

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

Kementerian PPN/Bappenas
The World Bank

October 4th, 2021





Productivity and Innovation in Indonesia



Portfolio mapping and assessment of quality of policy mix

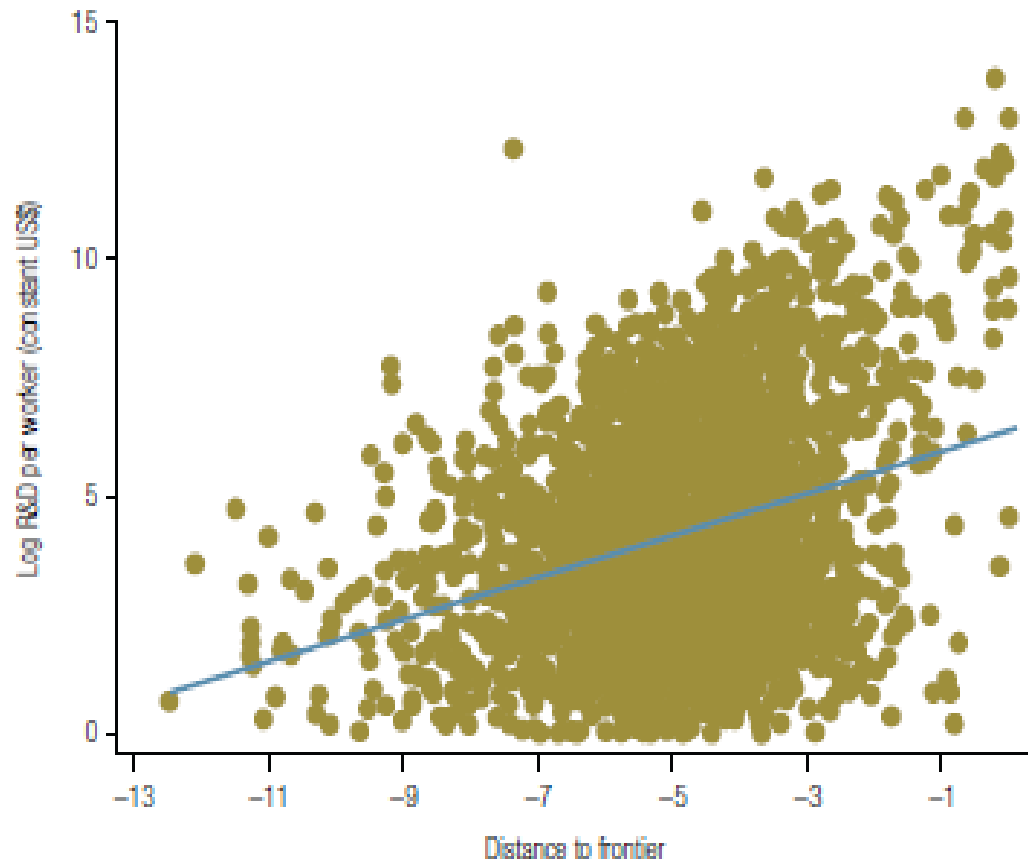


Policy implication and future work



Private Sector: Innovation and Productivity

