

Issues of Government Policy: How Does it Impact on Business?

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Indonesian Case

- The success to prevent global crisis impact in 2008 was not by design. Issues: less exports, de-industrialization, low competition, inefficient local expenditures.
- After decentralization, too much political interests dictating local budgets.
- Local expenditures: lop-sided for public salaries, much reserved and unspent (Rp 49 T in total), mis-targeted on local development challenges.
- Local leaders & local polity determines budget efficacy under decentralized governance.

Local Budgeting Issues in Indonesia

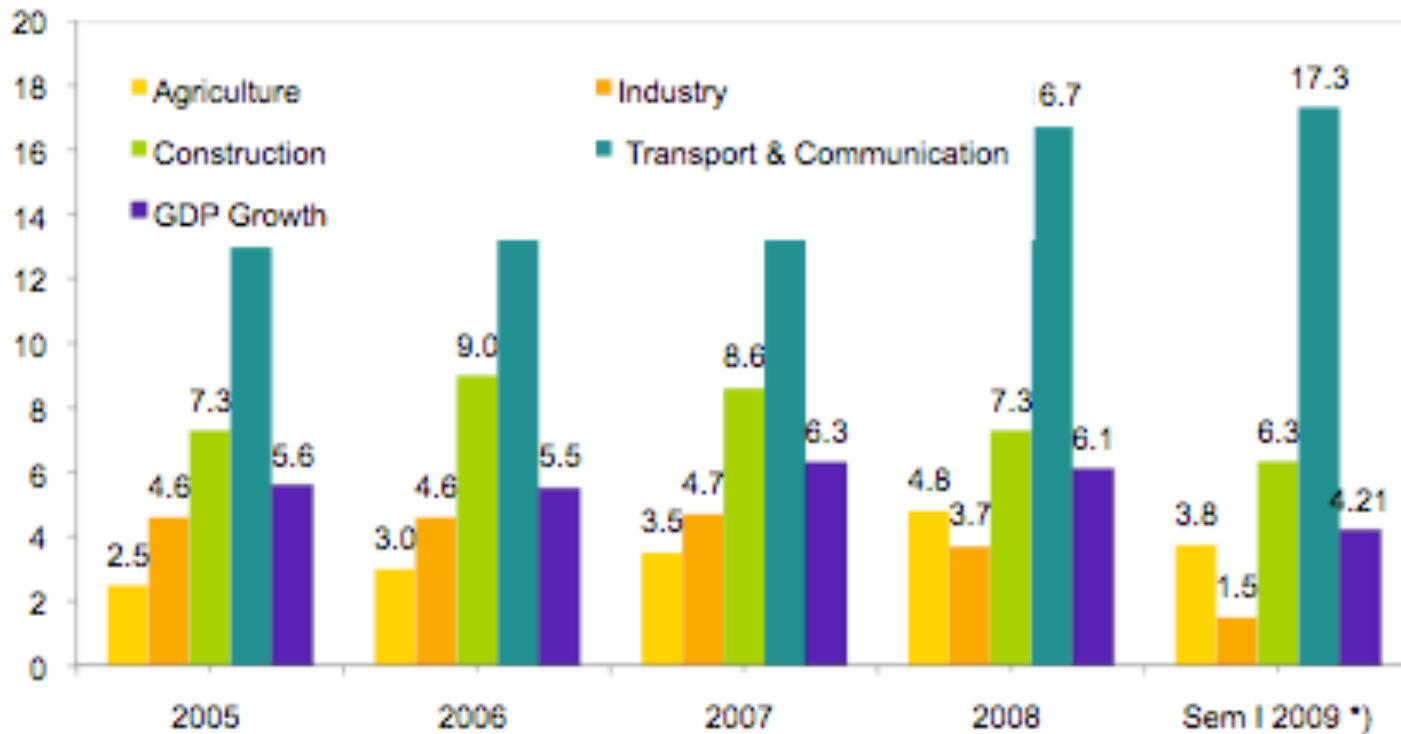
- Budget cycles: 1st Jan-31st Dec. In reality: disbursed from May onward. Too many procedures for disbursement.
- Reserves & unspent expenditures. Local govts tend to put money into govt bonds (SBI) than invest for development.
- Budget administration: expenditures on investment: 10.4% of national budget, 18% of local budgets.

