



# UNLEASHING INDONESIA'S BUSINESS POTENTIAL

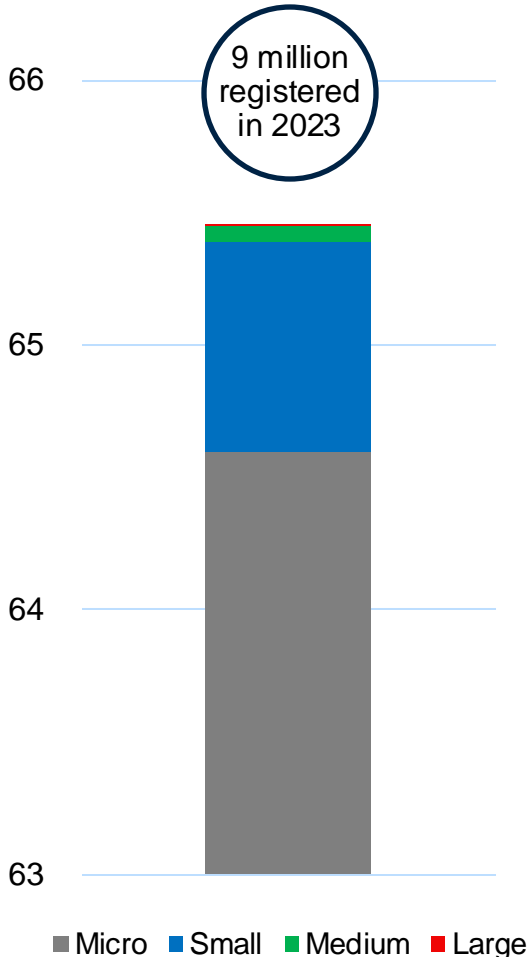
Indonesia Economic Prospects June 2024

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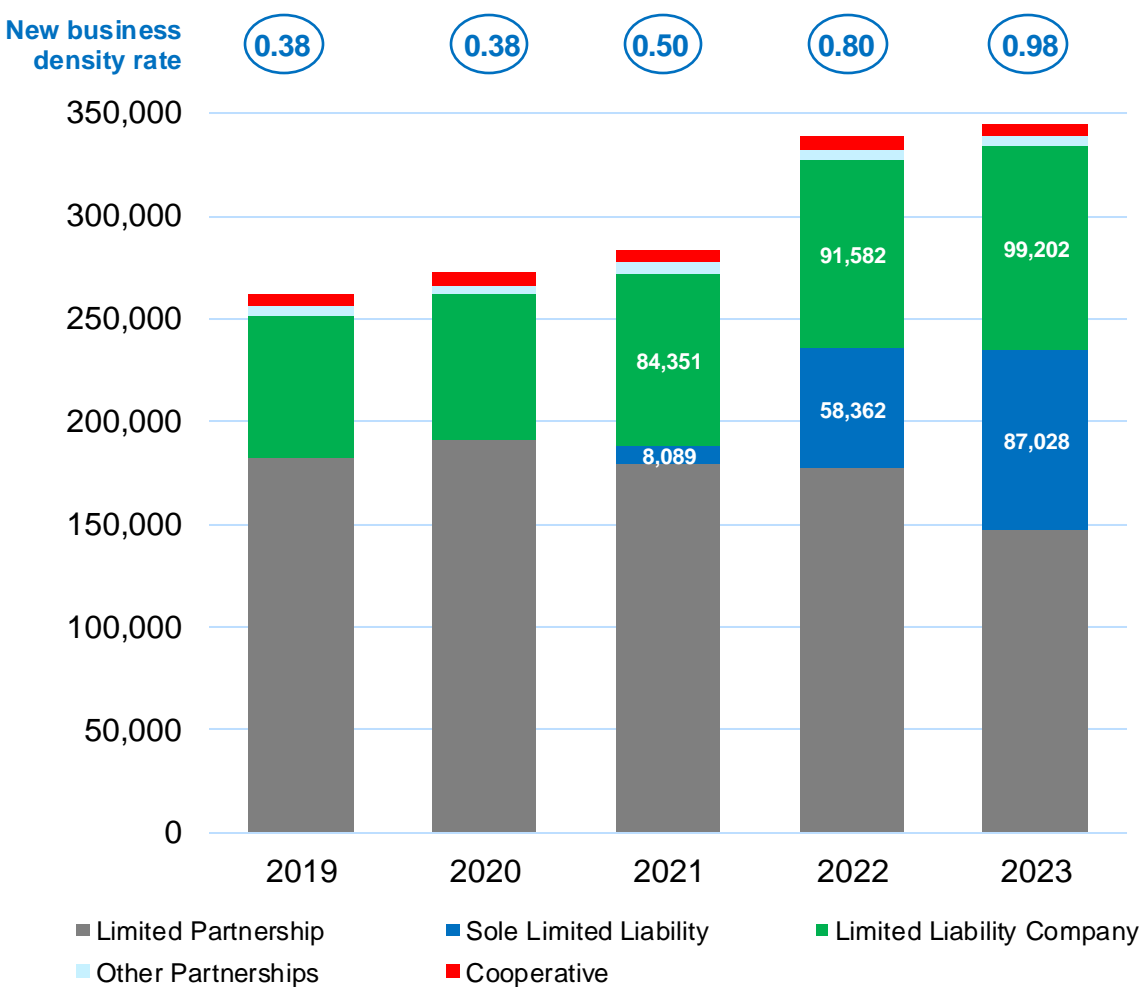
# The business landscape is 99% micro and small businesses, with rampant informality but an increase in formal business registration in recent years.

