

SUMMARY ASSESSMENT OF POLICY ACTIONS UNDER SUBPROGRAM 3

1. At the time of approval of SIGAP subprogram 2, the government agreed to accomplish 18 measures—8 prior expected actions (or triggers for loan disbursement) and 10 policy milestones (supporting measures and activities)—as the basis for subprogram 3.
2. Based on the fact-finding mission and concurrence by the government, the following is the status of progress with subprogram 3 original policy actions:
 - i. 8 of 8 original prior actions have been fully accomplished.
 - ii. Of the 10 original policy milestones, 9 have been fully accomplished, of which one 1 has been upgraded to a policy trigger and 1 milestone has been accomplished and dropped. 1 milestone has been partially accomplished and ongoing. It has been replaced with another milestone designed to accomplish a similar reform. Specifically:
 - a. Policy milestone #9 was upgraded to a prior action as government demonstrated sustained commitment to providing an enabling environment for Local governments to utilize public-private partnerships (PPP) by establishing a new Joint PPP Office for Indonesia, exceeding expectations of the original policy milestone.
 - b. Policy Milestone #7 was fully accomplished and dropped, as it related to the drafting a white paper/policy paper on the PPP legal framework. The paper has been completed and submitted to government, and implementation of the recommendations will take place under the post-program partnership framework.
 - c. Policy milestone #14 is partially accomplished and ongoing. The original policy milestone envisaged government converting PT SMI into a Development Bank. PT SMI is a government owned corporation with the goal of investing in infrastructure projects to leverage private sector financing for national projects and local government projects. The government has drafted legislation, and this is currently under review in government. While ongoing, this policy milestone is dropped from the program and replaced with an alternative policy milestone serving a similar goal of facilitating infrastructure finance at the local government level. The new policy milestone #15 reflects government's progress in improving the policy framework for local government borrowing. Actions include a new Memorandum of Understanding to improve coordination amongst central agencies, new standard operating procedures governing the borrowing process, and significant streamlining of regulations, reducing processing time from 6 months to 40 days.
3. Subprogram 3 policy matrix now comprises 18 actions—10 prior actions and 8 policy milestones. Changes to the policy matrix are as follows:
 - i. Prior actions (all fully accomplished)
 - a. New prior action #3 included to reflect government's new reforms to streamline licensing and business regulation (red tape reduction reforms). These include the establishment of an Online Single Submission window and cascading task forces to expedite licensing, and a mobile application providing real time tracking and

direct communication with investors, as well as rationalization of existing regulations

- b. Upgrade original policy milestone #9 to prior action #10.
- ii. Policy milestones (all accomplished) – policy milestone #7 completed and dropped, replaced original policy milestone #14 with new policy milestone #14 as noted above.

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Output 1: More predictable and open business environment		
<p>1. The government will set up an inter-ministerial task force to oversee Regulatory Impact Assessment (RIA) program and monitor and evaluate regulations on a regular basis.</p>	<p><u>Prior Action Fully Accomplished and Exceeded Expectations.</u></p> <p>The government, through CMEA, established an inter-ministerial task force to monitor and evaluate implementation of economic policy packages. Presidential Decree (Inpres 7), issued November 2017, gives a clear mandate to this task force to oversee all regulatory reform efforts which are of strategic national importance or have cross sectoral impacts. It also instructs line agencies to apply RIA methodology for regulatory reform efforts. Inpres 7 gives CMEA the oversight mandate to ensure quality and compliance by line agencies. A new RIA unit has been established within CMEA, which is responsible for overseeing implementation of Inpres 7.</p> <p>In addition, through ADB support, an Indonesia-specific RIA template has been drafted with accompanying instructions, and a number of focus group discussions have been held to socialize this approach with key line agencies. These reforms will ensure that appropriate controls are in place to slow the growth of government regulations, and to ensure regulatory benefits are appropriately weighed against possible costs and additional burden to the private sector. Operationalization of InPres 7 will continue in 2018.</p>	<p>1. The government institutionalized good regulatory practices by: (i) mandating line agencies to produce regulatory impact statements for new regulations; and (ii) establishing CMEA as an oversight body to ensure compliance and quality with the RIA program.</p>
<p>2. The government will pilot RIA programs in selected ministries/agencies. Actions include issuing a ministerial/agencies decree that will establish a RIA team and introducing RIA action plan.</p>	<p><u>Policy Milestone Fully Accomplished.</u></p> <p>The Ministry of Trade (MOT) agreed to pilot RIA methodology in reviewing some of their key regulations. They agreed to use RIA in reviewing new regulation and existing regulation, including trade regulations for beef and coconut, and consolidation of business licensing and company registration. MOT received</p>	<p>2. The government has piloted its RIA program in the MOT which included: (i) establishing a MOT RIA team; and (ii) completing RIAs on proposed regulatory changes on trade on beef/cattle, trade on coconut, and the SIUP and TDP into a single unified document.</p>