Dictating Political Interests

- Local councils (DPRD) and local govt units are “budget maximizers” (Tullock, 1987)
- Money politics & corruption; business “political investments”
- Expenditures for people’s welfare and combating poverty are left un-prioritized.

Trends of De-industrialization

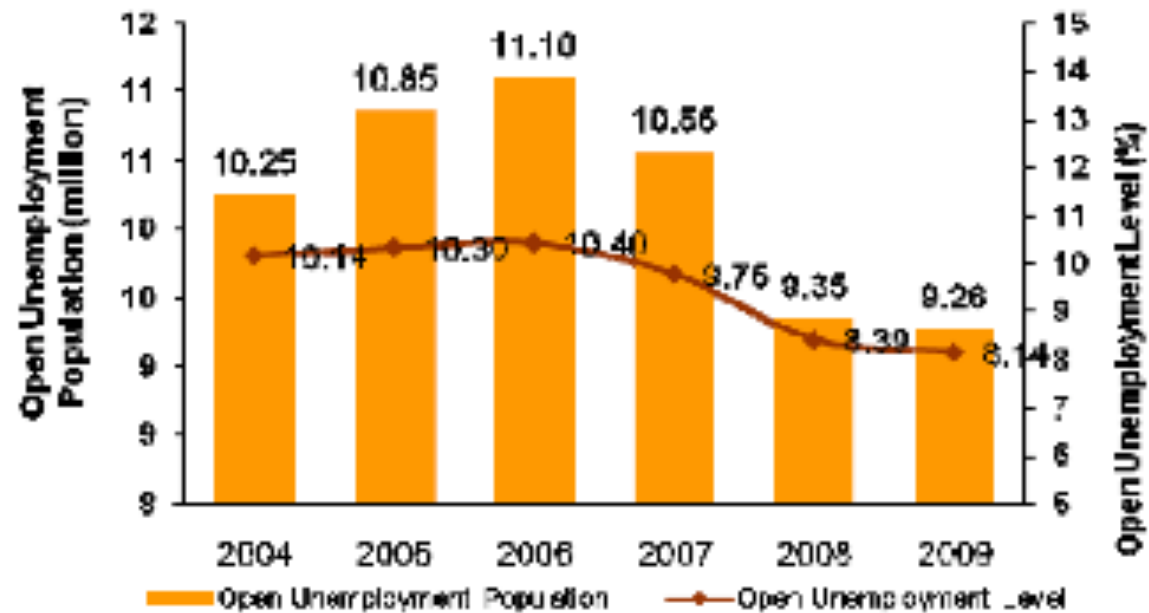
Figure 2. Gross Domestic Product Growth by Sectors (Percent)



Source: Indonesian Central Bureau of Statistics

Unemployment Rate: Modest Achievement

TRENDS OF UNEMPLOYMENT RATE, INDONESIA, 2004 – 2009



Source: CMPW 2009

Crisis, Poverty/Unemployment & Local Budgets

- The 2008-2009 crisis has demonstrated that despite the Indonesian relative resiliency of the economy, agriculture sector was hard hit
- About 50,000 layoffs in agricultural-intensive and unskilled labor-intensive sectors
- Fragile near-poor, non-income poverty
- Regional disparity/imbalance
- Local budgets are not responsive to problems of poverty & unemployment.

Iklm Bisnis Di Indonesia

Ease of...	2007 rank	2006 rank	2005 rank
Starting a Business	167	161	161
Dealing with Licenses	179	131	129
Employing Workers	160	140	141
Registering Property	101	120	118
Getting Credit	116	83	76
Protecting Investors	49	60	58
Paying Taxes	111	133	129
Trading Across Borders	39	60	55
Enforcing Contracts	140	145	144
Closing a Business	139	136	126