**Number of Businesses (million)**  
*(informal and formal, 2019)*



Source: Ministry of Cooperatives and MSMEs

**New Businesses**  
*(number, 2019-23)*



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

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

enterprisesurveys.org

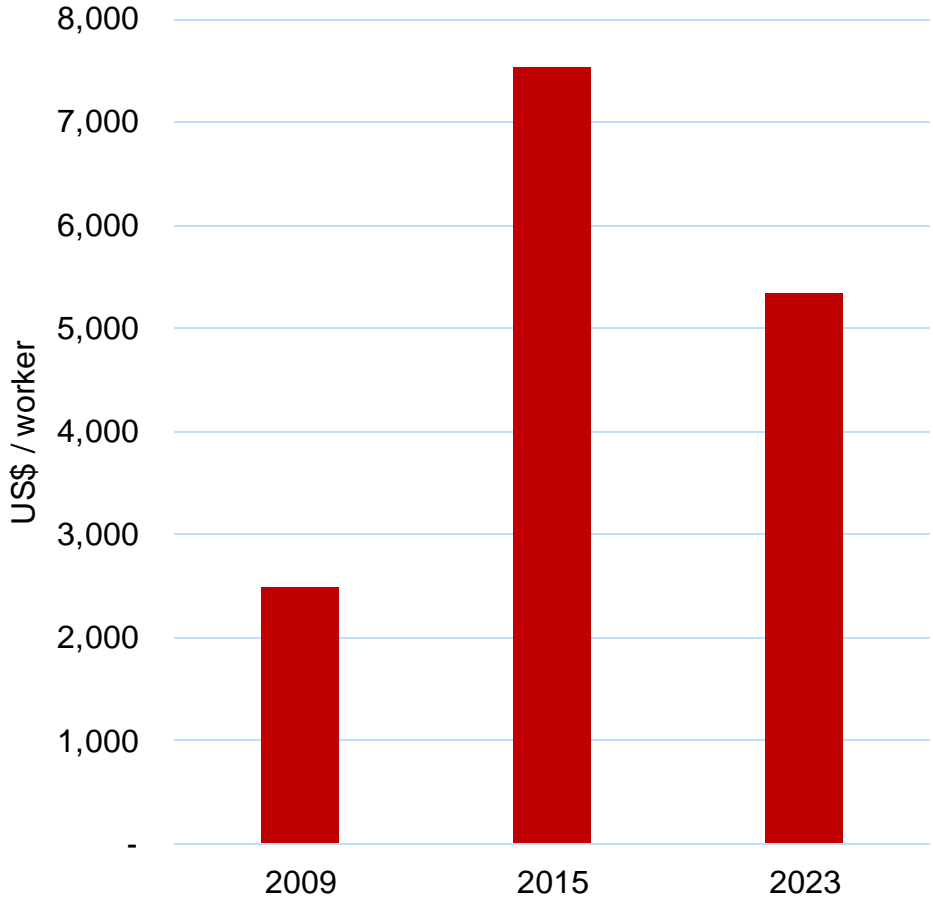
**Included**

Sectors

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

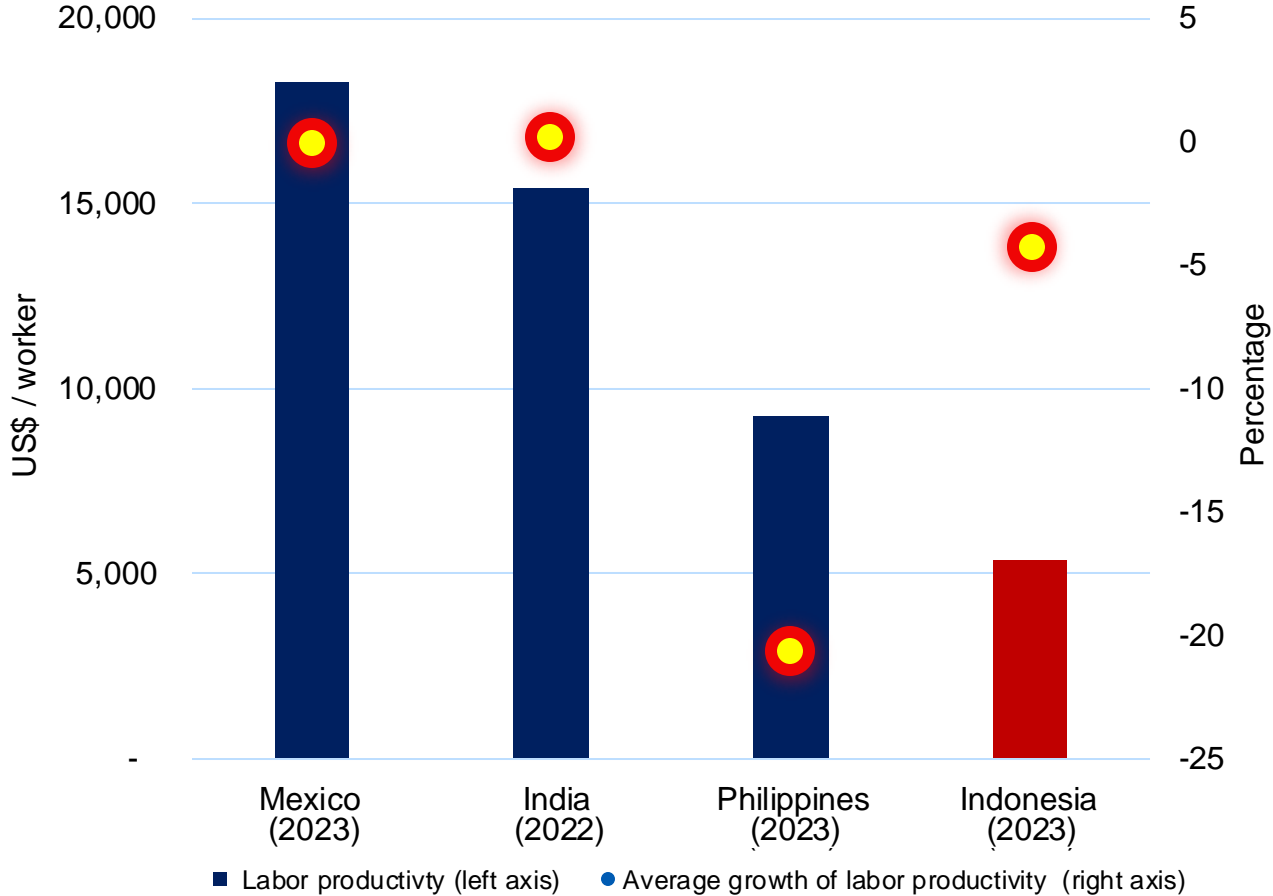
# Average labor productivity has decreased and is lower than that of peers.