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	letter from CMEA inviting them to join the pilot RIA and officially established a RIA team.	
	<p><u>New Prior Action Added – Fully Accomplished</u></p> <p>The government issued Perpres 91/2017, which focuses on both licensing and regulatory reform. The Perpres establishes a series of new institutional structures and task forces to improve the speed of business licensing for investors. It establishes a new system for the submission of a single form on business licensing with consolidated information, which is then automatically routed to individual agencies (both central and local) for license processing. The Perpres also establishes a mandate for the review, rationalization and standardization of local licenses, permits and standards, with a view towards improving the speed and simplicity of acquiring local licenses.</p>	<p>3. The government implemented a new round of red tape reforms comprising of: (i) establishing a legal mandate and institutional structure for cascading task force teams to oversee and monitor business licensing; (ii) requiring a review and rationalization of existing regulations to reduce compliance burden for investors; and (iii) introduced a new OSS platform for business licensing, with mobile applications for investors to track license applications.</p>
<p>3. The government will merge SIUP and TDP to simplify the procedure to set up business.</p>	<p><u>Prior Action Fully Accomplished</u></p> <p>The government has simplified the process of getting SIUP and TDP. They are now to processed simultaneously (using one form). MOT also removed the need to renew SIUP and made renewing TDP free of charge. These two actions will further reduce the administration cost of starting up a business. In the old regulation, every business needed to renew SIUP and TDP once every five years. MOT has conducted RIA to look at full consolidation of TDP and SIUP and has presented the results to the Minister.</p>	<p>4. The government has reduced startup costs by implementing a consolidated application process for SIUP and TDP, eliminating administrative fees for the application process, and eliminating the need for companies to reapply/extend business trade licenses.</p>
<p>4. The Jakarta local government will improve the time to set up a business by integrating construction permits to local one-stop-service for business license.</p>	<p><u>Policy Milestone Fully Accomplished</u></p> <p>City of Jakarta has integrated the construction unit to their one stop shop for business licenses (February 2016). This reduces the time for setting up a new business by making it easier to obtain construction permits.</p>	<p>5. The Jakarta local government has reduced the time to setting up a business by integrating construction permits to local one-stop-service for business licenses.</p>

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<p>5. The government will introduce an online land registration system which will expedite land registration process at subnational level.</p>	<p><u>Prior Action Fully Accomplished</u></p> <p>The Ministry of Agrarian and Spatial Planning/National Land Agency has set up an infrastructure for online registration. The system was rolled out nationally in August 2017. This system improves the speed and efficacy of land registration, in turn expediting any investment matters involving acquisition or transfer or land and property. As a result, registration targets have increased from 1 million parcels in 2016 to 5 million parcels in 2017.</p>	<p>6. The government operationalized in 2017 an online land registration system which allows for electronic land registration at local government offices and real-time updating of the land registry database expediting the registration process. As a result, registration rates grew from 1.1 million parcels in 2016 to 5.2 million parcels in 2017.</p>
<p>6. The Jakarta local government will introduce an online system for BPHTB.</p>	<p><u>Policy Milestone Fully Accomplished</u></p> <p>In June 2016, the Jakarta local government introduced an online system for BPHTB. The basis of this launch are an MOU between Jakarta's Governor and Ministry of Agrarian/NLA, which was signed on 13 October 2016, and the Contract Agreement which was signed on 3 May 2017.</p> <p>Features of BPHTB online system including:</p> <ol style="list-style-type: none"> 1. Online Payment: The taxpayer pays the BPHTB through the banks which cooperate with DKI Jakarta office. Among 13 local banks which joined the system, DKI Bank has the largest user, followed by Pos Indonesia and Bank BRI. 2. Online Verification: The DKI office will get an update from the Banks as soon as the payment done. 3. Interconnection with NLA: The payment report will be received by the DKI Office and NLA so it can be used immediately to process the property tax (Pajak Bumi dan Bangunan-PBB). DKI Office will also get an update immediately after the NLA issued certificate for PBB. 	<p>7. The Jakarta local government operationalized in June 2016 a system for online payment of BPHTB. The system supports real-time tracking and verification of payments and allows for immediate processing of property tax.</p>

