



**Asia-Pacific
Economic Cooperation**

2019/CTI/WKSP4/020

Session: III

Indonesia Investment Updates

Submitted by: Indonesia



**Workshop on Optimizing Investment Measures in
the Asia-Pacific Region
Shanghai, China
11-12 April 2019**

ASEAN 2019

Indonesia Investment Updates





Outline

1. Indonesia as the Investment Destination

2. Investment Reform and Policy



INVESTING IN INDONESIA: WHY NOW?



We are once again confronting challenging times in Indonesia. The world looks full of uncertainty and risk. What does it all mean? It means that today is the time to invest - the best time to invest.

President Joko Widodo
at Singapore-Indonesia Business Dialogue 2017

WHY INDONESIA

- Steady economic growth in the past 10 years
- Investment grade by all major rating firms
- 5th largest economy in the world by 2030
- 135 million consuming class by 2030
- 180 million population in productive age by 2030
- Significant improvement in regulatory environment as reflected in Ease of Doing Business

WHY NOW?

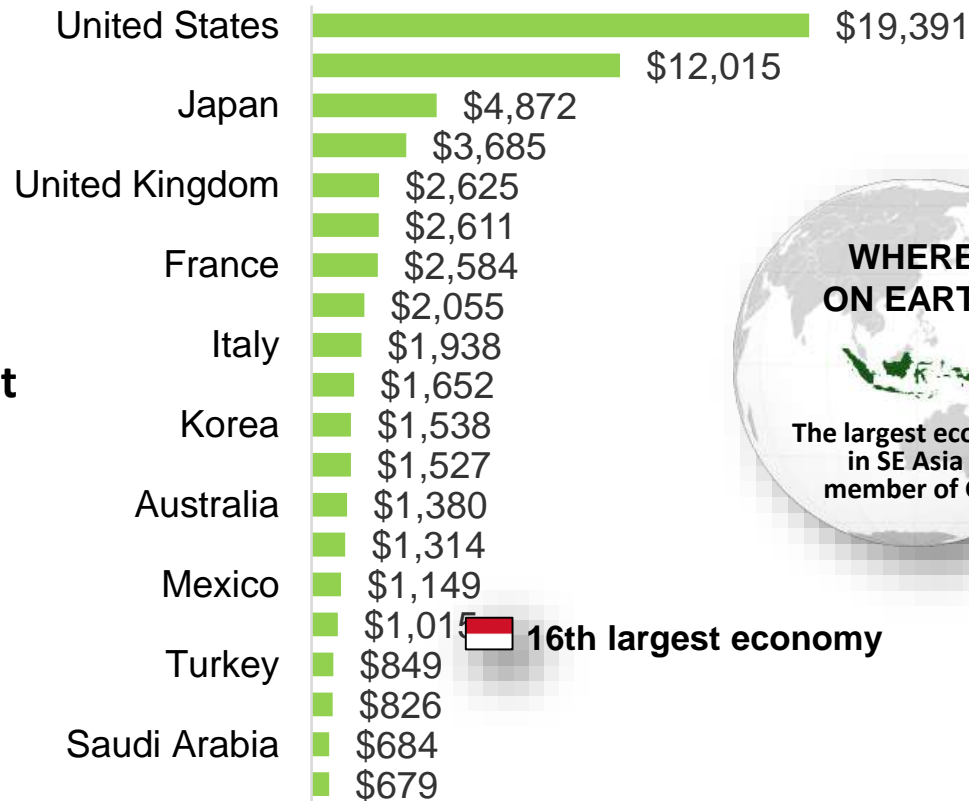
- Most aggressive infrastructure development in Indonesia's history
- Extra incentive for investments in industrial, tourism and special economic zones
- Fiscal reform for long term sustainable growth
- Law reform to ease business and investment
- Concrete policy for eradication of corruption
- Citizens' trust on the Indonesian Government is at all time high
- Strong investors' confidence to invest further in Indonesia
- Policies reform in ICT Sectors

Source: WorldBank Report, 2017

Indonesia: a big economy and a big opportunity

Top-20 GDP Current Prices in 2017 (USD Billion)

