Report and Recommendation of the President to the Board of Directors

PUBLIC

Project Number: 53211-002
September 2023

Proposed Policy-Based Loan for Subprogram 2 Republic of Indonesia: Competitiveness, Industrial Modernization, and Trade Acceleration Program

This is a redacted version of the document approved by ADB’s Board of Directors. The document excludes information that is subject to exceptions to disclosure set forth in ADB’s Access to Information Policy.

Asian Development Bank
CURRENCY EQUIVALENTS
(as of 1 September 2023)

Currency unit – rupiah (Rp)
Rp1.00 = $0.000066
$1.00 = Rp15,230

ABBREVIATIONS

ADB – Asian Development Bank
ASEAN – Association of Southeast Asian Nations
BAPPENAS – Badan Perencanaan Pembangunan Nasional (Ministry of National Development Planning)
BKPM – Badan Koordinasi Penanaman Modal (Investment Coordinating Board)
CMEA – Coordinating Ministry for Economic Affairs
COVID-19 – coronavirus disease
FDI – foreign direct investment
FTA – free trade agreement
GDP – gross domestic product
IMF – International Monetary Fund
MOF – Ministry of Finance
MSMEs – micro, small, and medium-sized enterprises
NSW – national single window
OP – operational priority
OSS-RBA – online single-submission, risk-based approach
RPJMN – Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan)
SEZ – special economic zone
SMEs – small and medium-sized enterprises
TA – technical assistance
WOB – women-owned businesses

NOTE

In this report, “$” refers to United States dollars.
<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice-President</td>
<td>Woochong Um, Managing Director General, Office of the President; and Officer-in-Charge, Office of the Vice-President (East and Southeast Asia, and the Pacific)</td>
</tr>
<tr>
<td>Director General</td>
<td>Winfried Wicklein, Southeast Asia Department (SERD)</td>
</tr>
<tr>
<td>Deputy Director General</td>
<td>Emma M. Veve, SERD</td>
</tr>
<tr>
<td>Senior Director</td>
<td>Tariq H. Niazi, Public Sector Management and Governance Sector Office, Sectors Group (SG-PSMG)</td>
</tr>
<tr>
<td>Directors</td>
<td>Jose Antonio R. Tan III, SG-PSMG</td>
</tr>
<tr>
<td></td>
<td>Jiro Tominaga, Indonesia Resident Mission (IRM), SERD</td>
</tr>
<tr>
<td>Team leaders</td>
<td>Benita Ainabe, Senior Financial Sector Specialist (Capital Markets), Finance Sector Office, Sectors Group (SG-FIN)</td>
</tr>
<tr>
<td></td>
<td>Kanya Sasradipoera, Principal Regional Coordination Specialist, Regional Cooperation and Integration Unit, South Asia Department</td>
</tr>
<tr>
<td>Team members</td>
<td>Priasto Aji, Senior Economics Officer, IRM, SERD</td>
</tr>
<tr>
<td></td>
<td>Meenakshi Ajmera, Principal Safeguards Specialist, Office of Safeguards (OSFG)</td>
</tr>
<tr>
<td></td>
<td>Kin Wai Chan, Markets Development Advisory Specialist, Special Initiatives and Funds, Office of Markets Development and Public–Private Partnership</td>
</tr>
<tr>
<td></td>
<td>Jenamae Dajay-Java, Operations Assistant, SG-FIN</td>
</tr>
<tr>
<td></td>
<td>David Dovan, Senior Investment Specialist, Infrastructure Finance Division 2, Private Sector Operations Department^a</td>
</tr>
<tr>
<td></td>
<td>Poornima Gayangani W. Jayawardana, Financial Sector Specialist, SG-FIN</td>
</tr>
<tr>
<td></td>
<td>Okju Jeong; Climate Change Specialist; Climate Change, Resilience, and Environment Cluster; Climate Change and Sustainable Development Department (CCSD)</td>
</tr>
<tr>
<td></td>
<td>Loretta Jovellanos, Senior Economics Officer, SG-PSMG</td>
</tr>
<tr>
<td></td>
<td>Henry Ma, Senior Country Economist, IRM, SERD</td>
</tr>
<tr>
<td></td>
<td>Naning Mardiniah, Senior Safeguards Officer, IRM, SERD</td>
</tr>
<tr>
<td></td>
<td>Hugh J. McGregor, Senior Counsel, Office of the General Counsel</td>
</tr>
<tr>
<td></td>
<td>Antoine Morel, Principal Environment Specialist, OSFG</td>
</tr>
<tr>
<td></td>
<td>Keiko Nowacka, Senior Social Development Specialist (Gender and Development), Gender Equality Division, CCSD</td>
</tr>
<tr>
<td></td>
<td>Olga Suyatmo, Senior Procurement Officer, IRM, SERD</td>
</tr>
<tr>
<td>Peer reviewer</td>
<td>Jonathon Kirkby, Senior Private Sector Development Officer, Pacific Liaison and Coordination Office, Pacific Department</td>
</tr>
</tbody>
</table>

