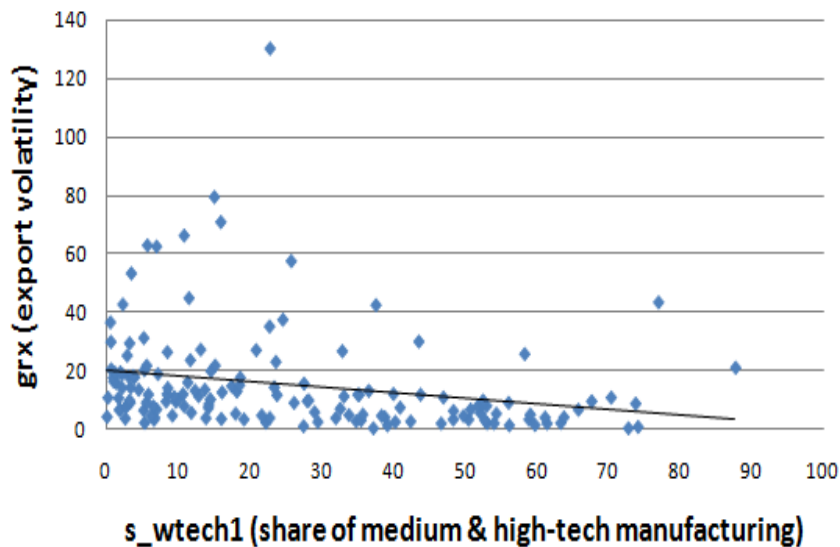


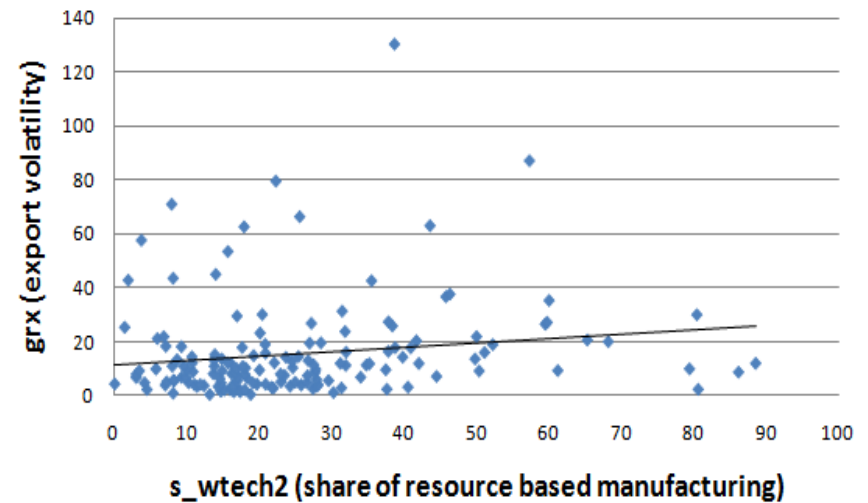
Figure 8: Export volatility and concentration in medium & high tech manufacturing

Figure 9: Export Volatility and concentration in resource based manufacturing

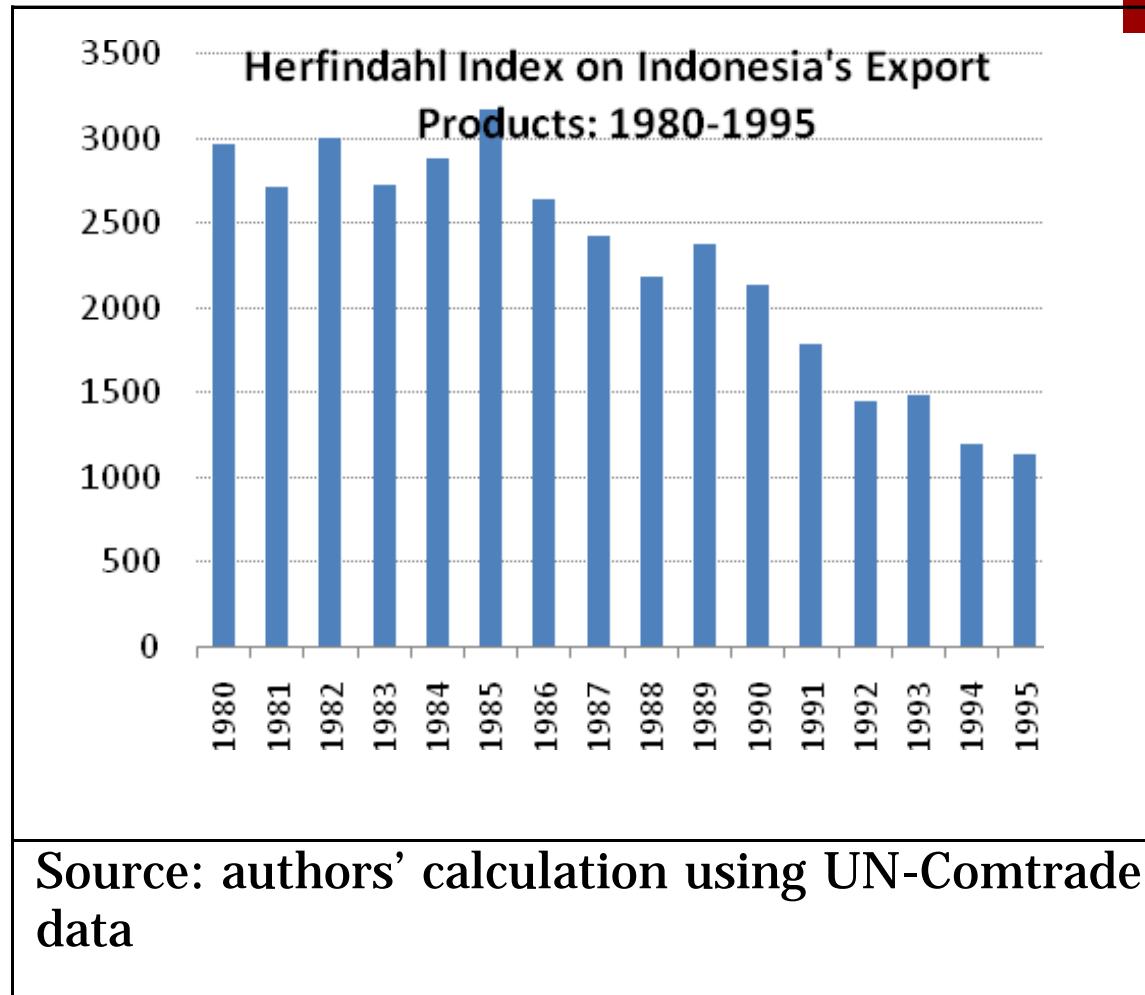
World Technology 1



World Technology 2



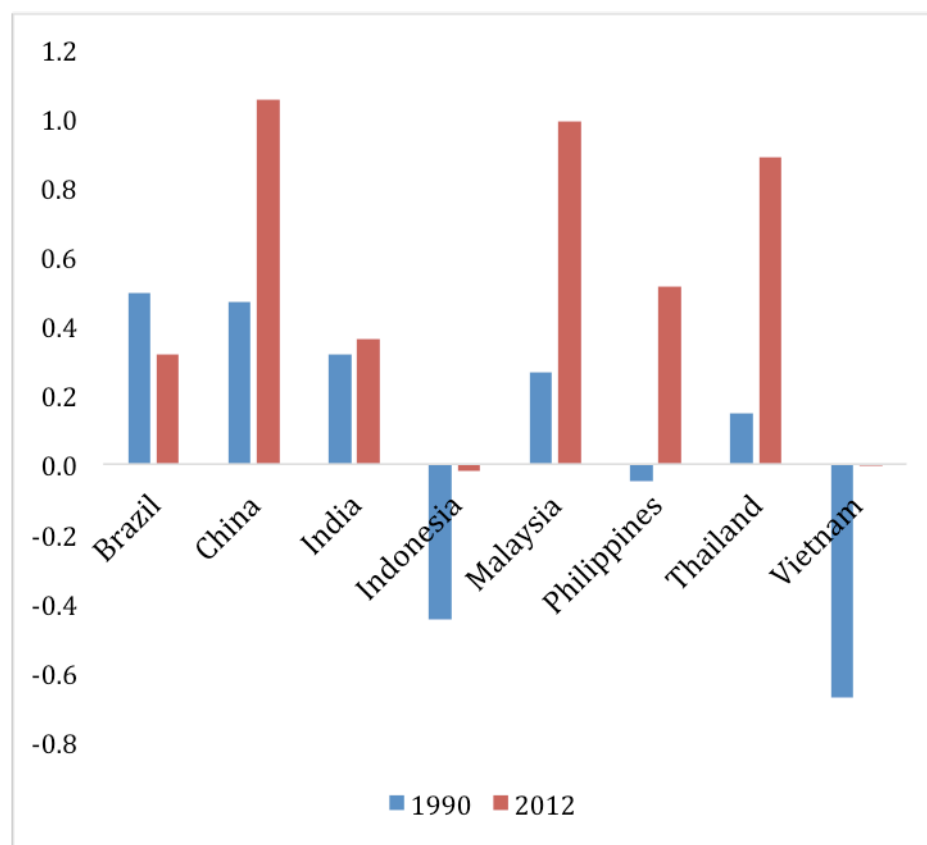
Take the benefit of low commodity price:
Low oil price in the 80s, devaluations, deregulations
helped Indonesia to diversify its exports products
from 1980-1995



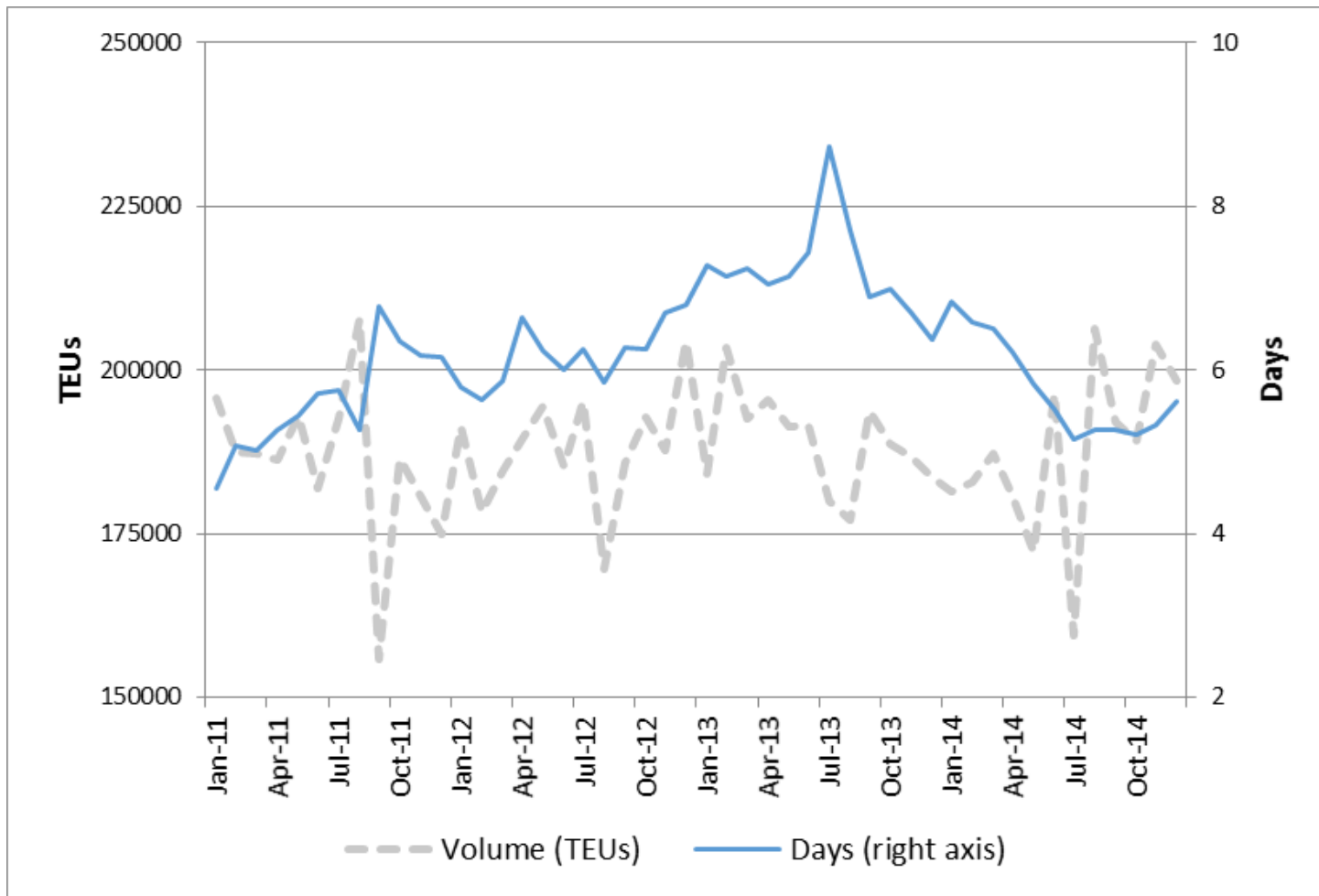
Capability to undertake complex task is still behind other middle income countries

- ▶ If products could not be made in Indonesia, where else can they be made?
- ▶ From observed trade data, Indonesia made progress in improving capability to export products requiring more complex task (but so does Vietnam)
- ▶ Why matters? It reflects institutional capacity and ability to accumulate and channel knowledge into productive activities

Not yet able to manage complex tasks?



Dwell time and volume at Tanjung Priok (largest port in Indonesia): improved but not enough



Source: Sandee (forthcoming)

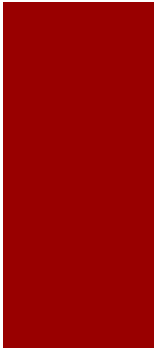
“Industrial policy?”

- Attracting FDI into export oriented sector is the key
- A better connectivity to reduce trade cost
 - Connecting globally and producing locally
- Primary products and real exchange rate
 - Addressing real ER appreciation
- The role of R&D and improvement of products' quality
 - Implement model for public-private R& D that works
- The development of the services sector
 - Efficient services for competitiveness and productivity
- Promotion and marketing
 - Incentives for discovering new products or new markets

Looking forward

- Shifting towards high growth cannot happen instantly without jeopardizing macro-stability. It has to go through the supply side (improving productivity)
- Investing in human capital is a must (Woo and Hong, 2010).
 - But need to be accompanied by steady improvement in governance and infrastructure (logistics, ICT)
 - Environment for knowledge exchange: labor market, creativity, openness to FDI
- Managing political process

Thank you



Democratization and Decentralization

Thomas Pepinsky
Department of Government
Cornell University
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The Context

FIRST STAGE

1999: Competitive Legislative Elections

2001: Regional Autonomy

Neither was novel in **procedure**, only in **implementation**

The Context

SECOND STAGE

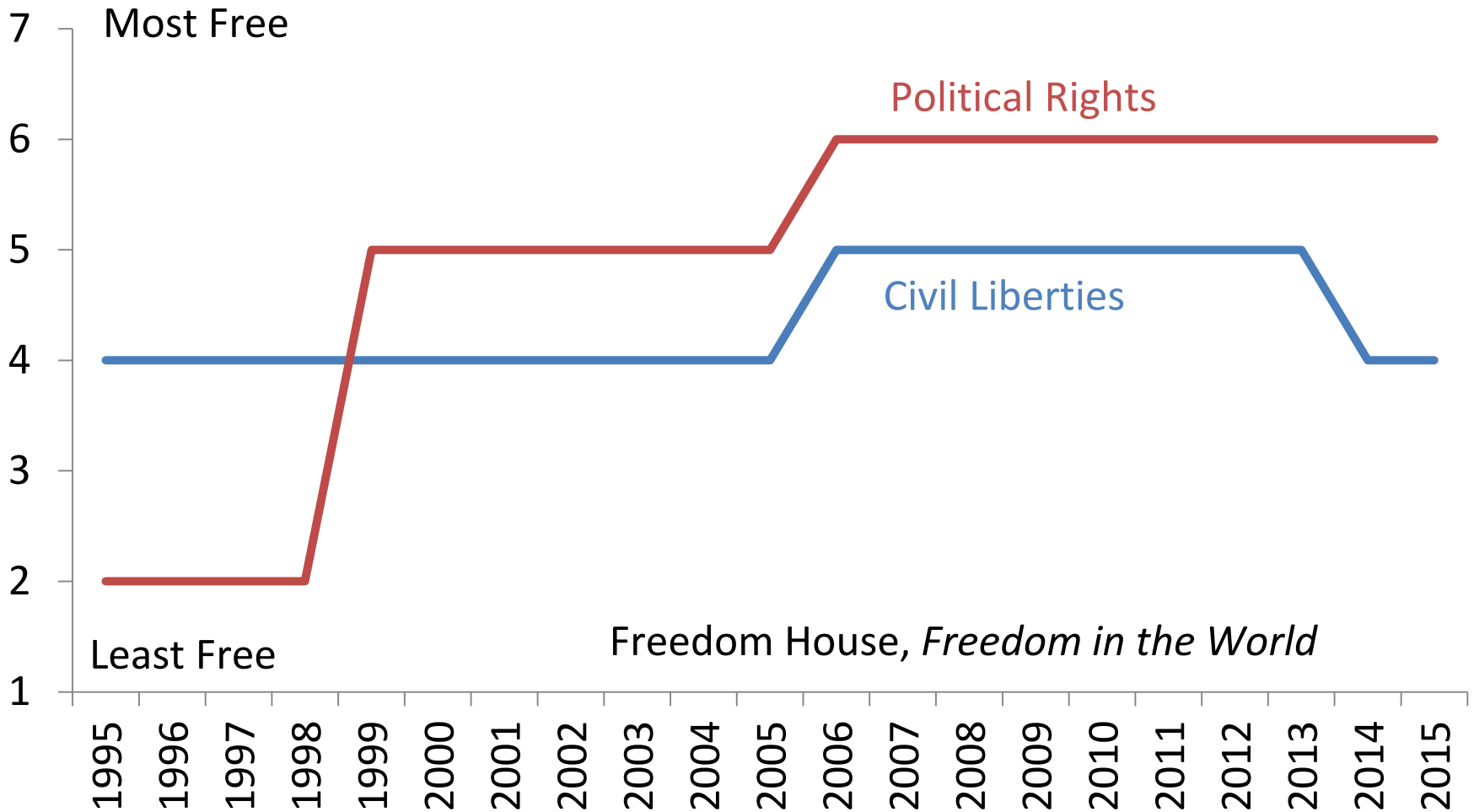
2004: Direct presidential elections

2004: Clarification of decentralization rules

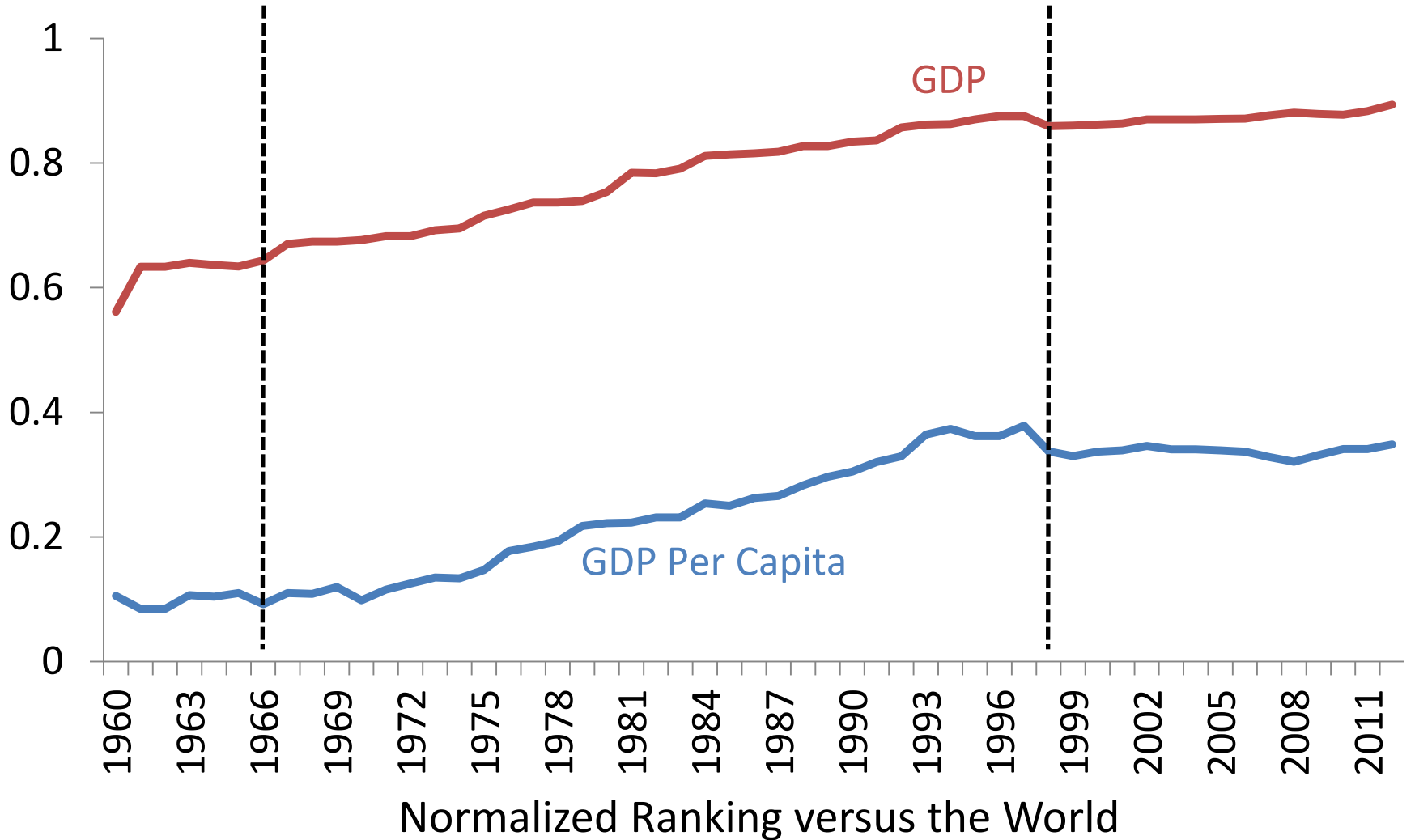
2005: Direct district head elections

Novel in **procedures**

Trends Local and National



Trends Local and National



Trends Local and National

1. Erosion of programmatic brands (trend dates to Sukarno)
2. Disruption of “cross-level” vertical accountability
3. Personalization of politics

c.f. Mainwaring 1993 on immobilism, coalition maintenance in multiparty presidential democracies

Implications for National Politics

1. Impetus for grand coalitions (just look this week)
2. Difficulty in costly reforms and complex tasks
3. Structure **constrains**, agency **explains**

Implications for Local Politics

1. “Great” variation
2. Experimentation, innovation, ... and recalcitrance, and stagnation
3. The emergence of outsiders

What to Watch

WHAT'S NEW?

1. Multilevel administration w.o. multilevel partisanship
2. The market for clientelism
3. Regional divergence
4. Policy diffusion

What To Watch

NEW OLD FORCES

1. Prickly nationalism (c.f. Aspinall 2015)
2. Militarism
3. Moralism as political culture (“revolusi mental,” “politik beradab”)
4. *Golongan*-ization of difference

Three Words I Haven't Said

1. Islam
2. Civil War
3. Terrorism

Our fears were misplaced in 1999. What am I missing today?

Conclusions

Indonesian Economic Growth in International Perspective

Dwight H. Perkins
Indonesia Conference
Harvard University
November 21, 2015

GDP and GDP per capita growth rates in Africa and Latin America (2013/1960)

Sub Saharan Africa per capita GDP growth rate	0.8% per year (1.5 fold) 3.5% per year
Latin America & Caribbean per capita	1.8% per year (2.6 fold) 3.8% per year
Indonesia GDP per capita (2014/1960) GDP growth rate	3.5% per year (6.4 fold) 5.6% per year

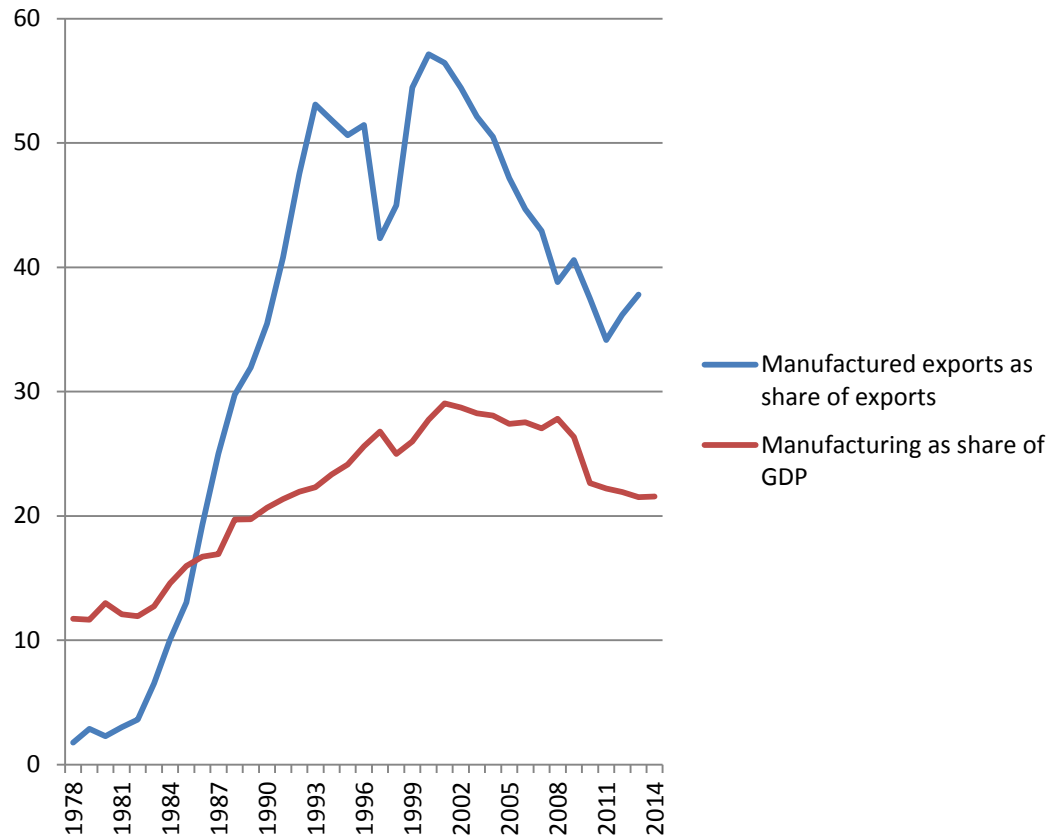
Growth Rates of GDP Per Capita (in %)

	1961-1970	1971-1980	1981-1990	1991-2000	2001-2010	2010-2014
China	1	4.3	<u>7.7</u>	<u>9.3</u>	<u>9.8</u>	<u>6.8</u>
Hong Kong	<u>7.7</u>	<u>6.9</u>	<u>5.4</u>	2.3	3.5	1.7
Taiwan	7	<u>7.9</u>	<u>6.4</u>	<u>5.7</u>	2.3	4.2
Japan	<u>9.8</u>	3.3	4	0.9	0.8	0.1
Republic of Korea	<u>5.7</u>	<u>5.4</u>	<u>7.5</u>	<u>5.1</u>	3.7	2.9
Indonesia	1.8	<u>5.4</u>	4.4	2.7	4	3.8
Vietnam	na	na	na	<u>5.9</u>	<u>5.9</u>	4.8
Philippines	1.8	3.1	-0.9	0.8	2.8	4.3
Thailand	<u>5.1</u>	4.3	<u>5.9</u>	3.5	3.4	0.4
Malaysia	3.4	<u>5.3</u>	3.1	4.4	2.7	4.4
Cambodia	na	na	na	na	<u>6.1</u>	<u>5.1</u>
Singapore	4.4	<u>7.2</u>	4.9	4.6	3.4	1.6

Secondary School Enrollment (as % of relevant age cohort)

	1960	1975
Burma	10	26
Cambodia	3	9
S. Korea	27	59
Philippines	26	56
Taiwan	37	
Indonesia	6	18
Thailand	8	25
Malaysia	19	41
Hong Kong	24	69
Singapore	32	53
Vietnam		n.a. 2*
Japan	74	95

Share of Manufacturing in Exports and GDP (1978-2014)



Bad Times, Bad Policy?