Source: IMF, 2018



16th largest economy

GDP: Gross Domestic Products

Indonesia's GDP Rises from 8th in 2016 to 4th in 2050

GDP at PPP Rankings (Projection for 2030 and 2050)

PPP Rank	2016		2030		2050	
	Economy	GDP at PPP (2014 US\$bn)	Economy	Projected GDP at PPP (US\$bn)	Economy	Projected GDP at PPP (US\$bn)
1	China	21,269	China	38,008	China	58,499
2	United States	18,562	United States	23,475	India	44,128
3	India	8,721	India	19,511	United States	34,102
4	Japan	4,932	Japan	5,606	Indonesia	10,502
5	Germany	3,979	Indonesia	5,424	Brazil	7,540
6	Russia	3,745	Russia	4,736	Russia	7,131
7	Brazil	3,135	Germany	4,707	Mexico	6,863
8	Indonesia	3,028	Brazil	4,439	Japan	6,779
9	UK	2,788	Mexico	3,661	Germany	6,138
10	France	2,737	UK	3,638	UK	5,369

After around 2018, growth could get back on track both in China and in emerging Asia more generally, in part because China will be pushing its productive capacity into other lower cost places like Vietnam, Indonesia, the Philippines and maybe also Myanmar.

Rebecca Harding, CEO of Delta Economics

World Bank's Economic Growth Projection

Economy	2017	2018	2019	2020
China	6.8	6.4	6.3	6.2
Cambodia	6.8	6.9	6.7	6.7
Philippines	6.7	6.7	6.7	6.5
Vietnam	6.7	6.5	6.5	6.5
Laos	6.7	6.6	6.9	6.9
Myanmar	6.4	6.7	6.9	6.9
Malaysia	5.8	5.2	5.0	4.7
Indonesia	5.1	5.3	5.3	5.3
Thailand	3.5	3.6	3.5	3.4

Indonesia in 2045



- Population: **309 million**
- Working age population: **52%**
- Urban population: **75%**
- Middle class population: **80%**

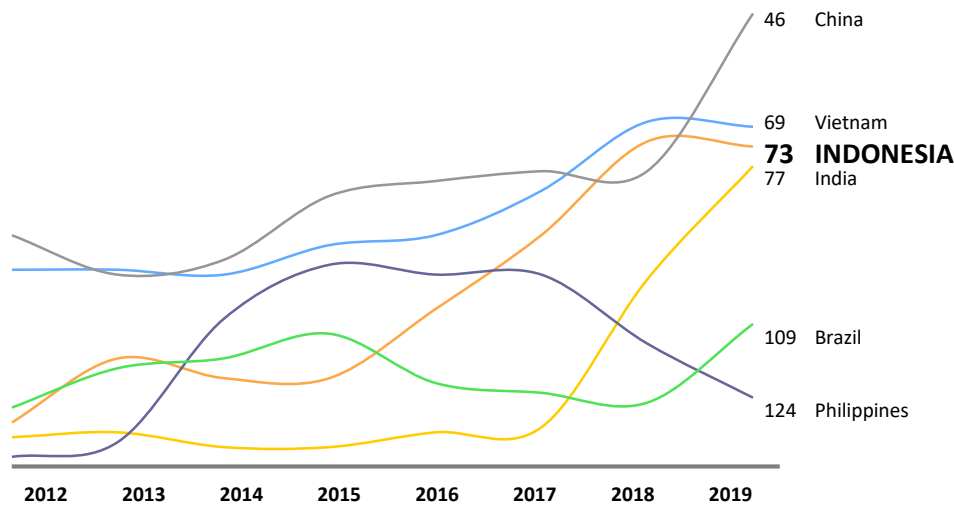


- Income per capita: **USD 29,300**
- Share economy from service: **73%**

Indonesia has shown progressive achievement in the past few years..