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Output 2: Creating an Efficient Market for Infrastructure through Public-Private Partnerships		
7. The government will initiate drafting of a legal framework for private participation in infrastructure including PPPs.	<p><u>Policy Milestone Fully Accomplished and dropped</u></p> <p>CMEA drafted an academic paper (equivalent to white paper) on a law on private participation in infrastructure. The academic paper went through consultation with government stakeholders twice: in February 2017 with wide range of government stakeholders and April 2017 with the agencies who are members of the Joint PPP Office. The paper has been submitted to CMEA officially and is under consideration. This will serve as a key input to legal reform on private participation in infrastructure projects/PPPs. Recommendations include the unification of disparate legislation under a single omnibus law for all centrally-supported PPPs, and the internationalization of the partnership framework for PPPs to attract foreign investors.</p>	
8. The government will strengthen the PPP policy framework by: (i) enabling local governments to use availability-based PPP schemes; (ii) enhancing the PDF mechanism; and (iii) clarifying the treatment of unsolicited PPP proposals.	<p><u>Prior Action Fully Accomplished</u></p> <p>MOHA has issued MOHA Decree No. 96 Year 2016 which allows LGs to use availability-based payments.</p> <p>MOF has also enhanced the PDF mechanism. Some of the key features include:</p> <ul style="list-style-type: none"> • Development partners can be used as a source of funds • If the source of funds is from development partners, then the DP's guidelines on procurement will be applied. A new MOF Decree on PDF has been issued on December 2016. • PDF can also be used to finance project preparation where the GCA is from a local government. • SOP on PDF is being strengthened by MOF PPP team. 	8. The government strengthened the PPP policy framework by: (i) allowing local governments to use availability-based PPP schemes; (ii) enhancing the Project Development Facility to allow the use of development partner funds for project development; and (iii) improved the process for unsolicited PPP proposals covering feasibility stages and limits for government financing and guarantees.

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	<p>LKPP has drafted and circulated new guidelines to Line Ministries on the treatment of unsolicited proposals. Guidelines define permissible/non-permissible government expenditure for UPs related to; i) financial support and guarantees, ii) making the receipt of a “pre-feasibility” study a formal milestone in the project evaluation framework which triggers concrete actions by Government and the project proposer, and iv) strengthening the guidelines on direct negotiations to ensure principles of competitiveness are enforced.</p>	
<p>9. MOF PPP unit will enhance local government capacities in planning and preparing local PPP infrastructure projects.</p>	<p><u>Policy Milestone Exceeded Expectations and Upgraded to Prior Action</u></p> <p>To further enhance the use of PPPs, the government established the Joint PPP Office of Indonesia, comprising of Bappenas, MOF, BKPM, MOHA, LKPP and IIFG (February 2017). Together with the MOF PPP unit, these bodies support LGs in project planning and planning for local PPP infrastructure projects. The establishment of this office exceeds the original policy milestone and, as such, was upgraded to a prior action.</p>	<p>9. The government has established and operationalized the Joint PPP Office of Indonesia, comprising of Bappenas, MOF, BKPM, MOHA, LKPP and IIFG, to strengthen coordination, and project and program management with support to local governments.</p>
<p>10. MOF will streamline the approval process for VGF and ensure adequate budget allocation for VGF.</p>	<p><u>Prior Action Fully Accomplished</u></p> <p>The government made reforms to the viability gap funding policy in two ways. First, MOF PPP unit has approved a new SOP to approve the use of VGF. The main reforms in the SOP include a simplification of the application process for VGF, and clearer definitions of qualifying projects. Second, the government continued annual budget allocations to VGF. It allocated Rp500 billion in the 2017 national budget to VGF. The VGF helps to ensure that strategically important infrastructure projects which may have commercial viability shortfalls can be executed with government support.</p>	<p>10. The government has enhanced VGF policy by: (i) simplifying the application process and clarifying eligibility criteria; and (ii) allocated Rp1.2 billion for VGF under the 2018 budget.</p>