Trade and Investment in Indonesia

Arianto A. Patunru

Indonesia Project
Australian National University

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November 21, 2015



Mohammad Sadli (1922-2008).
Member of the 'Berkeley Mafia',
Chair of BKPM, Minister of Man-
power, Minister for Mines, UI
economist

*Bad times may produce good eco-
nomic policies, and good times
frequently the reverse (Hill &
Thee 2004)*

Indonesia's pattern of reform has been consistent with the Sadli's Law

- ▶ Command socialism of the 1950s and 1960s replaced by economic reform of the New Order. Most notable: 1967 Investment Law
- ▶ Oil price collapse in the early 1980s triggered a series of reform packages incl. trade cost cut, capital market and banking sector development, custom procedure improvement, relaxed investment and ownership restrictions
- ▶ AFC in the late 1990s followed by a series of unilateral liberalisation

Sadli's Law broke down

But then protectionism re-emerged in the 2000s

- ▶ Interest in free trade post AFC was short-lived
- ▶ The GFC of 2008-09 did not produce good policy (yet?)
- ▶ Jokowi: bad times and bad policy (thus far?)

- ▶ Recent laws: 2009 Mineral & Coal Mining Law, 2010 Horticulture Law, 2012 Food Law, 2013 Farmers Law, 2014 Industry Law, 2014 Trade Law, 2014 Standardisation Law
 - ▶ Mostly to restrict trade, stabilise domestic prices, and foster linkages
 - ▶ Often times contradicting each other, or in conflict with local by-laws
- ▶ Non-tariff measures
 - ▶ License and permit requirements
 - ▶ Pre-shipment inspections
 - ▶ New labelling requirements
 - ▶ Local content requirements
 - ▶ Export restrictions

MFN tariffs, 1995-2013

Year	Simple Avg. (%)	Weighted Avg. (%)	Std. Deviation
1995	15.34	10.89	14.89
1996	12.35	7.73	16.70
1999	11.19	6.05	16.61
2000	8.43	5.16	11.91
2001	6.89	4.31	11.29
2002	6.90	5.79	11.14
2003	6.90	5.22	11.13
2004	6.95	6.09	15.41
2005	6.95	6.07	15.41
2006	6.95	6.07	15.41
2007	9.87	4.47	7.48
2008	9.58	4.07	7.39
2009	9.57	3.93	7.42
2010	9.61	4.09	7.44
2007	16.48	10.42	17.10
2008	12.26	6.29	16.07
2009	12.37	7.70	15.62
2007	6.91	5.01	12.62
2009	6.80	4.96	12.42
2010	6.70	5.19	7.00
2011	7.41	4.75	11.40
2013	7.23	4.67	11.40

Source: WITS Data

'Harmful' trade measures

Number of harmful measures implemented by specified jurisdiction, by type of measure	Total Measures				
	Indonesia	China	Malaysia	Thailand	India
Bail out / state aid measure	6	6	1	1	19
Competitive devaluation	0	0	0	0	0
Consumption subsidy	0	1	0	0	0
Export subsidy	3	11	2	1	25
Export taxes or restriction	18	10	1	2	14
Import ban	6	3	1	0	6
Import subsidy	0	0	1	1	2
Intellectual property protection	0	2	0	0	0
Investment measure	13	17	4	3	12
Local content requirement	15	9	4	0	107
Migration measure	2	1	2	1	2
Non tariff barrier (not otherwise specified)	25	9	3	1	12
Other service sector measure	4	3	0	0	1
Public procurement	9	7	0	0	13
Quota (including tariff rate quotas)	5	7	0	0	2
Sanitary and phytosanitary measure	4	0	0	0	0
State trading enterprise	0	0	0	0	0
State-controlled company	2	1	0	0	1
Sub-national government measure	0	2	0	0	1
Tariff measure	12	15	3	1	37
Technical barrier to trade	3	1	0	0	0
Trade defence measure (anti-dumping, countervailing duties, safeguard)	17	45	7	14	135
Trade finance	1	1	2	0	95
Total	115	131	18	22	356

Source: GTA, accessed 13 May 2015

How restrictive?

Trade restrictions implemented by Indonesia since 2009

Number of ambers	37
Number of reds	158
Number of tariff lines affected by reds	746
Number of sectors affected by reds	45
Number of trading partners affected by reds	181

Source: GTA, accessed 13 May 2015

Against whom?

Top affected partners

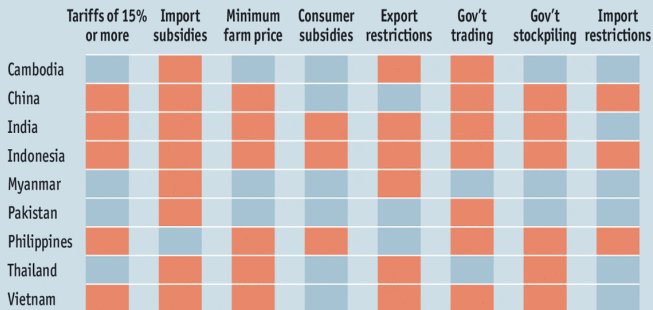
China	68
US	60
Japan	54
Australia	53
Germany	50

Source: GTA, accessed 13 May 2015

An example: distortion in rice market

Cereal offenders

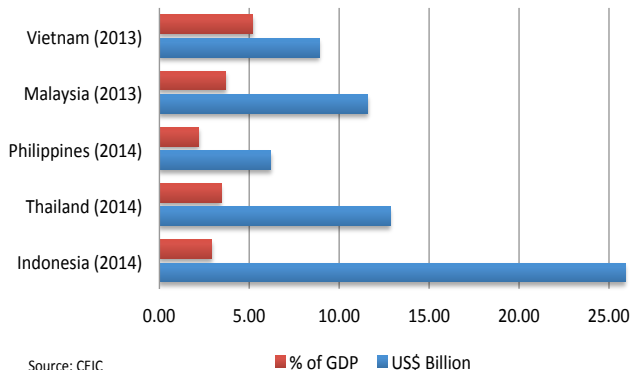
■ Policies affecting rice prices, 2007–13



Source: USITC

Economist.com

FDI Inflows



Which sector to invest?

Sector Openness

	Indonesia	Malaysia	Thailand	Philippines	Vietnam
Agriculture and Forestry	98%	50%	49%	40%	76%
Mining and Oil & Gas	98%	60%	75%	40%	76%
Manufacturing	98%	100%	100%	100%	100%
Electricity	95%	39%	100%	40%	60%
Waste management and water supply	100%	100%	75%	40%	76%
Transportation	49%	83%	49%	50%	49%
Tourism	100%	100%	49%	100%	100%
Media	0%	100%	35%	0%	0%
Telecom	57%	100%	49%	40%	53%
Financial Services	86%	70%	75%	87%	83%
Accounting	100%	100%	49%	0%	100%
Education	0%	100%	100%	40%	100%
<i>Aggregate</i>	73%	79%	68%	50%	66%

Source: Investing Across Sectors, World Bank 2012

Import content of exports

Foreign Content in Exports

			% Contr. to Net	
	Source	% Share (Total)	% Share (Mnf)	Exports of Merch
Indonesia (1995)	oc	12.89		
Indonesia (2000)	oc	19.42	23.56	78.54
Indonesia (2005)	oc	16.77	20.99	69.87
Indonesia (2010)	oc	13.24	17.52	67.64
Taiwan (1996)	oc	36.21		
Taiwan (2001)	oc	39.57		
Taiwan (2006)	oc	49.58		
China (2007)	Koopman et al. 2012	39.40		
China (2007)	Ma et al. 2015	40.82		
Vietnam (2007)	Riedel & Pham 2014	39.50		

Note: oc: own calculation using official input-output tables

Why protectionism re-emerges?

The political economy of trade protectionism

- ▶ Exchange rate protectionism, Olsonian collective action
- ▶ Drop in competitiveness
- ▶ The 'IMF trauma'
- ▶ Jokowi style
- ▶ Demonstration/neighborhood effect

Will this trend of protectionism continue?

- ▶ Likely, if the RPJM is a credible targets set
- ▶ Hopefully not, if the September/October/November deregulation packages are well implemented

Economic Reform Package: reason for optimism?

Too early to tell, but there are hopes:

- ▶ Many verification no longer required (e.g. for rice, wood, oil, gas)
- ▶ No need for other ministry's recommendation (e.g. sugar, salt, iron & ore, rice for industry)
- ▶ Multiple documents streamlined (e.g. textile, garment, pearls)



From **Gobel** to **Lembong** Is this a good thing? Too early to tell. But, Lembong: “Protectionist policies always backfire”
Hopefully Busch (2015) is right: “Good policy sometimes need a bit of bad policy first”

Thanks

THE BUSINESS ECOSYSTEM IN INDONESIA: THE POTENTIAL FOR THE CREATIVE ECONOMY

**Conference on Understanding Indonesia:
Revealing the Mysteries of Asia's Inscrutable Giant,
Harvard Kennedy School, November 21, 2015**

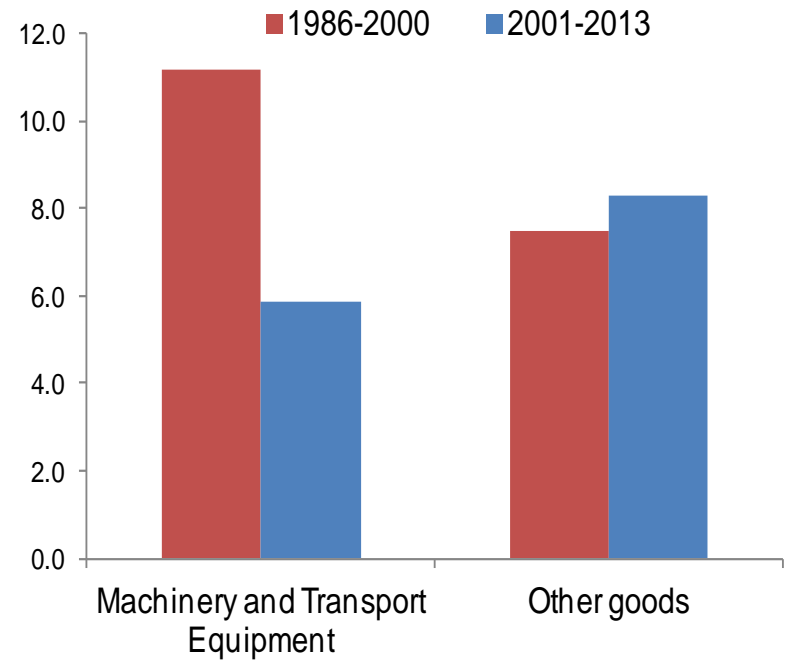
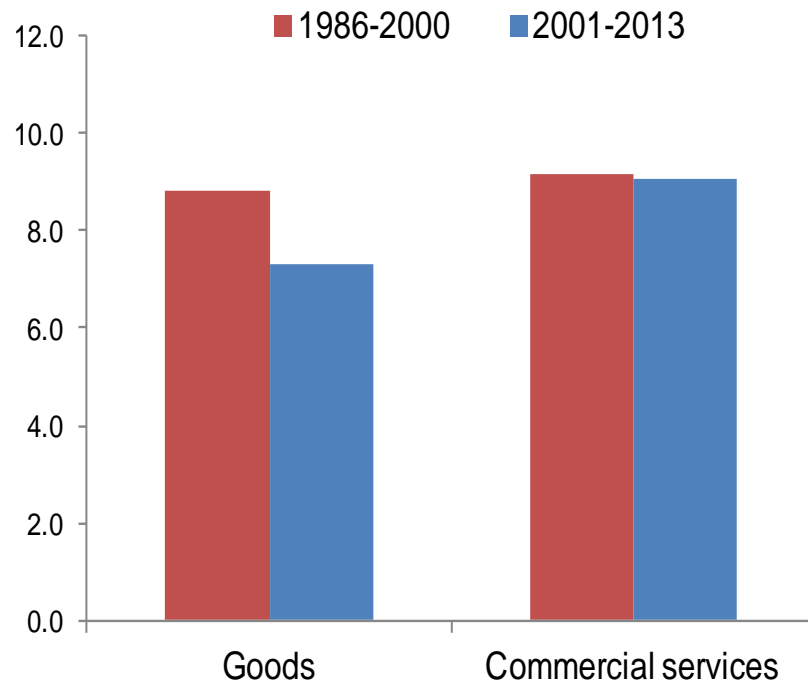
Mari Pangestu

George W. Ball Adjunct Professor, SIPA, Columbia University Fall 2015 and Faculty
of Economics, University of Indonesia

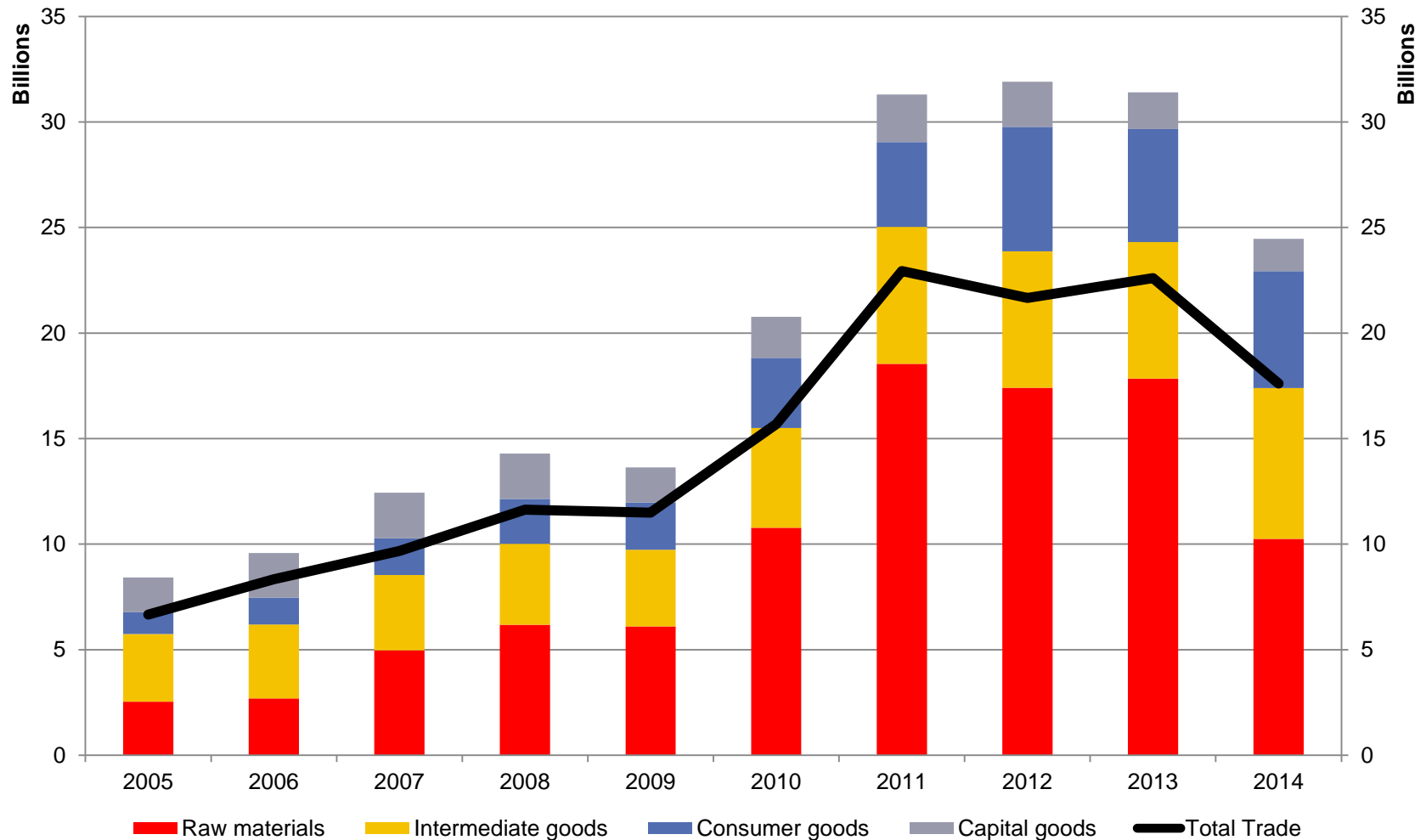
I. The CONTEXT: the need for diversification and new sources of growth, productivity and innovation

- slow growth of world trade and seeming delinking of world trade and growth (structural not cyclical): goods trade growth half previously and services more resilient
- Permanent weakening of commodity prices and demand
- Slowdown in China more than predicted, and future of structural reforms, leaving labor intensive production as China moves to services and innovation
- Changing nature of GVCs and role of China as hub: greater fragmentation of GVCs

1990s growth driven by goods (manufacturing, machinery and transport), changing to services and commodities



From 2013 to 2014, Indonesia's total exports to China contracted 22.1% yoy. The decrease mostly in Raw Materials (decreases 42.5% yoy). Others do not change significantly.



Diversification and structural transformation: think fashion not garment

The more capabilities a country has, the more diversified the country is



Products that need more capabilities will be made by fewer countries, and products will be more ubiquitous



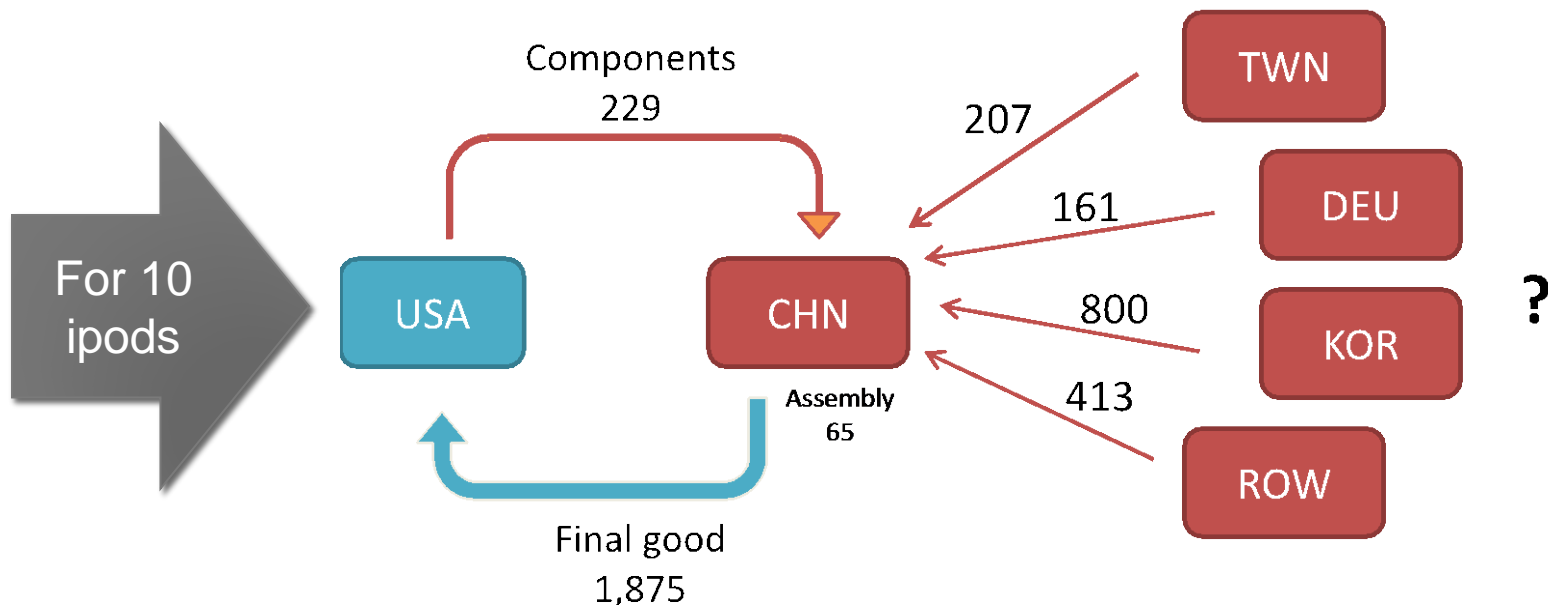
Countries with richer set of capabilities will be more diversified, and able to produce more ubiquitous products.



Hence, the diversification that matters is at the level of capabilities

Understanding Global Value Chains

- The case of iPod (Linden et al, 2009), iPhone (Xing and Detert, 2010), iPad (Linden et al, 2011) show that most components are imported from outside China. The value added made in China through the assembly process only contribute small part of the final value of the products.



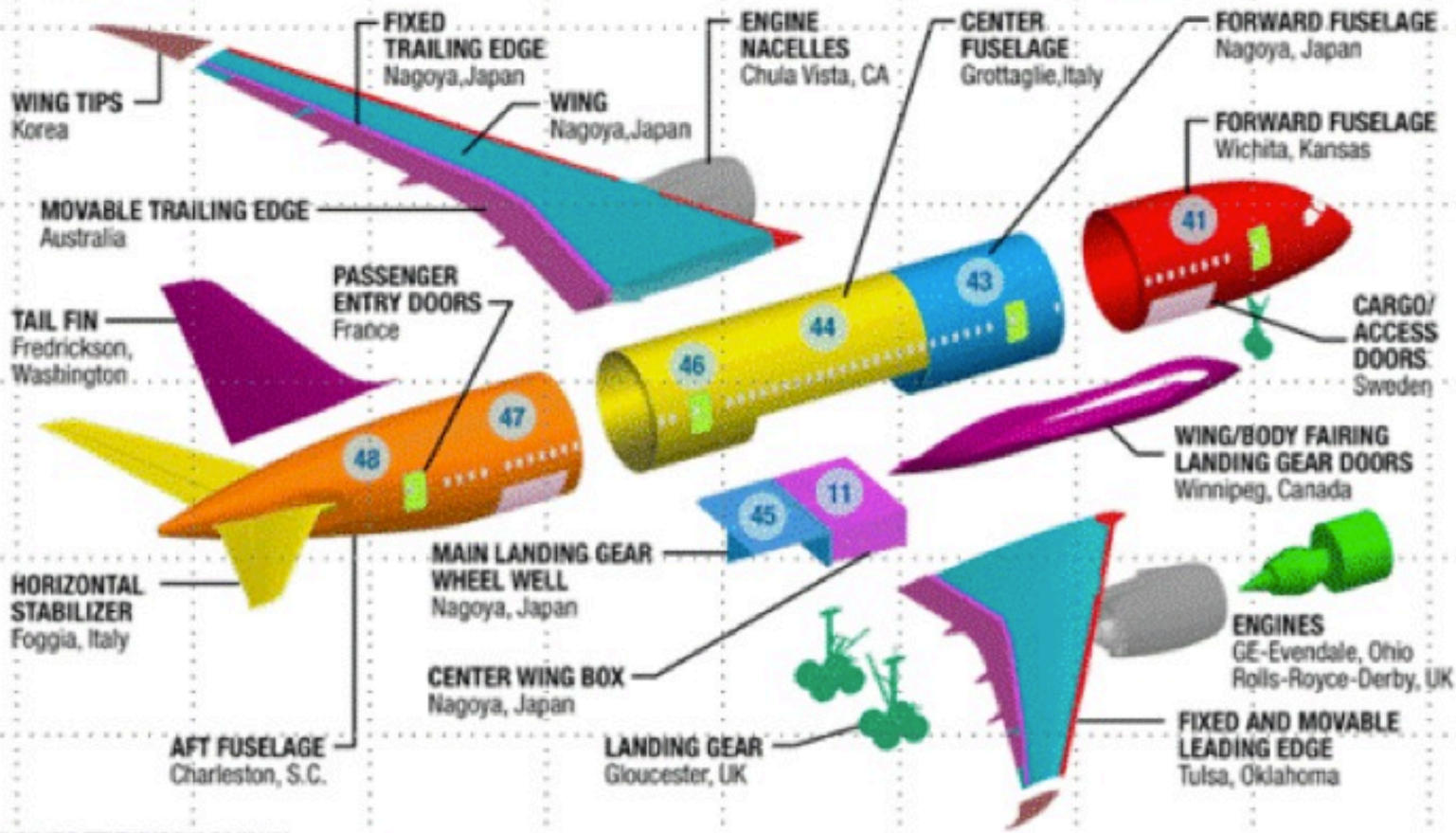
Source: OECD and WTO

APPLE SUPPLY CHAIN (content and design?)

