

**The Missing ‘Missing Middle’**  
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**Online Appendix**

Figure A1 presents the distribution of value-added/capital in Indonesia as reported in the raw data separately for the small firms (left panel) and large firms (right panel). As can be seen, there is a clear bimodality in the distribution of value-added/capital for the large firms. However, we have reason to believe that the bimodality as reported in the data is driven by measurement error in the units of capital for large firms. Specifically, the capital questionnaire for large firms was ambiguous as to whether the results were to be entered in thousands of Rupiah or Rupiah. Our best guess is that approximately half the firms used thousands and half used millions. Consistent with this, note that the average value-added/capital in the right “hump” for large firms is about a thousand times larger than the mean value-added/capital for in the left “hump.” In addition, the fact that the return to capital differs by a factor of one thousand suggests that it is misreporting of the units of capital (i.e., adding an extra three zeros to their response), rather than actual differences in the amount of capital that is behind what we see in Figure A1. We do not see the bimodality in value-added/worker in the large firm sample in the paper.

**Figure A1: Indonesia’s Distribution of Value-Added per Capita**

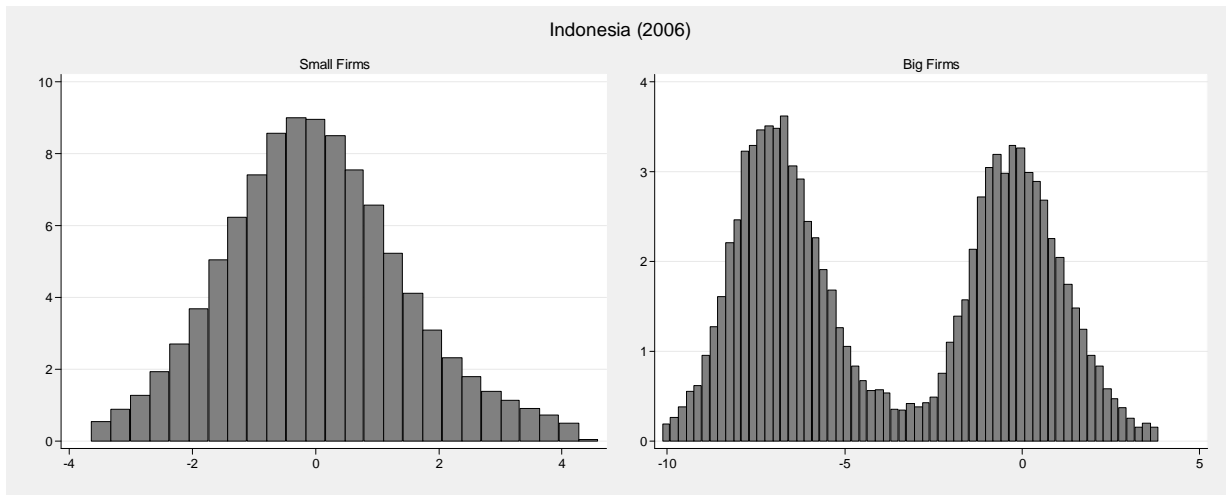
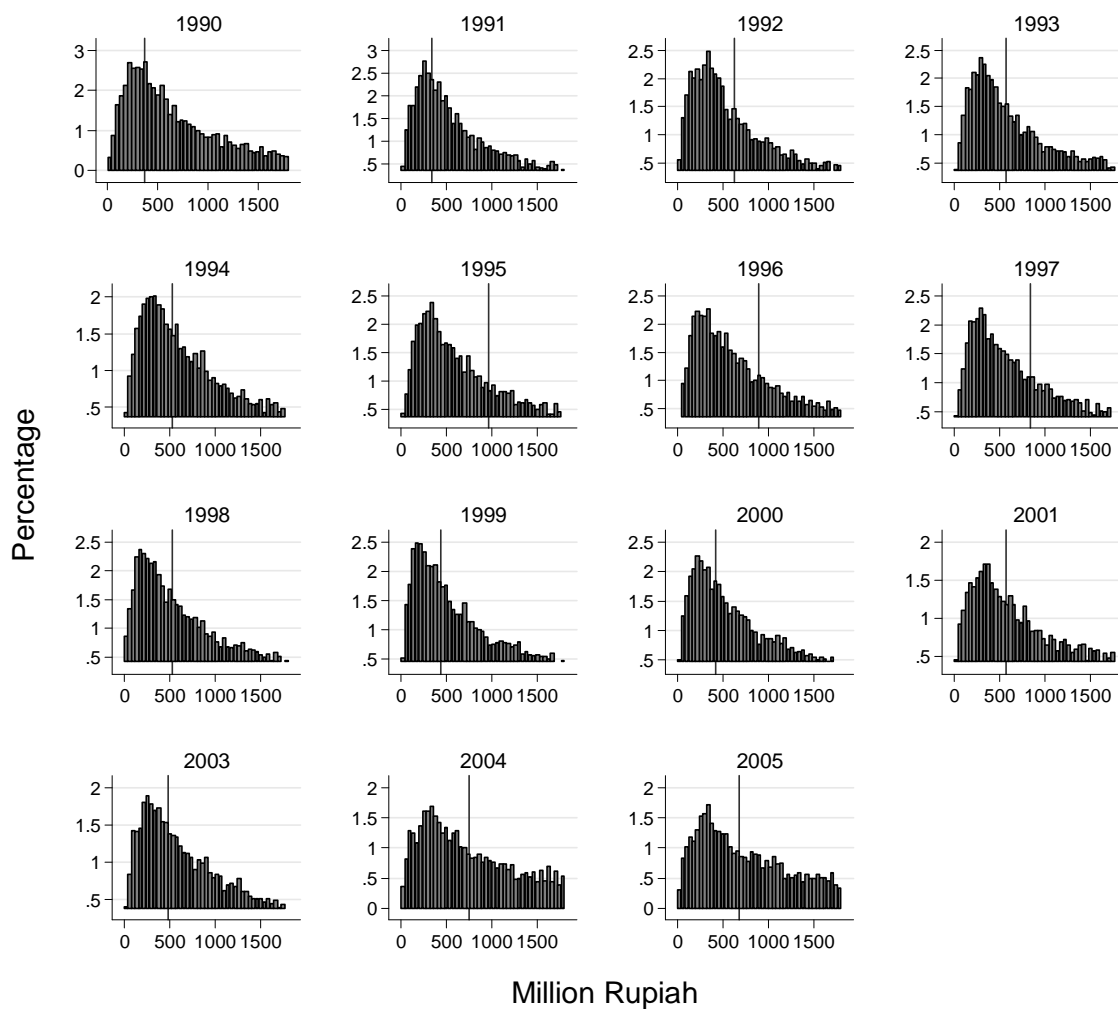


Figure A2 presents the distribution of firm size in Indonesia from 1990 to 2005 along with the VAT threshold in the relevant year.

**Figure A2: Distribution of Indonesian Firm Size and the VAT Threshold**



Notes: Figure shows distribution of the revenue of Indonesian manufacturing firms. The bin size is 40 million Rupiah. The vertical lines indicate the relevant VAT threshold. Currency units are converted to 2006 Rupiah using CPI of World Development Indicators (World Bank).