Indonesia’s Structural Reform Priorities

Submitted by: Indonesia
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Prepared for APEC New Strategy on Structural Reform
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A. Brief Overview of the Indonesia’s National Development Plan

Indonesia’s National Concensus for Development:


2. The RPJPN is divided into 4 (four) stages of the **National Mid-term Development Plan** (RPJMN).

3. Each plan will provide a foundation for achieving the next stage of mid-term development plan objectives. Indonesia is now in its 2nd stage of mid-term development plan (RPJMN II) from 2010 to 2014 (Presidential Decree No. 7/2009)

4. The RPJMN is elaborated into the **Government Work Plans** (RKP) followed by the national annual strategic plans of the Ministries/Institutions.
The RPJMN II (2010-2014)

• The vision for the RPJMN II is a “Just, Prosperous and Democratic Indonesia”.
• This Vision, then translated into 3 (three) objectives as follows:
  – (1) continue development of a prosperous Indonesia,
  – (2) strengthen the pillars of democracy, and
  – (3) strengthen justice in all areas.
• Furthermore, vision and mission are translated further into 5 (five) national development agenda for the year 2010-2014 as follows:
  • (1) Economic Development and Increased Welfare of the People,
  • (2) Enhancement of Good Governance;
  • (3) Strengthening of the Pillars of Democracy;
  • (4) Law enforcement and eradication of corruption, and
  • (5) inclusive and equitable development.
Brief Overview of the Indonesia’s National Development Plan.. (cont’d)

- The 5 Five National Development Agenda then translated to 11 (eleven) national priorities as follows:
  - (1) bureaucratic and administrative reforms
  - (2) education
  - (3) health
  - (4) reducing poverty
  - (5) food security
  - (6) infrastructure
  - (7) investment in the business sector
  - (8) energy
  - (9) environment and natural disasters
  - (10) development in the least developed, frontier, outer and post-conflict areas
  - (11) culture and technological innovation.

- The National Medium Term Development Plan (RPJMN) 2010-2014 forms the basis for the ministries and government agencies in formulating their respective Strategic Plans (Renstra K/L) 2010-2014 includes the vision, mission, goals, strategies, policies, programs, and development activities related with the duties and functions of the Ministry / Institution.
B. Recent Development

The Masterplan of Acceleration and Expansion of Indonesia’s Economic Development (MP3EI) 2011-2025, Issued by the President of the Republic of Indonesia on 27 Mei 2011 (Presidential Regulation No. 32/2011)

1. Background

- Global financial crisis in 2008 which highlighted weaknesses in some economies’ regulatory and institutional settings.
- The dynamical geopolitics and economic change in domestic, regional and global which requires proactive measurements and action.
- The need to increase competitiveness in bilateral, regional and global commitments, e.g. ASEAN, APEC, G-20, the FTAs, etc..

2. What is MP3EI?

- Indonesia’s approach to debottleneck, accelerate and expand the economic development from 2010 to 2025 and which can be updated and refined progressively.
- The development plan is classified into 8 main economic programs, i.e: agriculture, mining, energy, industrial, marine, tourism, telecommunication, and the development of strategic areas. The 8 main programs consist of 22 main economic activities.
- These 22 main economic activities then distributed to 6 economic corridors to explore regional strengths and to reduce spatial imbalance of economic development throughout Indonesia.
3. Why do we need an additional development plan?

- The National Long-Term Development Plan needs to be adjusted and accelerated with additional complementary documents which can be updated with the ever-changing domestic, regional and global politics and economic climates.
- The need of better management on various development governance, and to maximise the national potentials.
- Created through several processes which involving consultation and communication among local governments, business association, experts, academicians and a wide range of stakeholders in order to identify priority areas, therefore more transparency, and more public awareness and ownership.
- It is about changing mindset of the people to embrace a new way of thinking, a new way of working, and a new way of conducting business which includes collaborative efforts among government, local governments, SOEs, private enterprises and the people.
- It is about to change the mindset of the role of Government which is to provide a set of rules and regulations that provide incentives for investors to build sectoral industries and infrastructure.
4. **MP3EI’s Position on National Development Plan**

1. Development adaptation, integration, and acceleration: FOCUS and CONCRETE

MP3EI is formulated in consideration of the National Action Plan for Greenhouse Gas (RAN GRK) and Reducing Emissions from Deforestation and Forest Degradation (REDD) as a national commitment which recognizes the global climate change.

