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## **Indonesia's Structural Reform Priorities**

Submitted by: Indonesia



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# **Indonesia's Structural Reform Priorities**

Prepared for APEC New Strategy on  
Structural Reform

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Objective, Targets, Challenges, and Indicators

## A. Brief Overview of the Indonesia's National Development Plan

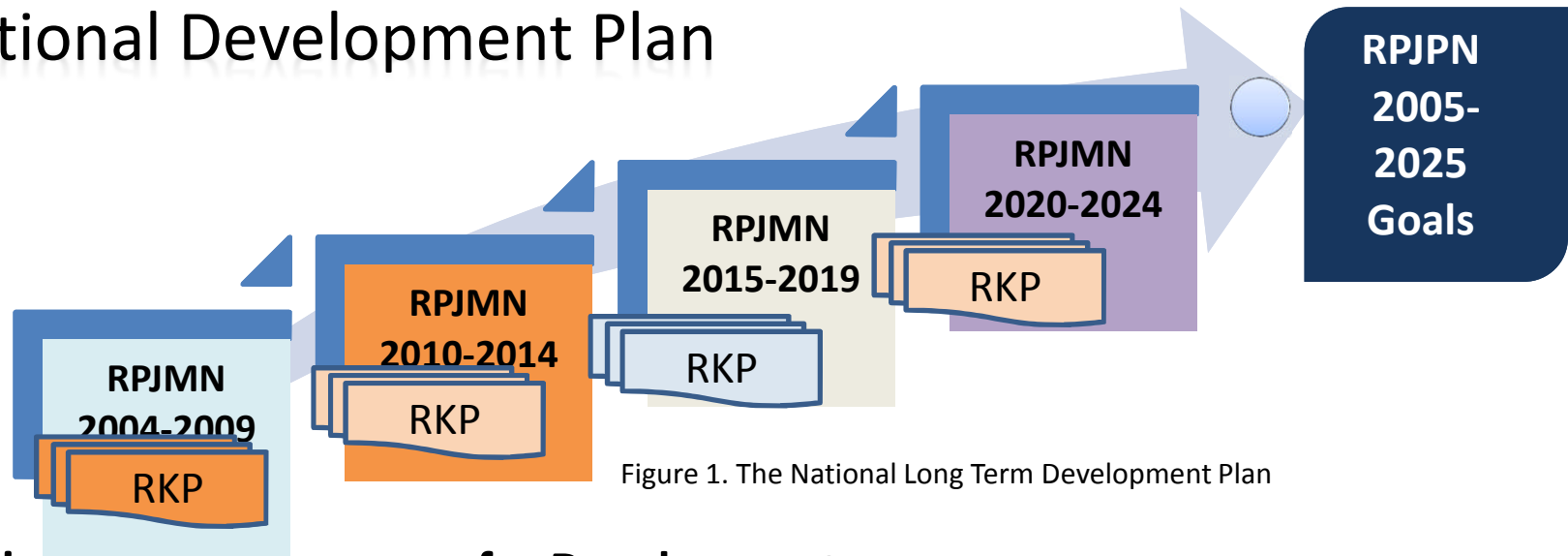


Figure 1. The National Long Term Development Plan

### Indonesia's National Consensus for Development:

1. **The National Long-term Development Plan 2005-2025 (RPJPN)** is the National Document for Development Planning within 20-year period. (Based on Law No. 17/2007)
2. The RPJPN is divided in 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.

# Brief Overview of the Indonesia's National Development Plan.. (cont'd)

## **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 geo-politics 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.