POSITIVE CORRELATION BETWEEN INNOVATION AND PRODUCTIVITY

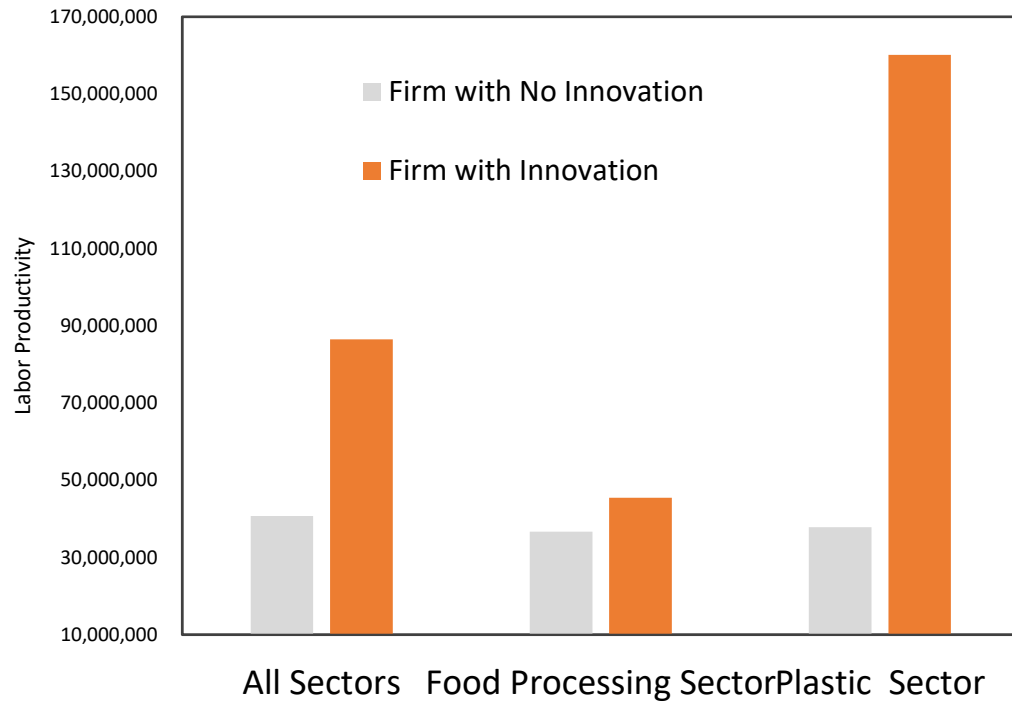


Source: Cirera and Maloney (2017)

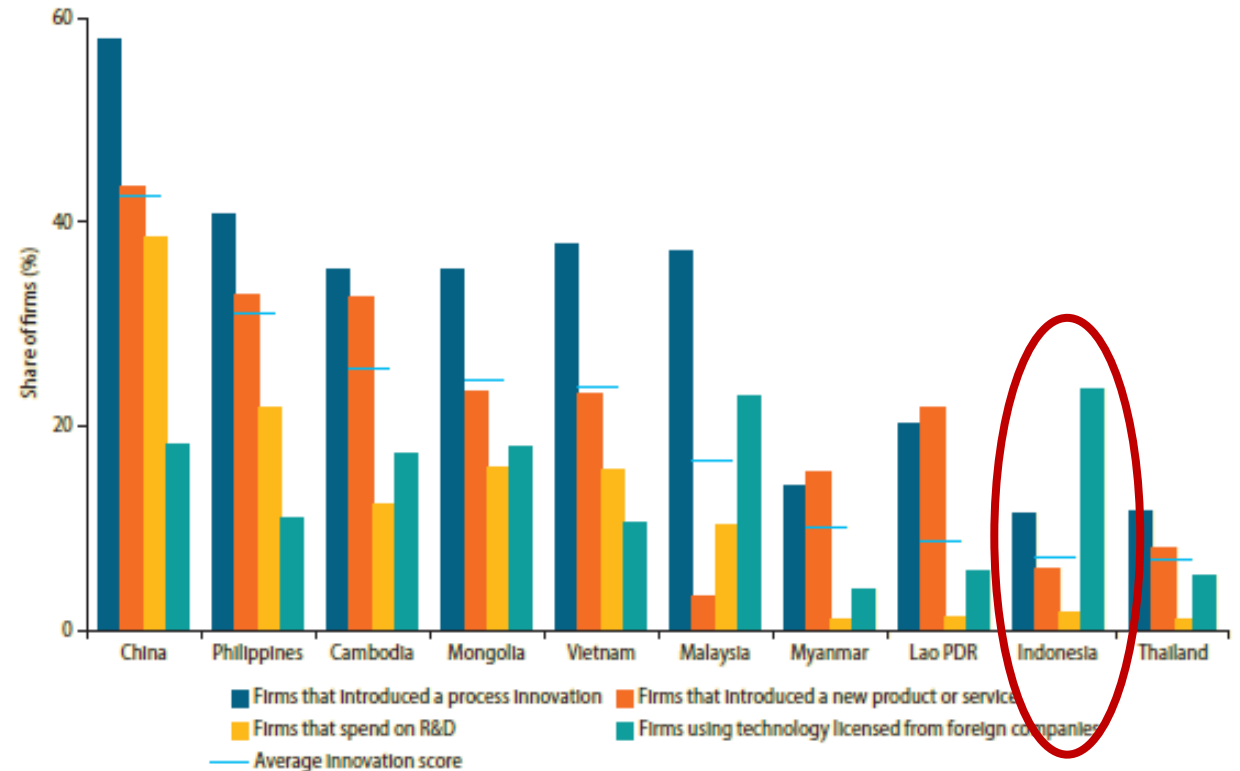
- This pattern holds regardless of the type of innovation novelty pursued—imitation or radical innovation
- Imitation and adoption are the prevalent forms of innovation in low- and middle-income countries.