^a Outposted to the Indonesia Resident Mission.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
## CONTENTS

**PROGRAM AT A GLANCE**

<table>
<thead>
<tr>
<th>I. THE PROPOSAL</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>II. PROGRAM AND RATIONALE</td>
<td>1</td>
</tr>
<tr>
<td>A. Background and Development Constraints</td>
<td>1</td>
</tr>
<tr>
<td>B. Policy Reform, ADB’s Value Addition, and Sustainability</td>
<td>3</td>
</tr>
<tr>
<td>C. Expected Outcome of the Reforms</td>
<td>10</td>
</tr>
<tr>
<td>D. Development Financing Needs and Budget Support</td>
<td>11</td>
</tr>
<tr>
<td>E. Implementation Arrangements</td>
<td>11</td>
</tr>
<tr>
<td>III. DUE DILIGENCE</td>
<td>12</td>
</tr>
<tr>
<td>IV. ASSURANCES</td>
<td>14</td>
</tr>
<tr>
<td>V. RECOMMENDATION</td>
<td>14</td>
</tr>
<tr>
<td><strong>APPENDIXES</strong></td>
<td></td>
</tr>
<tr>
<td>1. Policy Design and Monitoring Framework</td>
<td>15</td>
</tr>
<tr>
<td>2. List of Linked Documents</td>
<td>24</td>
</tr>
<tr>
<td>3. Development Policy Letter</td>
<td>25</td>
</tr>
</tbody>
</table>
### PROGRAM AT A GLANCE

#### Basic Data
- **Project Number:** 53211-002
- **Project Name:** Competitiveness, Industrial Modernization, and Trade Acceleration Program, Subprogram 2
- **Country:** Indonesia
- **Borrower:** Republic of Indonesia
- **Country Economic Indicators:**
  - https://www.adb.org/Documents/LinkedD ocs/?id=53211-002-CEI
  - https://www.adb.org/Documents/LinkedD ocs/?id=53211-002-PortAtaGlance

#### Sector
- **Public sector management**
  - Subsector(s): Economic affairs management
- **Industry and trade**
  - Subsector(s): Industry and trade sector development

#### Operational Priorities
- **OP1:** Addressing remaining poverty and reducing inequalities
- **OP2:** Accelerating progress in gender equality
- **OP3:** Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability
- **OP6:** Strengthening governance and institutional capacity
- **OP7:** Fostering regional cooperation and integration

#### Climate Change Information
- **GHG reductions (tons per annum):** 0
- **Climate Change impact on the Project:** Low
- **ADB Financing:**
  - Adaptation ($ million): 20.000
  - Mitigation ($ million): 151.250
- **Cofinancing:**
  - Adaptation ($ million): 0.000
  - Mitigation ($ million): 0.000

#### Sustainable Development Goals
- **SDG 8.2**
- **SDG 9.1, 9.2, 9.3**
- **SDG 13.a**
- **SDG 17.17**

#### Gender
- **Effective gender mainstreaming (EGM):** ✓

#### Poverty Targeting
- **General Intervention on Poverty:** ✓

#### Risk Categorization:
- **Complex**

#### Safeguard Categorization
- **Environment:** C
- **Involuntary Resettlement:** C
- **Indigenous Peoples:** C

#### Financing

<table>
<thead>
<tr>
<th>Modality and Sources</th>
<th>ADB</th>
<th>Cofinancing</th>
<th>Counterpart</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sovereign Programmatic Approach Policy-Based Lending (Regular Loan): Ordinary capital resources</td>
<td>500.000</td>
<td>500.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Asian Infrastructure Investment Bank - Programmatic Approach Policy-Based Lending (Loan) (Not ADB Administered)</td>
<td>500.000</td>
<td>500.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Total</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