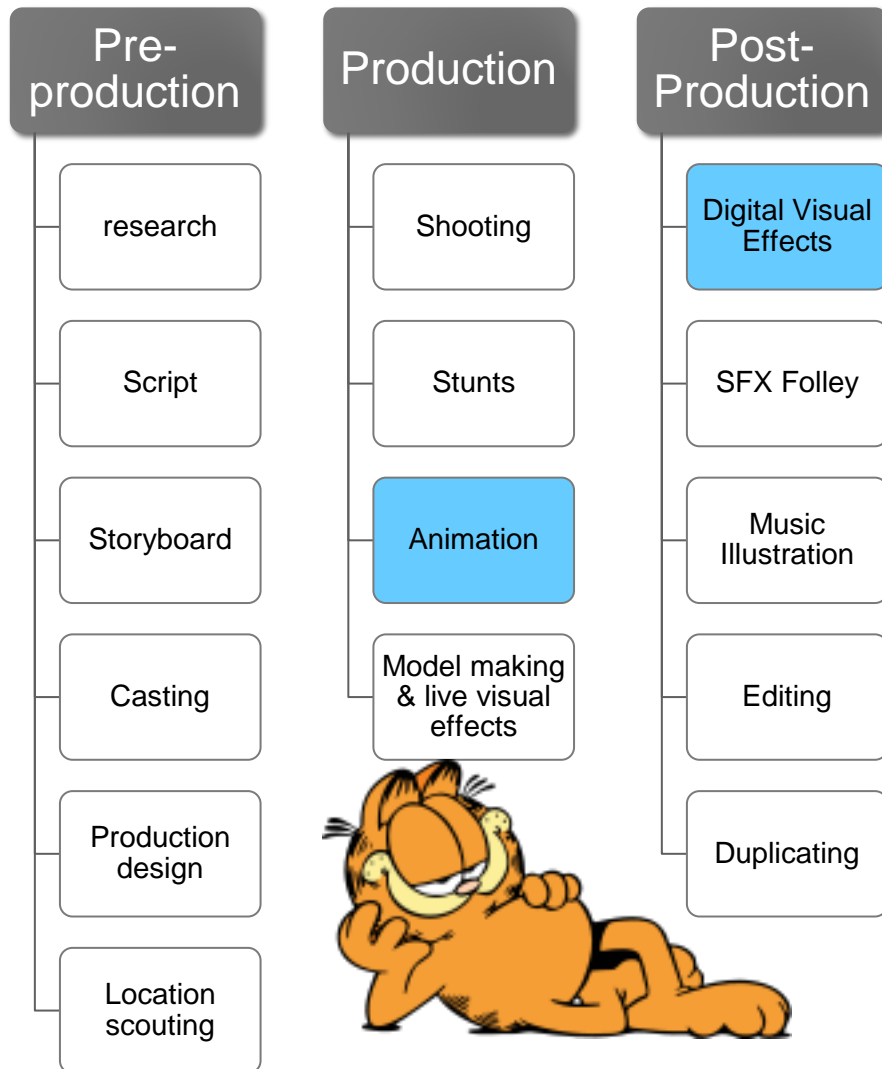


THE COMPANIES

U.S.	CANADA	AUSTRALIA	JAPAN	KOREA	EUROPE
Boeing	Boeing	Boeing	Kawasaki	KAL-ASD	Messier-Dowty
Spirit	Messier-Dowty		Mitsubishi		Rolls-Royce
Vought			Fuji		Latecoere
GE					Alenia
Goodrich					Saab



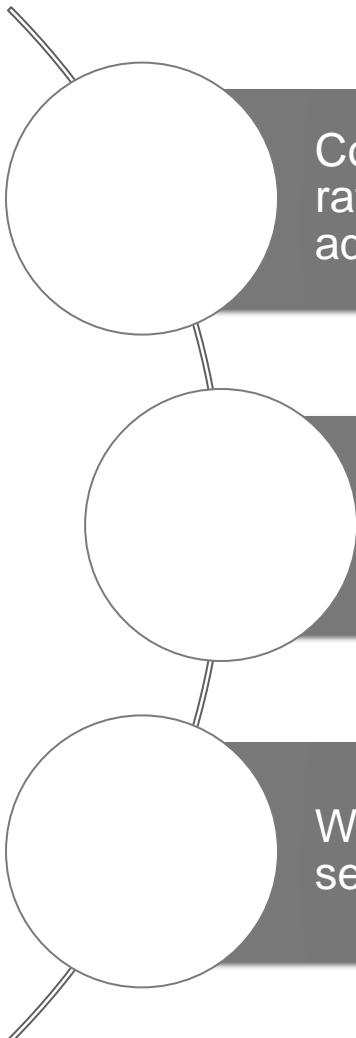
Case Indonesia: Animation



- The chart shows the production chain of Hollywood movie. The boxes with blue color show where Indonesian animation and visual effects houses take part.
- Some examples of movies in which Indonesian animation houses join the production chains:



In the context of the Global Value chains (GVC):



Countries should no longer specialize in specific goods end to end, rather should specialize in task in which they have comparative advantage, and build cluster around that “task” e.g. design, R&D

Parts of our exports are our imports: openness is important

What matters in a country’s competitiveness is efficient competitive services sector. Openness to trade, investment and people/talent

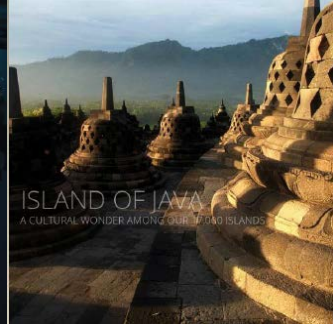
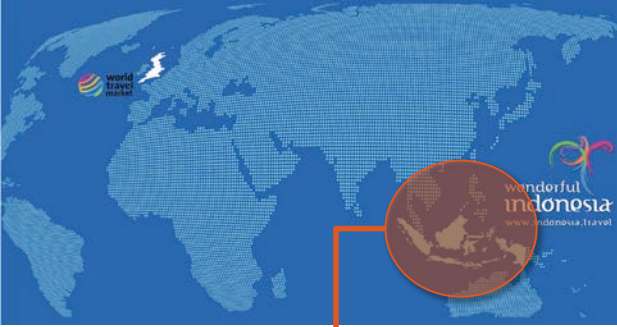
GVCs: inclusiveness and development (G20 agenda, OECD/WB study)

- GVCs have **advantage for SMEs and leap frogging**
- G20 agenda: **SMEs part of export value chain (backward linkages)**
 - lesser developed countries serve in agriculture, labor intensive and lower value added manufacturing and services (lower entry cost, less intensive in tangible capital).
 - Middle and higher income countries can operate in lower VA and higher skilled and specialized niche activities.
- **IMPLICATIONS: Importance and opportunities in knowledge based capital producing services/tasks and within production processes in value chain --- many of which are in the creative industry space**

II. For Indonesia is the answer the “New Economy” – the creative economy?

The traditional view of structural transformation:





INDONESIA AT A GLANCE

the **largest archipelago**

More than **17,100** islands

Extending **5,120 km** from east to west and **1,760 km** from north to south, with **total land area 1.9 million km²** and **7.9 million km²** (including sea)

250 million people, largest muslim population, 4th largest and 3rd largest democracy

More than **300** distinct native ethnicities

742 different languages and dialects

Megabiodiversity (flora and fauna)



What is Creative Economy?

- Fourth wave – after agrarian based economy, industrialization and IT based economy



Creative Economy is the new economy based on ideas and creativity which is based on creative human resources and *stock of knowledge* (including cultural heritage) as the main input

Creative industries is defined as industries which result from the utilization of creativity, skill and talent of individuals to create high economic value added and employment

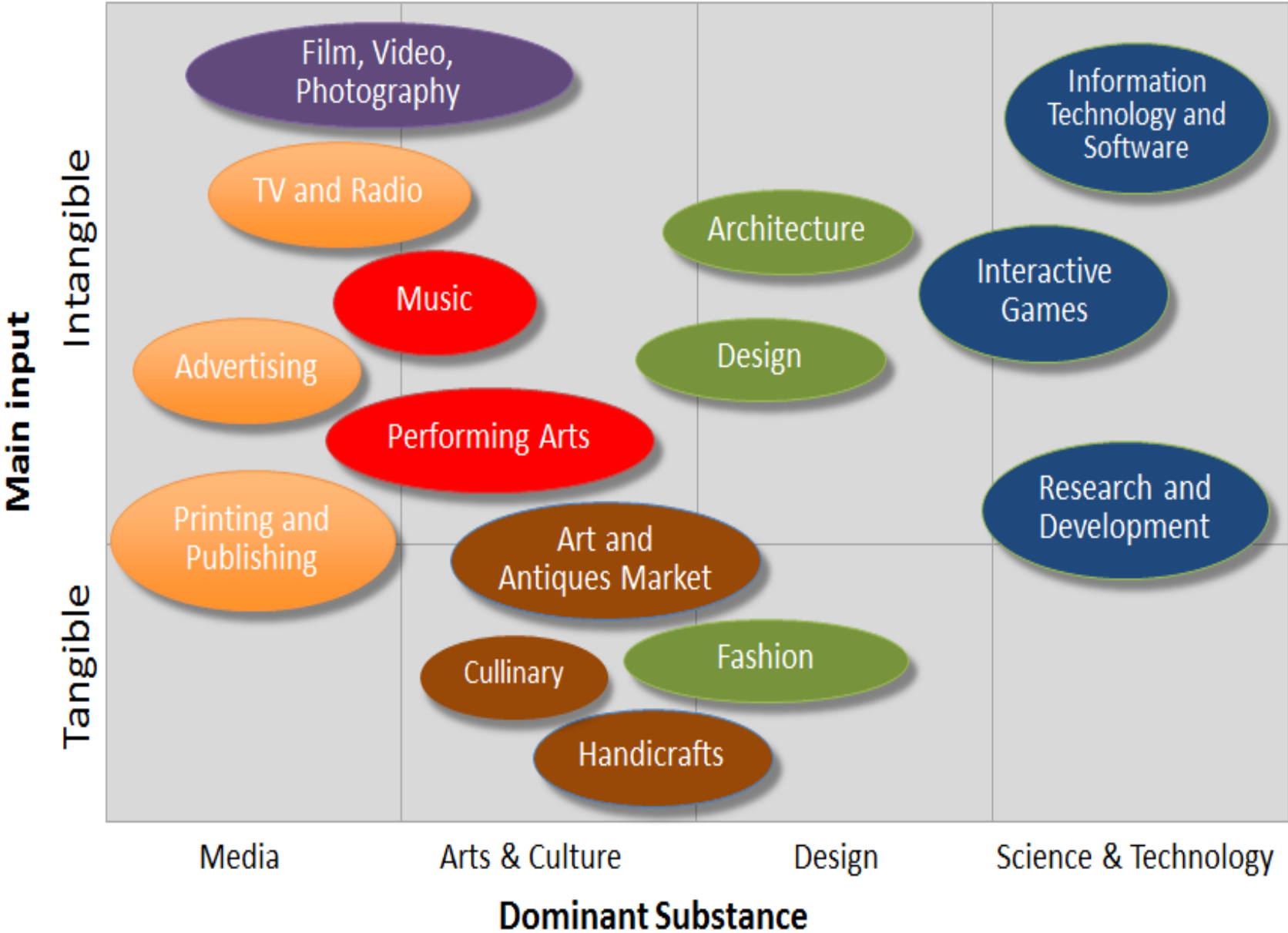
Creativity is not just artistic based but also based on science, engineering, innovation and IT base

Creativity is the idea that leads to productivity increases





Classification of Creative Industries



WHY CREATIVE ECONOMY ?

ECONOMIC CONTRIBUTION

GDP/ JOB CREATION/
EXPORTS/ENTREPRENEURSHIP/EFFECT
ON OTHER SECTORS

CREATION OF VALUE ADDED

BASED ON IDEAS AND
CREATIVITY/INNOVATION/COLLABORATION

BRANDING AND NATIONAL

PROMOTING & DEVELOPMENT OF CULTURAL
HERITAGE AND LOCAL WISDOM, NATIONAL
IDENTITY

PRESERVING NATURAL RESOURCES AND CULTURAL

RENEWABLE RESOURCES/ GREEN
COMMUNITY/PRESERVATION, PROTECTION,
DEVELOPMENT AND SUSTAINABLE USE

SOCIAL IMPACT

INCREASING SOCIAL
TOLERANCE/PRIDE AND LOVE OF THE
NATION

Economic Contribution In Indonesia 2013

7%
National
Economy
(Rp. 641.8
Trillion i.e USD
58 billion)

10.7%
Labor Absorption
(11.9 m people)

9.68%
No Companies
(5.4 m co, a lot of
SMEs)

re

do

or 2

“Growth in developing country exports was stronger still, averaging 12.1 per cent annually for the period. Such exports of creative goods and services reached US\$ 227 billion in 2011, or 50 per cent of the global total.”

Creative Economy Report 2013, UNESCO and UNDP (Nov, 2013)

Creative goods: Exports, by economic group, 2002 and 2011 (in millions of US\$)

	World		Developing		Developed		Transition	
	2002	2011	2002	2011	2002	2011	2002	2011
All Creative Goods	198'240	454'019	73'890	227'867	123'169	222'597	1'181	3'555
Art Crafts	17'503	34'209	9'201	23'383	8'256	10'653	45	172
Audio Visuals	455	492	35	90	417	400	3	2
Design	114'694	301'262	53'362	172'223	60'970	127'239	362	1'800
New Media	17'506	43'744	4'412	14'607	13'071	28'918	23	219
Performing Arts	2'754	-	250	-	2'478	-	26	-
Publishing	29'908	43'077	3'157	8'106	26'061	33'650	690	1'321
Visual Arts	15'421	31'127	3'474	9'456	11'916	21'631	31	40

Creative industries used by many countries not only for export, but also as **soft power and nation branding – spillover to trade, tourism and investment**



Italia: italian cuisine, fashion



Korea: K-Pop



Thailand: thai cuisine



Japan: manga, J-pop, culinary



USA: Hollywood, musik



China: chinese restaurant, museums & exhibitions

Creative Economy increases nation branding and identity



Batik and wovem cloth used in contemporary way (foto shows design of Cotton Ink, Indonesia Fashion Forward)



Eko Nugroho Indonesia's contemporary artist designs for Louis Vuitton



Airport in Blimbingsari Banyuwangi designed from traditional Osing design

Digital Technology has powerful impact: how to manage and gain

Every technology disruption brings changes in all aspects of life:

- New business models
- New approach of political campaigns
- New methods of social support targeting
- Etc.

Indonesian Elections: power of social media



Indonesian elections



Jakarta Governor – egovernment and meetings on YouTube



NEW ECONOMY: Destructive Technology: source of growth

- Destructive technologies – the application of mobile internet, big data, internet of things, automation, cloud, etc. – could modernize sectors across the economy and drive major productivity improvements
- McKinsey: This destructive technologies could produce up to US\$ 625 billion in annual economic value for Southeast Asia by 2030 (but the region need to prioritize building out backbone infrastructure to capture this opportunity)



Mobile Internet



Big data



Internet of Things



Automation of
knowledge work



Cloud

Destructive Technology: source of growth (example)

- **The mobile Internet:** It can pave the way for productivity gains and more efficient delivery of vital services. It is a particularly useful vehicle for overcoming Southeast Asia's geographical barriers and widening access to information, products, and services for rural populations.
 - Mobile banking and mobile payments, for example, are expanding financial inclusion.
 - Telemedicine can deliver health care to remote areas, and digital learning tools can improve the quality of education and teacher training across the region.



Case Indonesia: Games and Apps



picmix

Picmix is a photo-editing and photo-sharing apps made by Indonesian apps producer.

In its launching, picmix's growth was higher than instagram's growth when it was launched.

Picmix has been downloaded for more than 23 million times.



Infinite Sky was one of the top 10 most downloaded iphone games. Infinite Sky is made by TouchTen, an Indonesian game developer.

One of the character in the game is named after Javanese' folklore hero: Gatotkaca

Case Indonesia: Games and Apps



DreadOut

DreadOut is an Indonesian horror video game made by Digital Happiness, a game developer based in Bandung, Indonesia.

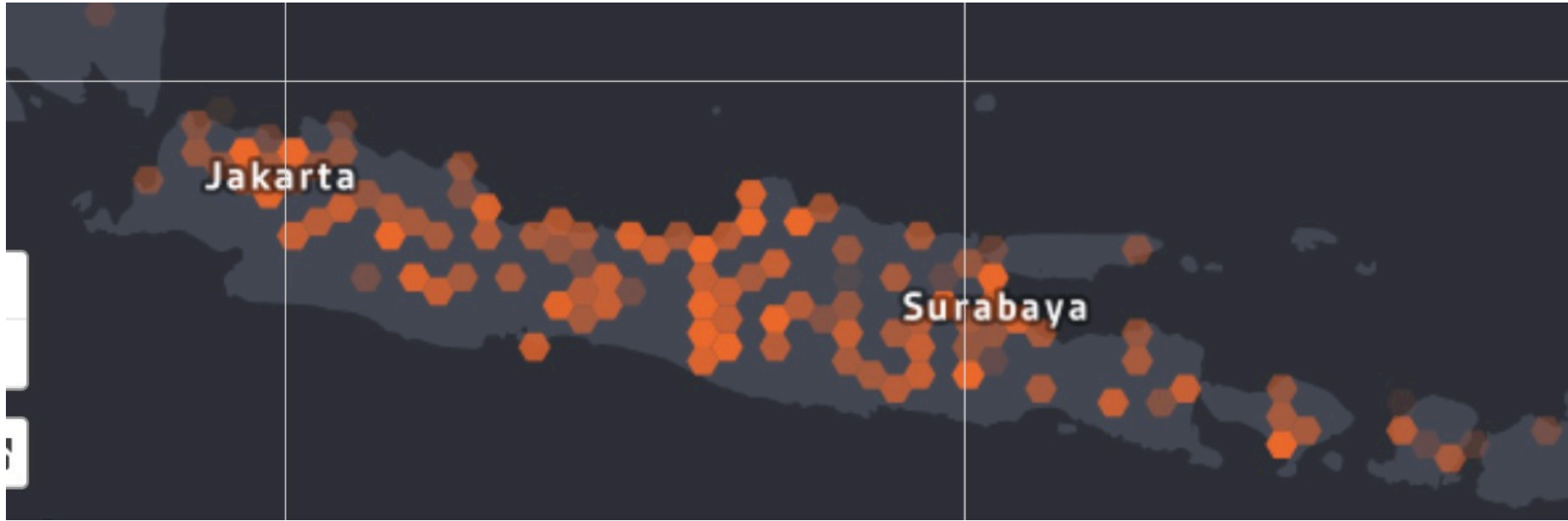
The game is about some highschool students who got lost and have to survive various Indonesian local ghosts.

DreadOut is also sold on Steam, the biggest games marketplace in the world. DreadOut has successfully raise 25,000 USD through international crowdfunding platform.

Case Indonesia: 99designs



Indonesia has been the main source of designers in a one of the world's major design-task marketplace, 99designs.com. Indonesia was the biggest source of designers in 2013, and was the second in 2014. By February 2015, there are more than 129 thousands registered Indonesian designers in 99designs.com



In Java, the outspread of designers is the most striking. These designers do not only come from urban and educated group but rather mostly come from rural area with no formal training in design.

Some examples:

- In Salaman District, Magelang Regency (1 hour from Yogyakarta), the designers are spread out in 20 villages, with each village has approximately 100-200 designers.
- In Parakan District, Temanggung Regency (Parakan District is suburb of Temanggung, one of main producers of tobacco), there are 60 designers, 4 of whom already platinum designers in 99designs.com

Meet our new source of foreign exchange receipt: **Desainer Kampung**



- Most of them are **self-taught**, humbly refer themselves as “logo crafter” instead of designers
- Most designers have other jobs as farmers, construction workers, even head of sub-village (kepala dusun) with relatively **low-level education**
- **Do not speak English**, use Google Translate to communicate with clients and to pitch in contests
- **Earn 200-2000 USD per month** (while regional minimum wage rate is approximately 100 USD per month).
- Mostly get payments through **shared PayPal account** (difficulty in getting credit card)

IV. Conclusions and Recommendations

- Headwinds are very strong, need to find new sources of growth from productivity, creativity and innovation. The answer is not closing up, but opening up to trade, investment, people, ideas and flow of information.
- **ACCESS** is key: access to hardware, access to software, access to skills, access to financial services, etc.
- Countries should not wait until they have sophisticated infrastructure and high skilled population. The most important thing is provision of **basic infrastructure** for all.
- Countries should not all be innovators –creator of new technology, the key is to be able to **creatively use and utilize available technology**.
- Developing countries can still “catch up” technology frontier & benefit from traditional goods and services integration (productivity, diffusion). Services have become more tradable and need to take opportunity in changing nature of GVCs: **trade in tasks and capabilities. Industrialization policy should not be end to end, local content focus but how to be competitive in the cluster around the “task”**.
- The importance of building **healthy ecosystem** – includes reliable input, competitive talents, access to technology, access to various financing, access to market, healthy industry structure, and conducive business climate.

7 Strategic Issues in Developing Creative Economy (from Numerous FGDs with 15 sectors representing creative industries)

Human Resources and capital

1. Education
2. Creative talent and skills

Creative Resources

1. Natural
2. Cultural

Growing Industry and business

1. Creativepreneurship
2. Growing the business
3. Quality creative products

Financing

1. Financial institutions and sources of funding
2. Appropriate access and competitive cost

Access to markets and networks

1. Penetration of domestic and international markets
2. Diversification including going global

Supporting infrastructure and technology

1. Infrastructure (electricity, telecom/ internet, physical, on line platforms)
2. Technology and R&D to produce creative products

Institutions

1. Conducive business climate
2. Active participation of stakeholders
3. Maintreaming creativity and innovation
4. Active participation in international fora
5. Policies that foster appreciation of creative people, talent, entrepreneurship, and industry (eg. Awards, IPR)
6. Appreciation for local natural and cultural resources

Creating greater reform momentum for global trade integration could help the world avoid the adverse consequences of the global trade slowdown.

1. Political economy considerations, at a disjuncture with reality? Domestic pressures and domestic rhetoric tends to be nationalistic, inward
2. Structural reforms needed: beyond deregulation packages of easy reforms?
 - Avoiding old and new forms of protectionism and distortionary rules
 - Beyond tariffs – services, standards, domestic regulations, infrastructure
 - Other: SOEs, government procurement, IPR, environment, labor

The new industrial policy: focus on inputs and innovation/creativity

- FOCUS on Human Capital this should be the new NATIONAL INTEREST
- Different type of industrial policy focusing not on the sector/or outcome, but on the input side (facilitation and incentives for R&D, creativity and innovation, training etc).
- What type of policies are needed to foster innovation and creativity that will lead to productivity and new sources of growth? Getting the ecosystem right.

Indonesia in a Regional Context

Harvard Kennedy School

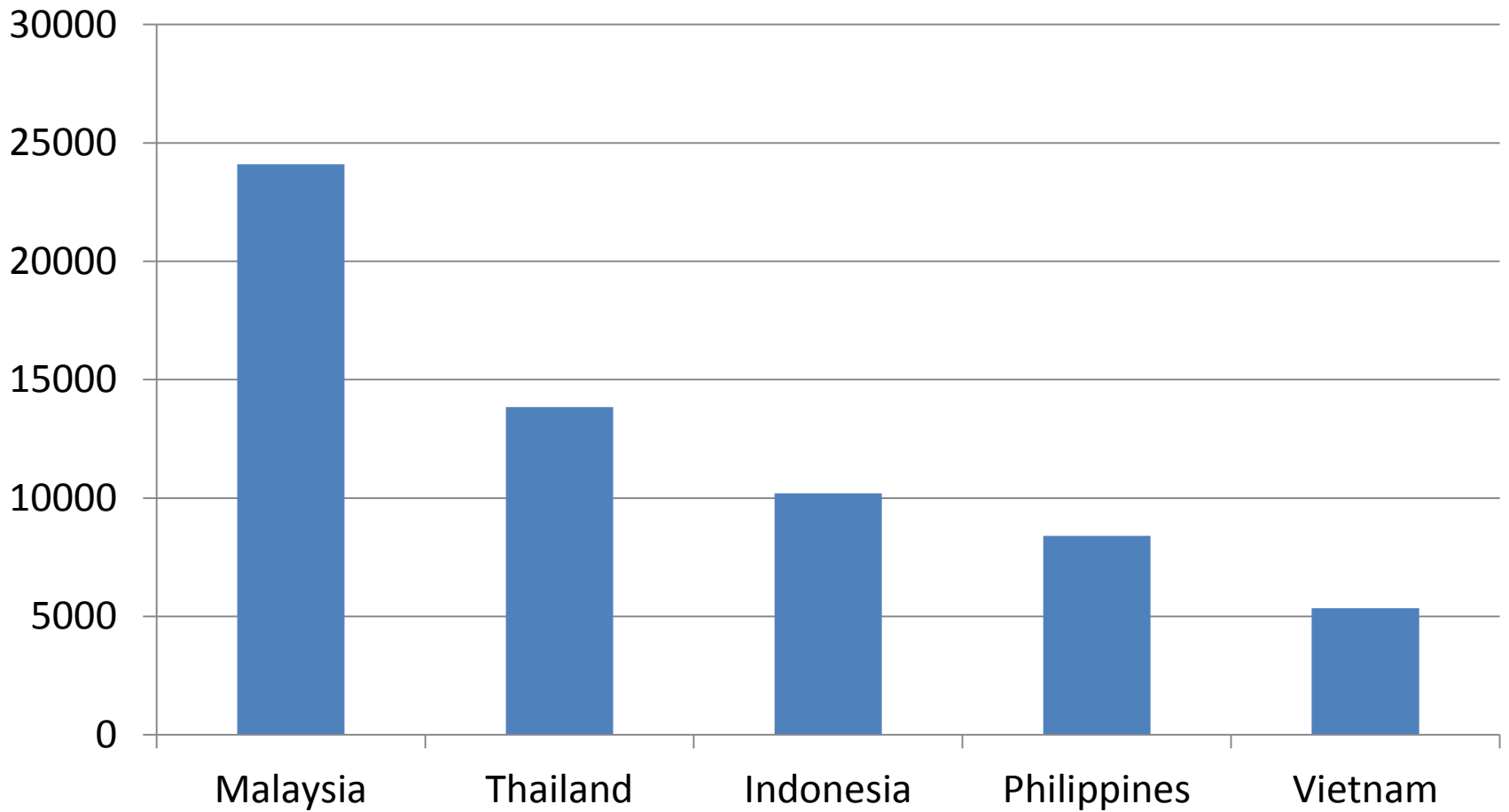
November 21, 2015

David Dapice

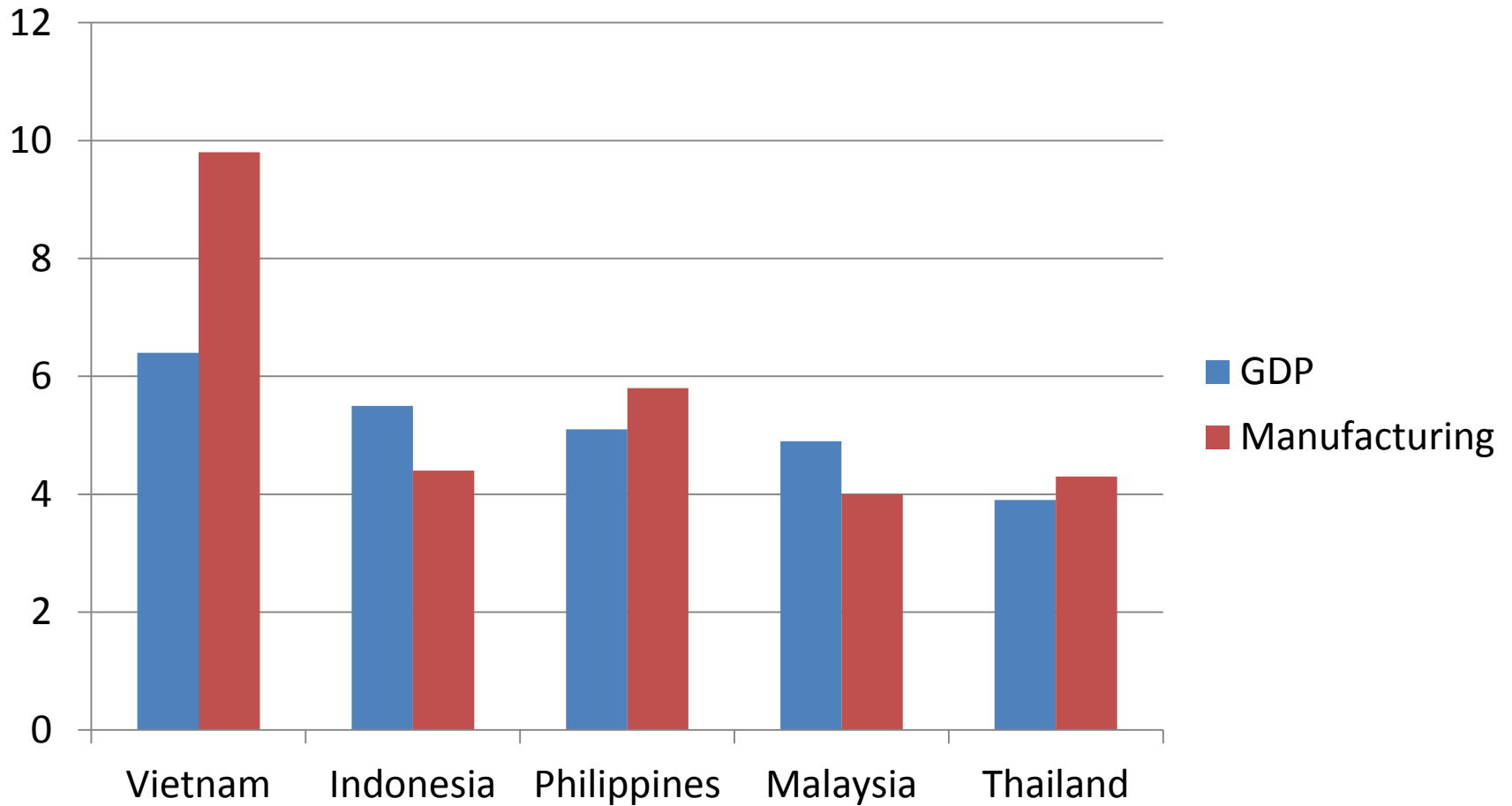
Indonesia has a so-so image - is it right?