### Average Indonesian firm labor productivity (2009-2023)



Source: World Bank Enterprise Surveys

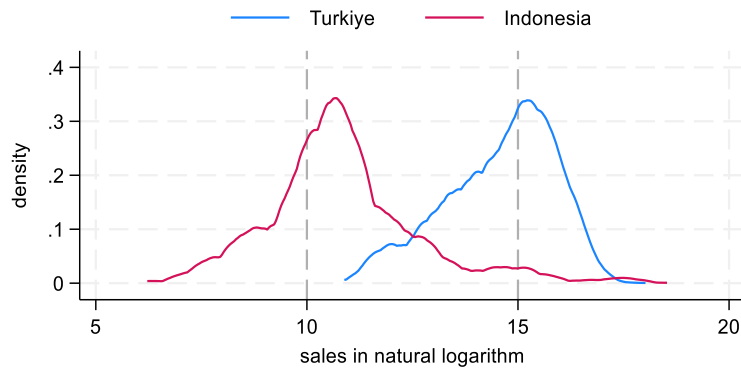
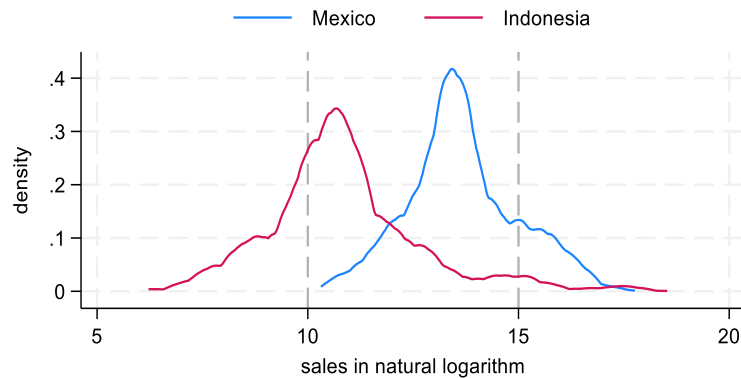
### Labor productivity Indonesia vs. Comparators (pre and post COVID-19)



Source: World Bank Enterprise Surveys

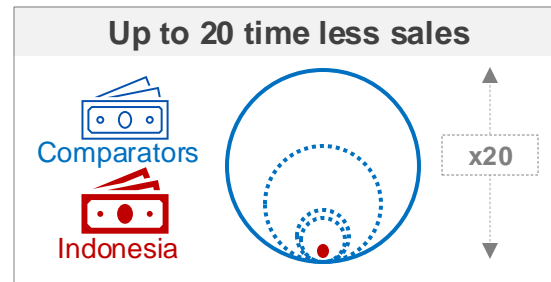
# Lots of very small firms contribute modestly compared to peers. Very few large firms, compared to other countries, create fewer jobs.

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.

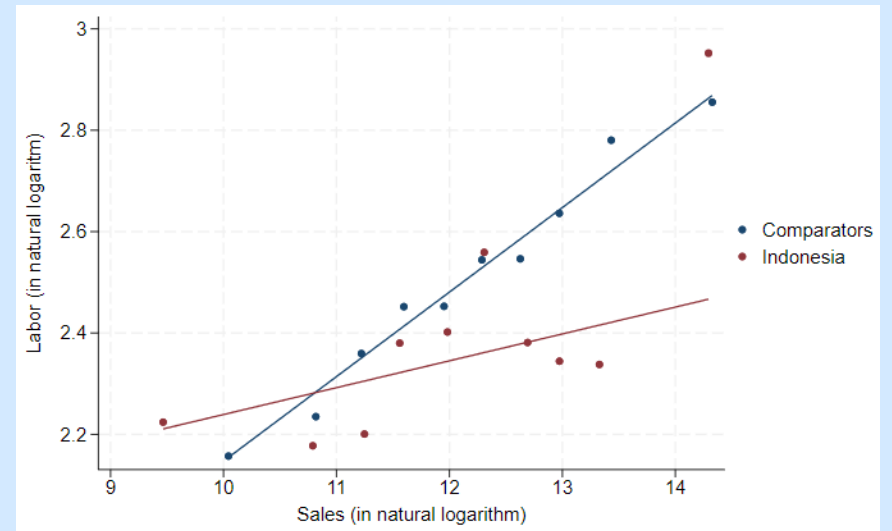


Micro and small firms generate relatively few quality jobs, with only 3 percent of full-time workers.