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

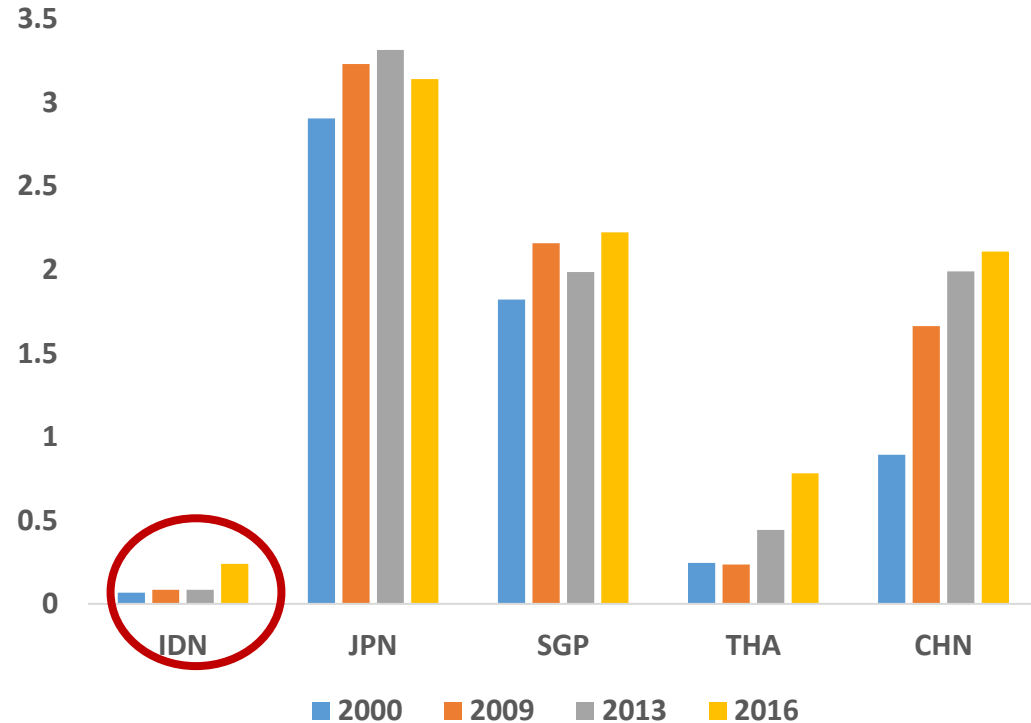


However, innovation activity in Indonesia is among lowest in the region

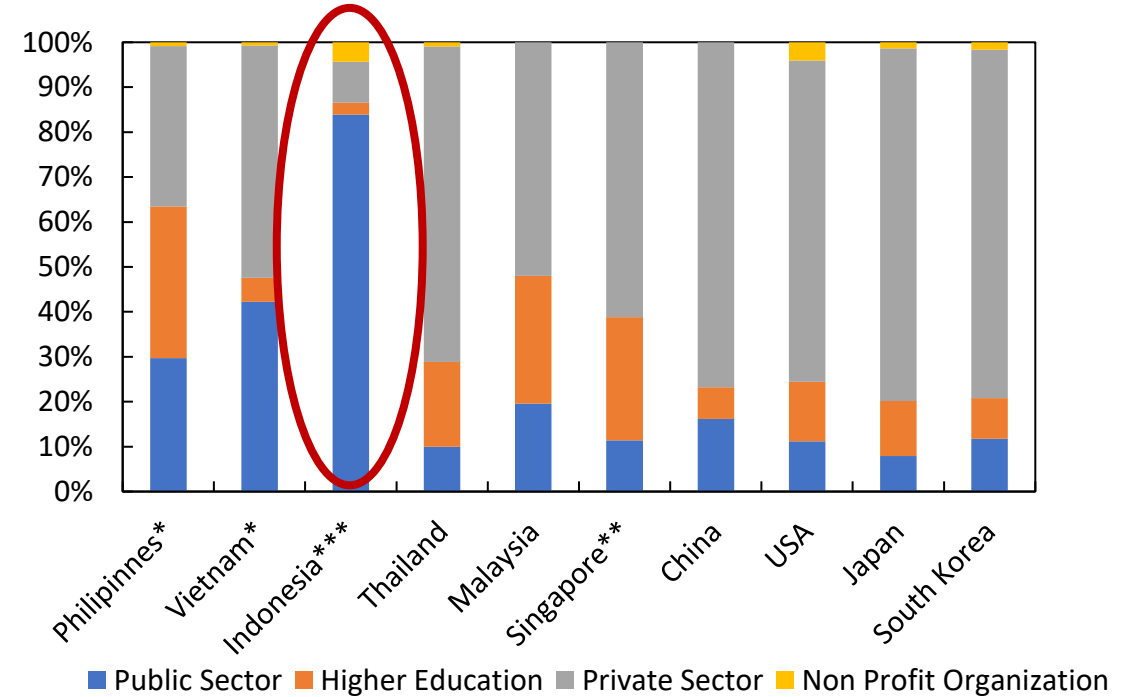


INDEED, PUBLIC SECTOR IS THE KEY PLAYER IN R&D ACTIVITY IN INDONESIA, PRIVATE SECTOR SPEND LESS ON R&D

Gross Expenditure on R&D (% of GDP)