- GDP growth stuck in 4-6% range
- Manufacturing as % of GDP falling since 2000
- SBY failed to pursue reforms
- Jokowi is seen as inexperienced by many and undercut by Megawati – hard to get things done – in spite of fuel subsidy progress
- Chronic problems (corruption, infrastructure, power, education) slow to be resolved
- China slowdown will hurt raw material exports

PPP GNI Per Capita, 2014

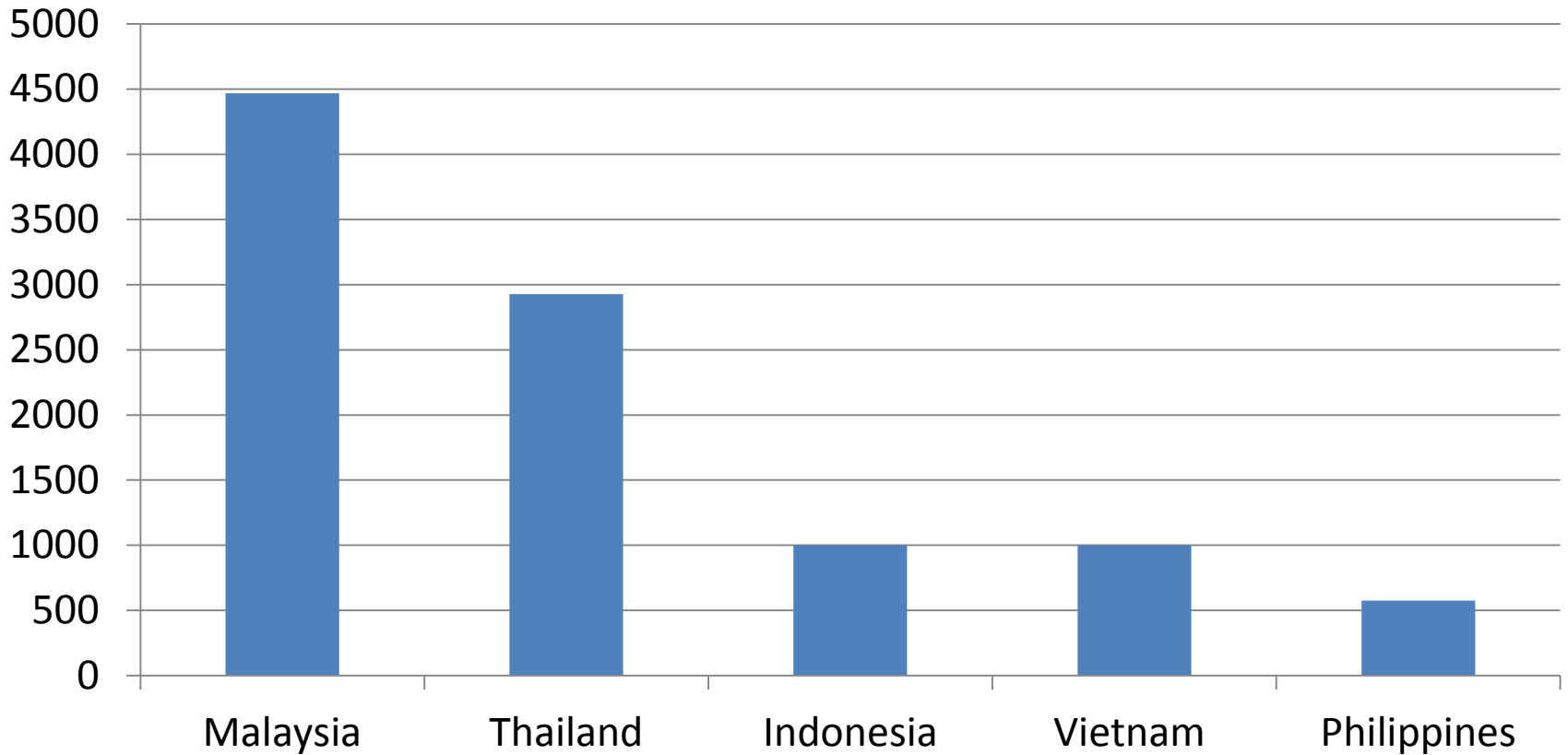


Annual GDP Growth 2000 - 2014



Stock of FDI Per Capita 2014

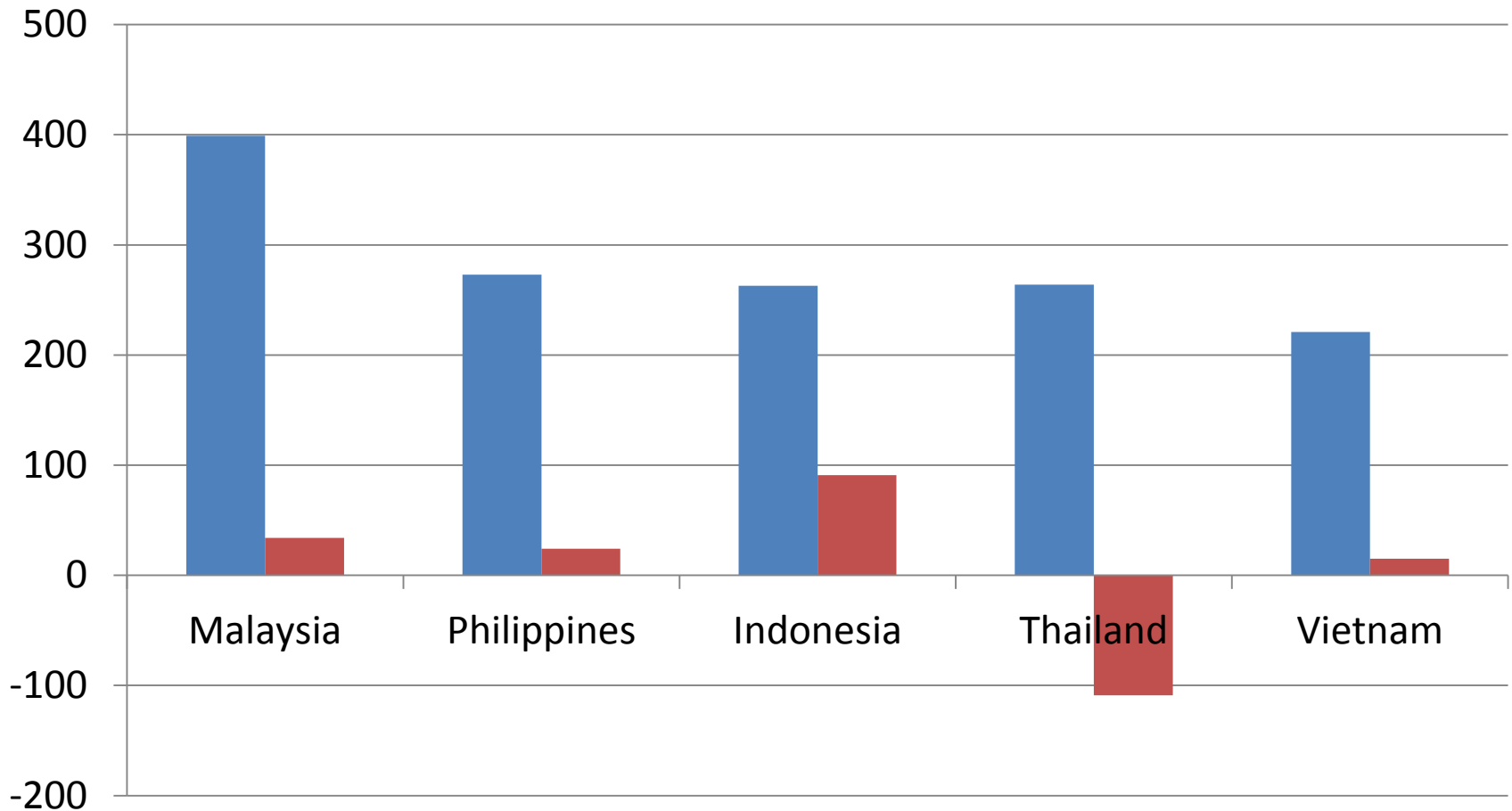
\$ per capita



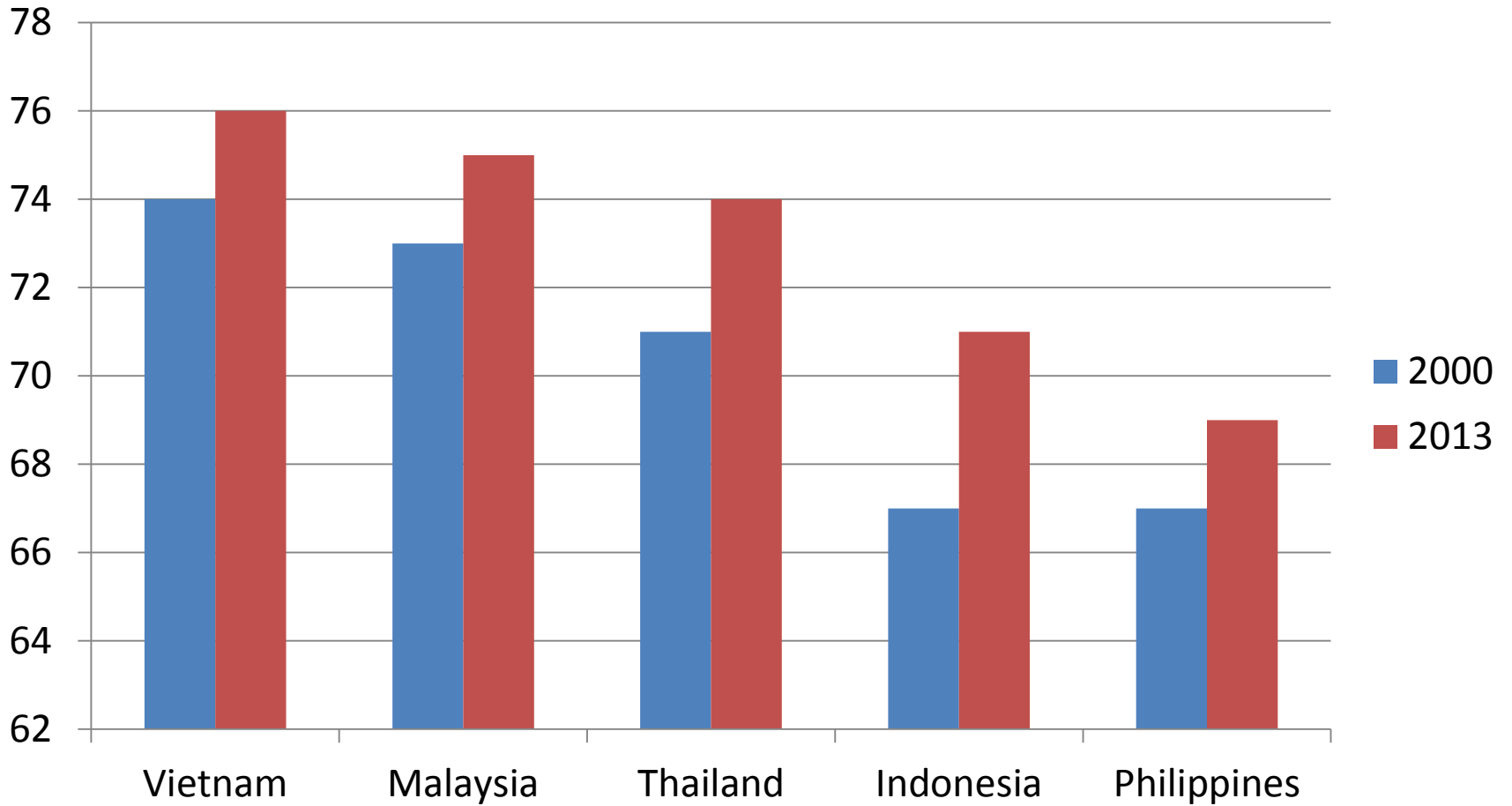
Labor Force Quality

- Share of workers with middle school graduation or less fell from 78% in 2000 to 65% in 2014
- PISA scores are very low in math, science, reading (75% to 80% of average)
- Share of those with “regular employment” rose from 33% in 2000 to 37% in 2014 – most are casual, temporary or family/unpaid workers

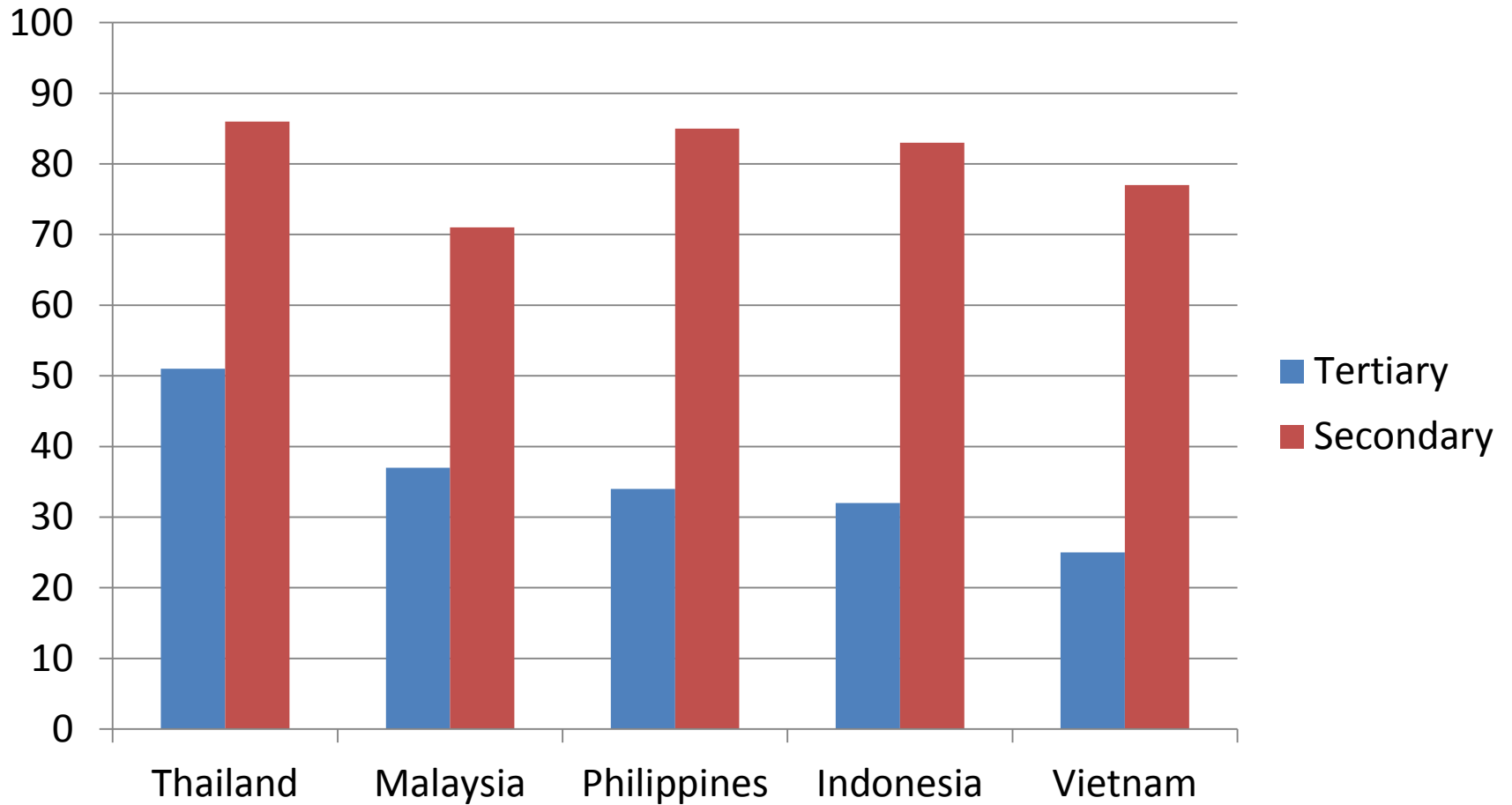
Level of Governance Indicators 2014 and Change from 2000 (in red)



Life Expectancy in 2000, 2013



Gross Enrollment, 2010-13



Reality is Mixed

- The nation has held together and gone through a major transition – governance has improved more than other ASEAN partners
- Growth is typical of SE Asia except Vietnam, which itself has now slowed down. Poverty reduced by 1/3 since 2000.
- Jokowi has begun addressing long term issues
- Excessive nationalism, populism and cronyism could remain to maintain “middle income trap”

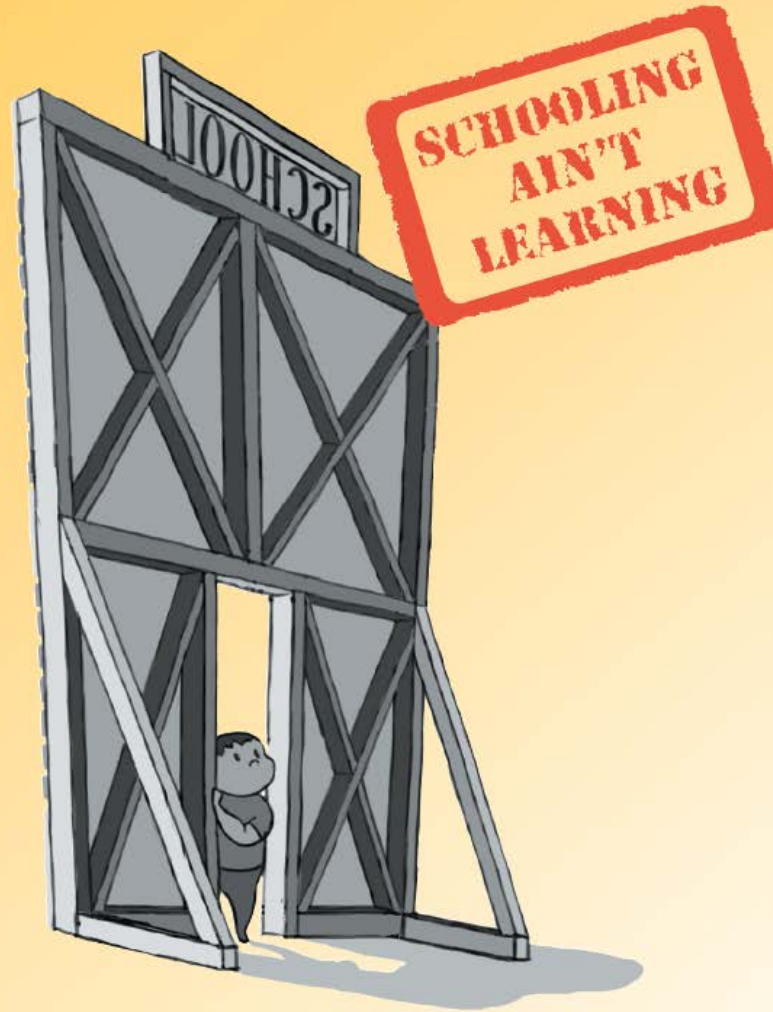
The Pivot to Learning:
Education Systems for
Accelerated Progress in
Indonesia

Lant Pritchett

Harvard Kennedy School

November 21, 2015

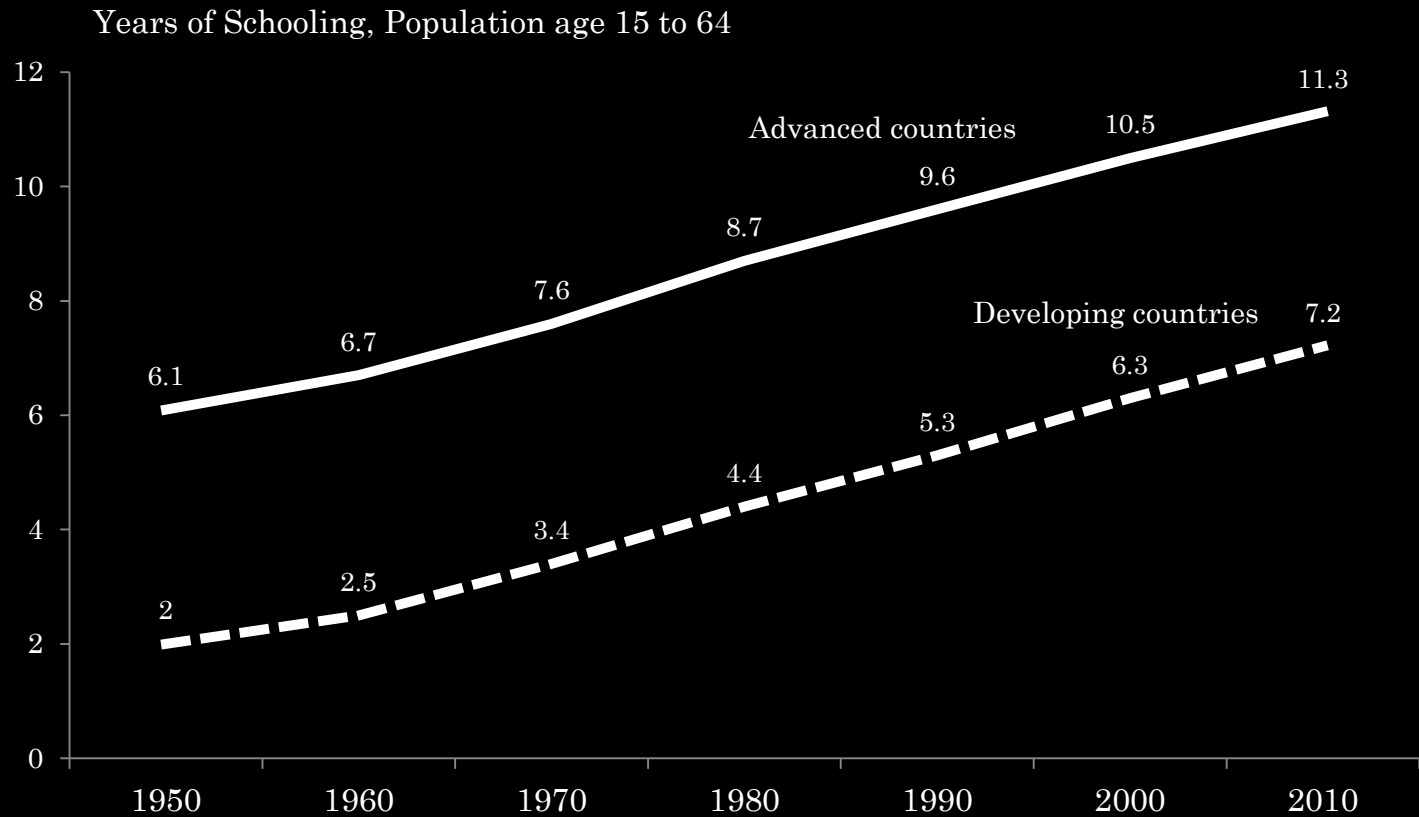
THE REBIRTH OF EDUCATION



LANT PRITCHETT
CENTER FOR GLOBAL DEVELOPMENT

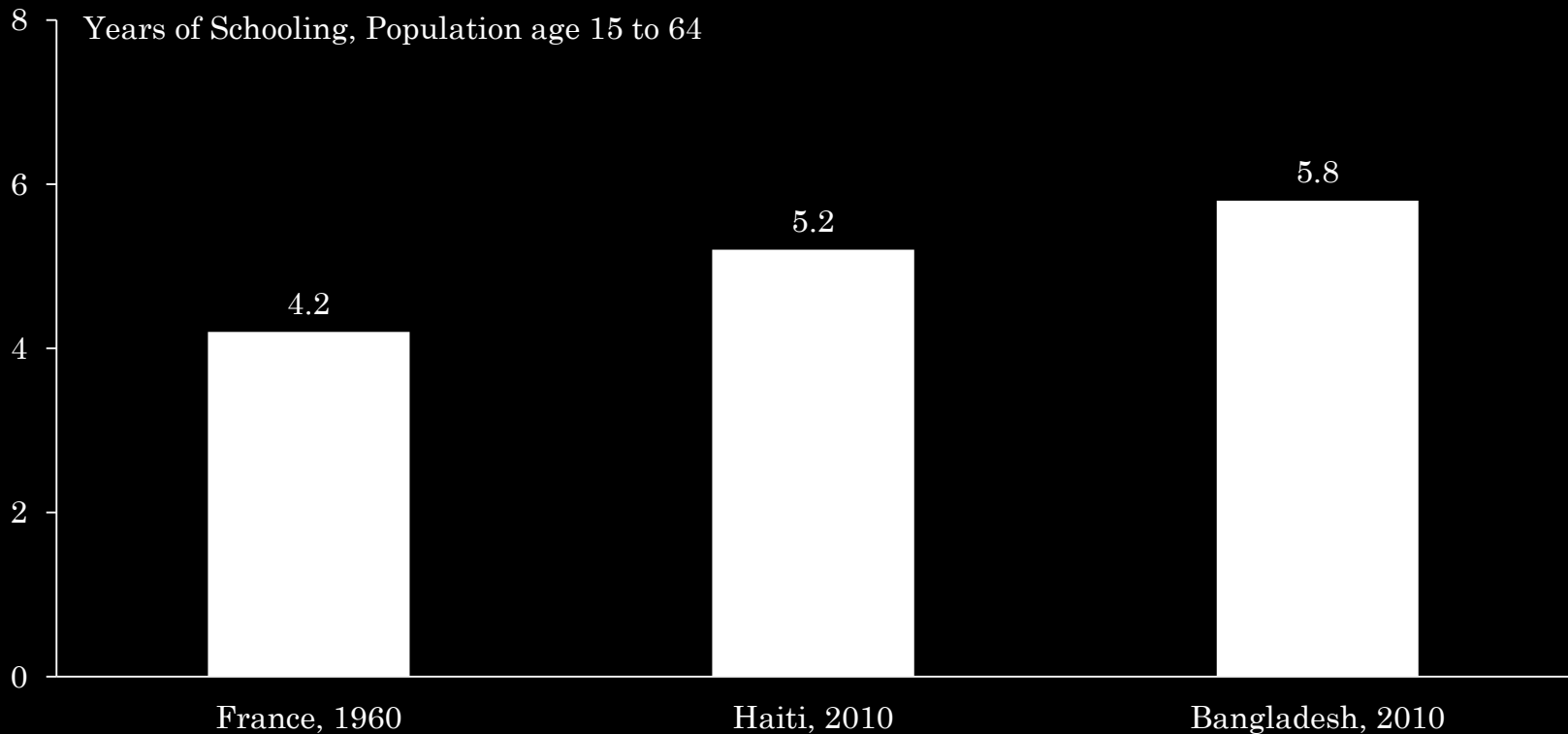
Schooling: The Success of the (last) Century

