INDONESIA: Policy Effectiveness Review of Innovation and Business Support Programs (iPER)

Kementerian PPN/Bappenas
The World Bank

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Content

Productivity and Innovation in Indonesia

Portfolio mapping and assessment of quality of policy mix

Policy implication and future work
Private Sector: Innovation and Productivity
• This pattern holds regardless of the type of innovation novelty pursued—imitation or radical innovation.

• Imitation and adoption are the prevalent forms of innovation in low- and middle-income countries.

Source: Cirera and Maloney (2017)
DESPITE THE POSITIVE LINK BETWEEN INNOVATION AND PRODUCTIVITY IN INDONESIA, PRIVATE SPENDING IN R&D IS MUCH LOW COMPARED TO PEERS

Positive association between Indonesian firms’ innovation activities and productivity

However, innovation activity in Indonesia is among lowest in the region
INDEED, PUBLIC SECTOR IS THE KEY PLAYER IN R&D ACTIVITY IN INDONESIA, PRIVATE SECTOR SPEND LESS ON R&D

- Gross Expenditure on R&D (GERD) far below other peer countries
- Weak intellectual property rights (IPR) protection. Indonesia’s intellectual property standing at 45th out of 50 countries (2019 IP Index report).
99% OF FIRMS ARE MSMES, REPRESENTING 90% OF EMPLOYMENT, HOWEVER THEY HAVE LOW PRODUCTIVITY AND INNOVATE LESS.
WHY INNOVATION PER IN INDONESIA MATTERS? IT PROVIDES GUIDANCE TO CONDUCT PROGRAM ADJUSTMENTS AND ENSURE RESPONSIVENESS TO CHANGING DEMAND FROM COVID19 SHOCK

PUBLIC SECTOR IS THE MAIN CONTRIBUTOR FOR INNOVATION IN INDONESIA

COVID19 ADDS ADDITIONAL FISCAL PRESSURE FOR GOVERNMENT

COVID19 RISE THE NEW DEMAND OF SUPPORT FOR PRIVATE SECTOR
Portfolio mapping & analysis of the quality of the policy mix
SUMMARY OF GOVERNMENT SUPPORT TO INNOVATION ACTIVITY IN INDONESIA

Budget Allocation for Innovation is low

GERD: 0.2% of GDP (2016)

Limited Direct Intervention

• 15% is allocated to direct support
• Opportunity to redress market additional market failures

High concentration of resources for KUR (Credit Subsidy Scheme)

• 85% is distributed through KUR
• Limited budget to solve other market failures

Budget for Business Support and Innovation: 2% of the GoI’s budget
LACK OF INSTITUTIONAL SPECIALIZATION AND SIMILARITIES IN POLICY SCOPE POTENTIALLY REDUCE THE EFFECTIVENESS OF PROGRAMS

- More than 80% of ministries want to improve productivity and promote diversification
- Institutional fragmentation pursuing the same outcome can reduce effectiveness
- Multiple programs have identical outcome, output, intervention and target
- Potency for consolidation (at least 10 program can be consolidated)
REMAINING GAPS TO STRATEGIC OBJECTIVES OF THE GOVERNMENT OF INDONESIA

ST Commercialization

- Majority are supply side driven
- Less than 5% are allocated to support commercialization

Firm-level innovation and technological capacity

- >50% budget is allocated to potential innovator.
- 5% is allocated to science and technology-based innovation.

Entrepreneurship and MSME growth

- 1% is allocated to technology transfer and science industry collaboration
- Less than 1% of budget is dedicated to support for women entrepreneurs

Export value growth

- Less 5% is allocated to export promotion
- Less than 1% is dedicated to support obtaining international quality certification for their products
Policy Recommendation and Way Forward
POLICY RECOMMENDATIONS ON IMPROVING EFFECTIVENESS OF PROGRAMS ON BUSINESS SUPPORT AND INNOVATION

1. Shift away beneficiary targeting based on firm characteristics towards eligibility criteria.

2. Pro-actively target some specific group beneficiaries and region (female, specific region).

3. Program consolidating, streamlining (including specialization).

4. Promote collaboration between (I) small and large firms, (II) domestic-facing and export-oriented firms, and (III) low-tech and high-tech firms.

5. Complement support of scientific and technology research with commercialization of this research.

6. Introduce support for early-stage firms with investment readiness.

7. Improve quality of program design, implementation and governance.
# POTENTIAL QUICK WIN MEASURES THAT CAN BE IMPLEMENTED FOR PROGRAM DESIGN AND IMPLEMENTATION

<table>
<thead>
<tr>
<th>BRIN</th>
<th>Improve the capacity of the newly-formed National Research and Innovation Agency via knowledge exchanges with international experts</th>
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<tr>
<td>Term of Reference</td>
<td>Improve the quality of the program Terms of Reference template required by the Ministry of Finance.</td>
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<tr>
<td>Eligibility Selection</td>
<td>Strengthen eligibility and selection of program participants/beneficiaries, in</td>
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<tr>
<td>Publication</td>
<td>Establish a specific website (a dedicated page within the ministry website) on each program and publish information on beneficiary selection.</td>
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<tr>
<td>Skills</td>
<td>Provide training for staff mandated with program design</td>
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**MIS**
- Develop an integrated database of programs and beneficiaries that can be accessed by all relevant ministries.

**M&E**
- Improve program M&E frameworks and establish formal program review processes.
- Create an evaluation office in key Ministries
- Increase staffing for program management.

**Short Time**

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**Medium Time**

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POSSIBLE FUTURE COLLABORATION ON INNOVATION AND PRODUCTIVITY

2. PRIVATE PARTICIPATION
Mechanism to Improve private participation in program design and implementation

3. PROGRAM IDENTIFICATION
Identification of program that reduce market failure and provide incentive for firm’s innovation

5. CAPACITY BUILDING
- Training for GoI staff in designing and implementing program
- Capacity building for BRIN staff using international best practice experience

1. BINDING CONSTRAINTS
Further identification and removal market failure and binding constraint for firm’s productivity and innovative activity

4. PROGRAM RATIONALIZATION
- Rationalise and combine multiple instrument for bigger impact
- Refocusing program objective and mechanism of intervention

6. EVALUATION OF MAJOR PROGRAMS
Evaluation of the existing major programs on business support and innovation (i.e., KUR)
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Source: World Bank Staff Elaboration
Thank You