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<p>11. The government will improve land certification program.</p>	<p><u>Policy Milestone Fully Accomplished</u></p> <p>The government has made a number of significant improvements to the regulatory framework for land use. The National Land Agency issued MASP/NLA Regulation 1 of 2017 amending MASP/NLA Regulation 36 of 2016 which accelerates the government's systematic land registration process with a goal of full completion by 2025. This process ensures the economic value of all land is accurately captured, providing a basis for investment and expediting investment projects which require land transactions through an accurate, up-to-date land registry database.</p> <p>Additionally, the government issued two new sets of procedures (PMK No. 130/PMK.08/2016 and PMK No.60/PMK.08/2017) which; i) expedite and improve the issuance of land use permits, ii) strengthen coordination mechanisms between responsible agencies, and iii) provide grievance mechanisms to address conflicts. All of these reforms aim to reduce the barriers which arise from land acquisition and use permits, especially for major infrastructure projects.</p>	<p>11. The government has removed constraints to land acquisition by: (i) streamlining land acquisition procedures for national strategic projects and infrastructure investments; and (ii) improving internal controls by establishing audit and grievance resolution mechanisms for timely resolution of conflicts.</p>
<p>12. The government will facilitate the use of long-term financing of PPPs through project bonds.</p>	<p><u>Policy Milestone Fully Accomplished</u></p> <p>OJK and the government have established a task force which overlooks project bond issues. The task force is led by OJK and consists of MOF, BI, and KPPIP. OJK plans to issue a new regulation which will enable project bonds to be issued by Special Purpose Vehicles. In February 2017, the government adopted the PINA scheme (Pembiayaan Investasi Non Anggaran) to facilitate delivery of PPP projects. The PINA scheme envisages equity participation of PT SMI and state-owned pension funds in infrastructure project</p>	<p>12. The government has implemented mechanisms for facilitating long term financing of PPPs through project bonds by: (i) establishing a task force comprising OJK, MOF, BI and KPPIP to facilitate policy promoting long term financing of PPPs through project bonds or equity investments; and (ii) implemented the PINA scheme which promotes PT SMI and state pension funds to invest in project companies to support leveraging debt.</p>

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	companies to leverage debt from the banking sector or capital market.	
13. The government will continue to increase the number of sukuk infrastructure projects.	<p><u>Prior Action Fully Accomplished</u></p> <p>The Project Based Sukuk amount was increased to Rp16.8 trillion in the 2017 National Budget, up from Rp13.7 trillion in 2016. The government has also included social sector projects in the national infrastructure projects and is beginning to improve project selection for PBS financed projects.</p> <p>ADB TA supported Bappenas in drafting a Decree on project selection. Improving project selection will improve the governance framework for PBS selection.</p>	<p>13. The government has expanded availability of project-based sukuk financing by allocating through the 2017 national budget Rp16.8 trillion (up from Rp13.7 trillion in 2016) for project-based sukuk and has introduced new project selection guidelines to strengthen value for money.</p>
<p>14. The government will strengthen its infrastructure financing support by converting PT SMI into Indonesia Development Financing Institution.</p>	<p><u>Original policy milestone partially accomplished and ongoing. Replaced with a new milestone also designed to strengthen infrastructure financing – Fully Accomplished.</u></p> <p>The government has drafted a law to convert PT SMI into a development bank which is currently being reviewed by Ministry of Justice. PT SMI has also finalized and submitted an academic paper for intergovernmental review. This consultation process will take time. This policy action has been dropped from the program.</p> <p>In the interim, and to facilitate infra financing, the government has streamlined procedures on local government borrowing, and introduced regulatory reforms which reduced processing time from approximately 6 months to just 40 days. CMEA has developed a Standard Operating Procedure which will further clarify the roles and responsibilities across different agencies. An MOU, signed by CMEA, PT SMI, MOF and MoHA will improve coordination and facilitate</p>	<p>14. New policy milestone with the objective of facilitating infra finance at the local government level.</p> <p>Formulation as follows:</p> <p>The government and PT SMI have signed an MOU establishing a framework for sub-national infrastructure finance, reducing local government borrowing time from approximately 6 months to just 40 days.</p>