Schooling increased massively



Schooling: The Success of the (last) Century

Poor countries are now ahead of where rich countries were (when they were much, much richer)



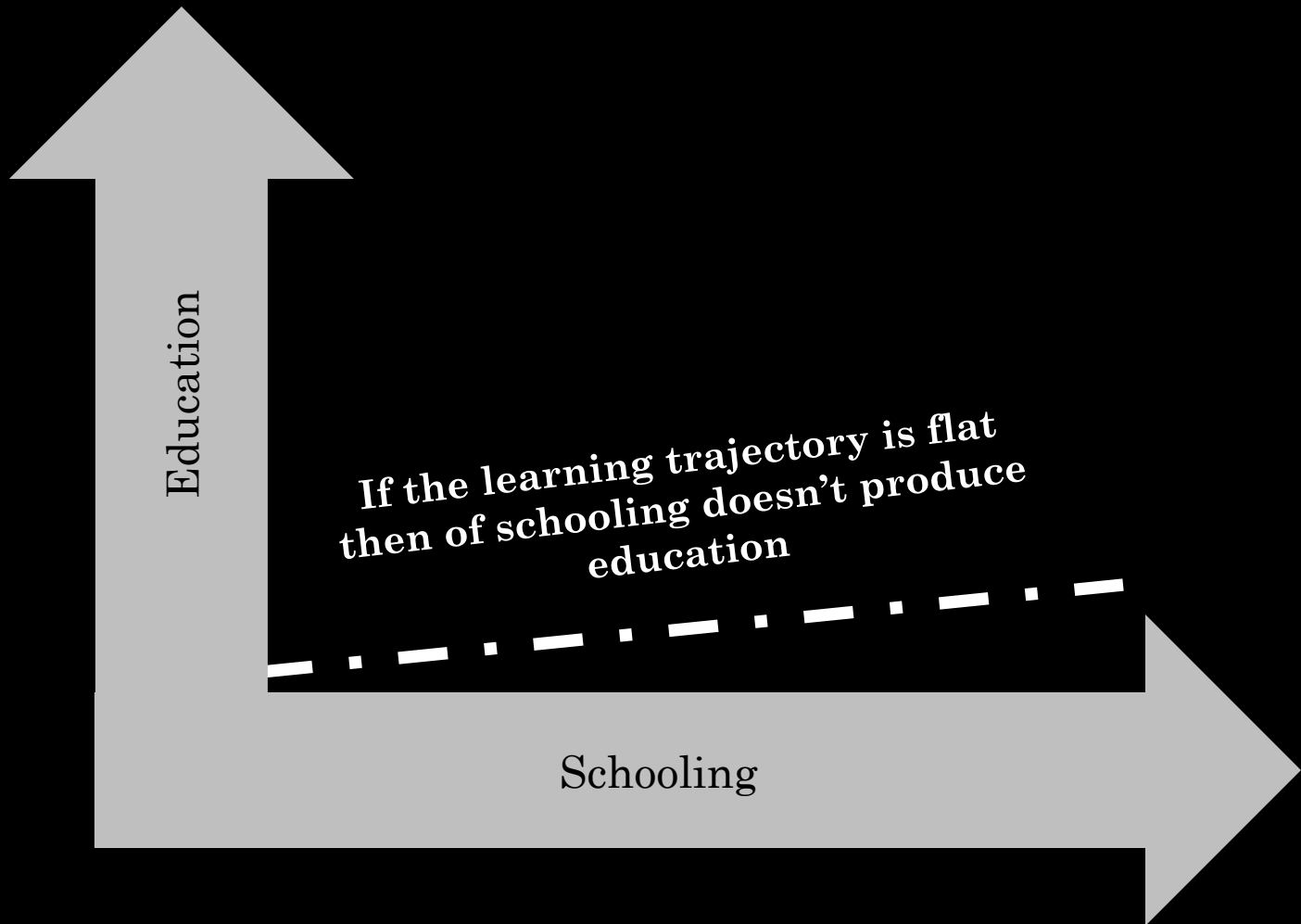
Time to Pivot from Schooling to Education



Nobody ever really had a schooling goal.
Schooling is an instrument to education



Nobody ever really had a schooling goal.
Schooling is an instrument to education

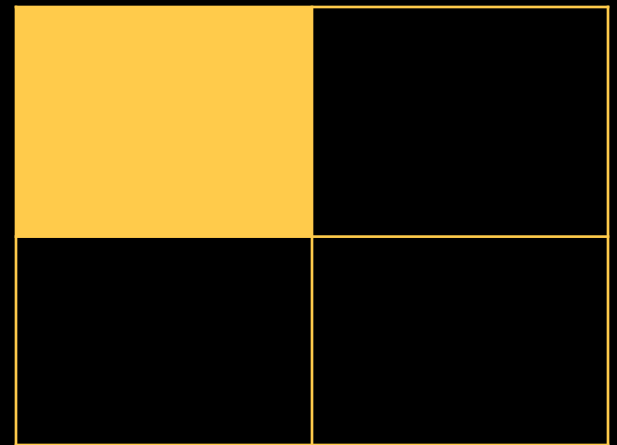


Questions for the Audience

What percent of 4th graders in Andhra Pradesh answer this question correctly?

✓ 30 percent

How much of this figure is shaded?



About
half

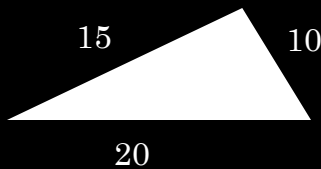
Mechanical Questions

Correct

Write the answer
 $713 \times 24 =$

48%

What is the Perimeter of this
shape?



48%

___cm

Less
than
guessing

Conceptual Questions

Correct

Is 24×18 more than 18×24 ?
How much more? 21%

A thin wire 20cm long is
formed into a rectangle. If the
width of the rectangle is 4cm
what is the length? 17%

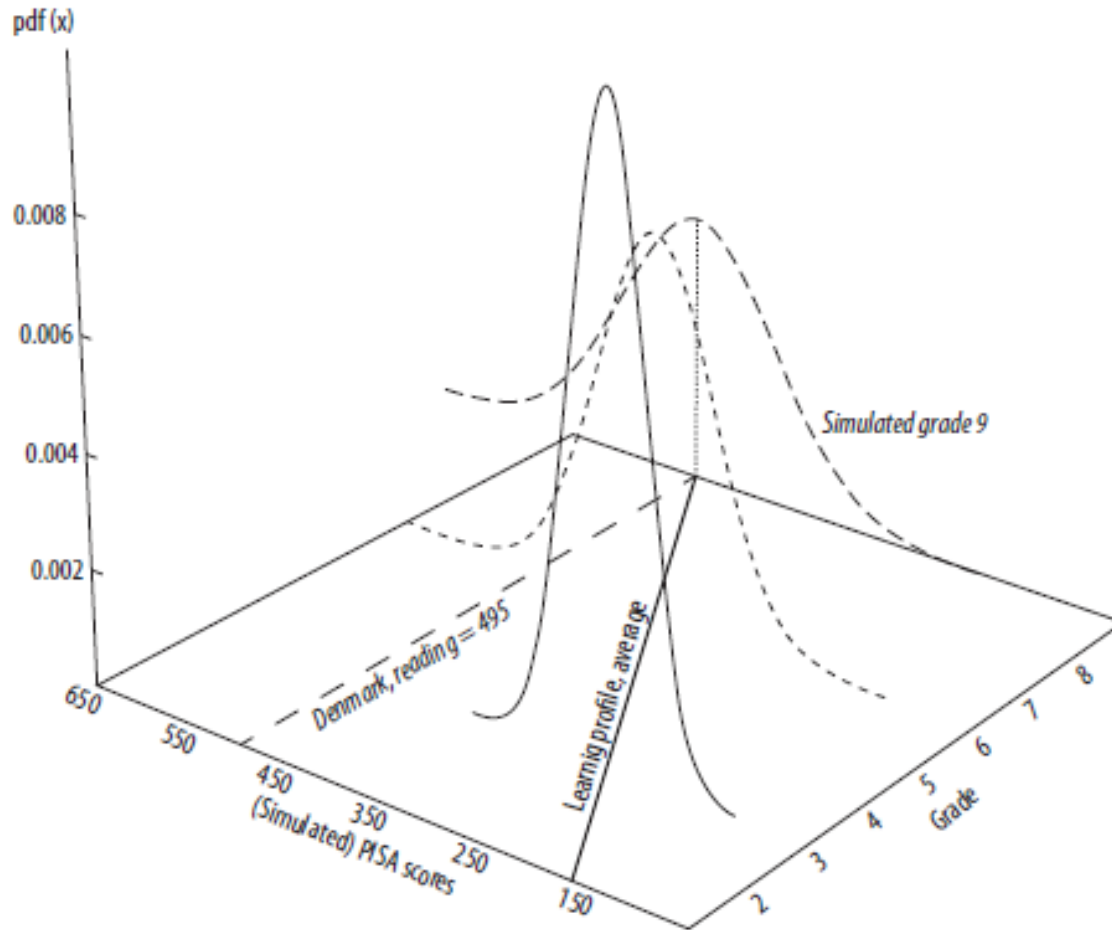
A burst of learning then long periods of little gain

Table 1-6. Actual cohort learning profiles from tracking the same students over time in Pakistan show the same slow pace of learning as grade profiles.

<i>Year tracked in the LEAPS study</i>	<i>Percent able to do two-digit addition, no carry: 36 + 61</i>	<i>Percent who learn in a year</i>	<i>Percent able to do three-digit addition, with carry: 678 + 923</i>	<i>Percent who learn in a year</i>	<i>Percent able to do multiplication: 32 × 4</i>	<i>Percent who learn in a year</i>	<i>Percent able to do division: 384/6</i>	<i>Percent who learn in a year</i>
1 (in grade 3)	85.5		56.1		52.2		19.3	
2 (mostly grade 4)	87.8	15.9	59.5	7.7	56.9	9.8	24.5	6.5
3 (mostly grade 5)	92.2	36.0	71.1	28.8	70.3	31.1	45.6	27.9
4 (mostly grade 6)	93.0	10.2	74.4	11.4	75.6	17.9	54.1	15.5
Average who learn per year		20.7		16.0		19.6		16.6

Source: Data from LEAPS 2007 study; calculations provided to author by LEAPS study authors.

The aggregation of individual learning trajectories determines the evolution of the distribution of attainment at a point in time



Source: Author's simulations using PISA data (OECD 2009).

Measuring Learning 1: Within Cohort Ability Evolution (Karthik AP results)

- Only 2.4% of students in grade 1 meet the grade 1 standard in Cohort 5
- 60% of students in grade 5 meet the grade 1 standard, but only 8.3% meet the grade 5 standard

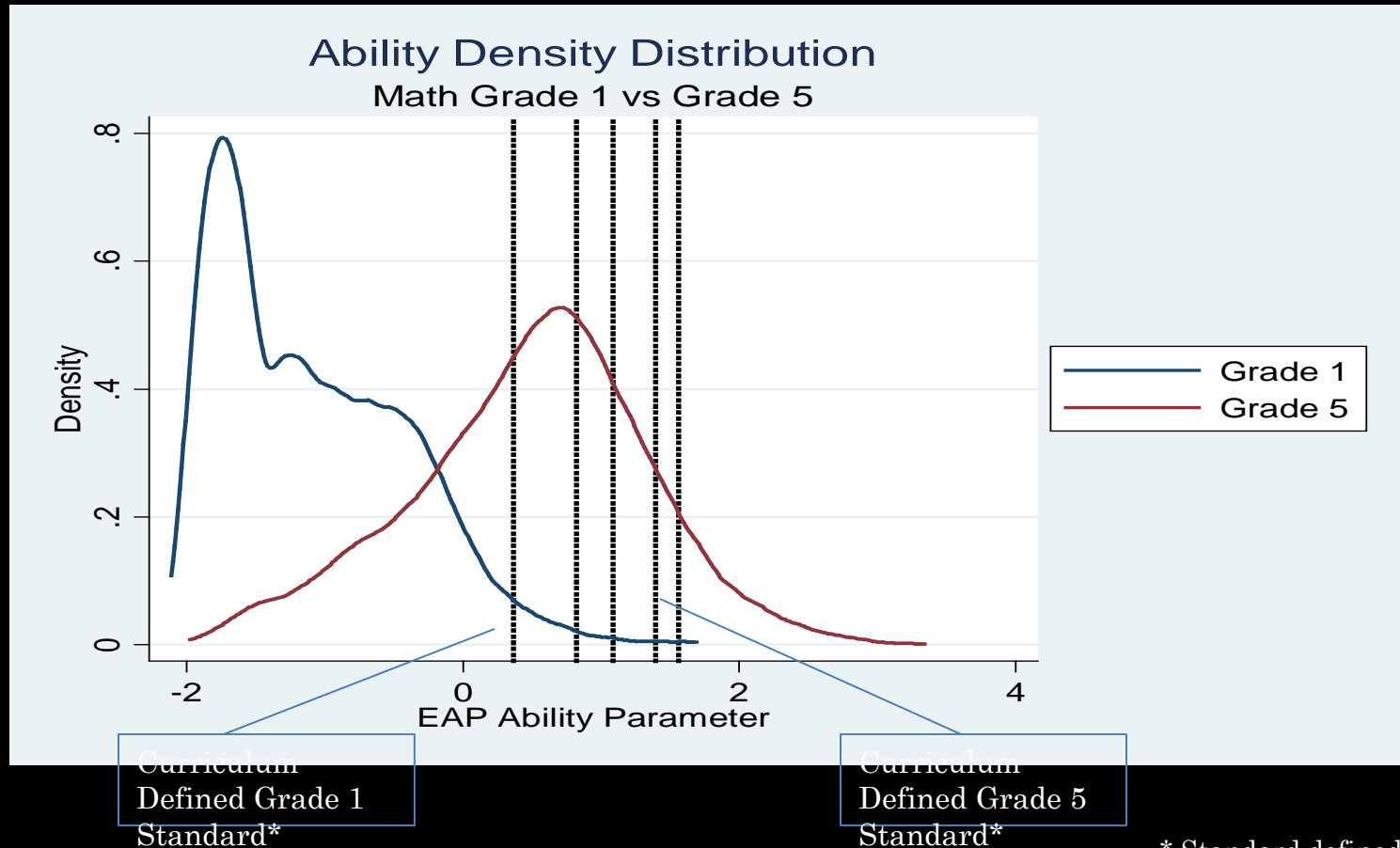


Figure 5. Distributions of Student Ability Parameters in Mathematics in Grade 1 and Grade 5, Cohort 5

* Standard defined as the lowest ability level required to receive an average score of 50% in the universe of grade specific questions

Learning Trajectories over 5-years for 1 Cohort (Karthik AP IRT results)

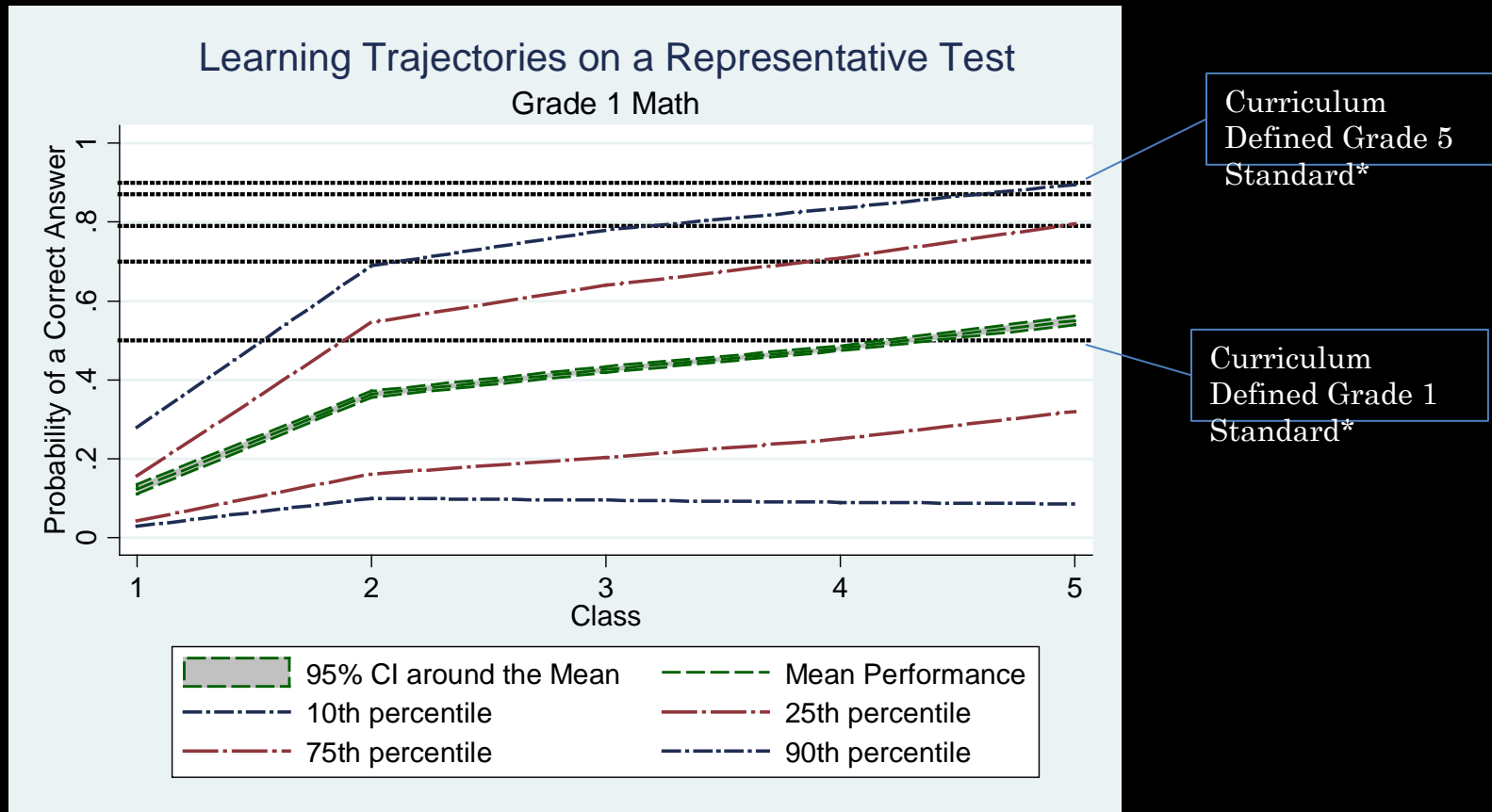
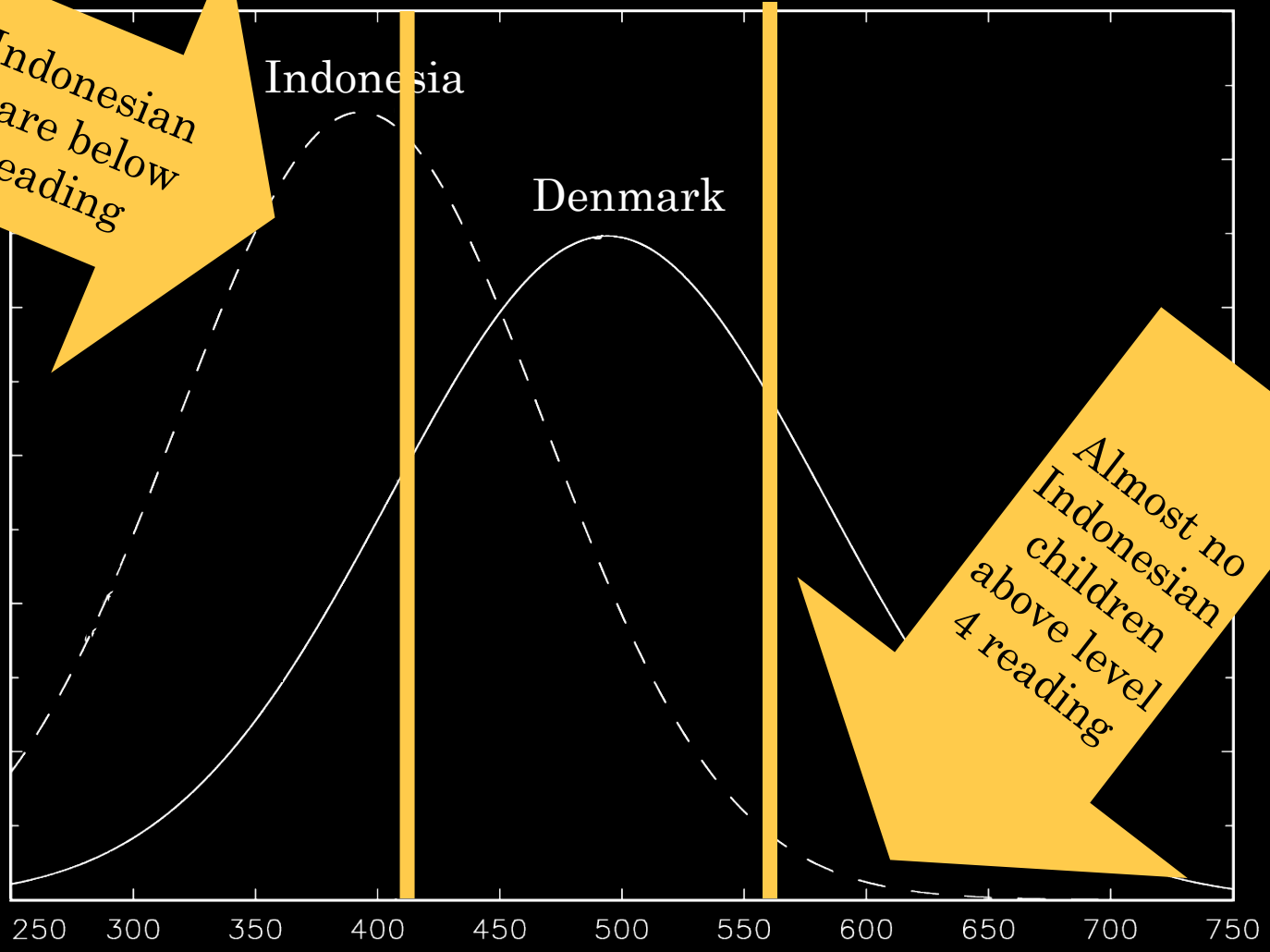


Figure 6. Learning Trajectories for Grade 1 Appropriate Material, Cohort 5 fractional polynomial fit

* Standard defined as the probability of a correct answer given the lowest ability level required to receive an average score of 50% in the universe of grade specific questions

- The “big prize” for doing the vertical IRT scaling in a representative sample is the ability to produce pictures like the one above

PISA Reading Test Distribution



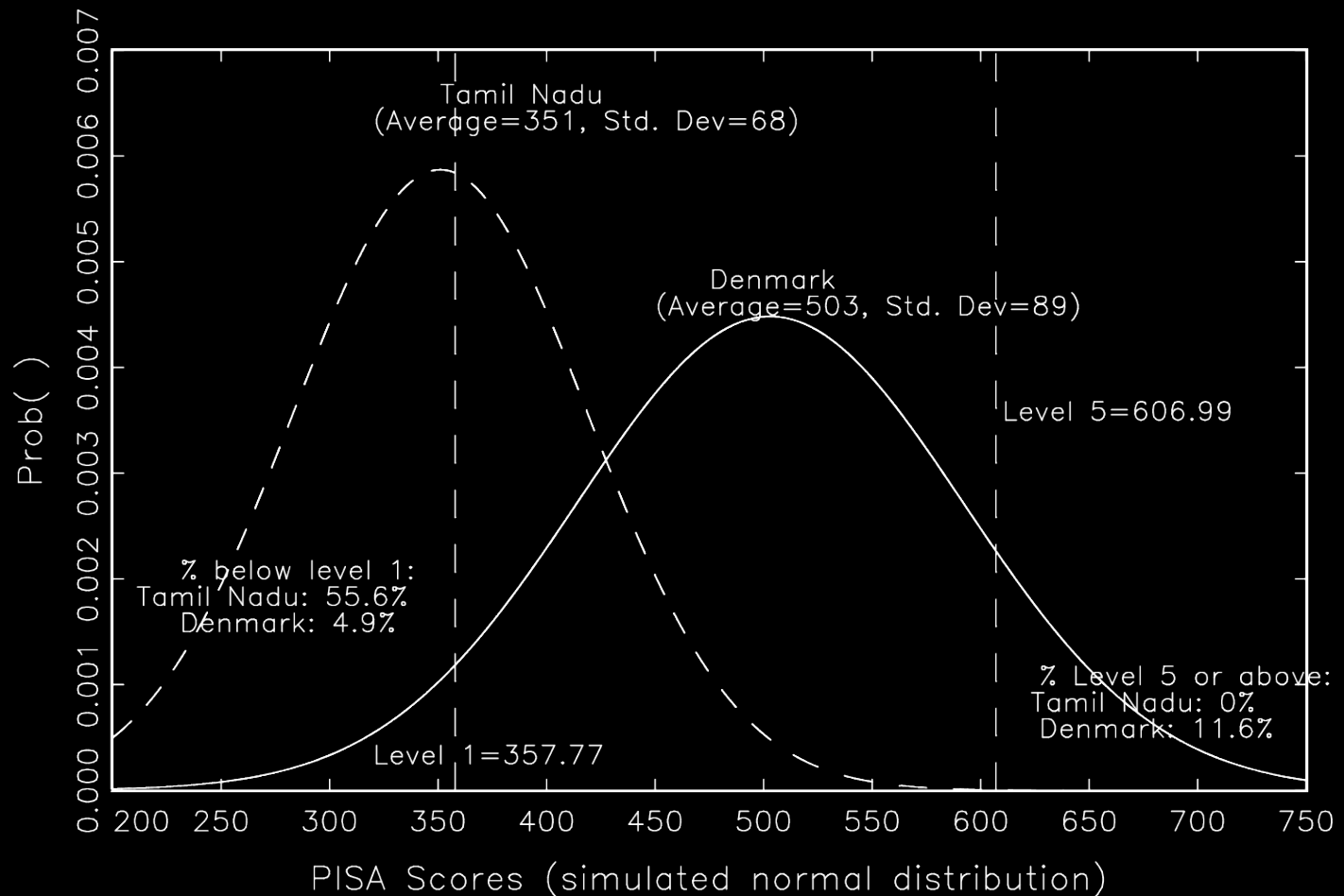
58% of Indonesian children are below level 1 reading