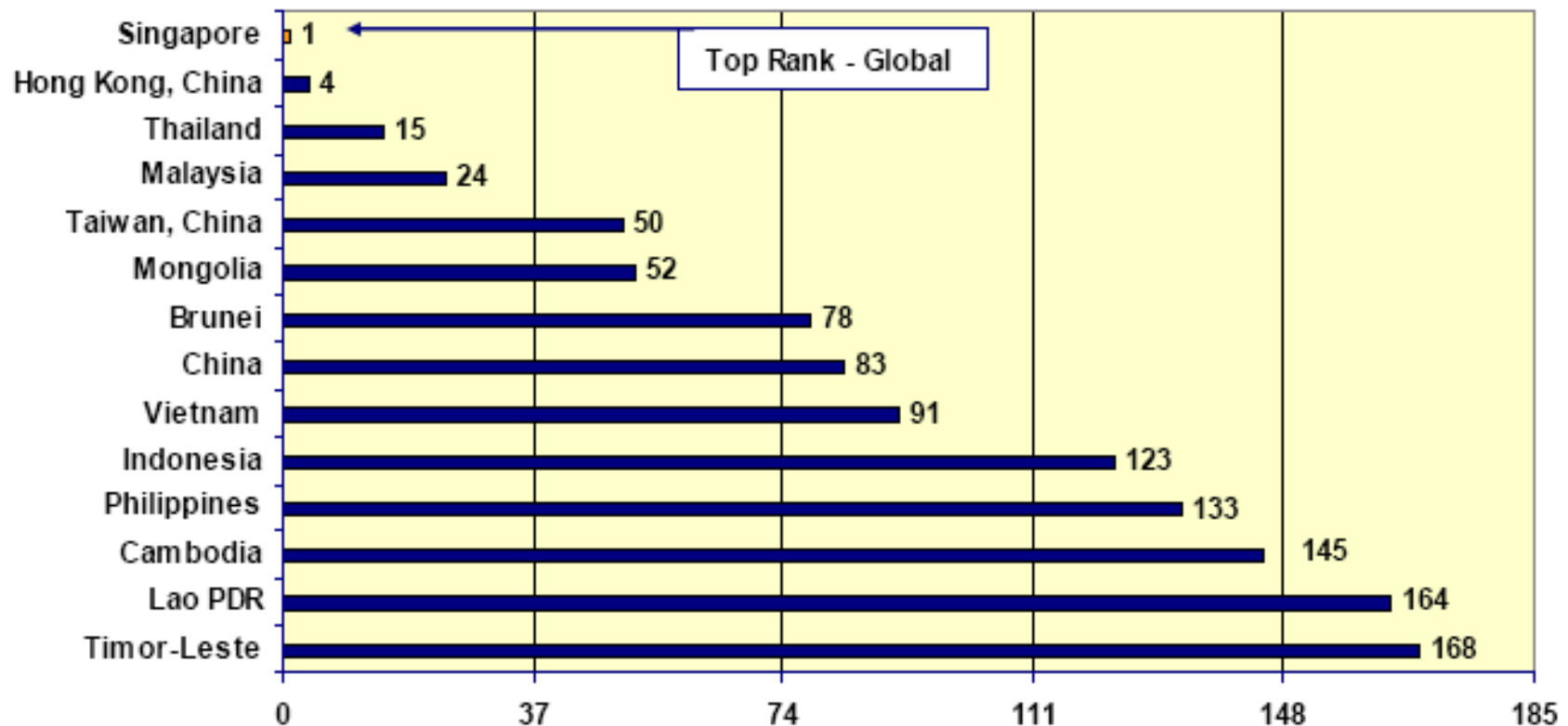
Sb: The International Financial Corporation (IFC), "Doing Business 2005-2008"

