Experiences of Developing Policy Frameworks for Investment: INDONESIA

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Indonesia

- 2009 GDP: USD 610 billion dollars, the largest economy in Southeast Asia.
- World’s fourth most populous country
- Large natural resources endowment
- “Most Active Reformers In East Asia and Pacific” (IFC Doing Business, 2010)
- Ratings:
  - S&P: long-term foreign currency rating of BB, with positive outlook (March 2010)
  - Fitch: BB+/stable (January 2010)
  - Moody’s: Ba3/stable (September 2009)
Export Destinations: Before and After Crisis

**Jan-Des 2004**
- Others: 20.6%
- EU: 16.1%
- Japan: 15.0%
- USA: 14.8%
- Singapore: 9.6%
- China: 6.1%
- Malaysia: 5.1%
- South Korea: 3.3%
- India: 3.8%
- Taiwan: 2.7%
- Thailand: 2.8%

**Jan-Des 2009**
- Others: 21.9%
- EU: 13.9%
- Japan: 12.3%
- USA: 10.7%
- Singapore: 8.2%
- China: 9.1%
- Malaysia: 5.8%
- South Korea: 5.3%
- India: 7.2%
- Taiwan: 2.9%
- Thailand: 2.7%
Need More Investment……

And also other key sectors…..
Higher target of economic growth rates averaging 6.3-6.8% p.a. through 2014, investment is needed up to 30% GDP.

The Government can only finance 18 percent of the total investment need.
Reforms Development: 2005-2010

INPRES 3/2006

Focus: Investment Climate
85 actions

INPRES 6/2007

Focus: Real Sector and Small-Medium Business
165 actions
4 groups of Issue:
Investment climate, Financial, Infrastructure, Small Business

INPRES 5/2008

Focus: 2008-2009 Reforms
193 actions
Covering issues of investment climate, financial, infrastructure, small business, environment, energy, labor, ASEAN commitment.

2010

INPRES on Enhancement of National Development Priority

Among others are Investment Climate Improvement

Notes: INPRES = Presidential Instruction
Investment Climate Improvement

1. Certainty and Clarity of Investment Regulation:
   - Law on Investment
   - Investment List

2. Ease of Investing:
   - One Stop Service
   - E-Investment

3. Investment Facilities:
   - Income Tax Facilities in certain sectors and regions
   - Special Economic Zone

4. Ease of Doing Business:
   - Better starting a business
   - Better property registration
   - Better getting credit
OECD and the GOI agreed to conduct PFI for Indonesia

PFI is a comprehensive and effective tool for evaluating the current reforms on investment policy.

PFI reviewed by the OECD is regarded as independence, hence the recommendations would be taken into account by the GOI.

Results of the PFI review could be used to help the GOI to improve the investment policy and its implementation, and also it could be used to promote the successful policy to the world.
# The Focus of PFI Indonesia

1. Investment Policy
2. Investment Promotion and Facilitation
3. Competition Policy
4. Infrastructure and Financial Development
5. Public Governance.

*Notes:* Other topics under PFI are also being reviewed as long as they have relations with the main topics above.
Steps for Conducting PFI

1. Establishing a Task Force (the working groups)
2. Intensive Focus Group Discussion within the government officials and also involving related stakeholders (business, academicians, and NGOs).
3. Preliminary Inputs submitted to the OECD Review team
4. A review by OECD team in Indonesia
5. Preliminary draft of the PFI review
6. Peer Review at the OECD Headquarter
7. Inputs for the final draft
8. Publication
9. The book Launching
The Coordinators of the PFI Working Group

1. **Investment Policy**: Senior Advisor to the Coordinating Minister for Economic Affairs on Investment policy.
2. **Investment Promotion and Facilitation**: Deputy of Investment Coordinating Board.
3. **Competition Policy**: Commissioner of the Commission for the Supervision of Business Competition.
4. **Infrastructure and Financial Development**: Deputy of Infrastructure, Coordinating Ministry for Economics Affairs
The PFI is adopted to help the government conducting a comprehensive review on the investment policy.

The PFI review has also driven the government to improve internal coordination on investment policy and implementation.

The PFI tools have been used optimally by conducting a series of FGD within the government institutions, and also by involving other stakeholders. There are two steps of implementing the FGD:

- Each coordinator has a responsibility to invite related institutions in discussing the current policy and its implementation.
- Results from each group becomes the main inputs for further discussion in a larger and a more comprehensive workshop inviting other stakeholders.
Each Coordinator is responsible to lead the PFI discussion topic, such as FGD on Investment Policy (left) and also Public Governance (right)
Preliminary Inputs, Peer Review and Report Publication

1) Preliminary Inputs
   - FGD results
   - OECD Review Team Visiting and Discussing the PFI in Jakarta

2) OECD Review
   - Preliminary Draft Of PFI on Indonesia

3) Peer Review
   - Inputs for Final Draft of PFI Indonesia

The Report Launching will be on November 2010
Policy Framework for Investment (PFI) developed by OECD has become a powerful framework for guiding the Government of Indonesia in evaluating comprehensively the investment policy and its implementations.

The framework has helped the Government to organize itself in a such efficient and effective way to approach on the evaluation of the investment policy. This is done among others establishing an effective working groups (task force), conducting Focus Group Discussions, collecting and analyzing data on the economy and investment.
The PFI has also become a good framework for identifying the strength and the weaknesses of the current Investment policy adopted.

The PFI review becomes more important when the evaluation results show that a particular policy cannot stand alone, and to be implemented effectively it involves other policies, which may need to be synchronized. This is in line with the core principles of the PFI, which aims to achieve policy coherence, accountability, transparency, and regular evaluation.

The PFI review could help the country to promote the positive reforms which are undergoing, and also it could be used to give a contra argument toward an unfounded negative perspective of the country.

To receive the optimal benefit from conducting PFI Review, a serious work need to be done, not only by involving the government institutions, but also private companies and NGOs.
Thank you