Almost no Indonesian children above level 4 reading

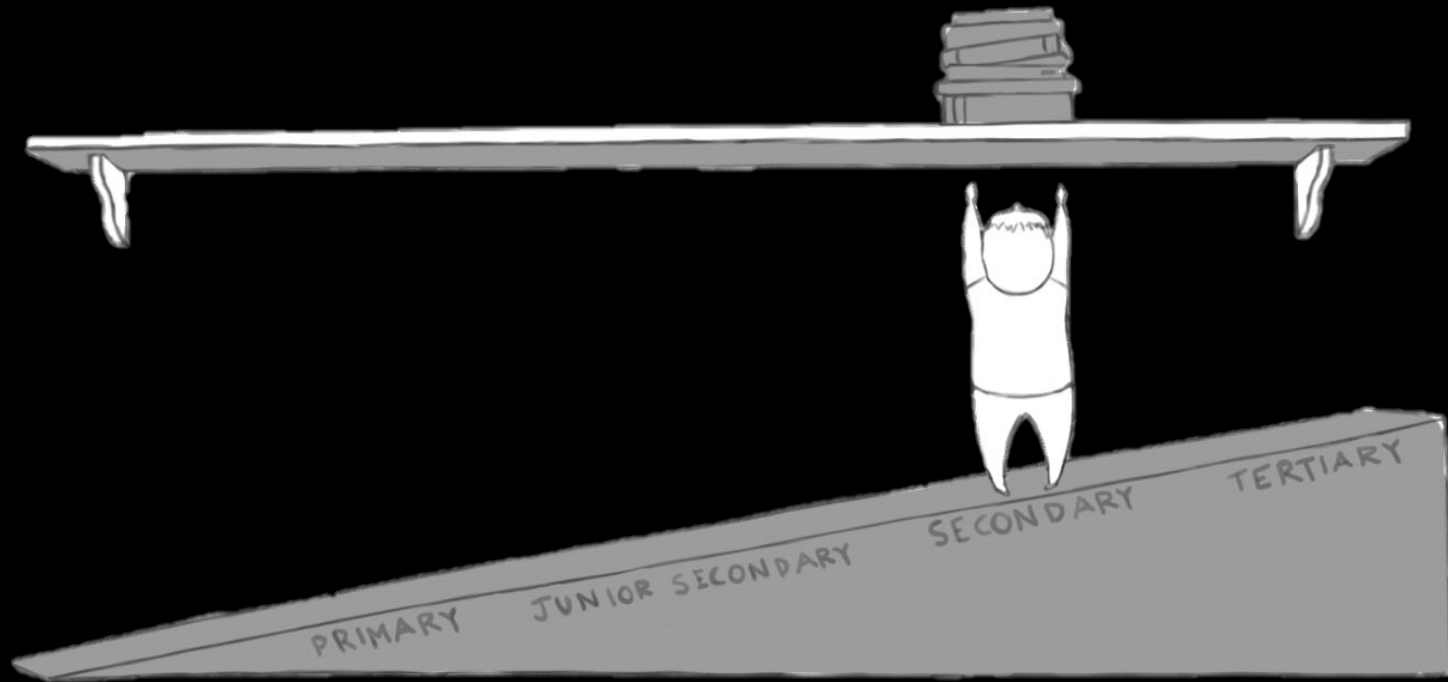
PISA Score

Even worse for Tamil Nadu

Figure 1.8: Denmark and Tamil Nadu, India Compared
(PISA 2009(+)) Mathematics



If not much is being learned per year then more years alone are not enough



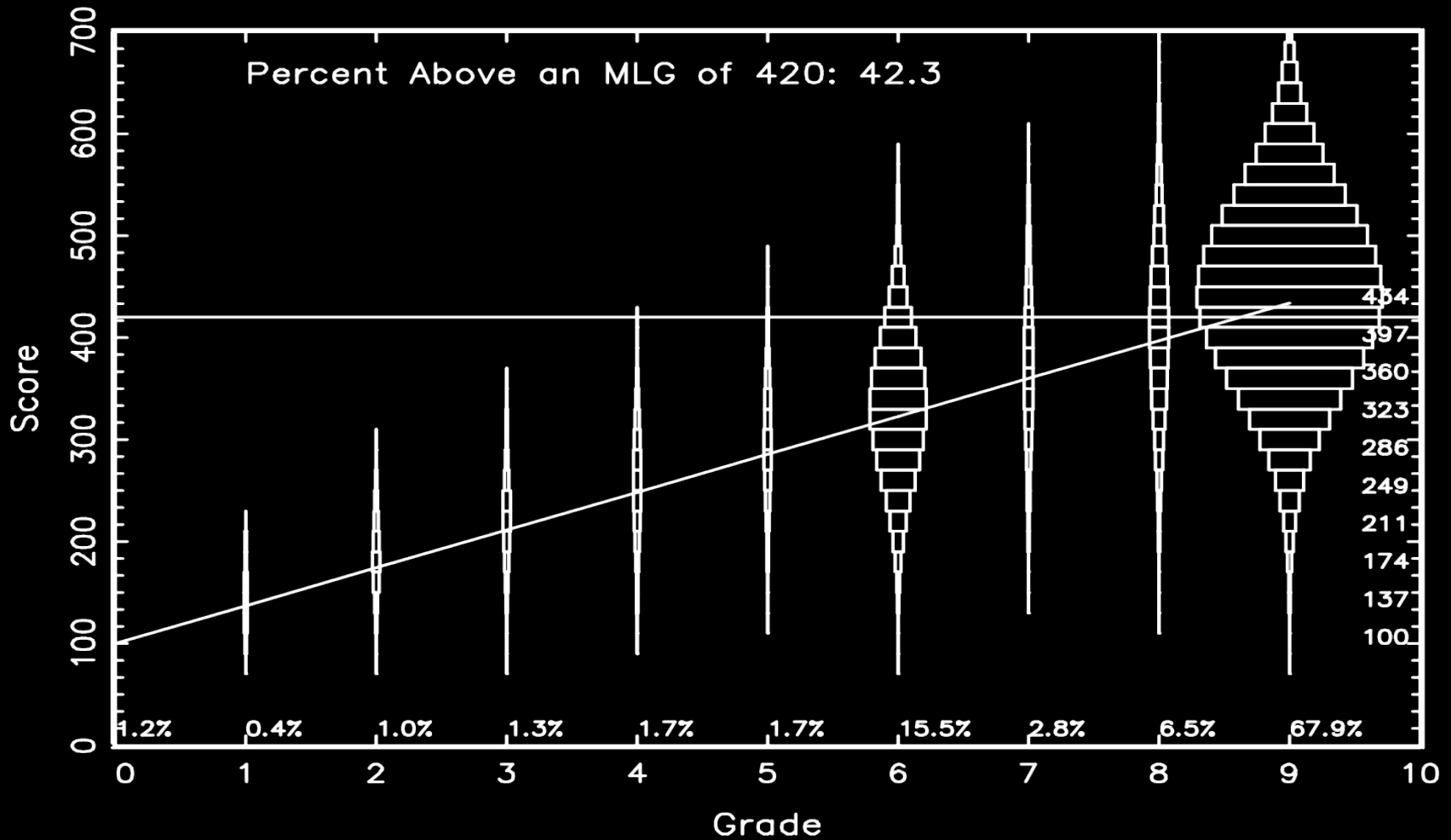
Even universal secondary schooling would not achieve universal proficiency in reading and math

	Yearly increase in percent correct	Years of schooling needed to reach goal	
		90 percent correct	100 percent correct
India: EI Language (median)	5	19	22
India: EI Math (median)	5	14	16
Tanzania: grade 2 proficiency across Kishwahili, English, and math grades 4-7	9	13	14

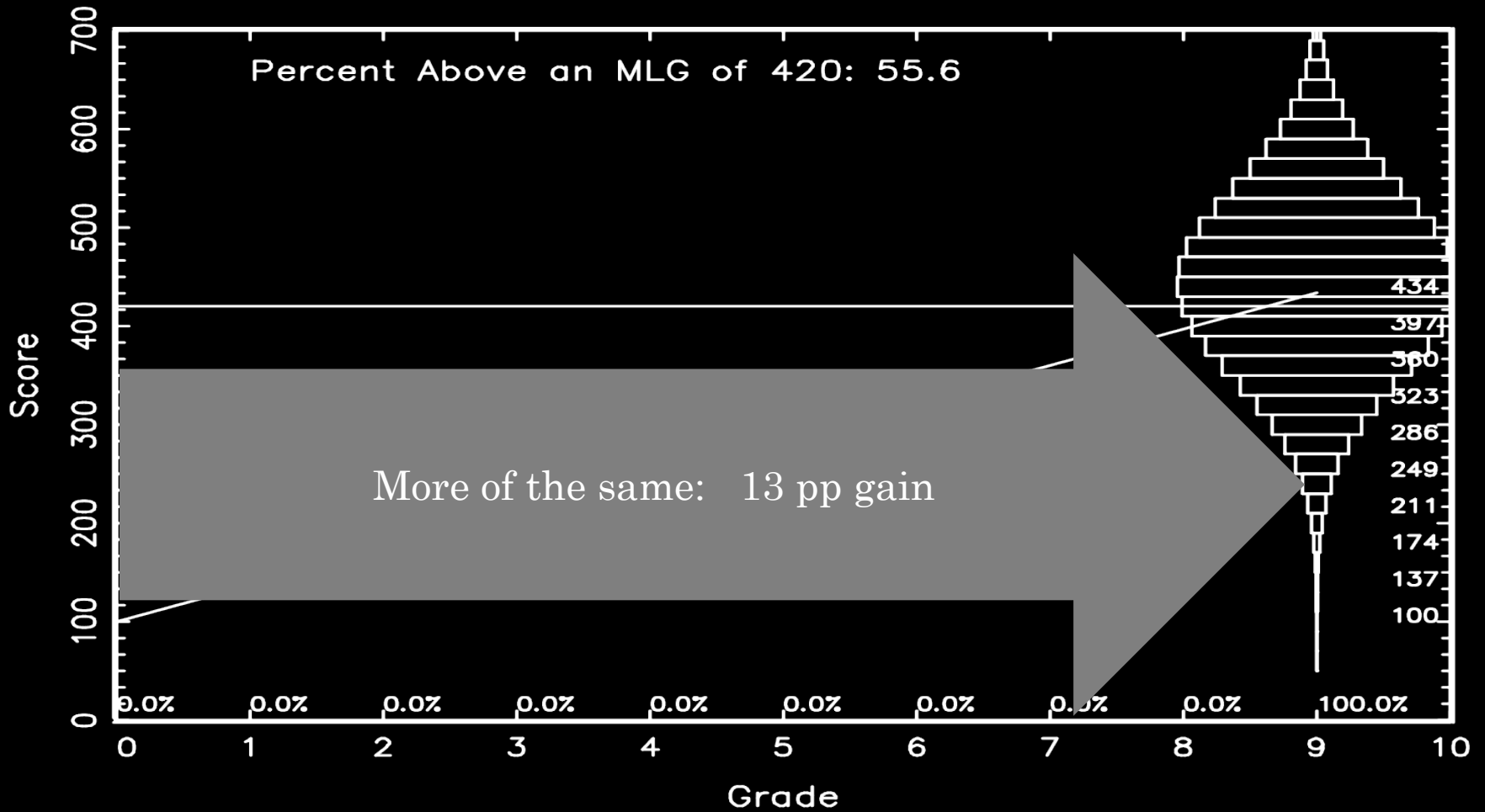
sources: For India, Educational Initiatives (2010). For Tanzania, Uwezo (2011).

note: author uses median for EI because in one set of language questions the increment is 1.4 per year, which substantially lowers them.

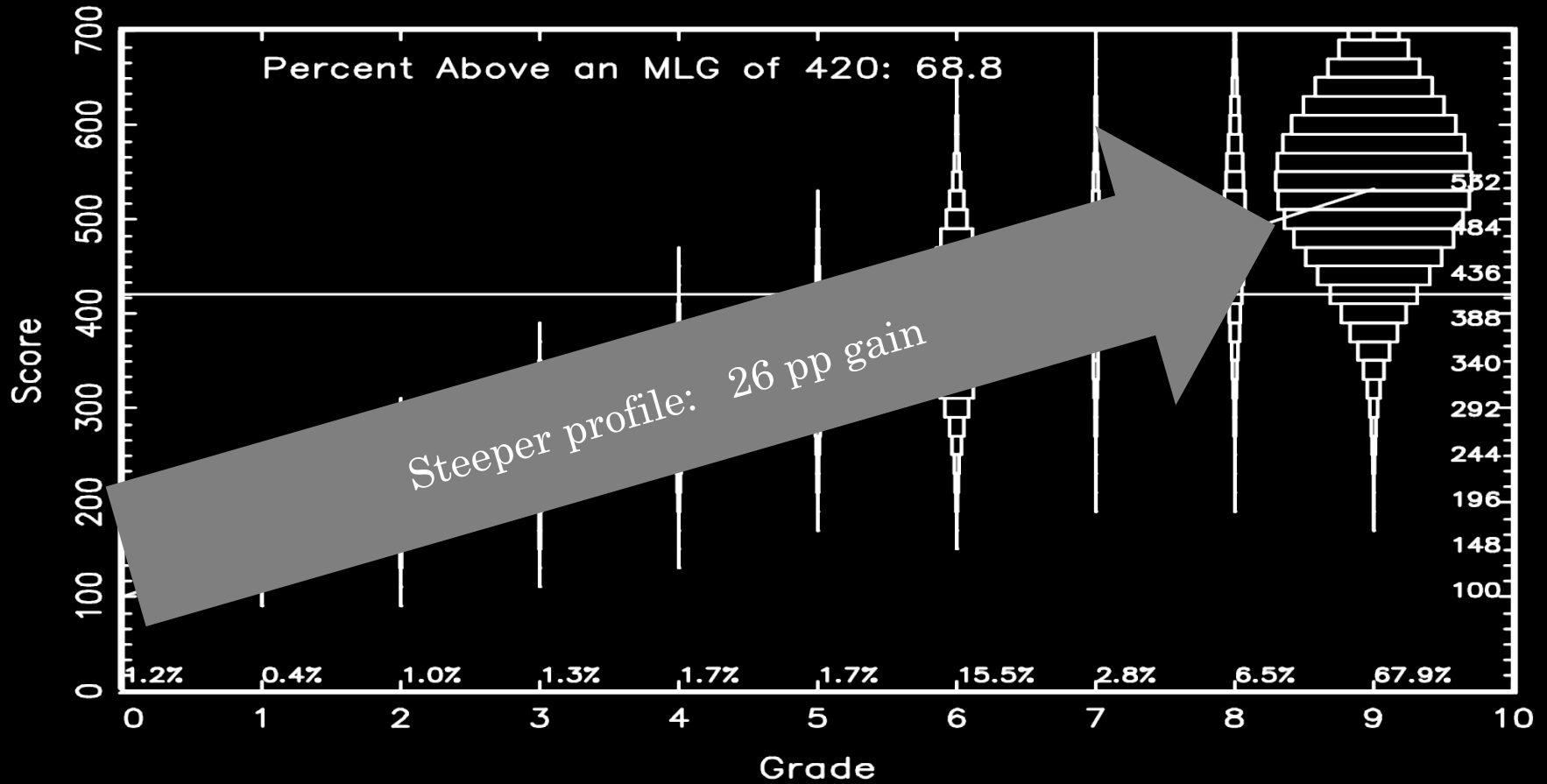
Indonesia simulated cohort learning achievement profile, 2007



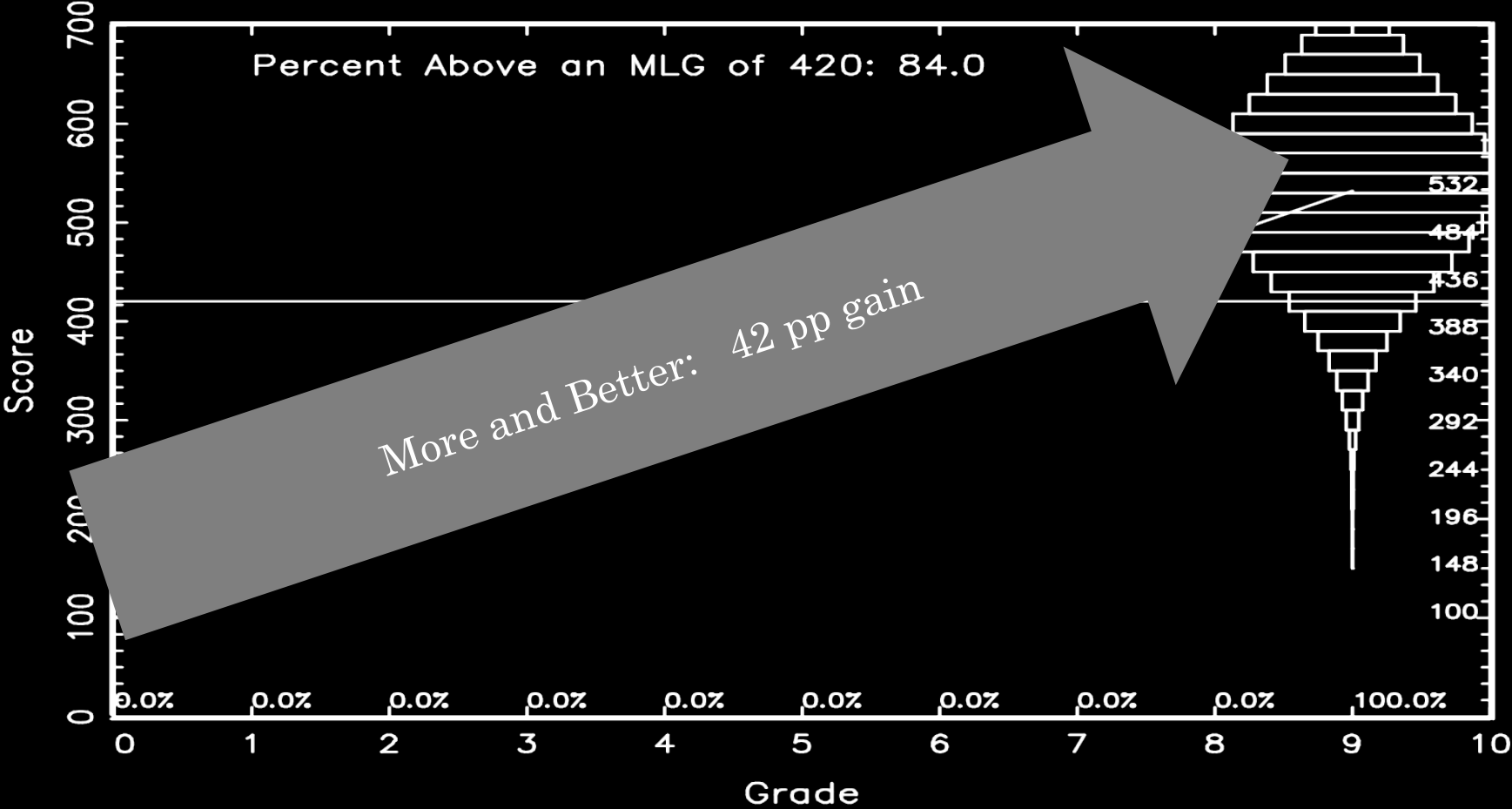
Indonesia hypothetical at universal grade completion



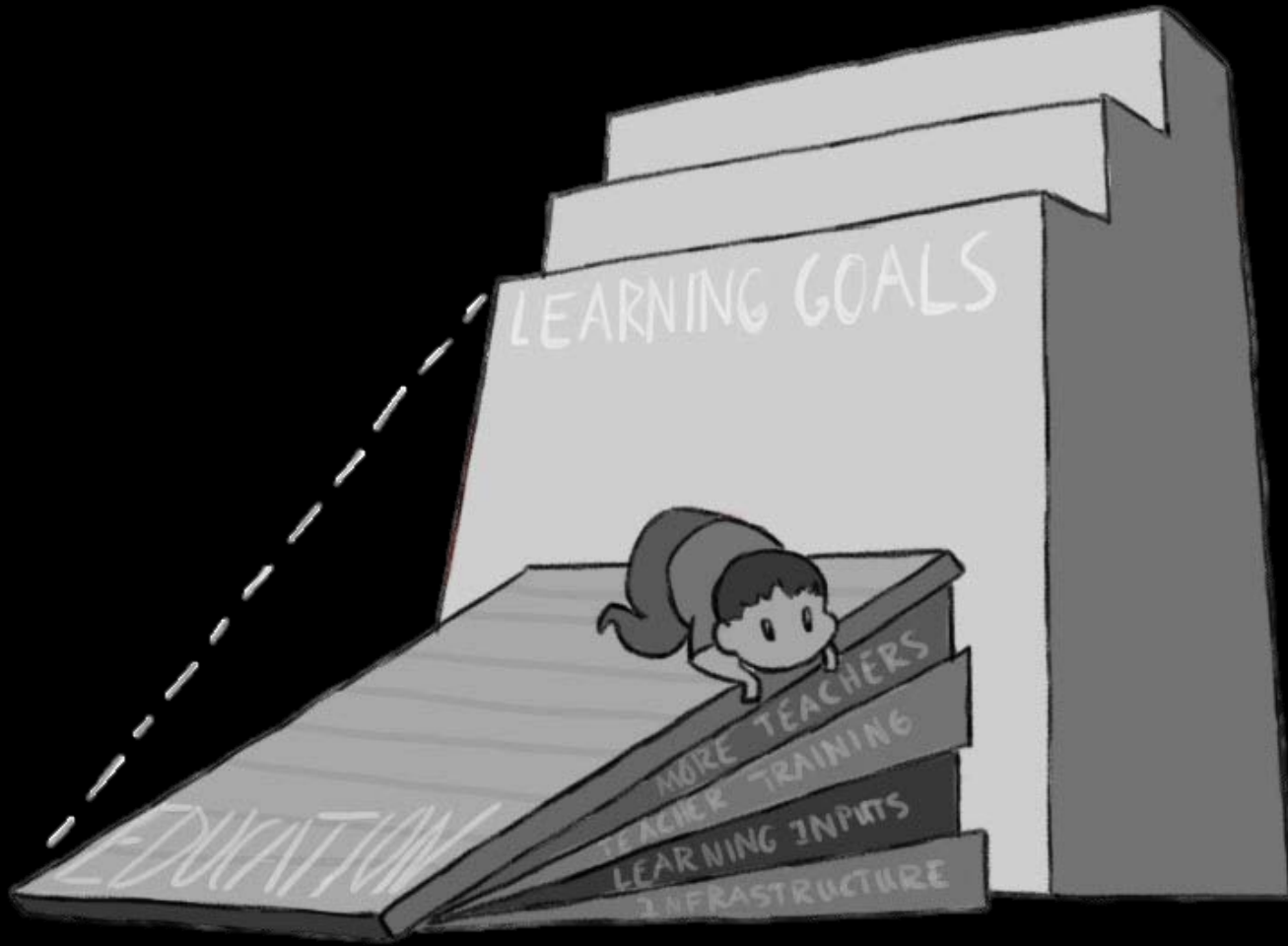
Indonesia hypothetical at 1 std dev steeper learning profile