In the EoDB 2019 report, Indonesia rank slightly fell, from 72 to 73

2019: #73
 2018: #72
 2017: #91
 2016: #106
 2015: #120



Source: EoDB Survey, 2019



Indonesia's Ease of Doing Business Rank, 2012-2019

Improved areas:

1. Starting business
2. Getting electricity
3. Registering property
4. Getting credit
5. Protecting minority investors
6. Paying taxes
7. Trading across borders

Key Improvements

1. In the last 3 years, Indonesia has climbed 33 positions, which means that Indonesia has become an easier place to do business.
2. Reducing licensing procedures and implementing online system service
3. Reducing number of crossings, applying integrated risk management and using an online system
4. Simplifying procedures and strengthening building inspections.



..as a result, Indonesia has been considered as a **SECURE, STABLE AND REFORMIST** economy by International Rating Agencies



On 27 June 2018, Indonesia **has successfully** organized 171 regional elections (Pilkada Serentak) in order to choose executive heads in 17 provinces , 115 regencies, and 39 cities. The most talked-about regions is West Java, East Java, & Central Java. The previous simultaneous elections were in 2015 with 269 regions and in 2017 with 101 regions.



6 (Six) Promising Sectors in Indonesia

The main sectors for investment opportunities in Indonesia are infrastructure, manufacturing industry, maritime, agriculture, tourism, and lifestyle industry



Infrastructure

Energy, transportation, road, railway, airport, seaport, etc.

Including



Special Economic Zone (SEZ)



Industrial Estate (IE)



Maritime

Including fisheries and cold storage



Agriculture



Tourism

"10 New Bali"



Lifestyle Industry

e.g: creative economy, digital industry

The new big deal



Manufacturing Industry

Labor intensive, export oriented, import substitute, and value added industry

Digital economy and education will be the main catalysts to accelerate 6 (six) promising sectors toward Indonesia 4.0



Indonesia New Big Things:

Indonesia aims to be the center of digital economy in Southeast Asia in 2020

E-Commerce

Potential of Transaction in Indonesia:

2013	2016	2020
US\$ 8 bn	US\$ 20 bn	US\$ 130 bn

Players



Financial Technology (Fintech)

US\$ **14.5** bn

Transaction in Indonesia 2016 (projection)

US\$ **56.98**

Nominal of transaction per population 2014

Players



On Demand Services

112.6 mn

Internet users in 2017

92.0 mn

Mobile social users in 2017

Players



Internet of Things (IOT)

Market opportunity in Asia Pacific

2015
US\$ **250** bn



2020
US\$ **583** bn

Players



Source: Ministry of Communication and Informatics RI, Tech in Asia, IDC, Daily Social, Bank Indonesia, Statista, Idea, World Bank



Indonesia New Big Things:

More Tourism Destinations are Created, including Eco-Tourism

The 10 New 'BALI'