Unraveling the productivity paradox of Indonesia's large firms

Relationship between firm sales and employment



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

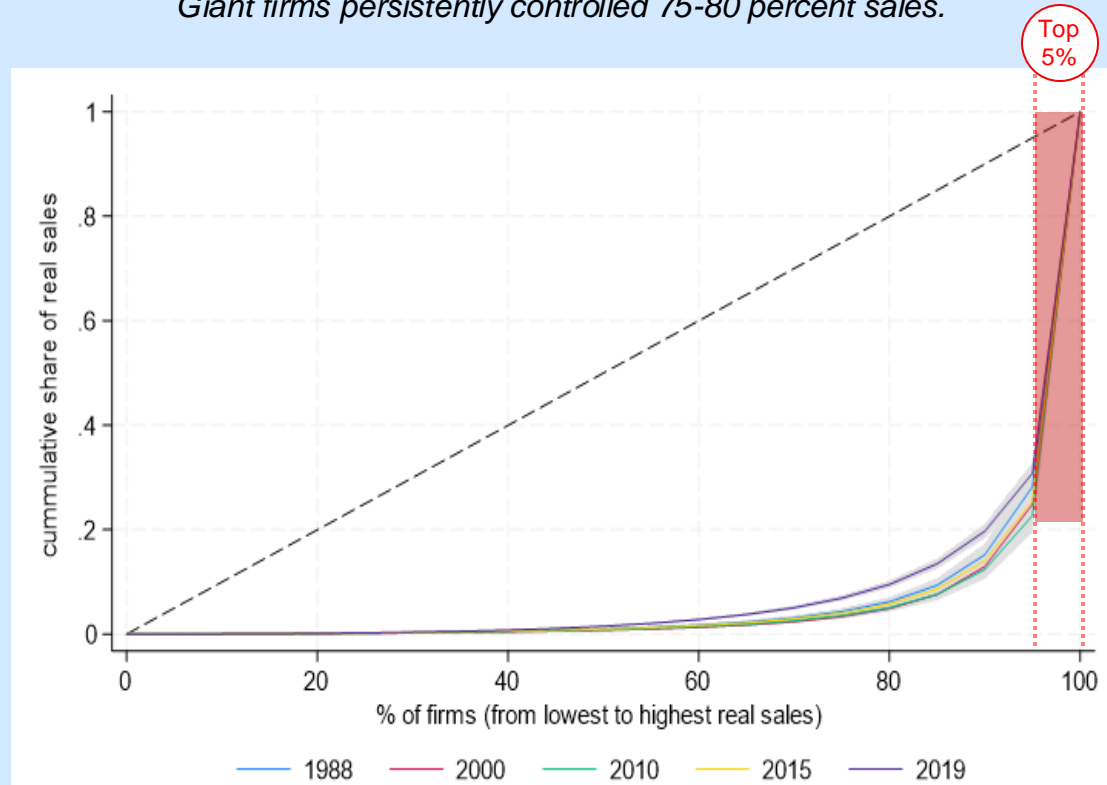
Note: Ln of sales 10 equals US\$ 22,000 and of 15 equals US\$ 3,300,000

Source: World Bank Enterprise Surveys, manufacturing firms

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

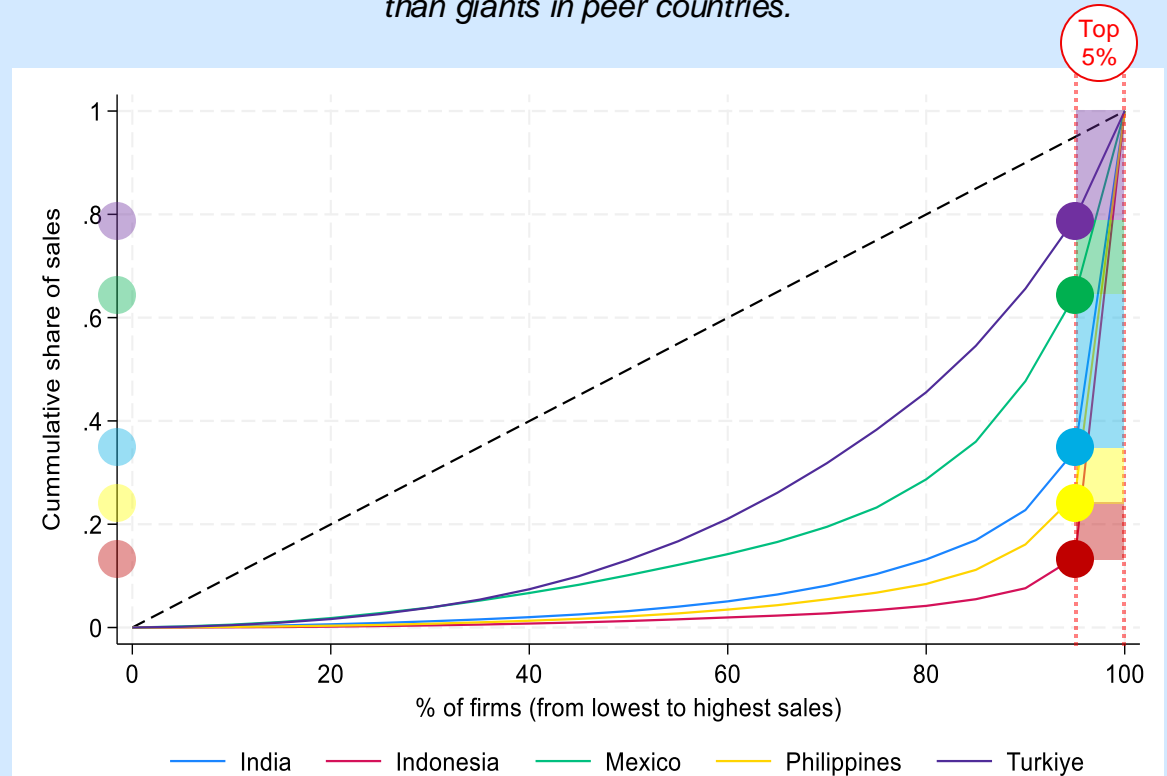
**The top 5 percent of firms have dominated Indonesia's manufacturing sector over the past 36 years.**

