



INFRASTRUCTURE, GOVERNANCE, AND EDUCATION, THE KEY TO INDONESIA'S GROWTH

JAKARTA, INDONESIA (10 August 2010). Indonesia needs to tackle its infrastructure, governance, and education deficiencies in order to propel the economy into a higher, more inclusive, and sustainable growth path, a new Asian Development Bank (ADB), International Labour Organization (ILO), and Islamic Development Bank (IDB) report said.

"This report will be of significant contribution to the policymakers' attempts to set the conditions right in the medium term for achieving the vision of a developed, just and prosperous Indonesia," said Lukita Dinarsyah Tuwo, Vice Minister of Bappenas.

Indonesia has successfully weathered several crises, but growth has not returned to the pre-Asian financial crisis levels, and poverty remains substantial and with regional disparities.

The study, *Indonesia: Critical Development Constraints*, jointly produced by ADB, ILO, and IDB, uses a diagnostic approach to examine the key obstacles to achieving higher, socially inclusive, and environmentally sustainable growth in the medium term, and offers policy suggestions to overcome them.

Since the 1997 Asian financial crisis, the Government of Indonesia has undertaken wide-ranging reforms to address various structural weaknesses in the economy and to make it more competitive and resilient. From 2001 to 2008, gross domestic product (GDP) grew by an average of 5.2% per year, and in 2009, at the height of the global economic crisis, GDP expanded 4.5%—one of the highest rates in Southeast Asia.

Despite the recent gains, growth since 2001 has not been at par with the 6.6% annual average recorded between 1967 and 1997. The pace of poverty reduction has been slower than during the pre-crisis period, and economic disparities across the regions remain a challenge.

Among key obstacles to higher and sustained inclusive growth are inadequate and poor infrastructure, weak governance and institutions, and unequal access to and low quality of education. In moving forward, the country also needs to shift to an economic growth pattern that is more pro-employment and pro-environment, the report said.

"Overcoming these critical constraints will put the Indonesian economy on a path of higher growth and make economic opportunities unleashed more widely and equitably shared," said Juzhong Zhuang, ADB's Assistant Chief Economist.

The report suggests both short- and medium-term policy reforms to address the obstacles. These include measures to accelerate the rollout of new infrastructure, to boost private investment, including public-private partnerships, to strengthen governance, and to address geographic imbalances in access to employment opportunities and education.

The report acknowledges that some of the suggested reforms are already the key elements of the government's development strategy, which it emphasized should be completed as quickly as possible.

"Given its limited resources, the government needs to prioritize investments and explore the potential for the private sector-led infrastructure development," IDB's Chief Economist Ifzal Ali said.

“Education and skills play a significant role in the access to decent and productive employment that enables workers to earn out of poverty. Improving the access to and the quality of education and vocational training is therefore an important key to address poverty in Indonesia,” said Duncan Campbell, ILO’s Director for Policy Planning in Employment.

ADB, based in Manila, is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration. Established in 1966, it is owned by 67 members—48 from the Asia and Pacific region. In 2009, it approved a total of \$16.1 billion in financing operations through loans, grants, guarantees, a trade finance facilitation program, equity investments, and technical assistance projects. ADB also mobilized cofinancing amounting to \$3.2 billion.

ILO is devoted to advancing opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security, and human dignity. Its main aims are to promote rights at work, encourage decent employment opportunities, enhance social protection, and strengthen dialogue in handling work-related issues. ILO was founded in 1919 to pursue a vision based on the premise that universal and lasting peace can be established only if it is based upon decent treatment of working people. In 1946, ILO became the United Nations’ first specialized agency.

The IDB’s vision is transforming human development in the Muslim world to restore its dignity. Its priority areas of focus are alleviating poverty, improving health, promoting education, improving governance and promoting prosperity for the people. Headquartered in Jeddah, Kingdom of Saudi Arabia, the IDB has 56 member countries from Africa, Asia, the Middle East, Europe, and Latin America.