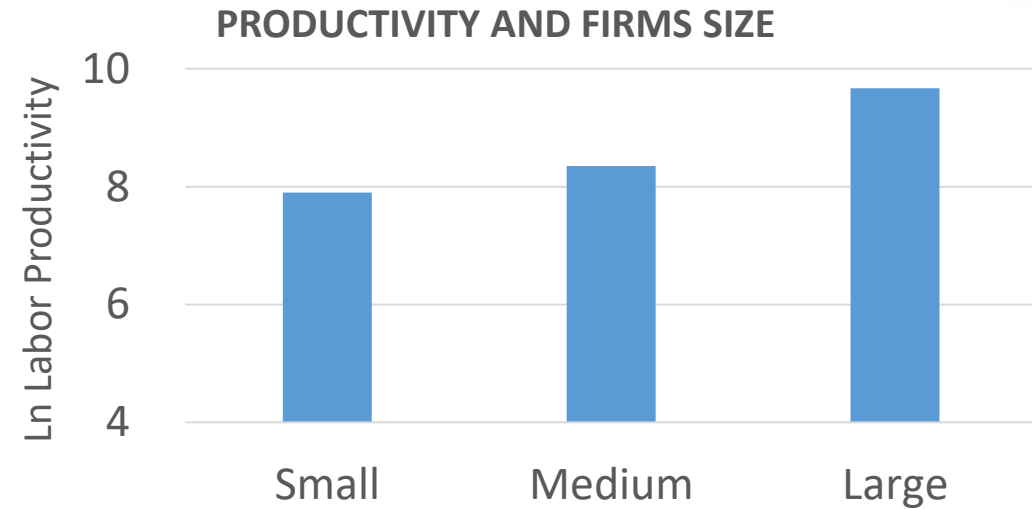


Indonesia's R&D expenditures in a global context

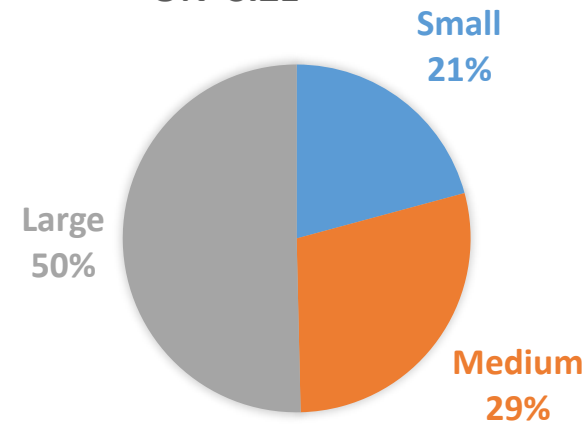


- Gross Expenditure on R&D (**GERD**) far **below** other peer countries
- **Weak intellectual property rights (IPR) protection.** Indonesia's intellectual property standing at 45th out of 50 countries (2019 IP Index report).

**99% OF FIRMS ARE
MSMES,
REPRESENTING 90%
OF EMPLOYMENT,
HOWEVER THEY
HAVE LOW
PRODUCTIVITY
AND INNOVATE
LESS**



**DISTRIBUTION OF INNOVATING FIRM BASED
ON SIZE**