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	local government infra finance. These initiatives replace the original policy milestone.	
Output 3: Faster and more transparent public procurement		
15. LKPP will enhance e-procurement system to enable reverse auction of goods.	<u>Prior Action Fully Accomplished</u> LKPP team has developed the e-reverse auction system. Through this system, sellers (providers of goods and services) compete with each other to win a tender with government, lowering bids along the way, and ensuring cost competitiveness and value for money. The module has been integrated within LKPP's e-procurement system.	15. LKPP introduced reverse auctions to the e-procurement system to promote cost competitiveness and value for money in public procurement.
16. LKPP will assist the Jakarta local government to pilot the usage of: (i) the electronic platform for competitive bidding of procurement of local goods and services; and (ii) local electronic catalogue.	<u>Policy Milestone Fully Accomplished</u> The Jakarta local procurement unit has rolled out the Comcat system. The system has been completed and tested by Jakarta's local public works unit (Dinas Bina Marga). This system improves the timeliness and competitiveness of local procurement of goods and services. The city of Jakarta has launched local e-catalogue since August 2016. The e-catalogue stipulates standardized prices for core goods and services which are regularly procured by local government, reducing the time and complexity of procurement.	16. The City of Jakarta, with assistance from the LKPP, operationalized transparent and competitive e-procurement tools including: (i) An electronic platform for competitive bidding on procurement of local goods and services; and (ii) a local electronic catalogue with list prices for standard goods and services.
17. LKPP will continue to improve public procurement performance by: (i) conducting procurement benchmarking in at least 5 central government agencies and 5 local government agencies; and (ii) strengthening e-learning modules to include procurement	<u>Policy Milestone Substantially Accomplished</u> LKPP decided to narrow the focus for benchmarking to the highest volume procurement targets, rather than trying to increase the number of units benchmarked. As such, they have conducted procurement benchmarking exercises in Ministry of Public Works, Ministry of Transport and Ministry of Education and Culture, as well as cities of Jakarta and Bandung. Benchmarking activities will continue into the future. These activities	17. The LKPP conducted procurement benchmarking in 3 large central government agencies and 2 local governments, and introduced e-learning modules to build capacity on procurement

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of goods and services in large infrastructure projects.	<p>improve the monitoring and evaluation function of LKPP and provide critical performance information to both central government and spending agencies.</p> <p>LKPP has completed the e-learning modules for procurement of goods and services in large infrastructure projects.</p>	
18. The government will strengthen legal framework on public procurement to incorporate procurement audit.	<p>Prior Action Fully Accomplished.</p> <p>LKPP has strengthened the legal framework on public procurement by incorporating compliance controls in procurement. LKPP developed and implemented procurement compliance controls to track and evaluate compliance with procurement procedures by spending agencies. These evaluations are incorporated into the procurement SOPs for catalogue-procurement items. The government requested the term 'compliance controls' instead of 'audit' as the former is the appropriate terminology for this reform.</p>	18. The government has strengthened the legal framework on public procurement by introducing procurement compliance controls to track and evaluate spending agency compliance with government procurement procedures.

ADB = Asian Development Bank, BPHTB = Tax on Acquisition of Land and/or Buildings, BKPM = Indonesia Investment Coordinating Board, CMEA = Coordinating Ministry for Economic Affairs, IIGF = Indonesia Infrastructure Guarantee Fund, KPPIP = Committee for Infrastructure Priorities Development Acceleration, LKPP = National Public Procurement Agency, MOF = Ministry of Finance, MOHA = Ministry of Home Affairs, MOT = Ministry of Trade, MOU = memorandum of understanding, PDF = project development fund, PPP = public-private partnership, RIA = Regulatory impact assessment, SIUP = Business Trade Licenses, TA = technical assistance, TDP = Company Registration Certificates, VGF = Viability Gap Funding.