

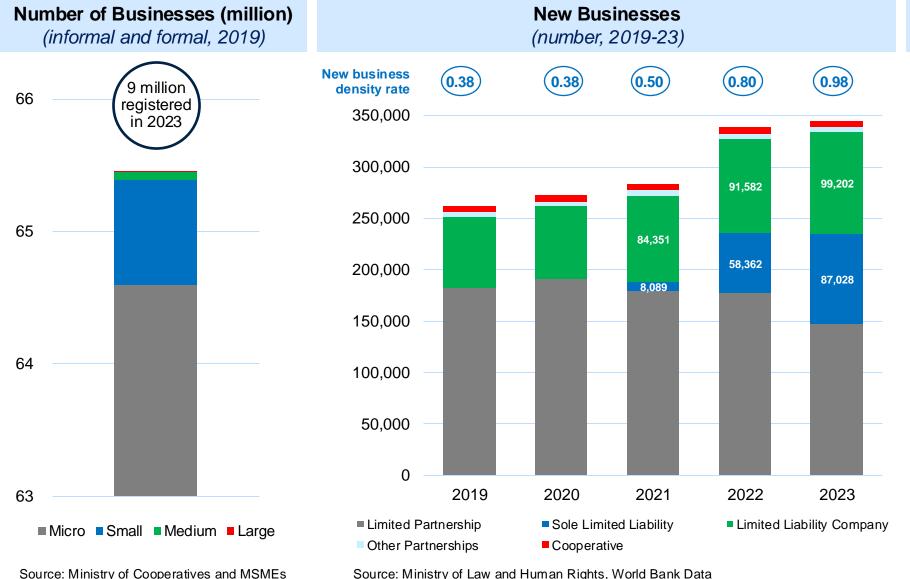
**Indonesia Economic Prospects June 2024** 

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## The business landscape is 99% micro and small businesses, with rampant informality but an increase in formal business registration in recent years.



**Enterprise Surveys** (2009, 2015, 2023)

#### enterprisesurveys.org

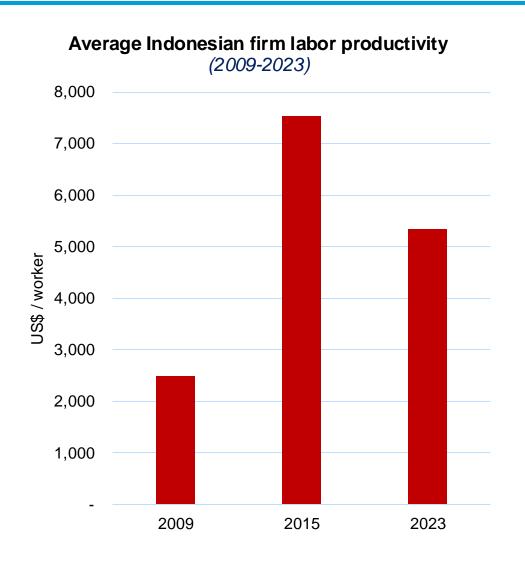


#### Included

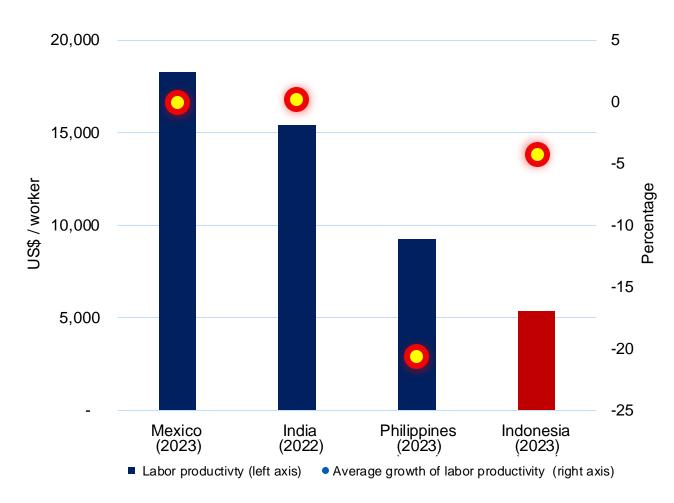
Sectors Manufacturing Construction Motor vehicle sales and repair Wholesale Retail Hotels and restaurants Storage, transportation, and communications IT