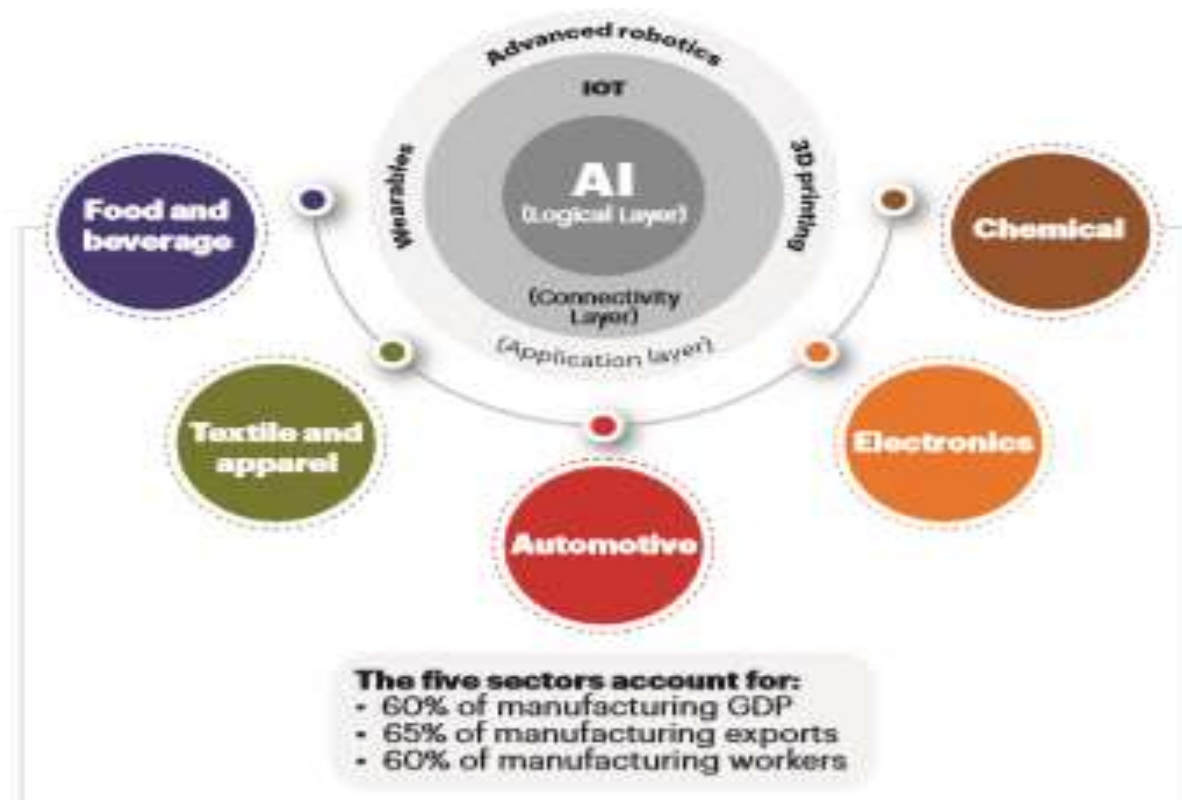


“Making Indonesia 4.0” is one of government priority to build manufacturing sector

Focus on 5 industry sectors :

1. Food & beverage
2. Textile
3. Automotive
4. Electronics
5. Chemical

These 5 sectors have contributed **12.67%** of total Indonesia GDP or **70.86%** of Manufacturing GDP in 2017





..hence development of infrastructure is pre-quisite to support the target
Key government’s project in relevant sectors...



New Infrastructures to Sustain Growth

- | | | |
|--|---|---|
|  <ul style="list-style-type: none"> ▪ 2650 km public roads ▪ 1000 km toll road |  <ul style="list-style-type: none"> ▪ 24 sea ports ▪ 60 ferry ports ▪ Increase number of vessels |  <ul style="list-style-type: none"> ▪ 97.2% electrification ▪ 35000 MW power plan |
|  <ul style="list-style-type: none"> ▪ Rapid transit bus in 29 cities ▪ MRT in 6 metropolitans and 17 large cities |  <ul style="list-style-type: none"> ▪ 15 airports ▪ Increase pioneer flights  <ul style="list-style-type: none"> ▪ 2159 km city rails ▪ 1099 Inter-city rails |  <ul style="list-style-type: none"> ▪ 33 Dams ▪ 30 hydroelectric power plants ▪ Irrigation systems for 1 m ha  <ul style="list-style-type: none"> ▪ Oil refineries with 2 300.000 barrel capacity ▪ Increase the capacity of existing oil refineries |

Source: WorldBank, 2017



2 Investment Reform and Policy

5 Common Challenges faced by Investor on Doing Business in Indonesia



1

Regulation

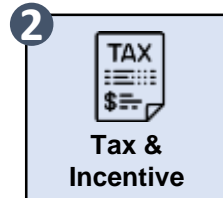
Issues:

- Uncertain regulation,
- Licensing is considered complicated,
- Lack of coordination among Ministries and Central-Local Government

Government Efforts:

•In the Economic Package 16th launched on September 2017, the Government released a **Presidential Regulation No. 91 Year 2017 regarding to Acceleration of Doing Business.**

•**Single submission system** that implying the investors will only have to go one place to obtain all required licenses. The IT and database system will be connected



2

Tax & Incentive

Issues:

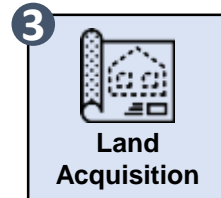
- Complicated tax collection, slow service of tax collection
- Fiscal incentive is not attractive to investors

Government Efforts:

•Ministry of Finance on 21 Feb launched **tax data integration system** to improve taxpayer data transparency

•Ministry of Finance **will revise tax incentives regulation** for more wide range of business sectors. At least 20 business sectors to be added from existing 145 business field in Tax Allowance. The regulation also will give simpler mechanism on applying Tax Allowance/Tax Holiday

•Ministry of Finance has issued regulation No. 35/2018 on Tax Holiday



3

Land Acquisition

Issues:

- Land acquisition is the biggest challenge for foreign investors The process may take years, and could cause substantial delay and uncertainty.
- Speculative rising price of land

Government Efforts:

•Issuance of **Government Regulation No. 13 year 2017 on RTRW (spatial plans)**. The Minister of Agrarian could issue a recommendation of space utilization to speed up project permissions.

•The Ministry of Industry to **set a price ceiling for industrial land**, intended to maintain price stability and enhance the attractiveness of industrial land



4

Skilled Labor & Foreign Worker

Issues:

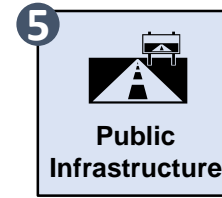
- Limited number of skilled labor
- Complicated procedure to obtain Foreign Worker Permit

Government Efforts:

•The Government is preparing **incentives formulation for industry that supporting vocational and training program**

•The Government is preparing Government Regulation that process of obtaining **Foreign worker Permit will be delegated to BKPM** (one roof)

•Government Regulation No. 22 of 2018 has released to ease foreign worker.



5

Public Infrastructure

Issues:

- Slow dwelling time on the port
- Lack of infrastructure caused by lack of funding

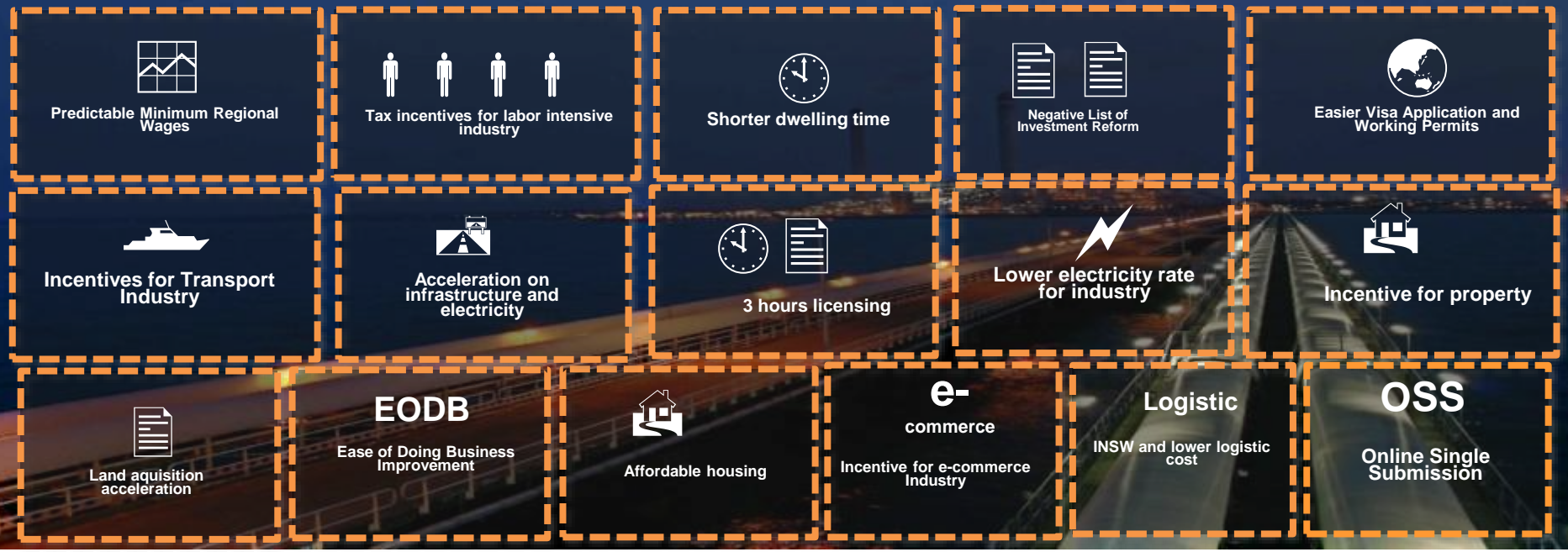
Government Efforts:

•Starting on Feb 1, the Government implement **“post-border” system**, in which the physical checking of some restricted goods will be done outside the customs area of the port, in order to reduce the length of time goods remain in the port

•Indonesian Government offer **several alternative financing i.e. PINA** (Non State Budget Financing) through various financial instrument (perpetual bonds, securitization, etc.)



16 Economic Policy Packages to attract more investment have been issued since 2015



Sources: Ministry of Economic Affairs, 2018



Government develops Online Single Submission (OSS) as integrated online system with data sharing



1. Simplify licensing process by deregulating unnecessary license/permit by line ministries/agencies.
2. NIB, Business License and Commercial License are issued on the same day with commitment and compliance.
3. Permit and License that are not included in Government Regulation Number 24 Year 2018 will still be processed via SPIPISE PTSP BKPM

Investment Incentives: New Tax Holiday Policy



Subject

TAX HOLIDAY

MoF Regulation No. 150 of 2018

Minimum investment of
500^{bn} Rupiah



Industry Groups

Applied to **18** industry groups



**Income Tax
Reduction Rate**

100% Reduction Rate
(single rate)



**Concession
Period**

No.	Time Period	Investment Value
1.	5 years	IDR 500 billion up to less than IDR 1 trillion
2.	7 years	IDR 1 billion up to less than IDR 5 billion <i>CIT reduction for the next 2 years</i>
3.	10 years	IDR 5 billion up to less than IDR 15 trillion
4.	15 years	IDR 15 trillion up to less than IDR 30 trillion
5.	20 years	Minimum IDR 30 trillion



Transition

50%

MINI TAX HOLIDAY

MoF Regulation No. 150 of 2018

Minimum investment of
100 to < 500^{bn} Rupiah

50% Reduction Rate
(single rate)

5 Year
Concession Period

25% *CIT Reduction for the next 2 years*

GENERAL CRITERIA

1. The taxpayer (company) is incorporated in Indonesia
2. Fulfill Debt Equity Ratio for income tax purposes as stipulated on MoF Regulation No. 105/2018
3. Has never had its tax holiday application granted or rejected by the MoF
4. Obtain a tax clearance certificate (SKF) issued by DGT

HOW TO APPLY

1. Through OSS
2. Along with taxpayer's application for New Business License (NIB) to BKPM
3. Applying within 1 year after the NIB is issued by BKPM

Import Duty Exemption

IMPORT DUTY FACILITY

(MoF Regulation No.110/PMK.011/2005 MoF Regulation No.76/PMK.011/2012, MoF Regulation No.66/PMK.010/2015 and Chairman of BKPM Regulation No. 16/2015)

- Exemption of import duty on **imported capital goods** (machines) for **2 years** during construction period.
- Exemption of import duty on **imported goods and material for production for 2 years** during initial production (or 4 years for companies using locally-produced machines min.30% from total value of machines for production).
- Equitable and Non discriminatory treatment against economy of origin

GREEN LINE ACCELERATION FACILITY

Four customs checking status:

- **Red line** is for new companies. Physical & document checks before transported from ports.
- **Yellow line** Document check before goods transported from ports.
- **Green line** Document check after goods transported from ports.
- **Main Partner Priority** for companies with proven track record. No checking required.

Acceleration and certainty in custom clearance process

Faster & Certain

- ***Capital goods do not require screening.***
- ***Cutting the processing time from 3-5 days to only 30 minutes.***

Simple requirements

- ***Projects under construction***
- ***Obligated in reporting quarterly investment activities (LKPM)***
- ***Recommendation from BKPM***

New Facility: Status upgrade

From **RED** to **GREEN** line for new companies under construction



About the Investment Promotion Agency Indonesia Investment Coordinating Board (BKPM)

Who We

Primary interface between business and the government to boost FDI and DDI through the creation of conducive investment climate.