Indeks Persepsi Korupsi

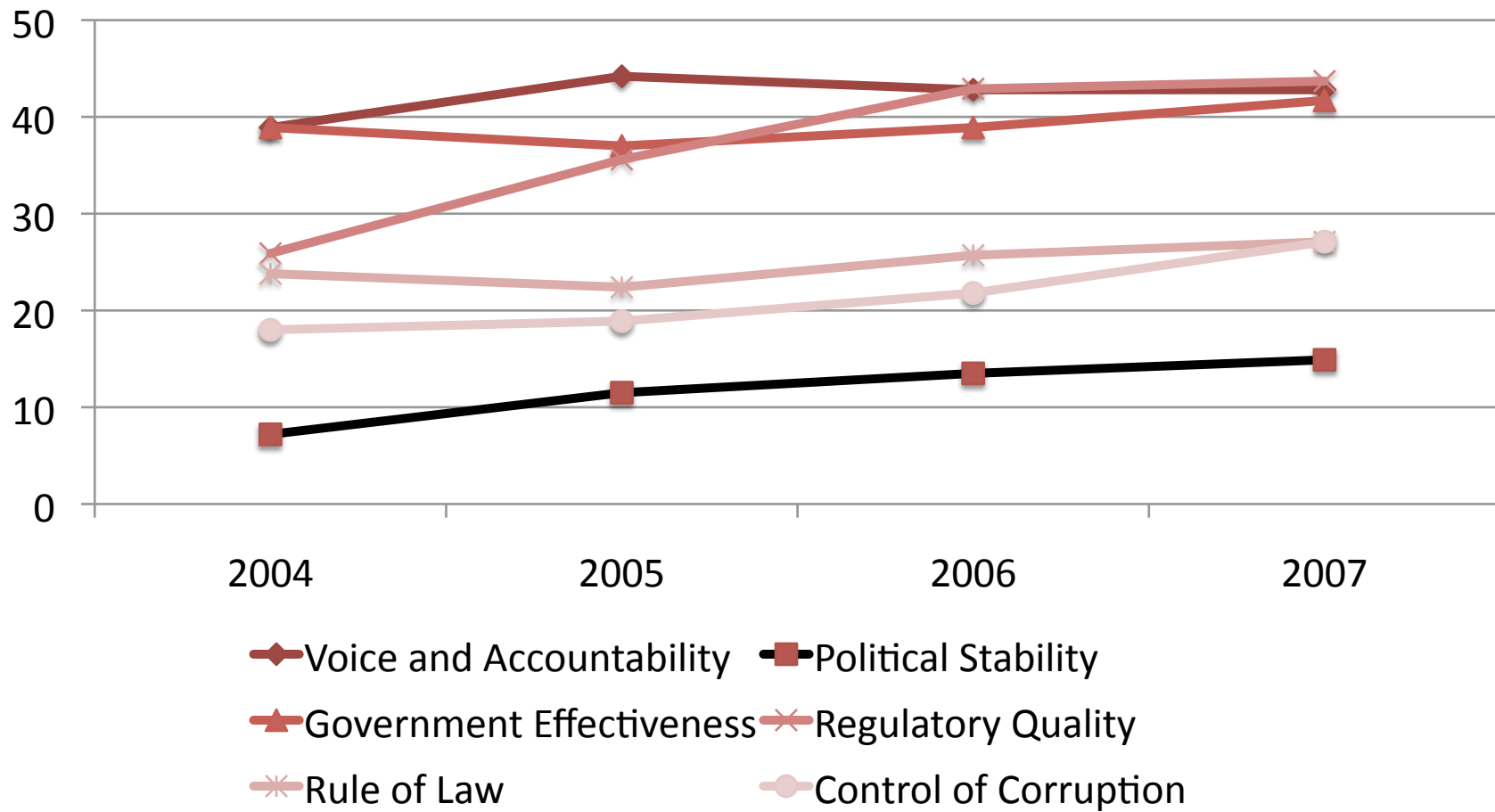
Tahun	Peringkat korupsi	Jumlah negara	IPK*
1998	80	85	2,0
1999	96	98	1,7
2000	85	90	1,7
2001	88	91	1,9
2002	96	102	1,9
2003	122	133	1,9
2004	133	146	2,0
2005	137	159	2,2
2006	130	163	2,4
2007	143	180	2,3
2008	126	180	2,6