Indonesia hypothetical universal completion and steeper learning profile

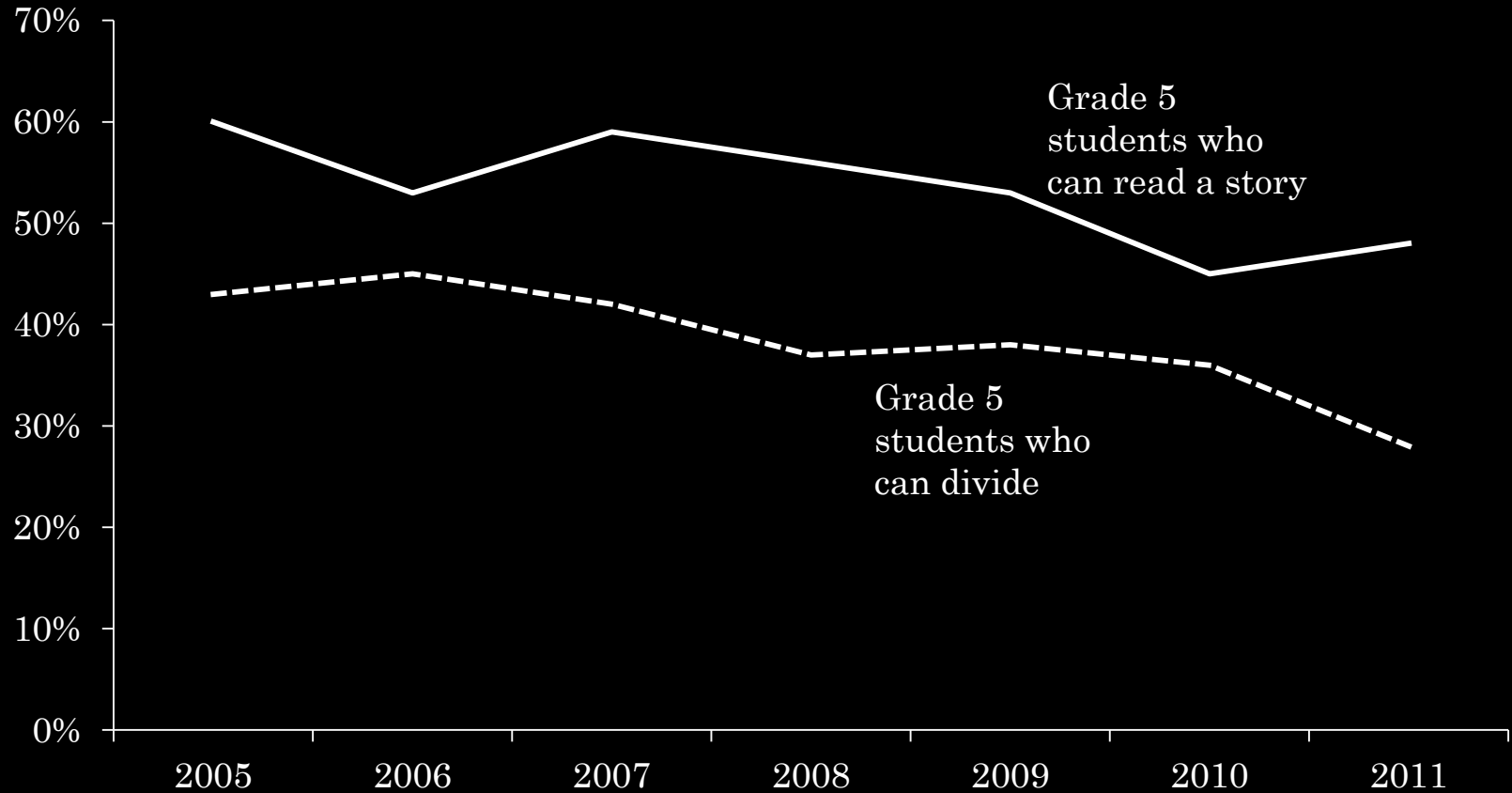


Inputs are not the answer



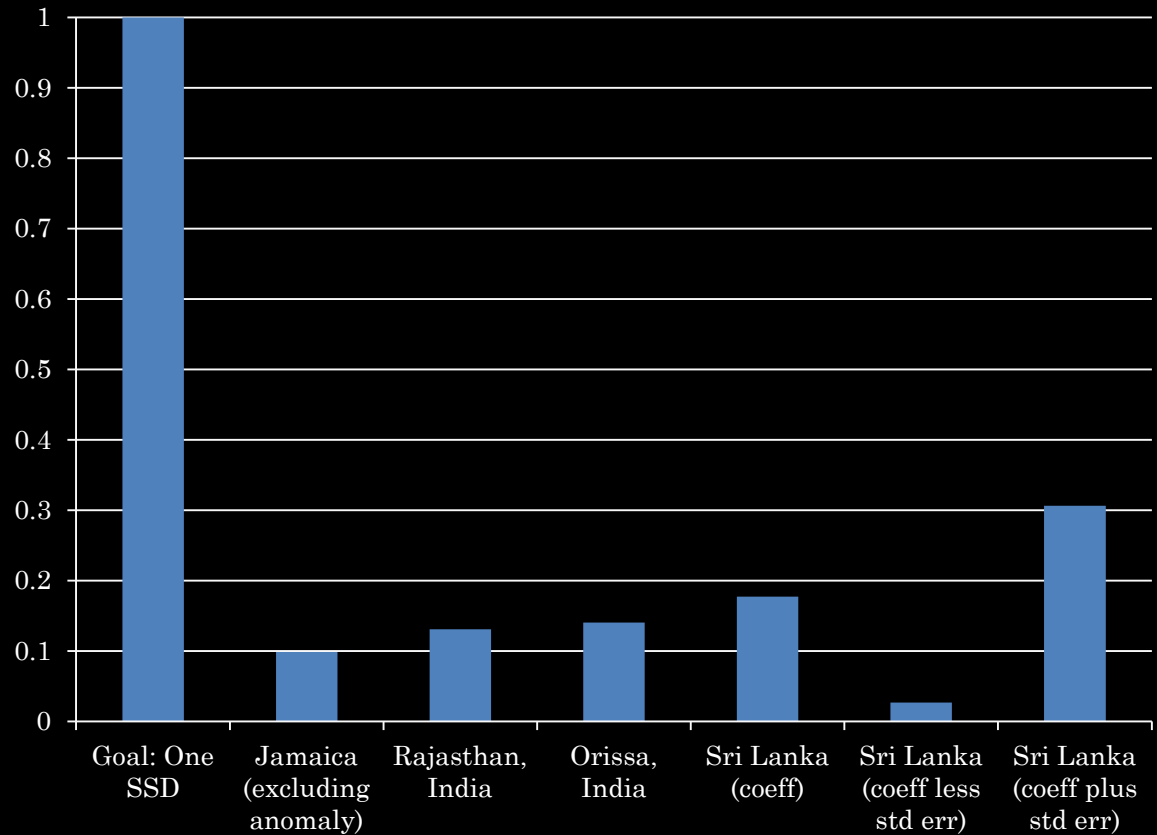
Inputs are not the answer

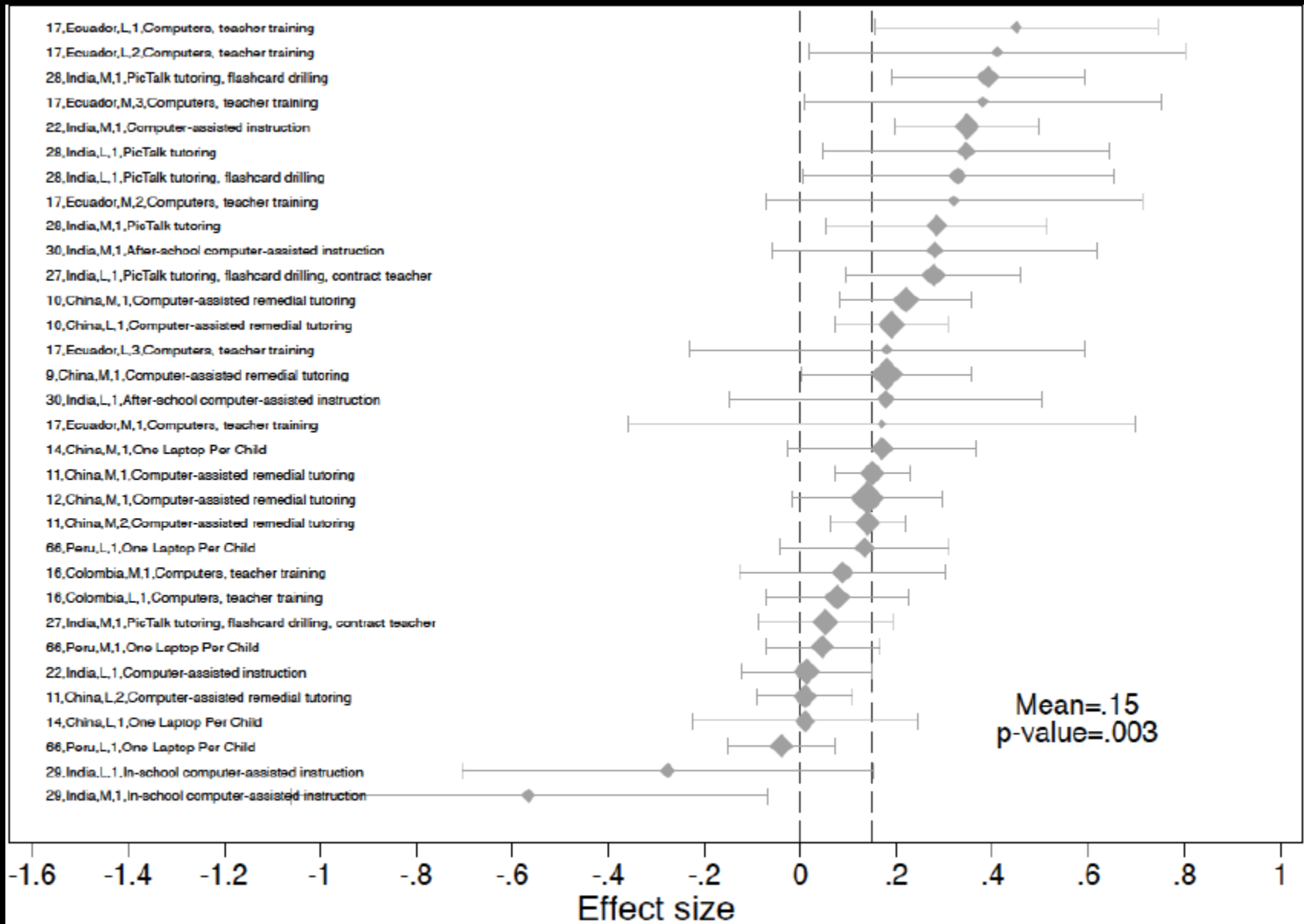
Scores are trending down in India, despite input expansion



Even “input fantasy” only goes so far

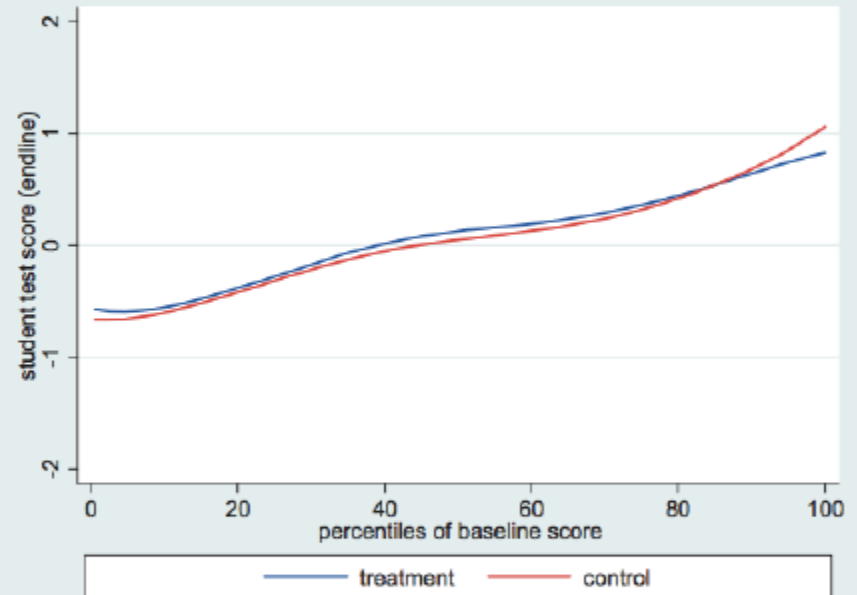
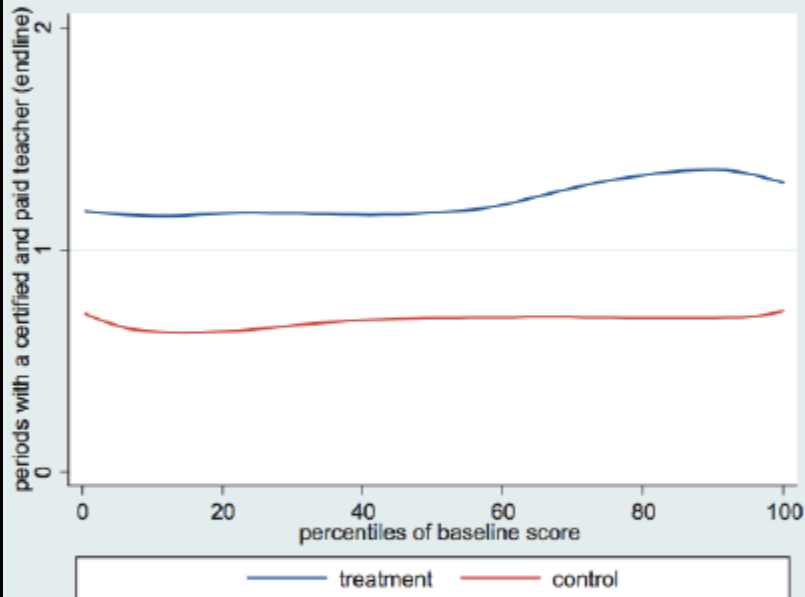
Gain from pushing each input as far as feasible along an estimated input/learning gradient





Source: McEwan 2014, "Improving Learning in Primary Schools of Developing Countries: A Meta-Analysis..."

“Double for nothing” in Indonesia



Source: De Ree, Muralidharan, Pradhan & Rogers 2014. “Double for nothing? The Effects of Unconditional Teacher Salary Increases on Student Performance”

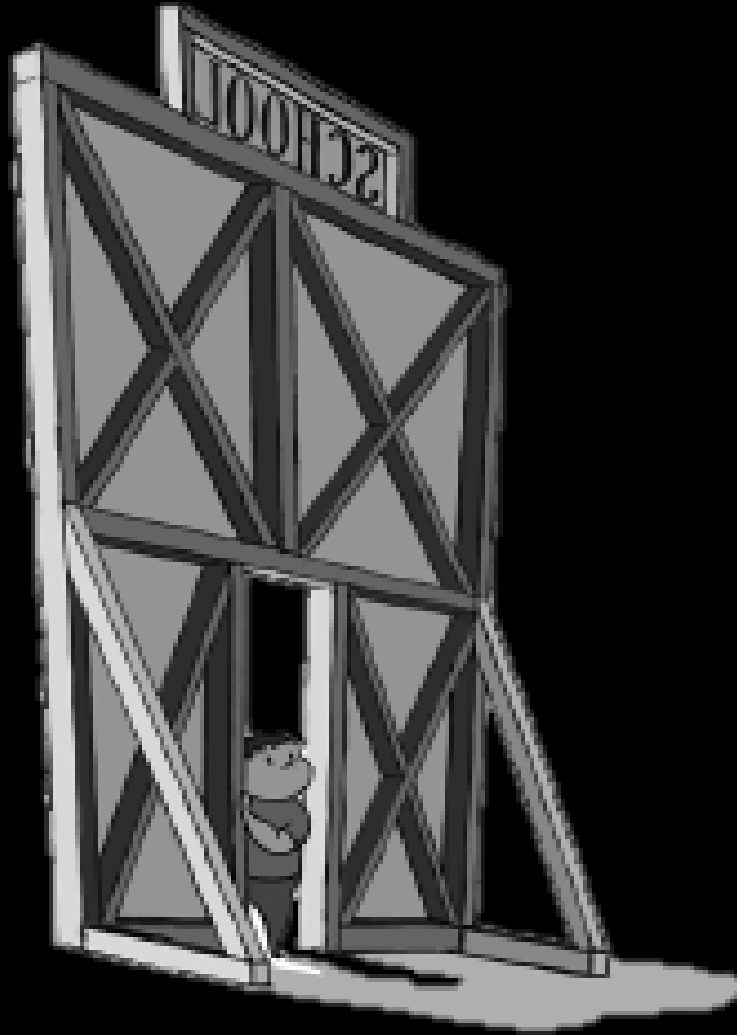


Eastern Coral
Snake
(venomous)



Scarlet King
Snake
(non-venomous)

Current Schooling Goals and Measurements Promote Isomorphic Mimicry



What doesn't get measured doesn't to get done

UNESCO Institute for Statistics—over 1000

“education” indicators

Indicator	Countries with two or more observations, 1998-2010, out of 218:
Enrollment in primary school	213
Pupil-teacher ratio in primary school	202
Adult literacy (self reported, common definition)	91

WB ED Stats—over 2500 indicators

- Recently added data from PIRLS, TIMSS, PISA
- Only 49 of 187 non-high income countries have a repeated internationally comparable measure

The environment for measuring and promoting learning is changing fast



Learning Metrics Task Force (a multi-stakeholder effort of Brookings CUE and UNESCO IS) report for post 2015 learning goals—launched in New York last Wednesday.



UN Sustainable Development Solutions Network (UNSDSN) report “The Future of Our Children” open for comment until October 18th.



World Bank education strategy oriented to learning and service delivery “Learning for All” (2012)



UK new (July 2013) position paper on education “Improving Learning, Expanding Opportunities”

Lots of successes at innovations (often demonstrated with rigorous field experiments) that Allow more local Control—building on Decades of Experience

- Private schools in Pakistan have learning higher by .3 effect sizes a year—just private school of a low quality type gets to 2/3 of the US level
- Remediation programs have enormous effects:
 - Volunteer tutors raise reading by .6 effect sizes in urban India
 - Summer camps produce a years worth of progress in just six weeks
- Contract teachers in Kenya produce large learning gains where additional regular teachers has no impact
- Community schools in Mali, Nepal, El Salvador produce equivalent learning, at times for half the cost of regular schools

Why don't Innovations that Identify Practices that Raise Learning Diffuse Widely and Raise Typical Performance?

“Pockets of good education practice (such as enlightened and effective classroom management, novel curricula, and innovative instructional technologies, many of them cost effective) can be found almost anywhere...Yet – the number of schools affected by these [reforms] is miniscule.”

Crouch and Healey, 1997

Ecosystems of schools

Spiders

Starfish

**System
Characteristics**

Closed

Space for novelty

Open

**Organizations
choose
strategies**

Agenda
Conformity

(E)Valuation of novelty

Functionality

Isomorphic Mimicry
(mimic or normative)

Organization Goal:
Legitimation
(growth, resources)

Demonstrated
Success

Agents

Organizational
Perpetuation

Leadership

Demonstrated
Success

**Leaders
Teachers**

Compliance

Self-interest

Front-line worker
choices

Act with Concerned
Flexibility

Starfish Systems

Open

Locally
Operated

Performance
Pressured

Professionally
Networked

Technically
Supported

Flexibly
Financed

Starfish Systems

Open	Entry and exit is easier to create ecological learning
Locally Operated	Control of educational aspects that require “thick” decision making and responsiveness ceded to those best placed—principals and teachers more autonomous to act
Performance Pressured	Organization with internal norms of a drive to succeed with performance based on maximally available information (but limited “top down” high stakes accountability on thin metrics)
Professionally Networked	Teachers in contact with others so that effective practices can diffuse
Technically Supported	“Higher” levels of education organizations mobilize support for the front-line actors
Flexibly Financed	Finance flows as much as possible to the most local level as untied as possible

Starfish Systems

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Spiders

No school ever closes, management rarely changes
Key decisions are made centrally—including the allocation of teachers to schools and even classrooms
Compliance pressured with emphasis on inputs and process.
Vertically organized, not professional association
Education hierarchy is for “supervision”
Budgets are tied to specific inputs top to bottom

Starfish

Spiders

	Locality-level decentralization	Charter schools (only public-sector entrants)	Community-controlled schools	Private (for and not for profit entrants)	Pure markets for instruction (e.g., tutoring)	
Open?	Entry only by localities	Entry by designated organizations	Entry only by locally organized groups	Open entry	Completely open entry	Closed
Locally operated?	Mixed	Yes	Yes	Yes	Yes	No
Performance pressured?	Mixed	Mixed	Mixed	Yes	Depends on metric	Mixed
Professionally networked?	Regionally	Mixed	Mixed	Mixed	Weak	Hierarchy
Technically supported?			Yes		No	Yes
Flexibly Financed?	Mixed		Mixed	Yes	No financing	No flexibility

What I am *NOT* saying (but you nevertheless may be hearing)

- I am *not* saying “privatization” is a panacea
- I am *not* saying “bottom-up” is a panacea
- I am *not* saying “high stakes” testing for students or teachers is a panacea

The rebirth of modern schooling

- From schooling goals to learning goals—drive around specific and simple performance targets both early (e.g. reading fluently by grade 3) and late (e.g. conceptual mastery and application by grade 8/9)
- From “dead spider” systems attempting “more of the same” in expansion or augmenting EMIS visible inputs to OP/LO/PP/PN/TS/FF *ecosystems* that support performance driven schools and teachers

Using Evidence to Improve Social Protection Programs in Indonesia

Benjamin Olken, MIT

“Targeting the Poor: Evidence from a Field Experiment in Indonesia”

with Alatas, Banerjee, Hanna, and Tobias

“Self-Targeting: Evidence from a Field Experiment in Indonesia”

with Alatas, Banerjee, Hanna, Purnamasari, and Wai-Poi

“The Power of Transparency: Information, Identification Cards, and Food Subsidy Programs in Indonesia”

with Banerjee, Hanna, Kyle, and Sumarto

Motivation

- Indonesia has been gradually moving away from non-targeted subsidies (fuel, electricity, food) to targeted transfer programs
 - Examples: Raskin (rice), scholarships, health insurance, CCTs, UCTs.
- Indonesian government faces several challenges with these programs
 - How to we most effectively *target* these programs – i.e. how does the government determine who should be recipients of the programs? Move towards a “unified database” – but who does it include?
 - How we ensure that programs are *implemented* effectively?
- Use randomized trials to answer these questions

Targeting

- Targeting entails a different set of challenges in developing countries because governments lack reliable data on incomes
- Several methods used to address this problem entail a tradeoff between information and local preferences:
 - Proxy-means testing (PMT): government collects data on hard-to-hide-assets to proxy for consumption
 - Community-based targeting: allow local community discretion to decide who is poor
 - Self-selection: allow people to apply, and then do PMT – hope that those who think they will pass will choose to apply

What we do in these papers

- Working with the Indonesian government (TNP2K, Bappenas, BPS), we randomly assigned villages to different targeting methods:
 - Project 1: PMT, Community, and a Hybrid (600 villages)
 - Project 2: Automatic PMT vs. Self-selection PMT (400 villages) in context of PKH program
- Using a randomized controlled trial allows us to assess the impact of these different targeting methods by comparing across them
- Use a baseline survey – conducted before the targeting project started – to assess households' true poverty level
- Which method performed best at identifying the poor?

Project 1:

PMT vs. Community Targeting

- **This study examined a special, one-time real transfer program operated by the government**
 - **Beneficiaries would receive a one-time, US\$3 transfer (PPP\$6)**
- **Sample consists of 640 sub-villages (rural and urban) across 3 provinces in Indonesia**

The PMT Method

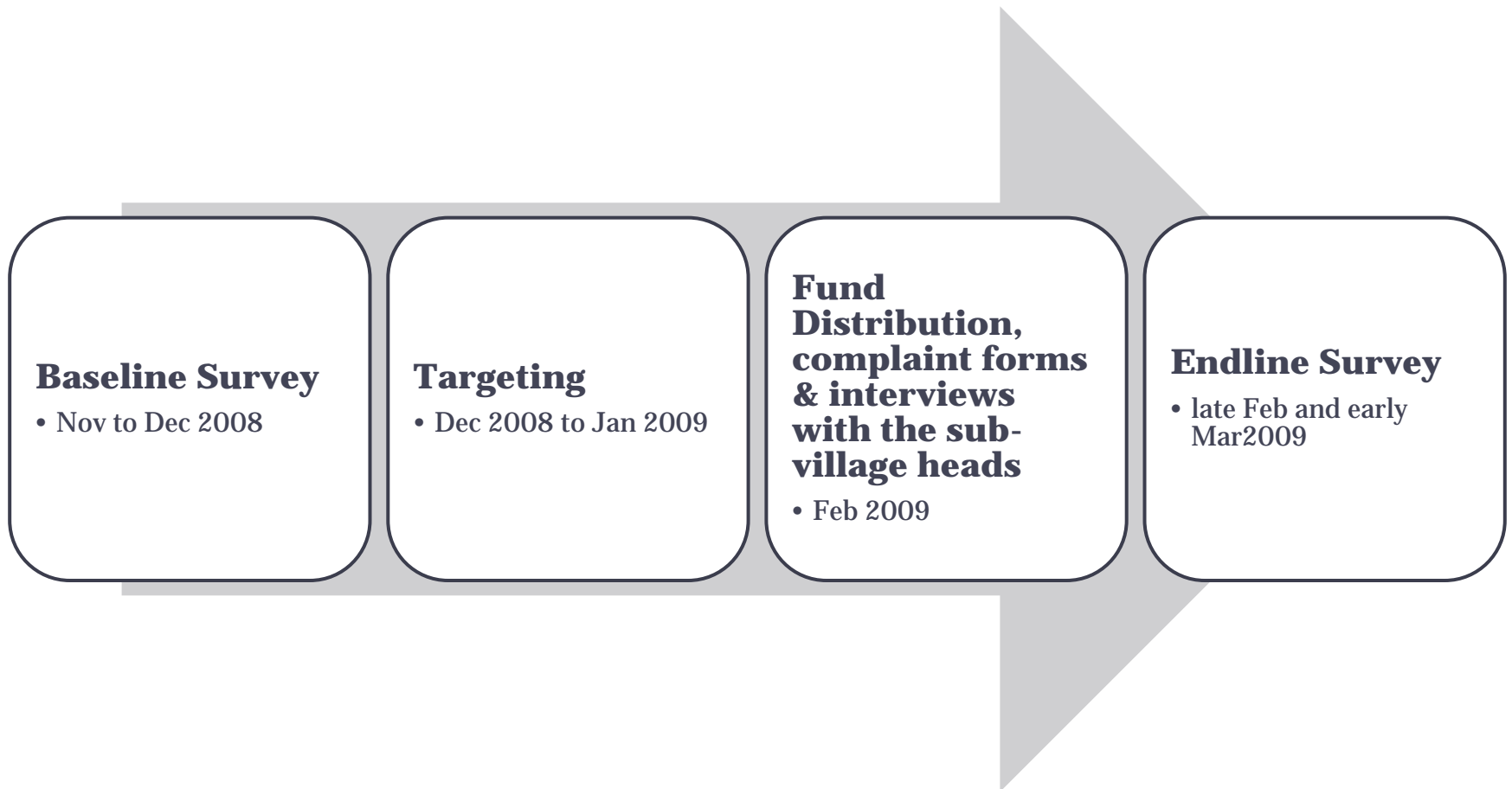
- Government chose 49 indicators, encompassing the household's home (wall type, roof type, etc), assets (own a TV, motorbike, etc), household composition, and household head's education and occupation
- Use pre-existing survey data to estimated district-specific formulas that map indicators to PCE
- Government enumerators collected asset data door-to-door
- PMT scores calculated, and those below village-specific (ex-ante) cutoff received transfer

The Community Method

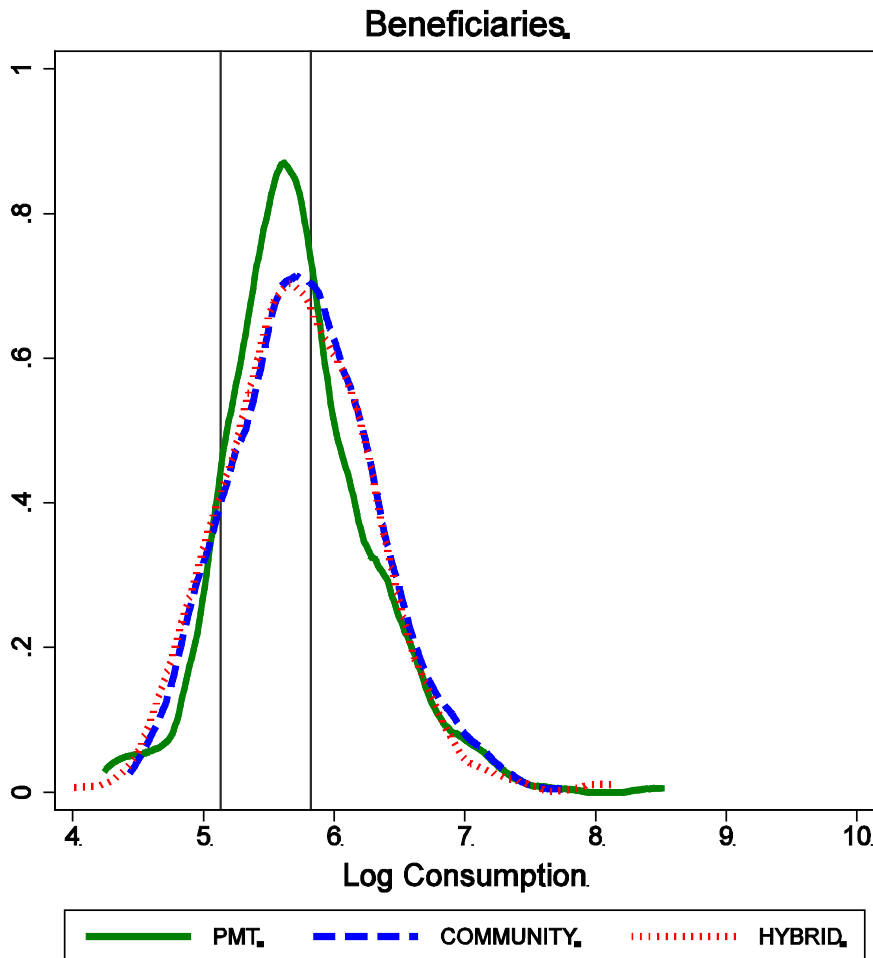
- Goal: have community members rank all households in sub-village from poorest (“*paling miskin*”) to most well-off (“*paling mampu*”)
- Method:
 - Community meeting held, all households invited
 - Stack of index cards, one for each household (randomly ordered)
 - Facilitator began with open-ended discussion on poverty (about 15 minutes)
 - Start by comparing the first two cards, then keep ranking cards one by one
- Also varied who was invited (elites or everyone)
- Hybrid combined community with PMT verification of very poor



Time Line



Distribution of Per Capita Cons.