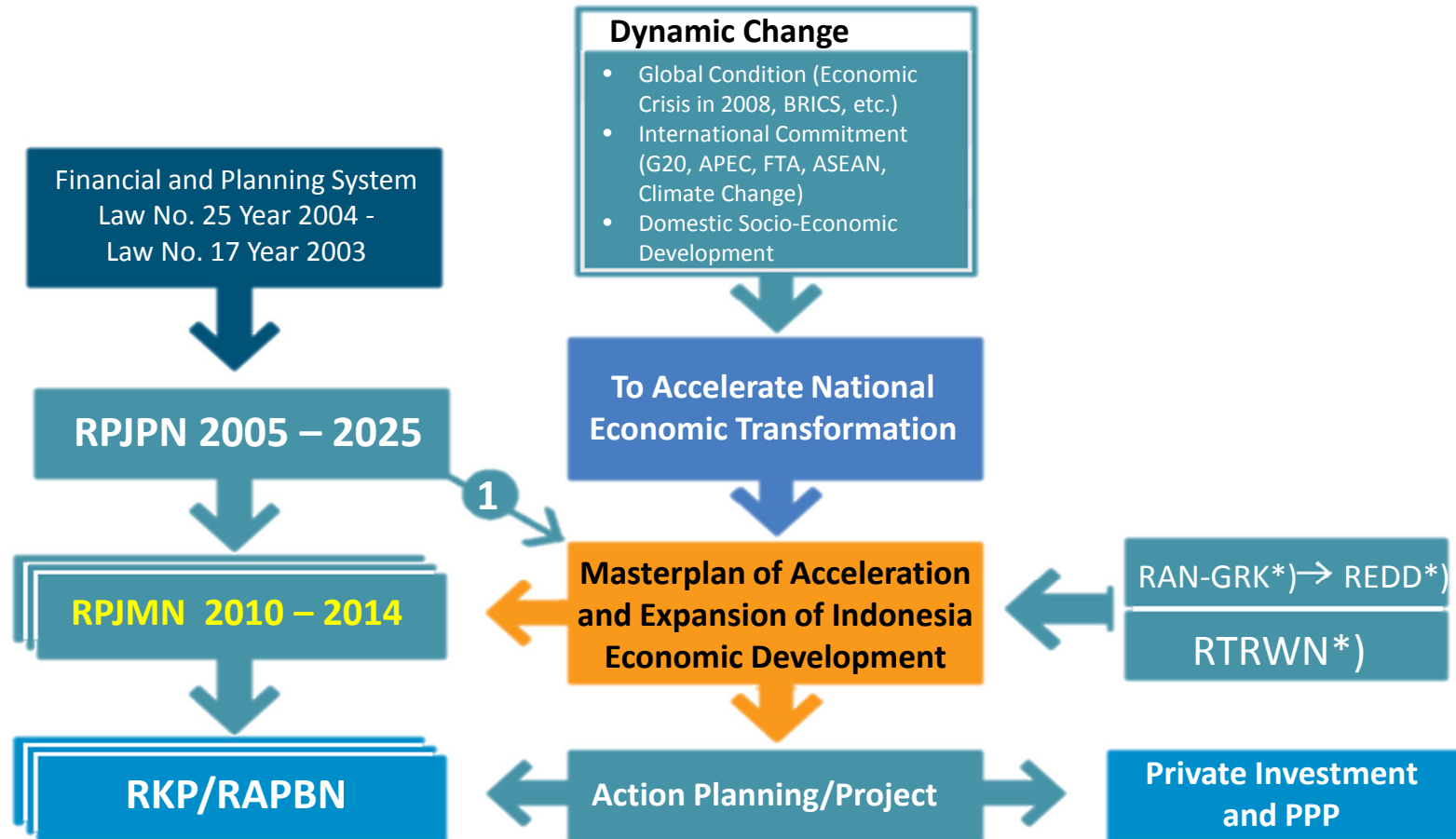
## **B. Recent Development... (cont'd)**

### **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



- 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

- 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

- 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 use 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 documents to accellerate 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, Mision, 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 plays 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 prerequisites 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

# Bureaucratic and Administrative Reform

## 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:

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

(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)

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

\*) 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

No	Laws	Time Target
1	Review Law and Government Regulations related to the application of communal land.	December 2011
2	Revise Law No. 13 Year 2003 regarding Man Power .	January 2012
3	Revise Law No. 28 Year 2009 regarding Regional Tax and Retribution.	December 2011
4	Revise Law No. 4 Year 2009 on Mineral and Coal Mining regarding business uncertainty.	December 2011
5	Review Law No. 22 Year 2001 on Oil and Gas.	December 2011
6	In line with Law No. 1 Year 2009 on Aviation and Law No. 17 Year 2008 on Shipping.	December 2011
7	Revise Law No. 30 Year 2009 on Electricity.	December 2011

No	Government Regulation	Time Target
1	Revise Government Regulation No. 38 Year 2003.on Tax Exemption for Imported Raw Material.	December 2011
2	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.	July 2011
3	Revise Government Regulation No. 69 Year 1999 on Food Labeling and Advertising.	December 2011
4	Revise Government Regulation No. 62 Year 2008 on income tax facilities for investment.	December 2011
5	Revise PP No. 68 Year 1998 on Nature Conservation Area and Nature Reserve Area.	December 2011
6	Acceleration of draft of Government Regulation for Master Plan of National Tourism Development (Riparnas) 2010-2025.	June 2011
7	Prepare technical guidelines to implement the Government Regulation No. 35 Year 2007 on Allocation of Enterprise Revenue.	December 2011

No	Presidential Regulations (Perpres), Presidential Decrees (Keppres), Presidential Instructions (Inpres)	Time Target
1	Issue Presidential Regulation regarding PSO, IMO and TAC of Railways.	December 2011
2	Revise Presidential Regulation No. 13 Year 2010 Concerning Government and Private Partnership in the Provision of Infrastructure.	July 2011
3	Issue Presidential Decree on the Establishment of Indonesian Tourism Promotion Board (BPPI).	May 2011
4	Issue regulations regarding Forestry Moratorium.	July 2011
5	Issue regulations to encourage infrastructure development in the eastern part of Indonesia.	December 2011

No	Ministerial Regulations	Year
1	Review Ministry of Finance Regulation (PMK) 67/10 regarding the stipulation of Export Duty.	August 2011
2	Issue regulations regarding the implementation of DMO for coal, oil and gas supporting the downstream industries for rubber, oil palm, cocoa, and steel.	December 2011
3	Issue a technical regulation (Ministry of Finance Regulation) on the types of industries which are eligible for tax holiday.	August 2011
4	Issue technical regulation regarding the development and cultivation of Genetically Modified Organisms (GMO).	October 2011
5	Issue regulations regarding incentive/facilitation to accelerate investment in centers of agricultural production, animal husbandry, and fishery industries.	August 2011
6	Revise Ministry of Finance Regulation No. 107 Year 2001 regarding the Import Duty exemption for Defense Equipment.	December 2011
7	Revise Ministry of Finance Regulation No. 241 Year 2010 regarding the Imposition of Import Duty for Raw Materials as well as Capital Goods.	August 2011
8	Revise Ministry of Finance Regulation No. 140 Year 2007 regarding Temporary Import.	December 2011
9	Issue regulations regarding the utilization of abandoned land.	July 2011

## 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