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)

Budget for Business Support and Innovation: **2%** of the GoI's budget

High
concentration of
resources for
KUR (Credit
Subsidy
Scheme)

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

Limited Direct
Intervention

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

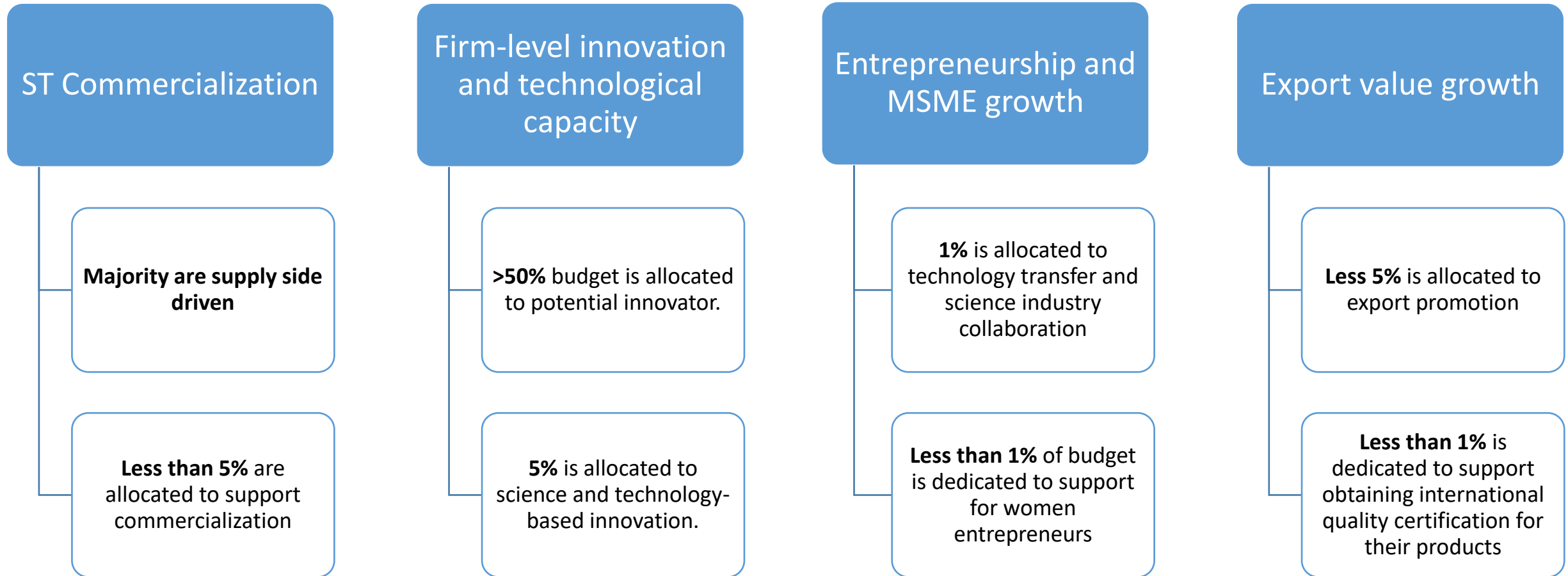
LACK OF INSTITUTIONAL SPECIALIZATION AND SIMILARITIES IN POLICY SCOPE POTENTIALLY REDUCE THE EFFECTIVENESS OF PROGRAMS