- PMT centered to the left of community methods—better performing on average
- However, community methods select slightly of the very poor (those below PPP\$1 per day)
- On net, beneficiaries have similar average consumption

Community Satisfaction: Endline

	Is the method applied to determine the targeted households appropriate? (1=worst,4=best)	Are you satisfied with P2K08 activities in this sub-village in general? (1=worst,4=best)	Are there any poor HH which should be added to the list? (0=no, 1 = yes)
Community treatment	0.161*** (0.056)	0.245*** (0.049)	-0.189*** (0.040)
Hybrid treatment	0.018 (0.055)	0.063 (0.049)	0.020 (0.042)
Observations	1089	1214	1435
Mean in PMT treatment	3.243	3.042	0.568
	Number of HH that should be added from list	Number of HH that should be subtracted from list	Number of complaints in the comment box
Community treatment	-0.578*** (0.158)	-0.554*** (0.112)	-1.085*** (0.286)
Hybrid treatment	0.078 (0.188)	-0.171 (0.129)	-0.554** (0.285)
Observations	1435	1435	640
Mean in PMT treatment	1.458	0.968	1.694

Paper 2: Automatic PMT vs. Self-selection PMT

- One way to do so is to impose program requirements that are differentially costly for the rich and the poor (Nichols and Zeckhauser, 1982; Besley and Coate, 1992)
 - Welfare programs with labor requirements (WPA, NREGA)
 - Food schemes with lower quality food
 - Wait in a long line to apply for a program
- But, may not necessarily work
 - Maybe the poor can't afford to miss work? Or the rich can send their maid to wait?

Setting for Project 2:

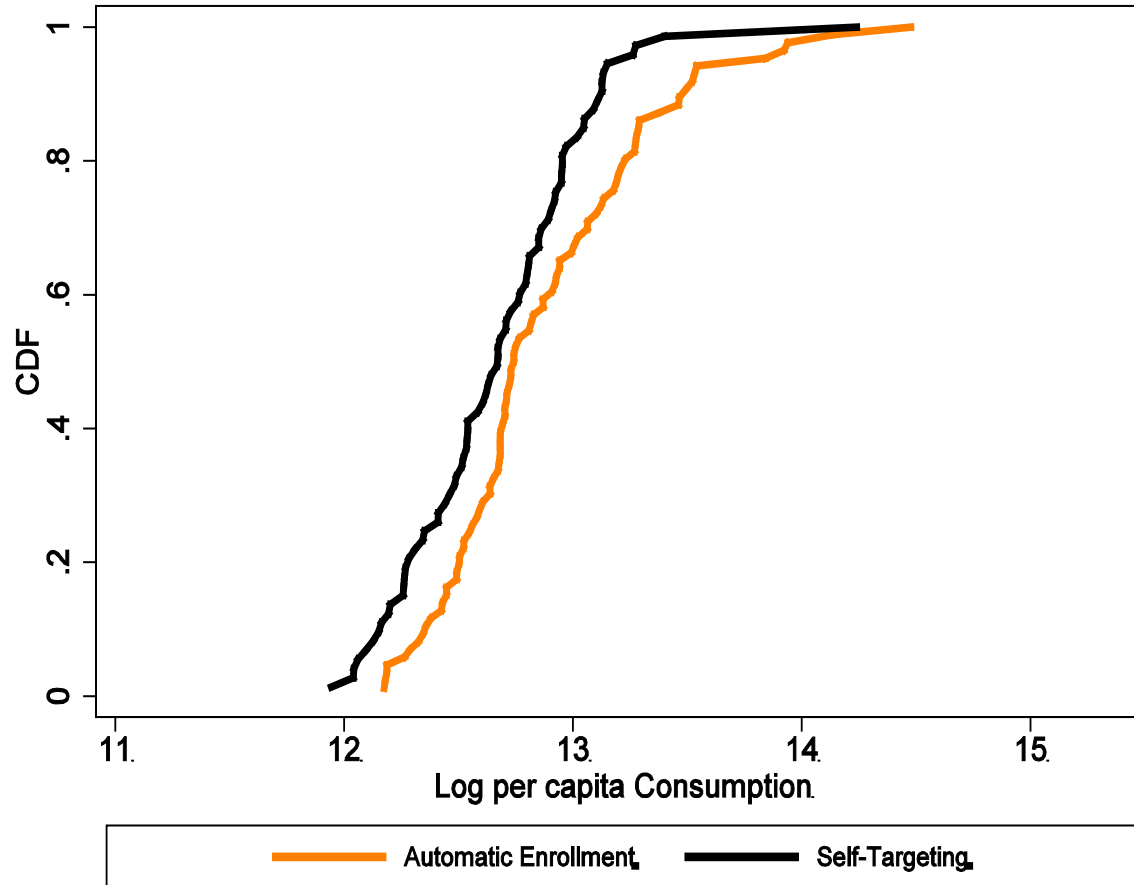
- **Experiment Takes place in the context of Indonesia's Conditional Cash Transfer Program, PKH**
 - **Must be very poor, defined as $< 80\%$ of poverty line**
 - **High stakes: household annual benefits between Rp. 600,000 (US\$66) and Rp. 2,200,000 (US\$245) per year (11% consumption for a typical beneficiary)**
- **We examine the expansion of the program to 400 new villages in 3 provinces in Indonesia**
- **Test Automatic PMT vs. On-Demand PMT**
- **Has implications for on-demand application**

Explaining the Program

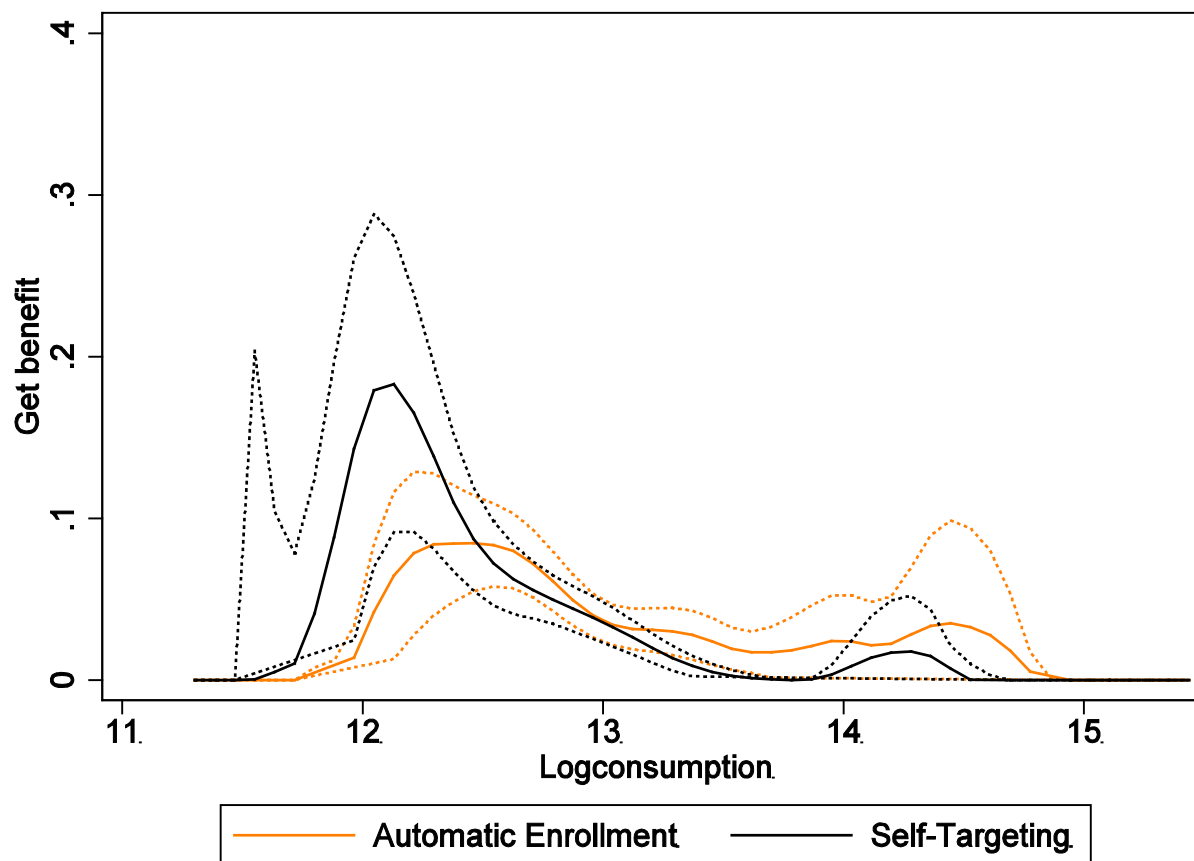


Application Process





- Self Targeting leads to a poorer distribution of beneficiaries



- **ST reduces both exclusion and inclusion error:**
 - 16 percent of those who are in the bottom 5 percent receive benefits in ST , as opposed to 7 in AE (sig at 10% level)
 - Households in top 50 percent of consumption are more than twice as likely to receive benefits (sig at 1% level)

Transparency

- Field experiment in 572 villages, in conjunction with the Indonesian government
 - Will an increase in information to eligible households increase their subsidy received?
- In 378 randomly chosen villages, eligible households received a “Raskin id card”
 - Conveys information on eligibility and entitled quantity



Effect of Cards on Raskin?

	Bought last two months	Quantity	Price	Subsidy
<i>Eligible</i>				
Card	0.02 (0.01)	1.25*** (0.24)	-57*** (18)	7,455*** (1,328)
Control Mean	0.79	5.29	2,276	28,605
<i>Ineligible</i>				
Card	-0.06*** (0.02)	0.07 (0.19)	-35 (24)	526 (1,035)
Control Mean	0.63	3.46	2,251	18,754

- Subsidy increases by about ~26% for eligible
- No overall decrease in quantity for ineligible
- Cards scaled up nationwide

Conclusions

- These three projects investigated alternative approaches to identifying poor households, and the role of transparency in improving transfers
- Found that:
 - Community targeting did about the same as PMT in terms of identifying people based on per-capita consumption, but much better in terms of local poverty metrics.
 - Self-targeting did a much better job at differentiating between poor and rich than automatic PMT, although it does impose costs on applicant households
 - Transparency can substantially improve implementation
- Implementation
 - Government scale-up of cards nationwide
 - Incorporation of community elements into national targeting; ongoing discussion of on-demand application
 - [Video](#)

Financial Inclusion in Indonesia



Jay K. Rosengard
Harvard Kennedy School

Roadmap of Presentation

- Key questions:

What is financial inclusion and why should we care about it?

- Progress:

Innovations in microfinance over past 30 years

- Perils:

Current constraints to further microfinance development

- Proposals:

Creating a more enabling policy environment

What is financial inclusion?

- Ensuring access to formal financial services for everyone, not just those at the top of a nation's economic pyramid
- Especially those most often excluded, namely low-income households and family businesses
- Referred to as “unbanked” or “underbanked” majority, since they consist of most of society in developing and transitional countries
- Also a significant subset of the market in high-income countries, comprised primarily of immigrants and the economically marginalized

Why should we care about financial inclusion?

- Provides those with the greatest potential to gain from economic development the financial tools necessary to realize these benefits
- Addresses the paradox of rapid economic growth with increasing inequality at the same time
- Same services provided to conventional markets, but tailored to specific conditions of the working poor and poorest-of-the-poor
- Tailoring entails adapting product design, pricing, and delivery systems to customer needs and preferences
- Tailoring also requires institutional innovation to provide financial services to low-income households and family businesses in a financial sustainable manner
- We should promote financial inclusion as an essential component of a nation's strategy for achieving inclusive development, since inclusive development requires equality of economic opportunity

Innovations in Microfinance (1)

- Over the past 30 years, we have developed a variety of successful institutional models for the sustainable delivery of microfinance services to low-income households and family businesses
- Many of the models can be found in Indonesia
 - Specialized strategic business units within general commercial banks: Bank Rakyat Indonesia (BRI)
 - Village banks: Badan Kredit Desa (BKD)
 - Community banks: Bank Perkreditan Rakyat (BPR)
 - Membership-based orgs: KUDs, Coops, Credit Unions
- Also bank-service agency and bank-telcom models

Innovations in Microfinance (2)

Bank Rakyat Indonesia (BRI)

- World's largest, most profitable microbanking operation
- Commercialized 30 years ago, still growing and evolving
- Has inspired other Indonesian commercial banks (Danamon, BTPN) to enter the market, as well as creation of the first for-profit apex microbank (Bank Andara)
- In 2014, BRI Indonesia's largest bank in terms of assets, profits, network → BRI microbanking was $\frac{1}{3}$ of the value of total BRI loans outstanding, $\frac{3}{4}$ of BRI profits, and was provided via a network of 9,331 Units, Teras/Teras Mobile, cash offices + thousands of agents and e-channels; will soon launch its own satellite
- Microloans: \$12.2b, 7.3m borrowers, 1.12% NPLs
- Microsavings: \$13.3b, 37.5m savings accounts

Innovations in Microfinance (3)

- Microfinance has responded to evolving markets by developing viable products
 - Transfer and payment services (domestic household to household transfers and bill payments; foreign remittances from abroad to home village) → reduce transaction costs, increase disposable income
 - Savings services (giro/demand deposits, passbook savings, time deposits, commitment savings) → income smoothing, cushion for shocks, provision for retirement, asset/wealth accumulation
 - Credit services (working capital, investment loans) → increase income and wealth, improve quality of life
 - Risk mitigation services (loan, life, health, weather-indexed crop insurance) → decrease vulnerability to common risks
- and appropriate delivery systems
 - Sometimes down to the village level (ex: BKK village posts)
 - Increasingly directly to the client via mobile phones (ex: mobile banking)
- under adapted regulatory and supervisory regimes
 - Regulation recalibrated, not more lenient (same risks measured differently, sometimes stricter regulations)
 - Supervision often delegated (ex: BRI and BPDs)

Current Constraints to Further Development of Microfinance

- Although we have applied theory to practice, and we know the policies and practices necessary to create an effective microfinance market, still:
 - Considerable unmet effective demand (lack of financial depth indicates large unbanked/underbanked market)
 - Unsolved challenges in product design and product delivery systems (especially agriculture credit)
 - Prudential and non-prudential regulatory barriers (such as full risk weighting for loans secured by non-conventional collateral)
 - Failure of competition (counterproductive consolidation and homogenization of banking sector)
 - Constant risk of backsliding into failed practices and financial repression (directed credit such as KUR)

Creating a More Enabling Policy Environment

- Smart regulation to avoid unintended consequences
 - Balance between over-exuberant deregulation and excessive re-regulation → managed competition
 - Appropriate prudential metrics → effective risk mitigation
- Mainstream microfinance into national strategy for financial inclusion
 - Demarginalize microfinance → integrate balkanized markets and link to SME finance
 - Include in a national poverty alleviation strategy → more sustainable and equitable growth

Want to know more about financial inclusion in Indonesia?

- Jay K. Rosengard and A. Prasetyantoko, “If The Banks Are Doing So Well, Why Can’t I Get A Loan? Regulatory Constraints to Financial Inclusion in Indonesia,” *Asian Economic Policy Review* (vol. 6, no. 2): <https://dash.harvard.edu/handle/1/8705903>
- Bank Indonesia, *Financial Inclusion Development Policy in Indonesia*, 2012: http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-jakarta/documents/presentation/wcms_216688.pdf
- World Bank, Global Financial Inclusion Index (Global Findex), 2014: http://data.worldbank.org/data-catalog/financial_inclusion

What Difference do Presidents Make, and Why?

R. William Liddle
Ohio State University

I. INTRODUCTION:

Short answer: they can make a **big difference**, as we see in the impact on society of contrasting decisions by former President Yudhoyono (SBY) and current President Jokowi on major issues confronting the country—one about the economy, the other about the KPK, Indonesia's anti-corruption commission. On the economy, Jokowi succeeded in reforming the fuel oil subsidy policy in his first months in office, while SBY failed to do so in ten years. On the KPK, Jokowi has put its authority and future in jeopardy, while SBY gave it support in critical moments that allowed it to play a significant corruption-fighting role for ten years.

What explains these differences? I think it is **conscious choices** on the part of the two presidents, which can be examined in terms of (1) their **goals** as president, including the presence or absence of political will, (2) existing **political resources and constraints** (roughly Machiavelli's *fortuna*), and (3) **strategic and tactical decisions** (Machiavelli's *virtu*).

This means that, as in any democracy, these presidents **can be held accountable** for their choices in the short run by the electorate and in the long run by history. It also means that **we**, as observers and/or players, including voters, **have tools** to assess the current achievements, failures, and prospects of an incumbent like Jokowi. Seems simple and straightforward, but not many political scientists approach the problem in this way.

One who did was **Richard Neustadt**, as it happens one of the founders of the Harvard Kennedy School, author of *Presidential Power: the Power to Persuade*, published in 1960 and famously read or at least carried around by John F. Kennedy between his election and his inauguration. I am sorry to say I never met Neustadt and only came around slowly to an understanding of how important his book is.

From his study of American presidents Roosevelt, Truman, and Eisenhower, Neustadt argued that five factors determine the success or failure of a presidential initiative or program. (1) The president himself must be **fully involved** in the process of decision-making. (2) His words must be **unambiguous**. (3) His view must be **publicized widely**. (4) The instruments and resources available for **implementation** must be up to the task. And (5) the **recipients** of his instructions must **accept his authority and legitimacy** in terms of that particular policy or program.

I want to apply Neustadt's framework to the case of Jokowi. **On the subsidy, Jokowi was positive on all five, on the KPK negative on all five.**

A very stark contrast. Why?

II. FUEL OIL SUBSIDIES:

Bottom line: A **success**, in that there was substantial reform, but with some **caveats**. *Bulletin of Indonesian Economic Studies* 51:1, p. 18: “an important step towards a market-based mechanism.” Subsidies for premium gasoline were removed, price now adjusted each month depending on price of crude oil. Also critical: a fixed subsidy of Rp 1,000 per liter for diesel and kerosene replaced a fixed price, so if international prices rise the government will no longer be responsible for maintaining the previous price. **Caveats:** price still subject to manipulation by a long-standing cartel; also the money saved will be invested in state enterprises for infrastructure development, which are highly inefficient and reputed to be notoriously corrupt.

Goals. (1) **Political will** on this issue (which SBY didn't seem to have for anything) and (2) a **specific commitment** to and understanding of economic reform (“from consumption to production, from consumption to investment, from consumption to industry”—interview, *Tempo* 1 November 2015). Recent trip to US seemed to confirm both the political will and the commitment to reform. Plus trips to China and Australia all stressed the same points with the same intensity.

Political Resources. (1) An **understanding of how modern economies work** that goes back to Suharto and his professional economists, led by Widjojo Nitisastro. (2) **Functioning government ministries and personnel** in this area, again going back to the Suharto-Widjojo era. (3) **No fear of mass protest**, proved when he was governor of Jakarta. Very different from SBY, who had a fine sense of what would cause mass protest and avoided acting when he calculated that there would be protest.

Constraints. (1) **Cultural constraint: pervasive anti-market ideology** throughout the society. (2) **Jokowi's own populist rhetoric** during the campaign which could at least be interpreted as anti-market. (3) **Political constraint: especially strong in his own party**, PDIP, led by Megawati, daughter of founding father Sukarno, the great anti-imperialist, anti-capitalist. (4) **Another political constraint:** Middle-class motorcycle owners and even some lower class bus riders' interests.

Strategy/tactics. (1) Saw a **window of opportunity** open at the beginning of his administration because the threat of rising oil prices was so great that it could overwhelm the state budget, including of course his own main initiatives. That's a term of art. Concept of window of opportunity best developed by John Kingdon (*Agendas, Alternatives, and Public Policies*). It means the moment when recognition of a policy problem, the generation of policy proposals, and political events, meet. Also might call it a **crisis**, as Merilee Grindle and John Thomas famously developed that variable in *Public Choices and Policy Change* or, **my favorite version**, Sadli's Law, developed by the late Indonesian economist Mohammad Sadli, which was “bad times make good policy.”

(2) Made **effective use of a policy entrepreneur**, State Enterprises Minister Rini Soemarno. The concept of policy entrepreneur as someone who acts creatively when a window of opportunity opens is also best developed by Kingdon.

(3) Figured out a way to make the reform with **minimal involvement from Parliament**.

Conclusion: So a success, but lots of caveats. (1) Could still be **undone**. (2) Relying on the state enterprises as his major economic drivers will probably be **very costly** in terms of inefficiency and corruption. (3) Effects of the several economic **reform packages** not clear. (4) Indonesia of course dependent on the **vagaries of the world economy**.

III. KPK (CORRUPTION ERADICATION COMMISSION):

Bottom line: A policy failure until now. KPK a key, highly popular institution in democratic life which Jokowi should have succeeded in defending at least as well as SBY had. Failure because it was a **lower priority goal** for Jokowi and he had **less political will**, but also made **strategic and tactical mistakes**. Rather than weak resources or powerful constraints. **Caveat:** level of failure reduced considering that KPK a small part of what is needed to reduce corruption.

Goals. (1) **Problem of low/unclear priority.** In Nawa Cita, Jokowi's campaign platform, there is an unambiguous commitment ("We will prioritize eradicating corruption in a consistent and believable way by strengthening the KPK") but that is only one of 11 sub-promises in the list of nine planks. (2) **After the election more promising.** Jokowi turned to the KPK to vet his potential cabinet appointees, an unprecedented and very positive sign. His trouble began when his nomination to Parliament of a new police head, Budi Gunawan, initiated by PDIP chair Megawati Sukarnoputri, was charged with corruption by the KPK. Jokowi was **forced to choose** between the police and the KPK. What did he do?

Political Resources. Three key resources that gave him room to maneuver. (1) **Jokowi's election** by a significant margin (popularity rising for years, really most electable candidate in many minds until early 2014). Of course not as big a victory as SBY previously, but nonetheless substantial. And he was a new president, so had been elected on a wave of support which he could have ridden to get his policies enacted in his first year in office. (2) The **relawan** or volunteers who mobilized on Jokowi's behalf during the election. They constitute a "followership," James MacGregor Burns' useful concept, from his book *Leadership*, in which leaders and followers push each other to new levels of understanding and solidarity on an issue—think of Barack Obama and the gay and lesbian community. One of the key issues for the relawan was opposition to corruption. (3) Strong **public support** (measured by surveys) for the KPK and anti-corruption for many years.

Constraints. Admittedly great. (1) **Hostility in three powerful institutions:** his own political party (PDIP); other parties in his coalition, which was a minority coalition in Parliament; and the relevant government institutions, especially the police, where there are few honest officers, certainly not at higher levels. (2) **Uncertainty** about the issues and the power of the players. Newness in power seems to have helped him act in the case of the subsidies, but to have been a constraint here.

Strategy/Tactics. **Jokowi's choice was not to choose.** Responding crisis to crisis, until now.

(1) First attempted to **work through Parliament** to build consensus on who should become national police head. Failed. Parliament supported the nomination of Budi Gunawan despite his being charged by the KPK.

(2) Then exercised his formal authority to **cancel the appointment of Budi Gunawan**. A very popular act. Succeeded only temporarily, because Budi was soon appointed deputy police head in a direct slap to presidential authority.

(3) Then appointed a team of prominent **public intellectuals**, led by respected Muslim scholar Syafii Maarif, to prepare a report on the police head nomination and the police's criminalization of KPK commissioners. Team members all pro-KPK, but issued an even-handed report to give Jokowi some cover. The president did not act on the report.

(4) Late in the game, **used his new coordinating minister for defense and security**, Luhut Panjaitan, to exert control over the police by shifting one of the most insubordinate officers, Budi Waseso, out of his key position as head of criminal investigation. Succeeded.

(5) When PDIP members of Parliament promoted a revision to the KPK law clearly meant to weaken it, he **postponed discussion** for a year. Appears to be strong public support for not revising the law.

Puzzle: Why didn't Jokowi call directly on the relawan groups which had been supportive of the KPK and anti-corruption throughout the campaign? Especially since similar groups had mobilized against SBY when the KPK was threatened and he backed down as a result. Also strong opinion survey support for KPK. I haven't seen a satisfactory explanation. I note Jokowi's own Javanese-style claim (excuse?) on 25 January 2015 on his Facebook page: "the worst evil will be defeated if met with softness and love ('kelembutan dan kasih sayang'").

IV. CONCLUSIONS:

What conclusions can we draw from this?

(1) Role of **counterfactuals** a problem in this type of analysis. Easy to praise a politician for doing something positive, as in the case of the subsidy. On the other hand, difficult to fault him or her for not doing something. Always an alternative explanation.

(2) Nonetheless I want to **fault Jokowi** for not acting to strengthen or maintain the KPK because of its importance as an issue, his campaign promise, and sufficient political resources.

(3) On the other hand, it is also true that **Jokowi has demonstrated political will** in his first year in office (something SBY never did). He has also demonstrated **strategic and tactical skill**, ability to see an open window of opportunity and locate a political entrepreneur (Rini Soemarno) who can achieve his goal. Maybe he was looking for such an entrepreneur with Syafii Maarif.

(4) But we also see the **effect of the constraints**. Institutionally, Jokowi was directly opposed, even mocked, by key subordinates in three institutions. SBY always seemed to have more *wibawa* (personal authority) than that, but that may have been because he so rarely used it.

(5) **An important take away:** Jokowi now has a new political resource, **battle experience**. He is presumably more familiar with the issues and the power of the players with regard to KPK. He also has his own key player, and possibly **political entrepreneur**, Luhut Panjaitan, to seize or create the next window of opportunity. If he wants to act, his chances of success are greater.