Our Services



Investment Planning Period

Investment Realization

After-care

Providing information

Connecting Investors to technical ministries/
local gov't

Providing consultation on procedures & requirements

Issuing investment licenses

Debottlenecking obstacles for investment realization

Monitoring the investment realization

Indonesia **Investment Promotion** Centre (IIPC)



XieXie
Thank You
Terima Kasih

Badan Koordinasi Penanaman Modal (BKPM)
Indonesia Investment Coordinating Board

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Business Sectors Eligible for Tax Holiday

- Pioneer Industry:

1	Upstream metal industry;	10	Robotic components industry;
2	Oil and gas refinery industry;	11	Power plant equipment main components industry;
3	Oil, gas, and coal based-petrochemical Industry;	12	Vehicle and vehicle main components industry;
4	Basic organic-chemical industry;	13	Ship main components industry;
5	Basic anorganic-chemical industry;	14	Train main components industry;
6	Pharmaceutical raw material industry;	15	Airplane main components and aeronautics supporting industry;
7	Irradiation, electromedical, and electrotherapy equipment industry;	16	Agriculture, plantation, and forestry products based-processing industry, producing pulp;
8	Electronics and telematics equipment main components industry;	17	Economic infrastructure;
9	Machinery and machinery main components industry;	18	Digital economy.



Investment Facilities in SEZ

SPECIAL ECONOMIC ZONE

(MoF Regulation No.104/PMK.010/2016)

TAX HOLIDAY (TH)

Tax Holiday :

- 20-100% income tax reduction
- up to 25 years tax exemption for IDR 1 Trillion (USD 80 Million) minimum investment value
- 5-15 years tax exemption for IDR 500 Billion minimum investment value, or
- 5-15 years tax exemption for less than IDR 500 Billion investment value in certain SEZ .

TAX ALLOWANCE (TA)

Tax Allowance :

- 30% reduction of corporate net income tax for 6 years (5% each year);
- Accelerated depreciation and amortisation;
- Imposition of income tax on dividends which paid to foreign tax subject of 10%
- Compensation losses longer than 5 (five) years but not more than 10 (ten) years with the certain conditions

VALUE-ADDED TAX (VAT)

1. **Non-collected VAT and luxury good tax** granted for import goods from outside customs area to SEZ and enter the goods from outside SEZ (domestic) to SEZ area.
2. **Return of VAT granted for:** Foreign passport holders who bought goods from retail stores in tourism SEZ
3. **Free of Luxury good tax** for property handover in tourism SEZ.

Import Duty (ID)

1. **Exemption from import duty for development purpose, for:**
 - 3 years Import duty exemption for business entity which import capital goods
 - Exemption from import duty on the import of machines, goods & materials for production for a period of 2 years.
2. **Postponement of import duty for raw materials and capital goods, also exemption of import duty (0%)** for companies using locally-produced machines (min. 40% local content)

Excise

Exemption of excise on raw materials or auxiliary materials to be used to produce non-excisable goods

Inland FTA

Free import duty for export to the other place outside the customs area (TLDDP)



invest in
remarkable
indonesia

Guidelines and Procedures of Business License Through OSS

BADAN KOORDINASI PENANAMAN MODAL

1. Creating and Activating OSS Account

Investors who can register their business are both new and existing individual or business entity (incl. MSMEs) and representative office.



1. Input id number / Director Passport and others data



2. Activate using email to get User-ID and Password



3. Investor receives email of User-ID and Password.

Source : Coordinating Ministry of economic Affairs , 2018

2. OBTAINING BUSINESS IDENTIFICATION NUMBER

BUSINESS IDENTIFICATION NUMBER (NIB) is a unique identifier required to operate business. NIB is obligatory for all business.



Sumber: Kantor Kemenko Perekonomian, 2018

3. OPERATIONAL LICENSE COMMITMENT : LOCATION PERMIT

License given to investors **to obtain the necessary land** for business activities and also apply as a permit for the transfer of rights and to use the land for activities.