Lack of
specialization

- More than 80% of ministries want to improve productivity and promote diversification
- Institutional fragmentation pursuing the same outcome can reduce effectiveness

High
similarities
between
program

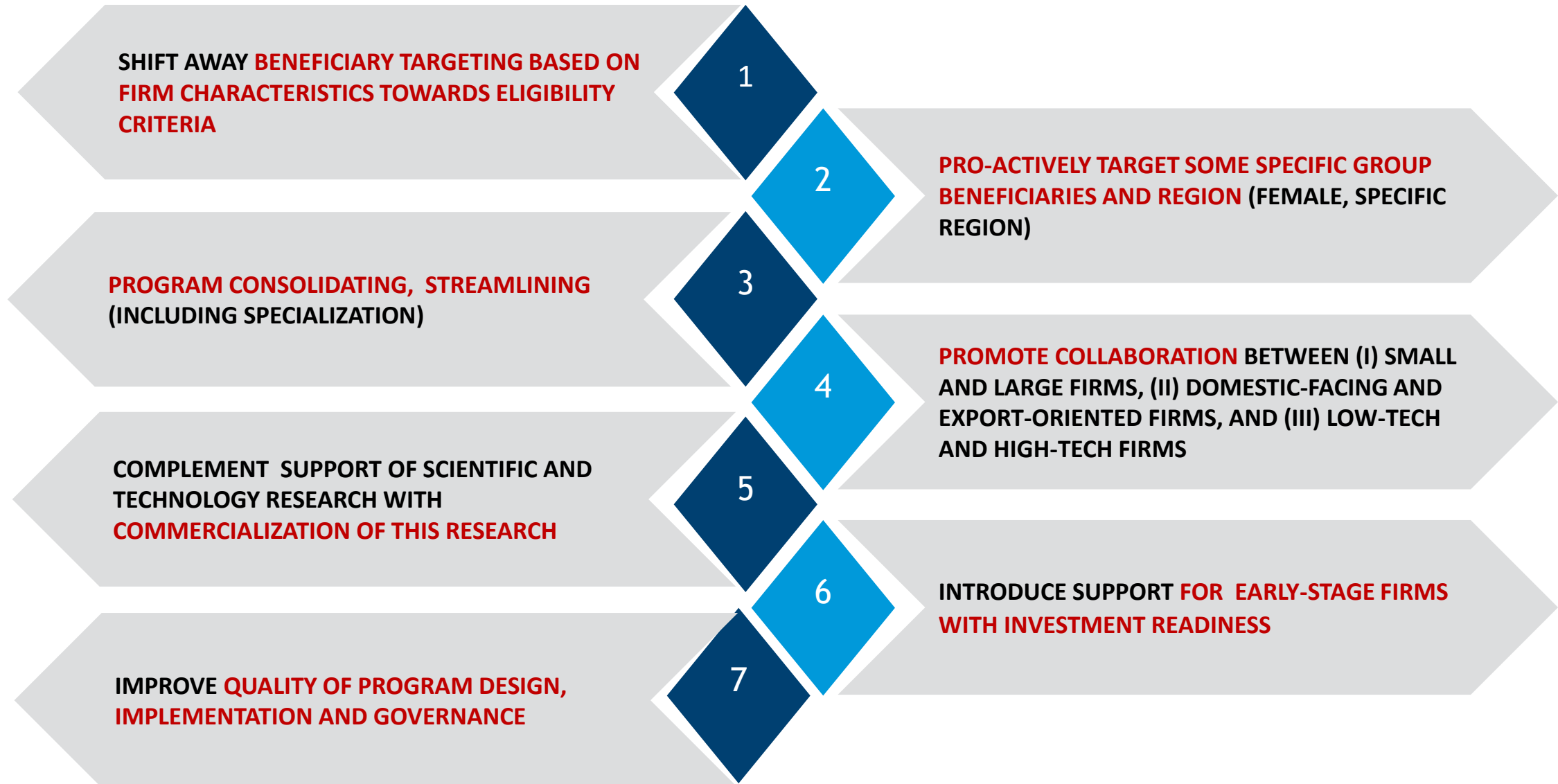
- Multiple programs have identical outcome, output, intervention and target
- Potency for consolidation (at least 10 program can be consolidated)