*Indonesia's Lorenz curve deviates substantially from the diagonal.  
Giant firms persistently controlled 75-80 percent sales.*



**Indonesia deviates more than peers, indicating a disproportionate control of sales by few firms.**

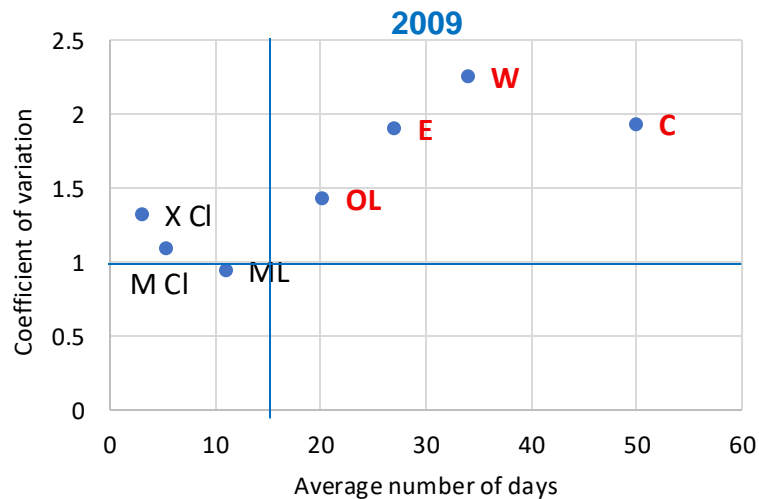
*Indonesian giants capture up to 4.5 times more revenues than giants in peer countries.*



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

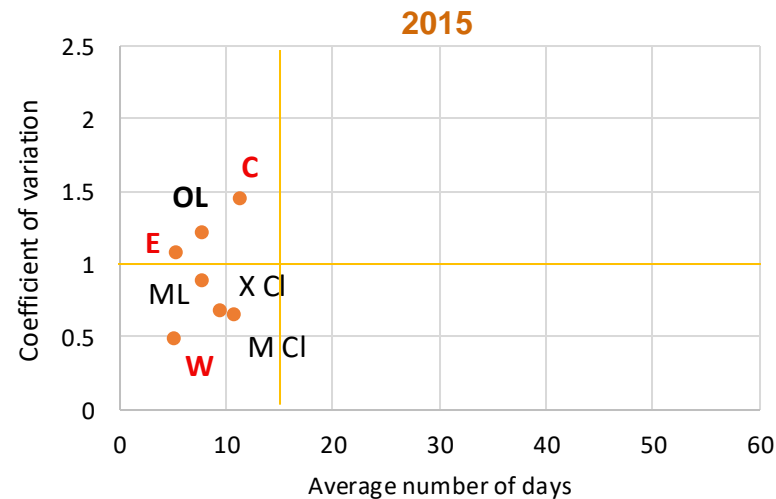
## Regulatory efficiency and discretion over time for different regulatory interfaces