Source: Ministry of Law and Human Rights, World Bank Data

### Average labor productivity has decreased and is lower than that of peers.



## Labor productivity Indonesia vs. Comparators (pre and post COVID-19)

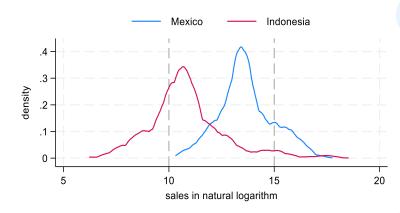


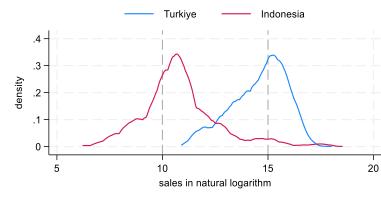
Source: World Bank Enterprise Surveys

Source: World Bank Enterprise Surveys

# Lots of very small firms contribute modestly compared to peers. Very few large firms, compared to other countries, create fewer jobs.

## Indonesia's economy features a mix of small enterprises (97 percent) and a few large manufacturing firms





## Small firms' performance is lower than peers

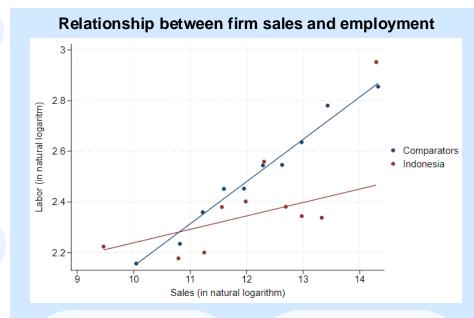
Micro & small firms contribute modestly, with less than 1 percent of total output.



Micro and small firms generate relatively **few quality jobs**, with only 3 percent of full-time workers.



## Unraveling the productivity paradox of Indonesia's large firms



Indonesian large firm productivity is not significantly better than that of medium-sized firms.

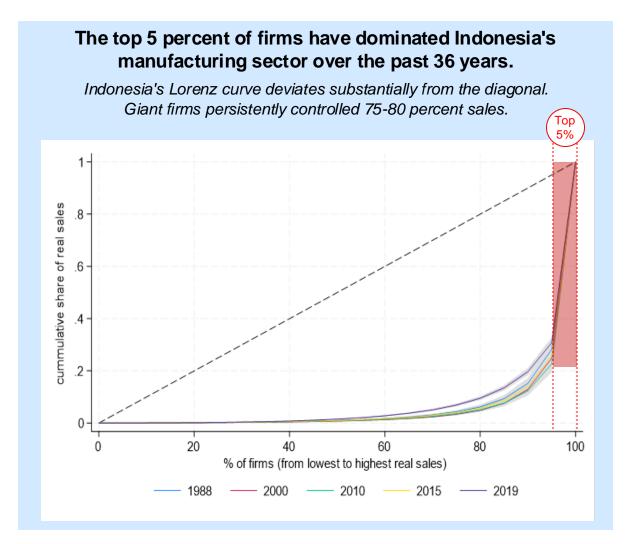
Indonesian large firms produce fewer jobs than large firm peers in other countries.