**Currency of ADB Financing:** US Dollar
I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Republic of Indonesia for subprogram 2 of the Competitiveness, Industrial Modernization, and Trade Acceleration Program.¹

2. The program will support Indonesia’s inclusive, resilient, and sustainable development by (i) creating an enabling environment for investments; (ii) easing barriers to trade; and (iii) growing and upscaling micro, small, and medium-sized enterprises (MSMEs). It will help raise the living standards of low-income populations, promote the development of MSMEs, create jobs, and reduce poverty and social inequality. The program will also enhance climate mitigation and adaptation and boost economic recovery from the coronavirus disease (COVID-19) pandemic.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. Macroeconomic context. Key economic and social indicators have regained their pre-pandemic levels. Gross domestic product (GDP) contracted by 2.1% in 2020 but grew by 3.7% in 2021 and 5.3% in 2022, bringing output to about 7% greater than in 2019.² After losing the classification of upper middle income in 2021, Indonesia reattained it in 2023. The unemployment rate increased from 5.3% in 2019 to 7.1% in 2020 but has since declined to 5.9% in 2022. At 9.5%, the poverty rate in 2022 is also close to its pre-pandemic level. Furthermore, there is ample policy space to respond to future shocks.³ The 2022 fiscal deficit was 2.4% of GDP, a year ahead of the scheduled return to the 3.0% deficit ceiling and is projected to remain well below the ceiling in 2023. Public debt was 39% of GDP in 2022, compared with 41% of GDP in 2021. Sovereign credit ratings are stable and external debt is deemed to be sustainable.

4. However, there are near-term downside risks and long-term concerns about potential growth. Growth for 2023 is projected to be 4.8%, based on the export boom waning as global growth slows, and private consumption and investment growing only modestly. The near-term risks arise from geopolitical tensions, slowing growth in Indonesia’s major trading partners, and potential food price shocks due to the Russian invasion of Ukraine and the arrival of El Niño.⁴ For the longer-term, although the economy is now larger than in 2019, it is about 8% below its full potential, and estimates of potential annual growth are slightly below 5%. However, to become a high-income economy by 2045, Indonesia needs to grow by at least 6% annually.

5. Trade and foreign direct investment are complementary contributors to economic growth and to a low-carbon economy. Higher levels of domestic and international trade can play an important role in accelerating economic growth and increasing the level of green and sustainable investments. Foreign direct investment (FDI) often has a positive impact on exports as it promotes access to international markets, increases domestic capital, facilitates the transfer of technology and new products for export, and builds the capacity of the local workforce.

¹ The program is reflected in projections of financial risk-bearing capacity in the quarterly risk monitoring report of the Asian Development Bank.
³ International Monetary Fund (IMF). 2023. *2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Indonesia*. Washington, DC; and IMF. 2022. *Article IV Consultation Staff Report*. Washington, DC.
⁴ El Niño is an extreme weather event comprising increased temperatures and rainfall, resulting in drought and flooding that can severely impact food production and drive up food prices.
However, Indonesia's share of trade relative to GDP, which peaked at 96.0% in 1998, has declined over the last two decades as FDI shifted from manufacturing to natural resources, falling to 37.3% in 2019 and experiencing a further COVID-19-related decline to 33.0% in 2020. Likewise, FDI inflows as a share of GDP decreased from 2.2% in 2019 to 1.8% in 2021 and 1.6% in 2022. Policy actions in reform area 1 of subprogram 1 have begun to arrest this decline. For example, Indonesia's share of trade relative to GDP increased to 40.4% in 2021 and 45.4% in 2022 and FDI in absolute terms increased from $19.2 billion in 2020 to $21.2 billion in 2021, and $21.7 billion in 2022. Nevertheless, these trends underscore Indonesia’s declining global integration and competitiveness compared with other Southeast Asia economies. In addition, the underperformance of Indonesia’s manufacturing sector reflects its problems with export competitiveness. Rising uncertainty regarding global growth and investment flows could constrain the government’s efforts to increase Indonesia’s economic output. For Indonesia to meet its growth potential, improvements in the business environment and more FDI will be needed. Finally, transition to a low-carbon economy provides opportunities for Indonesia to increase its international competitiveness and participate in green trade, especially through the manufacturing of machinery and electrical equipment.  