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



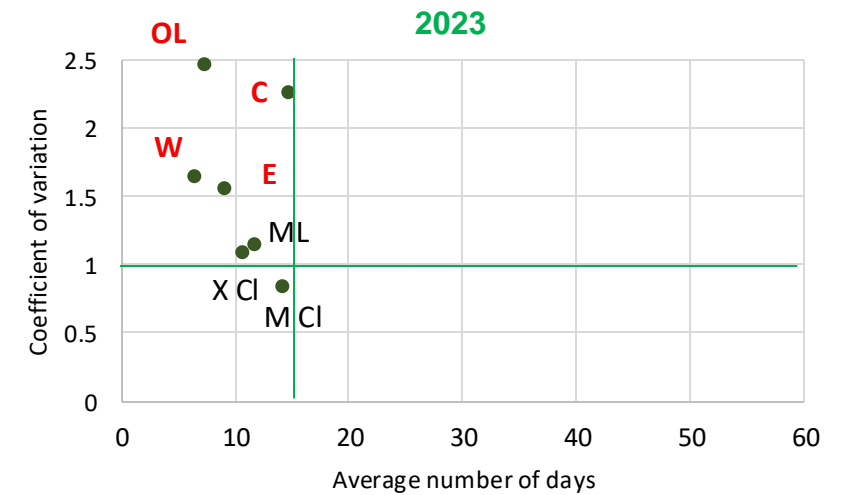
Note: Time taken to obtain electrical (E) and water connection (W), clearing exports (X CI) and imports (M CI) through customs, obtaining construction permit (C), and operating (OL) and import licenses (ML).

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.



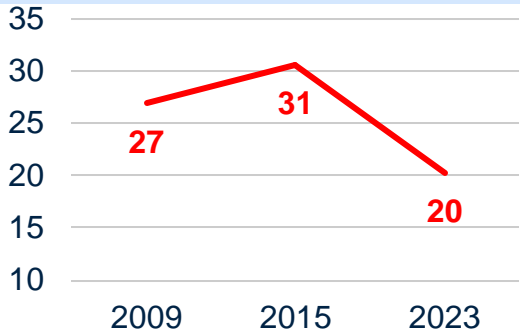
Note: Time taken to obtain electrical (E) and water connection (W), clearing exports (X CI) and imports (M CI) through customs, obtaining construction permit (C), and operating (OL) and import licenses (ML).

Source: World Bank Enterprise Surveys

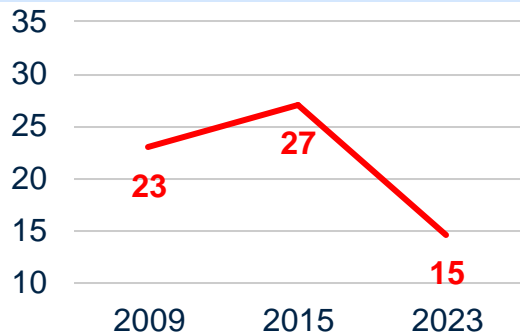
**Regulatory efficiency improved until 2015, but momentum slowed more recently. Added discretion in regulatory procedures lowers the overall predictability, particularly for small businesses.**