Sumber; Transparansi International Indonesia

Ranking Kemudahan untuk Menjalankan Usaha



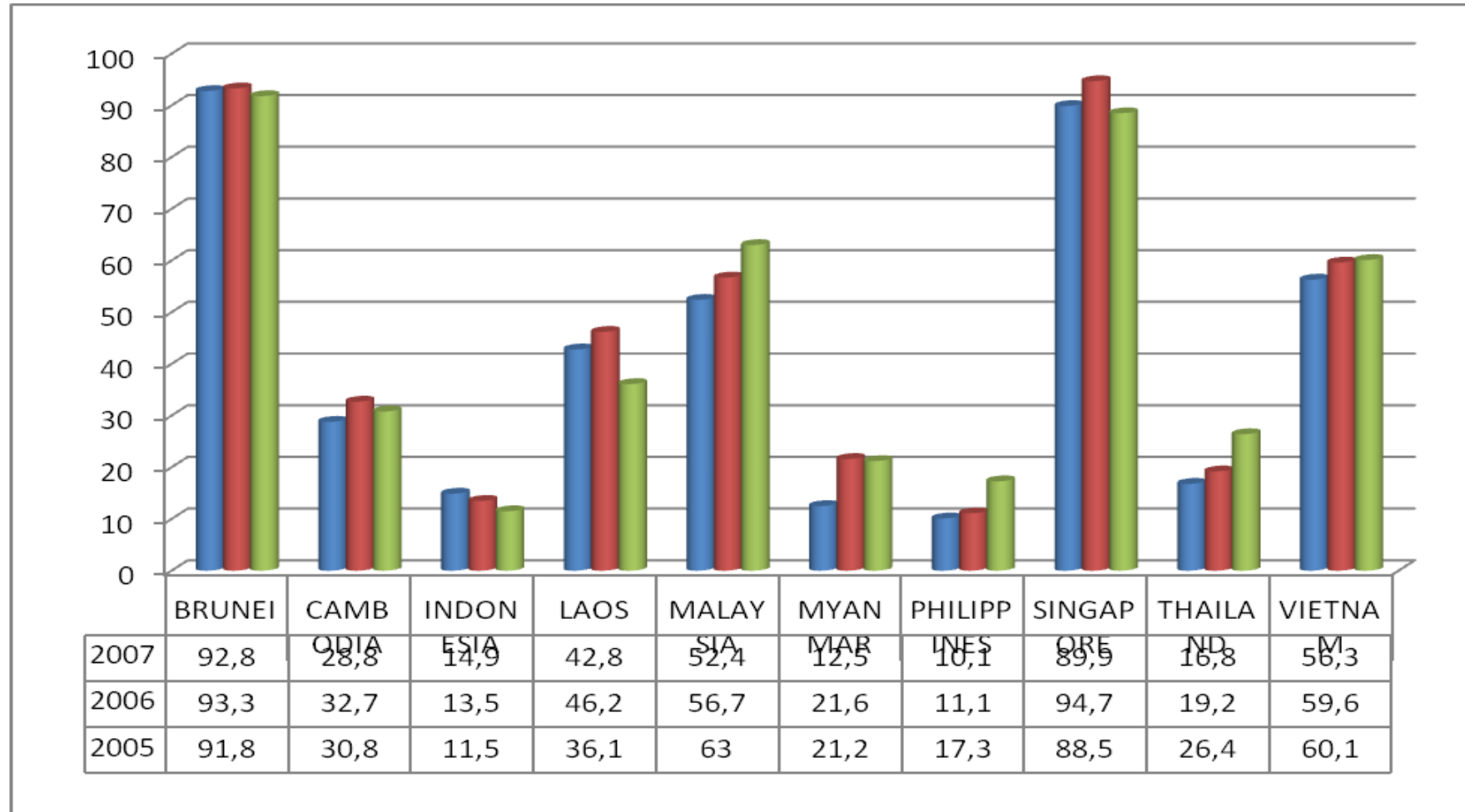
Perkembangan Indeks Governance 2004-2007