4. OPERATIONAL LICENSE COMMITMENT : ENVIRONMENT PERMIT (AMDAL)

License given to investors for conducting business and / or activity required by **AMDAL or UKL-UPL in the framework of environmental protection and management** as a prerequisite to obtain business license and / or activity.



1.
 - Apply for Environment Permit through OSS
 - OSS system issued Environment Permit



2.
 - Processing time of UKL-UPL: 15 working days
 - Processing time of AMDAL : 115 days

5. OPERATIONAL LICENSE COMMITMENT : BUILDING PERMIT

License given by regional government (municipal/city) to building owner in order to **build, change, expand, scale down and/or maintenance the building.**

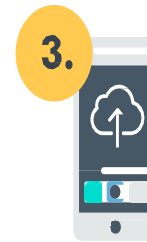


- 1.
- Apply for Building Permit through OSS
 - OSS system issued Building Permit



- 2.

Investors obtain Municipal/City Special Plan from DPMPSTP



- 3.

Investors fulfill commitment requirements

Sumber: Kantor Kemenko Perekonomian, 2018

6. BUSINESS PERMIT

A business permit is a permit **to start business operations.**



- Business permit is automatically issued after fulfilling the commitment statement.
- Upon obtaining business permit, businesses can start preparing for their business operation.

Businesses will receive notification from OSS that business permit has been activated upon completion of commitments, including payment of invoices (if incurred).

Sumber: Kantor Kemenko Perekonomian, 2018

7. COMMERCIAL/OPERATIONAL LICENSE

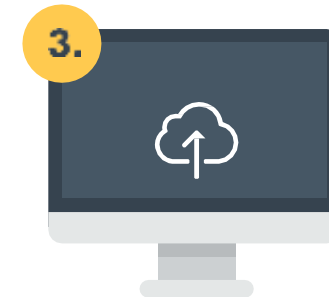
The license which is required when **businesses commence their commercial/operational activities.**



- Businesses fill out commitment form to complete their operational/commercial license;
- Upon completing the commitment statement, the OSS system will issue the operational/commercial license automatically.



Businesses fulfill the required standards or commercial requirements.



OSS system activates Commercial/Operational License.

Sumber: Kantor Kemenko Perekonomian, 2018

8. PAYMENT

After obtaining license through OSS, **businesses make the necessary payments of PNBP, PAD or regional retribution** and make payment confirmation to OSS. All licenses issued by the OSS system will be activated once payment is completed and commitments fulfilled.



1. Business receive email and notification from OSS system on list of obtaining licenses.



2. Businesses make payment to a designated institution.



3. Businesses upload the proof of payment to OSS system.

Sumber: Kantor Kemenko Perekonomian, 2018

9. EXPANSION OF BUSINESS LICENSES AND DATA RENEWAL

Expansion of business: **capacity expansion, business expansion within the same/ different location.**



If the expansion is conducted within the same location, then businesses is obligated to update the information on business expansion in the OSS system.



If the expansion is conducted within the different location, then businesses have to fulfilled all the requirements (Location Permit, Environment Permit, Building Permit, etc) as if starting a new business.

Sumber: Kantor Kemenko Perekonomian, 2018

10. ONGOING BUSINESSES

Existing businesses and companies that exist prior OSS establishment can register and activate their OSS account to obtain Business Identification Number (NIB).



COMPANY

Register using national identification number of the person who is in charge of the company, deed number of registration number, account password and email address.

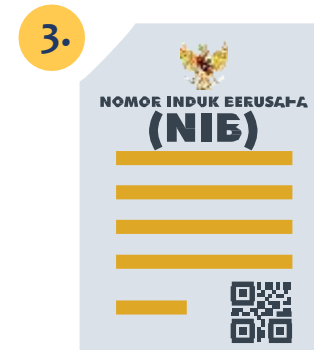


INDIVIDUAL

Register using personal national identification number, account and email address.



- Fill out data component into OSS system.
- Fill out information on prior obtained licenses.



OSS system issues Business Identification Number

11. COMPLAIN MECHANISM



* OSS team will add more communication canal in the future

SOURCE: Coordinating Ministry for Economic Affairs, 2018