MP3EI is also designed in accordance to the National Spatial Plan (RTRWN). (Note: RTRWN has not been completed.)
5. MP3EI Implementation and Governance

Phase 1: Quick-wins Implementation
- To establish and function MP3EI committee
- Preparing Action Plans regarding regulations, debottlenecking, permits, incentives, infrastructure development and implementation of investment commitments (quick-wins)
- The establishment of International hubs: seaports and airports
- Strengthening research and development institutions in every corridor
- Human resource development for the corridor’s main economic activities

Phase 2: Strengthen Economic & Investment Bases
- Accelerate the development of longterm infrastructure projects
- Strengthen the innovation ability to increase competitiveness of main economic activities
- Improve economic governance in various fields
- Expand the development of industries creating added value

Phase 3: Sustainable Growth Implementation
- Strengthen industrial competitiveness to carry on global challenges
- High-technology adaptation for future sustainable development
C. The Rationales

- The Mid-Term National Development Plan (RPJMN) is the guideline for development and reform direction in all sectors used by all ministries/institution as well as local governments in Indonesia.

- The Masterplan of Acceleration and Expansion of Indonesia’s Economic Development (MP3EI) serves as an additional document to accelerate and expand economic growth which is complementary to RPJMN.

- Indonesia’s approach to ANSSR Agenda is aligned with both RPJMN II (2010-2014) and Phase 1 MP3EI (2011-2015) Vision, Mission, Targets and Priorities.

- In light of the above, Indonesia drafted 2 important sectors prioritized in both RPJMN and MP3EI for ANSSR: (1) Bureaucratic and Administrative Reform and (2) Regulatory Reform.

- Both sectors play an important role and will provide fundamental elements for other sectors to develop/reform.

- Regulatory reform is at the centre of structural reforms.
D. Proposed Structural Reform Priorities

1. Bureaucratic and Administrative Reform
   - It is mandated on Law No. 25/2009 on Public Service and Presidential Regulation No. 81/2010 on Bureaucratic Reform Grand Design 2010-2025
   - It is the first national priority on the 2nd stage of Mid-Term Development Plan (RPJMN II)
   - It is one of the prerequisite for successful MP3EI Development plan

2. Regulatory Reform
   - It is the key factor for Development Plan on both RPJMN and the MP3EI
   - It is one of the main agendas in the Phase 1 of MP3EI by removing and revise (debottlenecking) regulations that impede the investment
1. Bureaucratic and Administrative Reform

Objective:
Professional government bureaucracy with adaptive characteristics, integrity, high-performance, clean and corruption-free, able to serve the public, neutral, prosperous, dedicated, and uphold the basic values and ethical codes.

Targets based on RPJMN II (2010-2014):
1. Strengthening the government bureaucracy in order to realize a clean and corruption free government.
2. Improving public service.
3. Increasing the capacity and performance accountability.

(Source: Attachment 2.8, Presidential Regulation 81, 2010)
Bureaucratic and Administrative Reform

Challenges:

<table>
<thead>
<tr>
<th>Areas</th>
<th>Expected Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization</td>
<td>Organizations which are on the right function and in the right size</td>
</tr>
<tr>
<td>Governance</td>
<td>Adherence to a clear work system, process and procedure which is also effective, efficient, and in accordance to the principles of good governance</td>
</tr>
<tr>
<td>Laws and Regulation</td>
<td>A more orderly regulation, no overlapping and more conducive</td>
</tr>
<tr>
<td>HR of the State Apparatus</td>
<td>Apparatus HR who have high integrity and are also neutral, competent, capable, professional, with high performance &amp; better welfare</td>
</tr>
<tr>
<td>Supervisory</td>
<td>Improved administration in terms of clean, free from corruption, collusion &amp; nepotism</td>
</tr>
<tr>
<td>Accountability</td>
<td>Increased capacity and accountability of performance of the bureaucrats</td>
</tr>
<tr>
<td>Public service</td>
<td>Premium public service as expected and demanded by the community</td>
</tr>
<tr>
<td>Mind set &amp; culture set of the</td>
<td>Bureaucracy with high integrity and performance</td>
</tr>
<tr>
<td>State Apparatus</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Attachment, 2.7, Table 1, Presidential Regulation 81, 2010)