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

**Bribery Incidence**  
(percent of firms experiencing)

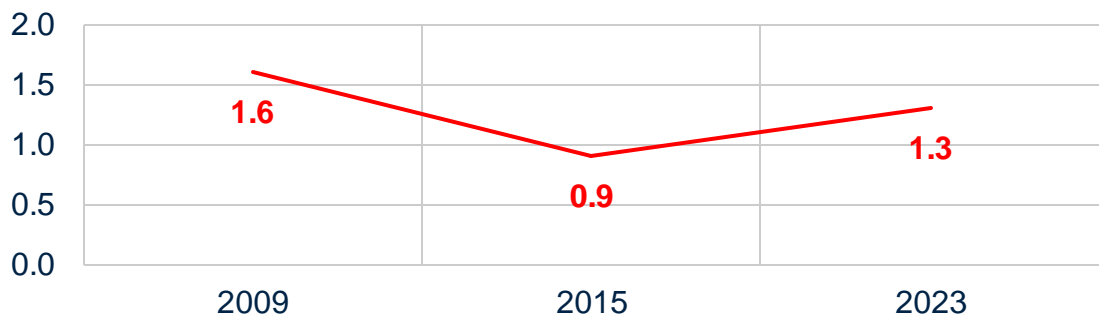


**Bribery Depth**  
(percent of public transactions)

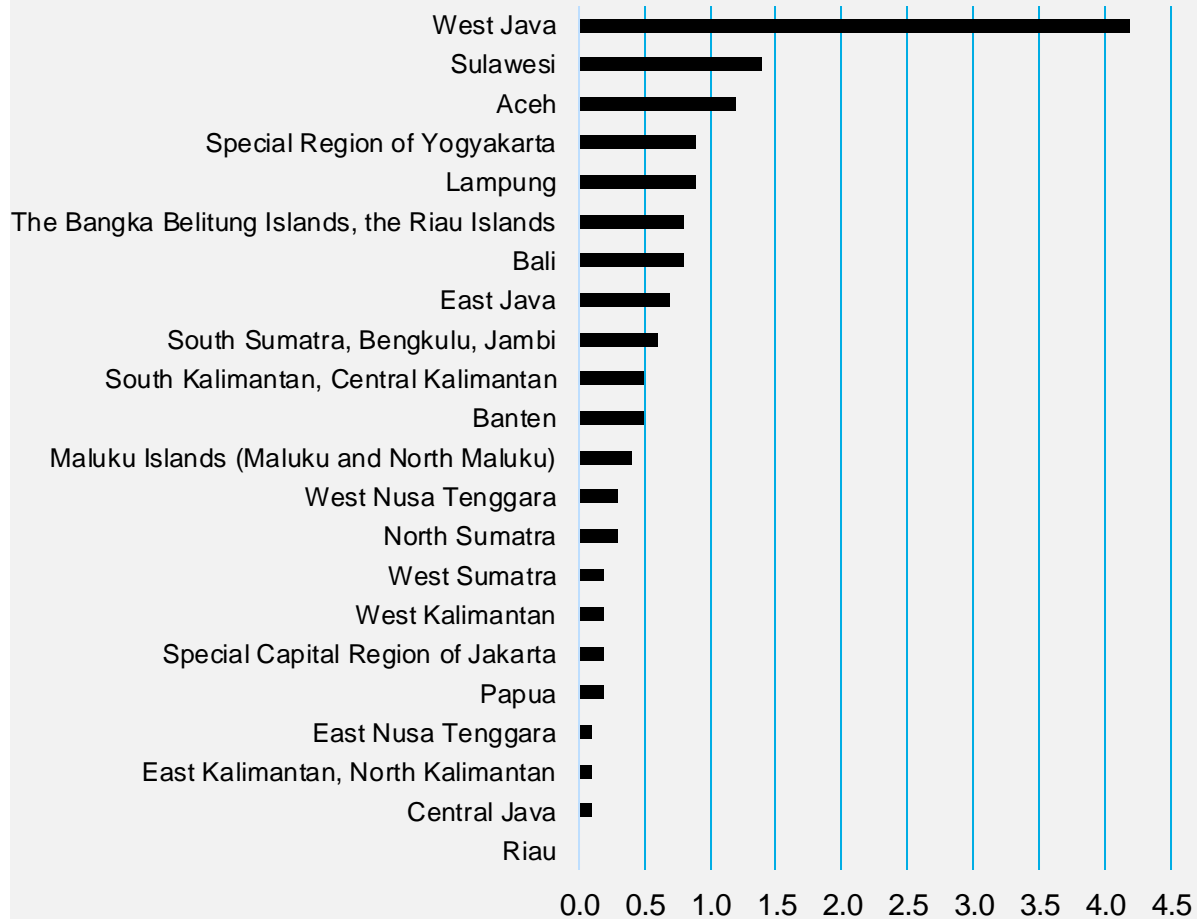


**Corruption and regulatory uncertainty are top constraints to firms' productivity.**

**Time Spent Dealing with Requirements of Government Regulation**  
(percent)



**Senior management time spent dealing with requirements of government regulation.**



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.

### Recommendation

**Reduce fragmentation within firms to create more and better jobs**

### Short-medium term

Supplier Development Programs.

Alternative Dispute Resolution (ADR) Mechanism.

### and longer-term actions

Enhancement of Commercial Dispute Resolution.

## Takeaway 2

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

### Recommendations

**Reduce regulatory uncertainty to enhance investment quality**

### Short-medium term

Business Licensing Regime Reclassification.

### and longer-term actions

Well-functioning Risk-based (RBA) licensing online service.

Subsequent License Streamlining and Simplification Agenda.



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