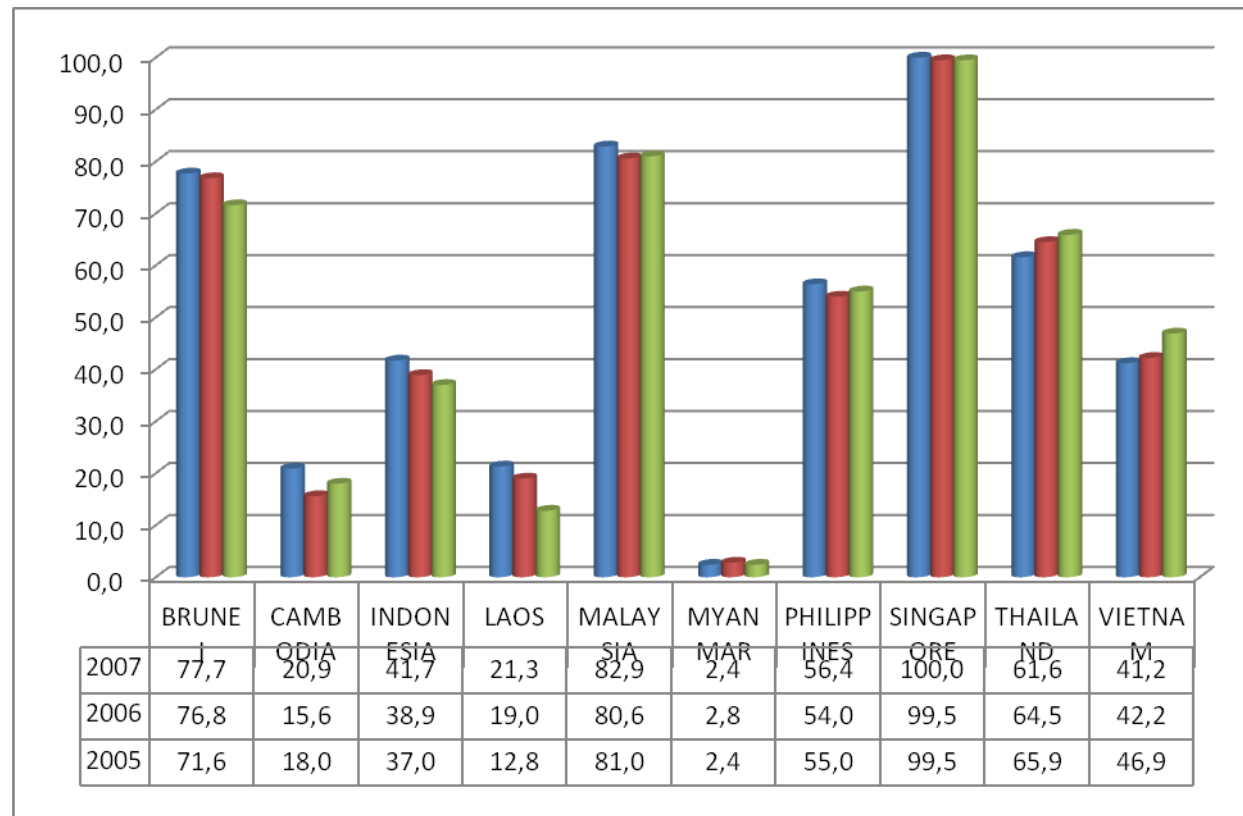
Perbandingan dengan Negara Lain

- Meskipun ada trend peningkatan indeks governance di Indonesia dari 2004-2010, tetapi dibandingkan dengan negara-negara Asia Tenggara yang lain, peningkatan tersebut belum signifikan.