Policy Recommendation and Way Forward

POLICY RECOMMENDATIONS ON IMPROVING EFFECTIVENESS OF PROGRAMS ON BUSINESS SUPPORT AND INNOVATION



POTENTIAL QUICK WIN MEASURES THAT CAN BE IMPLEMENTED FOR PROGRAM DESIGN AND IMPLEMENTATION



BRIN

Improve the capacity of the newly-formed National Research and Innovation Agency via knowledge exchanges with international experts



Term of Reference

Improve the quality of the program Terms of Reference template required by the Ministry of Finance.



Eligibility Selection

Strengthen eligibility and selection of program participants/beneficiaries, in



Publication

Establish a specific website (a dedicated page within the ministry website) on each program and publish information on beneficiary selection.



Skills

Provide training for staff mandated with program design

Short Time



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.**

Medium Time

POSSIBLE FUTURE COLLABORATION ON INNOVATION AND PRODUCTIVITY

2. PRIVATE PARTICIPATION

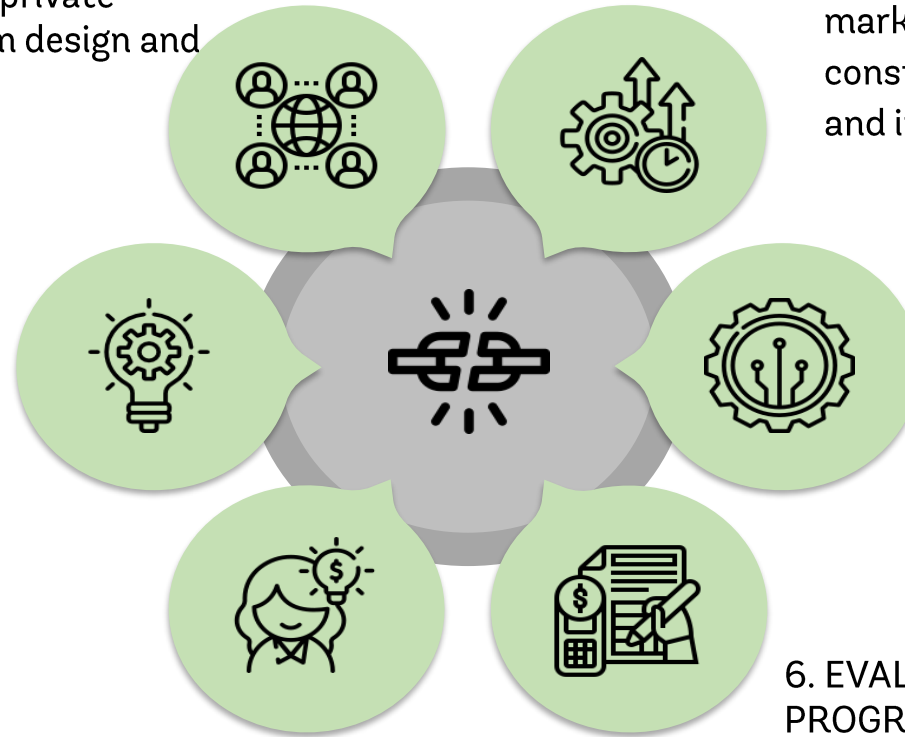
Mechanism to Improve private participation in program design and implementation

