

# ANSSR: Economy Priorities and Progress Assessment Measures



# Indonesia

Indonesia's major structural reform occurred right after the 1997 Asian Financial Crisis, under the IMF Letters of Intent (LOIs). The reforms under the IMF LOIs were wide-ranging from the sustainable fiscal policy, the monetary key areas, to specific sectors. Mega projects at that time were stopped or put to hold. Because of the 'stick and carrot' approach, the LOIs disciplined Indonesia to implement the structural reform. However, the IMF austere policy conditionality left Indonesia with a big stigma against the IMF and later to a lesser extent against other international organizations. The episode of economic, political, and social crises in 1997-1998 led to Indonesia's *Reformasi* (Reform) period. In 2003, Indonesian economic leaders discussed transition to "internalize" structural reform. *Inpres* (Presidential Instructions) was issued in 2004, 2005, and 2006, which included the continuity of the IMF LOIs on fiscal sustainability, monetary and banking reform, and a new agenda on improving the investment climate and later, infrastructure development.

The most recent manifestation of Indonesia's commitment on improving investment and infrastructure development is the "Masterplan: Acceleration and Expansion of Indonesia Economic Development 2011-2025" (MP3EI) that was launched on 27 May 2011 and is stipulated under the Presidential Regulation No.32, 2011. Other laws/regulations/decrees that have been issued to improve Indonesia's structural architecture include: Presidential Decree No.3, 2006, on improving the investment and business climate; National Law No.5, 1999, on competition policy; National Law No.25, 2009, on public sector governance; Presidential Regulation No.13, 2010, on public-private partnership in infrastructure development; Presidential Regulation No. 81, 2010, on grand design bureaucratic reform; Presidential Regulation No.32, 2011, on the MP3EI; and National Law No.12, 2011, on formulating government regulations.

A series of inter-ministerial meetings and second-track roundtables with stakeholders were held in regards to draft Indonesia's pledge on structural reform (SR) for the APEC New Strategy for Structural Reform (ANSSR): (1) Inter-ministerial meeting on ANSSR agenda, 11 April 2011, held by the Acting Directorate General for Asia Pacific and Africa/ Head of Indonesian SOM APEC, Ministry of Foreign Affairs; (2) Inter-ministerial meeting on drafting Indonesia's pledge on SR, 13 July 2011, held by the Deputy VI, Economic Cooperation and International Aid, Coordinating Ministry of Economics; (3) Second-track roundtable on "Indonesia's SR: National, Regional and International Commitments and Progresses," held by the Centre for Strategic and International Studies, Jakarta.

Based on these meetings and roundtables, the focal point for ANSSR and its supporting team are considering the following structural reform agenda to be pledged under ANSSR:

1. Bureaucratic Reforms: It is mandated on the National Law No.25, 2009, on public sector governance, and Presidential Regulation No. 81, 2010, on grand design bureaucratic reform, with an implementing regulation stipulated in the Regulation of the Minister of State for Administrative and Bureaucratic Reform No.20, 2010, on bureaucracy reform road map. It is the first-listed economy priority on the second stage of Indonesia's Mid-term Development Plan (RPJMN II). It is stated as one of the pre-requisites for a successful implementation of MP3EI.

2. Regulatory Reforms: It is the key factor for a successful implementation of development plan under RPJMN II and MP3EI. It is at the centre of structural and bureaucratic reform. Currently, Indonesia does not have an independent regulatory review agency nor comprehensively implement Regulatory Impact Analysis. Horizontal and vertical consistencies are major issues that hurt the domestic and regional investment climate and impede infrastructure projects. MP3EI, which is regulated under the Presidential Regulation No.32, 2011, explicitly lists a set of National Laws, Government Regulations, Presidential Regulations/ Presidential Decrees/ Presidential Instructions, Ministerial Regulations, and Local Regulations to be issued, revised, or removed to improve the investment climate and support the development of infrastructure projects.

## ANSSR Priorities

| Promoting more open, well-functioning, transparent, and competitive markets                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                      |            |                 |               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------|---------------|
| Priority:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Bureaucratic Reform: Establish a clean government, free from corruption, collusion, and nepotism; Increase the quality of public services; Increase capacity and performance accountability among bureaucrats. (Attachment 2.8, Presidential Regulation No.81, 2010) |            |                 |               |
| Progress assessed based on:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Quantitative: (Attachment 2.11, Presidential Regulation No.81, 2010; Table 2, Regulation of the Minister of State for Administrative and Bureaucratic Reform No.20, 2010)                                                                                            |            |                 |               |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                      | Indicators | Baseline (2009) | Target (2014) |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | The realisation of:                                                                                                                                                                                                                                                  |            |                 |               |
| 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%           |
| Note:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                      |            |                 |               |
| 1. *) Scale 0-10, **) Scale - 2.5 to 2.5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                      |            |                 |               |
| 2. Corruption Perception Index is published annually by the Transparency International on the "misuse of public power for private benefit."                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                      |            |                 |               |
| 3. BPK's Opinion is a statement from professional state financial auditors concerning the fairness of a financial report of a Ministry/Agency or Local Government. It is conducted by Indonesia' Supreme Audit Board (BPK). Unqualified opinion is a type of BPK's opinions that indicates that the use of state fund for financial and bureaucracy activities is in accordance with the legislation and there are no material irregularities. The BPK's Unqualified Opinion indicator is the percentage of the submitted reports that receive the Unqualified Opinion status. |                                                                                                                                                                                                                                                                      |            |                 |               |
| 4. Integrity of Public Service indicator Conducted by the Corruption Eradication Commission (KPK) on several public service deliveries, which will be used as the measurement to determine the level of transparency and accountability.                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                      |            |                 |               |
| 5. Government Effectiveness Index is a component of the World Bank's Worldwide Governance Index.                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                      |            |                 |               |
| 6. Accountable Government Instances is conducted by the State Ministry of Administrative and Bureaucratic Reform. It is obtained based on the evaluation of the government agencies performance accountability (SAKIP) on both central and local governments. The indicator shows the percentage of submitted accountable performance reports (LAKIP) that is rewarded the "well-performed government accountability" status.                                                                                                                                                  |                                                                                                                                                                                                                                                                      |            |                 |               |
| Qualitative: (Regulation of the Minister of State for Administrative and Bureaucratic Reform No.20, 2010)                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                      |            |                 |               |
| Successful implementation of program, activity, agenda and expected outcome 2010-2014, as stipulated in the Bureaucracy Reform Road Map. (Refer to Table 4, Regulation of the Minister of State for Administrative and Bureaucratic Reform No.20, 2010.)                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                      |            |                 |               |

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|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Priority:                   | <p>Regulatory Reform:</p> <ol style="list-style-type: none"> <li>1. Accelerate the completion of law implementation regulation;</li> <li>2. Eliminate the overlap between existing regulations, both at the central and local government levels as well as among sectors and institutions;</li> <li>3. Revise and establish required regulations to support MP3EI;</li> <li>4. Provide incentives for main economic activities that are consistent with MP3EI strategies;</li> <li>5. Accelerate and simplify the process of issuing permits.</li> </ol> |
| Progress assessed based on: | <p>Qualitative:</p> <p>Issuance, revision, removal of 9 National Laws, 6 Government Regulations, 5 Presidential Regulations/ Presidential Decrees/ Presidential Instructions, 9 Ministerial Regulations, and a number of Local Regulations and Permits including the Provincial Spatial Planning by the domestic and local governments, as stipulated in the MP3EI.</p>                                                                                                                                                                                  |