Investment Climate Reform: Indonesia’s experiences

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Policies have been taken to maintain openness of the economy to FDI in face of global economic crisis
Challenges in attracting investment in Indonesia
Role of regional cooperation in sharpening investment policy in Indonesia
Since we are on the process of gradual process of doing business reform, no major change in investment policy has been taken so far. But solving some micro cases has been conducted resulting a significant amount of new FDI flows in telecom and banking sector in Q1 2009. In addition, several -already planned- initiatives have effective in 2009:

- new Income law – tax rate reduction and tax administration law been effective
- new mining law has been passed.
Reforms Development: 2005-2009

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.

Notes: INPRES = Presidential Instruction
Direction of The Reforms

- Eliminating unnecessary, burdensome and redundant regulations;
- Streamlining required regulations;
- Strengthening and improving vital regulations to safeguard the public interest
- Developing a better environment for competition
Progress on Investment Climate Reforms: Some Milestones

Investment Law (Law No. 25/2007) - Completed by March 07

Reforms on Starting a Business - Completed by Sept 07

Further Reforms on “Doing Business” - In Progress

Streamlining Sectoral (Ministrial) Licenses

Streamlining Regional Licenses
Making sure that investments serve national economic interests

Creating a conducive investment climate

- Improving legal certainty for laws and regulations, and most importantly consistent implementation
- Establishing basic principles: transparency, accountability, national treatment and non-discrimination.

If there are certain considerations to meet “national interest” (e.g. SME), it can be accommodated not through restrictions but through other specifically targeted policies and incentives
What is Special about the New Investment Law?

- Indonesian Parliament passed a new Investment Law in 2007 (Law No. 25 in 2007)
- The law has features that were not provided in older investment laws
  - Greater ownership: the law was passed by Parliament through a democratic process
  - Explicitly acknowledging “national treatment” for locally incorporated foreign investment
  - Government honors contract for local and foreign investors
- Restrictions on investment shall no longer be determined by Line Ministries but by President’s approval through consultations with various stakeholders (e.g., Presidential Decree No. 111 on sectors that are closed or open for investments)
Role of regional cooperation

◆ an anchor for reinforce domestic liberalization effort
  ▪ AFAS is easier to be sold politically than global agreement.
◆ Deal with the phenomenon of increasingly complex, overlapping and costly standards and regulation
  ▪ Example National Single Window as part ASEAN agreement
Challenges

- Regulatory Reforms need a timely process, especially within the parliament, when related to passing a new (reformed) law.

- Coordination among stakeholders to pursue the actions is the key for the success of completion of actions, which sometimes it is hard to get a strong commitment of stakeholders.

- Implementation of new (revised) regulations at regional level requires an extra effort of resources. Some regions are not keen to help implementing the revised regulations.

- Infrastructure: Despite significant regulatory reform, not much has happened.

- Streamlining regulations at national and regional level requires a strong support of the units or regions.

- Public Expectations are high for reforms, but the yield of reforms take sometimes to take effect.

- Public communication related to the reforms results is not yet effective.
Conclusions

- Reforms have already had a direction and a framework, at least for the last three years.
- Reforms have shown good outcomes.
- Reforms have existed in all agenda, but not all have yet given significant outcomes (e.g.: Infrastructure).
- Gradual Reforms are more sustainable than a sudden change.
- Public Communication of the Reforms need to be improved in the future.