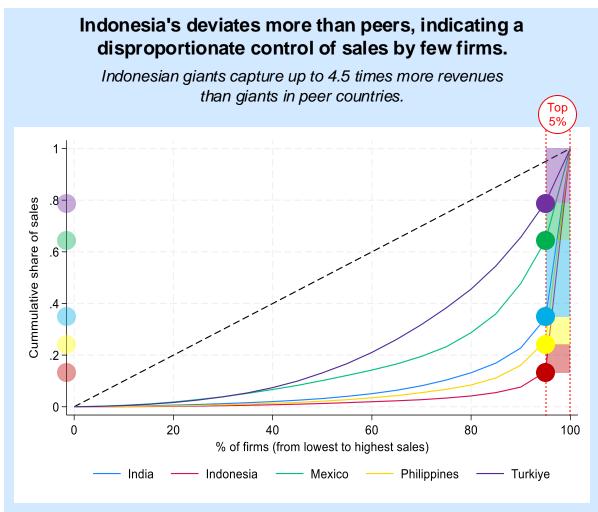
Source: World Bank Enterprise Surveys

Note: Ln of sales 10 equals US\$ 22,000 and of 15 equals US\$ 3,300,000

Source: World Bank Enterprise Surveys, manufacturing firms

## Giant firms capture most of sales, and it is unusually high compared to peers.

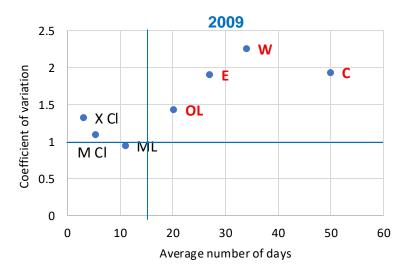




## An efficient but discretionary business environment, affecting small firms.

#### Regulatory efficiency and discretion over time for different regulatory interfaces

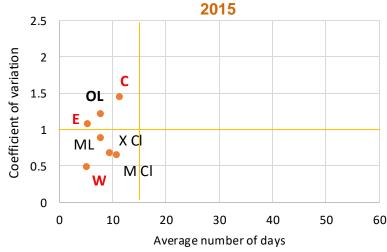
Four of seven of these business transactions are inefficient and uncertain.



Note: Time taken to obtain electrical (E) and water connection (W), clearing exports (X CI) and imports (M CI) through customs, obtaining construction permit (C), and operating (OL) and import licenses (ML).

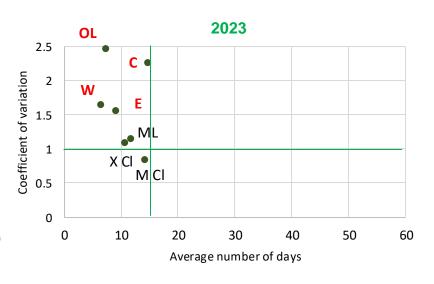
Source: World Bank Enterprise Surveys

Regulatory efficiency and predictability have improved.



Note: Time taken to obtain electrical (E) and water connection (W), clearing exports (X CI) and imports (M CI) through customs, obtaining construction permit (C), and operating (OL) and import licenses (ML).

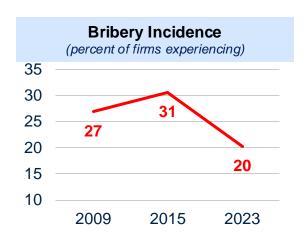
The degree of discretion, hence operational uncertainty, increased.

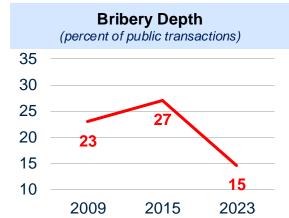


Note: Time taken to obtain electrical (E) and water connection (W), clearing exports (X CI) and imports (M CI) through customs, obtaining construction permit (C), and operating (OL) and import licenses (ML).

Regulatory efficiency improved until 2015, but momentum slowed more recently. Added discretion in regulatory procedures lowers the overall predictability, particularly for small businesses.

# Corruption and time spent dealing with government regulation hinder business performance.





Corruption and regulatory uncertainty are top constraints to firms' productivity.





Source: World Bank Enterprise Surveys



# Policy directions to stimulate enterprise dynamism and attract much-needed quality investments across the country.

### Takeaway 1

Integration of small and large firms in supply chains is lacking; large firms need more competition, FDI, and service linkages.

### Takeaway 2

Recent business environment improvements haven't boosted productivity due to ongoing uncertainty.

### Recommendation

Reduce fragmentation within firms to create more and better jobs

#### Short-medium term

Supplier Development Programs.

Alternative Dispute Resolution(ADR) Mechanism.

**Business Licensing** 

### and longer-term actions

Enhancement of Commercial Dispute Resolution.

Recommendations
on Short-medium term

Recommendation

Reduce regulatory uncertainty to enhance investment quality

Regime Reclassification. and longer-term actions

Well-functioning Riskbased (RBA) licensing online service.

Subsequent License Streamlining and Simplification Agenda.

investment quality

## Terima kasih banyak

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