- See Regulation of the State Minister of Administrative and Bureaucracy Reform No. 20, 2010, concerning 2010-2014 Bureaucracy Reform Road Map
## Bureaucratic and Administrative Reform
### Qualitative/Quantitative Indicators
(as stated in Presidential Regulation No. 81/2010)

<table>
<thead>
<tr>
<th>The realization of</th>
<th>Indicators</th>
<th>Baseline (2009)</th>
<th>Target (2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A clean government free from corruption, collusion and nepotism</td>
<td>Corruption Perception Index*)</td>
<td>2.8</td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td>BPK’s WTP/Unqualified Opinion</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Central</td>
<td>42.17%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Local</td>
<td>2.73%</td>
<td>60%</td>
</tr>
<tr>
<td>Improved quality of public services</td>
<td>Integrity of Public Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Central</td>
<td>6,64</td>
<td>8,0</td>
</tr>
<tr>
<td></td>
<td>Local</td>
<td>6,46</td>
<td>8,0</td>
</tr>
<tr>
<td>&quot;Ease of Doing Business&quot; rank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>122</td>
<td>75</td>
</tr>
<tr>
<td>Increased capacity and accountability of the bureaucracy performance</td>
<td>Government Effectiveness Index **)</td>
<td>-0,29</td>
<td>0,5</td>
</tr>
<tr>
<td></td>
<td>Accountable Government Instances</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>24%</td>
<td>80%</td>
</tr>
</tbody>
</table>

*) Scale of 0 – 10  
**) Scale of -2.5 to 2.5  
Source: Processed from RPJMN 2010-2014; Attachment 2.11, Table 2, Presidential Regulation 81, 2010
2. Regulatory Reform within the framework of MP3EI
Regulatory Reform

Phase 1 (2011-2015) MP3EI Objectives:

- **At the national level**: Review/revise cross sector regulations and streamlining permit applications related to spatial management, labor, taxation, and the ease of capital investment.
- **At the local level**: Review/revise regulation and permit concerning the mineral and coal, forestry, and transportation (railways, shipping, aviation) sectors, as well as basic infrastructure.

(Source: MP3EI, p.179)

Targets:

1. Accelerate the completion of law implementation regulation;
2. Eliminate the overlap between existing regulations, both at the central and local government levels as well as among sectors and institutions;
3. Revise and establish required regulations to support MP3EI (such as export tax for several commodities);
4. Provide incentives for main economic activities that is consistent with MP3EI strategies;
5. Accelerate and simplify the process of issuing permits.