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)

POSSIBLE FUTURE COLLABORATION ON INNOVATION AND PRODUCTIVITY

2. PRIVATE PARTICIPATION

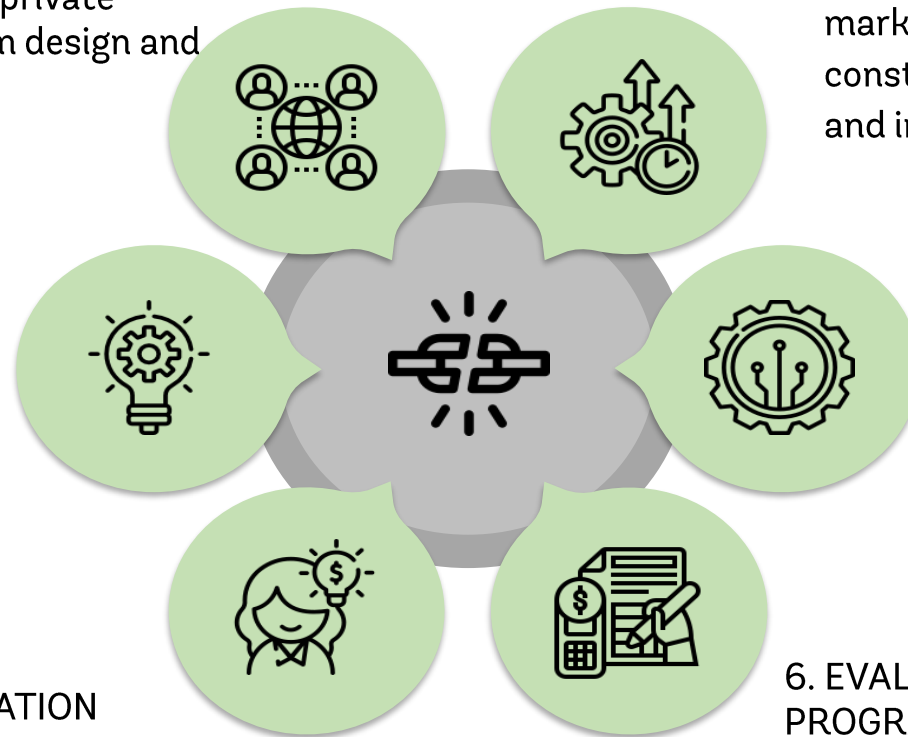
Mechanism to Improve private participation in program design and implementation

3. PROGRAM RATIONALIZATION

- Rationalise and combine multiple instrument for bigger impact
- Refocusing program objective and mechanism of intervention

5. PROGRAM IDENTIFICATION

Identification of program that reduce market failure and provide incentive for firm's innovation



1. BINDING CONSTRAINTS

Further identification and removal market failure and binding constraint for firm's productivity and innovative activity

4. CAPACITY BUILDING

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

6. EVALUATION OF MAJOR PROGRAMS

Evaluation of the existing major programs on business support and innovation (i.e., KUR)



Thank You