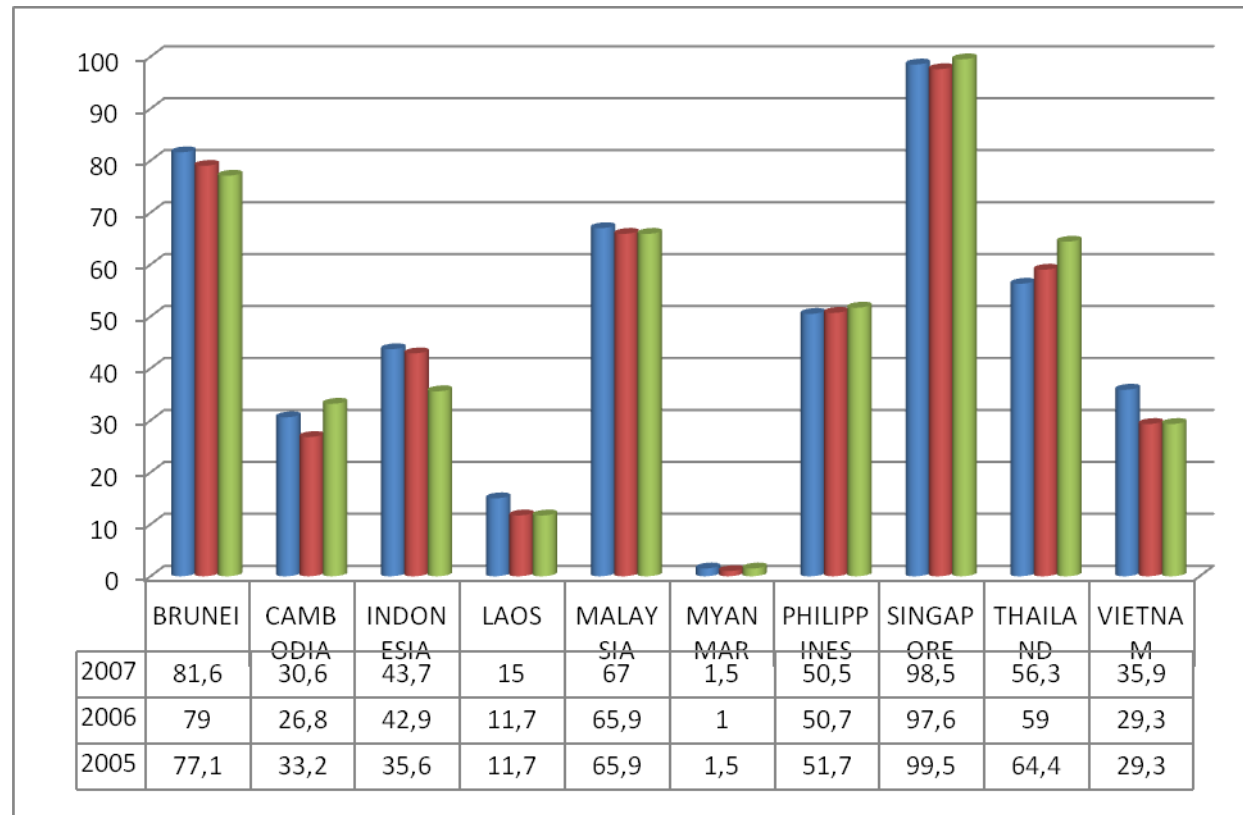
Political stability



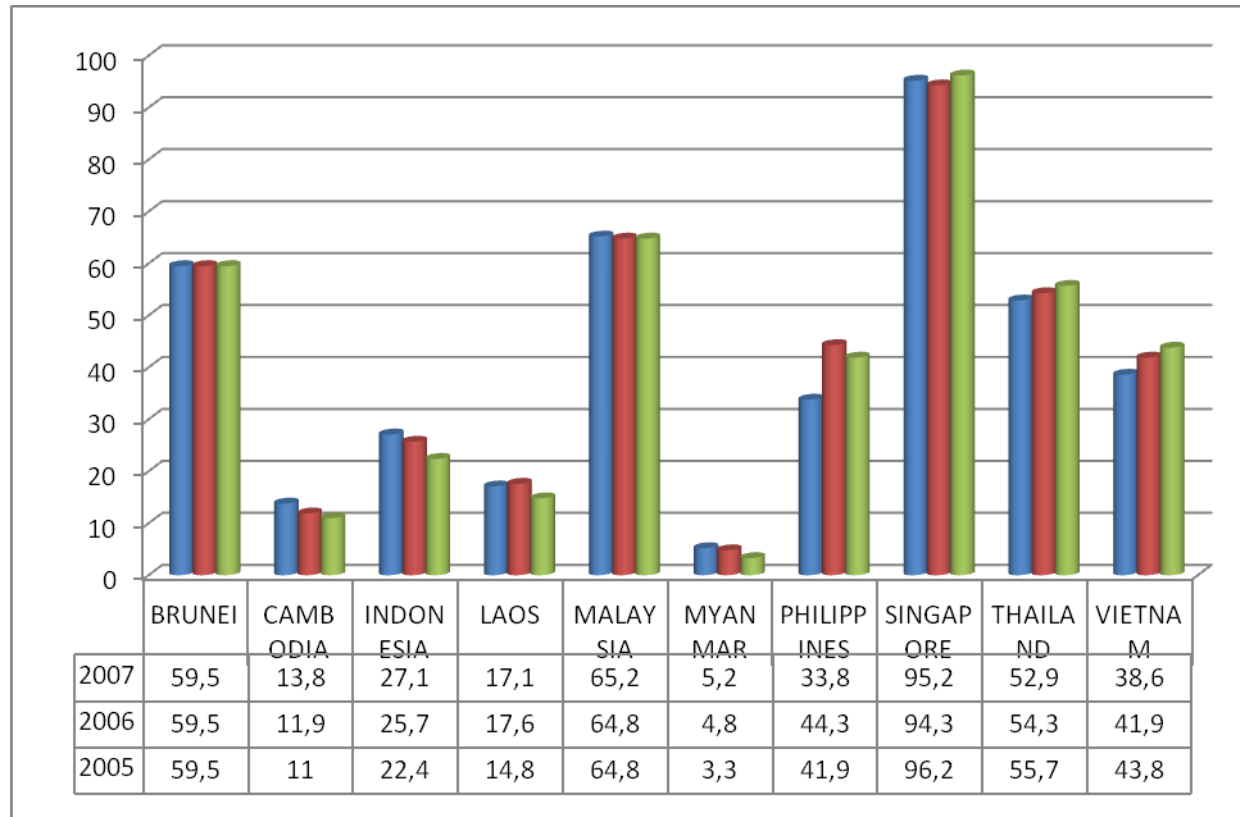
Government effectiveness



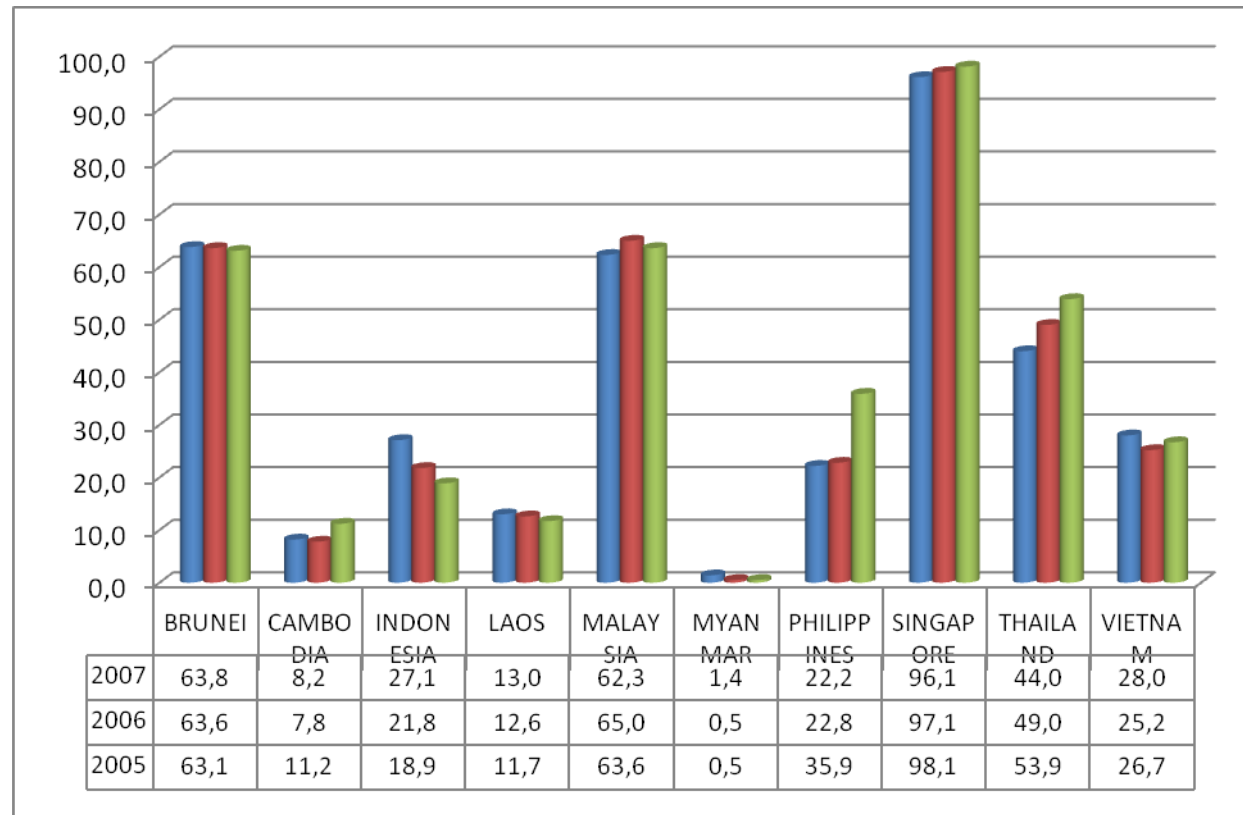
Quality of Regulation



Rule of law



Control of corruption



Kesimpulan

1. Situasi politik dan perkembangan governance (tata-pemerintahan) di Indonesia masih belum user-friendly
2. Tetapi banyak peluang baru yang menjanjikan jika upward trend dari stabilitas politik dan capital inflow dapat dimanfaatkan oleh bisnis.
3. Bisnis tetap akan mendapat pengaruh buruk dari birokrasi publik yang belum efisien, tetapi bisnis dapat mendorong perubahan dalam birokrasi (exit strategy, combating corruption, chamber of trade, dsb).