(Source: MP3EI, p.179)
# Regulatory Reform: Challenges

<table>
<thead>
<tr>
<th>No</th>
<th>Laws</th>
<th>Time Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Review Law and Government Regulations related to the application of communal land.</td>
<td>December 2011</td>
</tr>
<tr>
<td>3</td>
<td>Revise Law No. 28 Year 2009 regarding Regional Tax and Retribution.</td>
<td>December 2011</td>
</tr>
<tr>
<td>4</td>
<td>Revise Law No. 4 Year 2009 on Mineral and Coal Mining regarding business uncertainty.</td>
<td>December 2011</td>
</tr>
<tr>
<td>5</td>
<td>Review Law No. 22 Year 2001 on Oil and Gas.</td>
<td>December 2011</td>
</tr>
<tr>
<td>6</td>
<td>In line with Law No. 1 Year 2009 on Aviation and Law No. 17 Year 2008 on Shipping.</td>
<td>December 2011</td>
</tr>
<tr>
<td>7</td>
<td>Revise Law No. 30 Year 2009 on Electricity.</td>
<td>December 2011</td>
</tr>
<tr>
<td>No</td>
<td>Government Regulation</td>
<td>Time Target</td>
</tr>
<tr>
<td>----</td>
<td>----------------------------------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>1</td>
<td>Revise Government Regulation No. 38 Year 2003 on Tax Exemption for Imported Raw Material.</td>
<td>December 2011</td>
</tr>
<tr>
<td>2</td>
<td>Revise Government Regulation No. 18 jo. PP No. 85 Year 1995 which is to be harmonized with Law No. 32 Year 2009 on Environmental Management.</td>
<td>July 2011</td>
</tr>
<tr>
<td>3</td>
<td>Revise Government Regulation No. 69 Year 1999 on Food Labeling and Advertising.</td>
<td>December 2011</td>
</tr>
<tr>
<td>4</td>
<td>Revise Government Regulation No. 62 Year 2008 on income tax facilities for investment.</td>
<td>December 2011</td>
</tr>
<tr>
<td>6</td>
<td>Acceleration of draft of Government Regulation for Master Plan of National Tourism Development (Riparnas) 2010-2025.</td>
<td>June 2011</td>
</tr>
<tr>
<td>7</td>
<td>Prepare technical guidelines to implement the Government Regulation No. 35 Year 2007 on Allocation of Enterprise Revenue.</td>
<td>December 2011</td>
</tr>
<tr>
<td>No</td>
<td>Presidential Regulations (Perpres), Presidential Decrees (Keppres), Presidential Instructions (Inpres)</td>
<td>Time Target</td>
</tr>
<tr>
<td>----</td>
<td>---------------------------------------------------------------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>1</td>
<td>Issue Presidential Regulation regarding PSO, IMO and TAC of Railways.</td>
<td>December 2011</td>
</tr>
<tr>
<td>3</td>
<td>Issue Presidential Decree on the Establishment of Indonesian Tourism Promotion Board (BPPI).</td>
<td>May 2011</td>
</tr>
<tr>
<td>4</td>
<td>Issue regulations regarding Forestry Moratorium.</td>
<td>July 2011</td>
</tr>
<tr>
<td>5</td>
<td>Issue regulations to encourage infrastructure development in the eastern part of Indonesia.</td>
<td>December 2011</td>
</tr>
<tr>
<td>No</td>
<td>Ministerial Regulations</td>
<td>Year</td>
</tr>
<tr>
<td>----</td>
<td>----------------------------------------------------------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>1</td>
<td>Review Ministry of Finance Regulation (PMK) 67/10 regarding the stipulation of Export Duty.</td>
<td>August 2011</td>
</tr>
<tr>
<td>2</td>
<td>Issue regulations regarding the implementation of DMO for coal, oil and gas supporting the downstream industries for rubber, oil palm, cocoa, and steel.</td>
<td>December 2011</td>
</tr>
<tr>
<td>3</td>
<td>Issue a technical regulation (Ministry of Finance Regulation) on the types of industries which are eligible for tax holiday.</td>
<td>August 2011</td>
</tr>
<tr>
<td>4</td>
<td>Issue technical regulation regarding the development and cultivation of Genetically Modified Organisms (GMO).</td>
<td>October 2011</td>
</tr>
<tr>
<td>5</td>
<td>Issue regulations regarding incentive/facilitation to accelerate investment in centers of agricultural production, animal husbandry, and fishery industries.</td>
<td>August 2011</td>
</tr>
<tr>
<td>8</td>
<td>Revise Ministry of Finance Regulation No. 140 Year 2007 regarding Temporary Import.</td>
<td>December 2011</td>
</tr>
<tr>
<td>9</td>
<td>Issue regulations regarding the utilization of abandoned land.</td>
<td>July 2011</td>
</tr>
</tbody>
</table>
Local Regulations

• Finalization of Provincial Spatial Planning (*RTRW Propinsi*) which will be used as a basis to overcome potential land use conflict in utilization as forest, plantation, and mining area. BKPRN and Regional Governments should conclude the RTRWs by December 2011.

• There are other local regulations which have hampered Investment activities. These regulations need to be reviewed and aligned.

(Source: MP3EI, p. 182)
Regulatory Reform: Qualitative and Quantitative Indicators

• The list of laws, regulations and decrees are to be carried out by “Responsible Institutions” and Provincial/Local Governments as stated in MP3EI.

(Source: MP3EI, p.179-182)

• Overall Monitoring and Evaluation of MP3EI by:
  – The Implementation Team
  – The Working Team
  – The Secretariat

(Source: MP3EI, p. 183)

• But, there is no quantitative indicator yet.
Thank You