6. **Development constraints.** Three development constraints have been identified and remain relevant to subprogram 2: (i) the business environment is not conducive to investment; (ii) hard and soft infrastructure barriers inhibit trade; and (iii) small firms have difficulty growing and upgrading their operations.

7. **The business environment is not conducive to investment, including in green businesses.** First, business licensing processes are challenging and cumbersome. Although the online single-submission, risk-based approach (OSS-RBA) system was launched in 2021, full functionality and applicability to ministerial regulations have yet to be incorporated, and multiple line agencies are still required to approve different types of licenses, depending on the nature of the investment. Licensing procedures are also not consistent at national and subnational levels and among subnational administrations. Second, unclear land regulations, poor governance of land transactions, and lack of clarity on land titling make it difficult for businesses to secure sites for factories and other commercial activities. Complicated procedures for foreign land ownership have prevented the country from becoming an attractive destination for investment, especially for green businesses that contribute to energy efficiency and climate change mitigation and adaptation. Third, the benefits of special economic zones (SEZs) in sectors that would typically attract foreign investors, such as health, are not clearly articulated in government regulations. This is a missed opportunity as Indonesia is a major contributor to medical tourism in the region with more than 2 million Indonesians traveling abroad in 2019 to obtain health services worth $6 billion.

8. **Hard and soft infrastructure barriers inhibit trade.** The National Logistics Ecosystem Masterplan 2020–2024 launched under subprogram 1, which established government-to-government and government-to-business collaboration, was vital for logistics management. However, Indonesia's logistics systems remain fragmented across types, modes of transport, sectors, and responsible ministries, resulting in high costs for the private sector. An integrated approach to logistics is essential for improving efficiency and lowering costs. Measures

---

5 Indonesia’s share of trade relative to GDP declined from 58.0% in 2000 to 40.4% in 2021, compared with Viet Nam’s which grew from 96.8% in 2000 to 184.4% in 2021. Although Malaysia’s trade to GDP ratio declined from 192.1% in 2000 to 144.2% in 2021, it is still significantly higher than Indonesia’s. Indonesia’s 2021 FDI relative to GDP is lower than Malaysia’s at 5.0% and Viet Nam’s 4.3% in 2021.

of Indonesia’s ease of doing business—for example, border and documentary compliance—generally ranks lower than the averages for East and Southeast Asia, and the Pacific. The prevalence of trade barriers also contributes to the country’s weak integration with global value chains. Although business processes of government logistics services have been simplified, trade facilitation systems for handling value-added tax exemptions, sanitary and phytosanitary clearances, certificates of origin, and customs declarations need to be streamlined and integrated. Public procurement rules stifle trade opportunities for MSMEs, particularly those owned by women who are often neither fully aware of nor have sufficient capacity to participate in government procurement. For its exports to remain competitive, Indonesia must improve its market access in key export destinations.

9. **Small firms have difficulty growing and upgrading their operations.** Support for MSMEs is not coordinated at the national level because of insufficient aggregated and disaggregated data. As a result, MSMEs are unable to fully benefit from government services. Under the Job Creation Law (2020), the government has supported the growth of MSMEs, including those owned by women. However, they remain underdeveloped, have low productivity, and lack access to the government services required to participate in global value chains and attract FDI. Indonesia does not have a consolidated database of MSMEs capable of using sex-disaggregated data to report on women-owned businesses (WOB) and guide critical reforms.

10. **Strategic alignment.** The program is aligned with the government’s Vision of Indonesia 2045 and the National Medium-Term Development Plan (RPJMN), 2020–2024. It is also an integral part of the Asian Development Bank (ADB) country partnership strategy for Indonesia, 2020–2024, particularly the strategic pathway on accelerating economic recovery and strengthening climate resilience. The program will contribute to the following operational priorities (OPs) of ADB’s Strategy 2030: (i) addressing remaining poverty and reducing inequalities (OP1); (ii) accelerating progress in gender equality (OP2); (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability (OP3); (iv) strengthening governance and institutional capacity (OP6); and (v) fostering regional cooperation and integration (OP7).

B. **Policy Reform, ADB’s Value Addition, and Sustainability**

11. **Programmatic approach and reform accomplishment.** In October 2021, ADB approved the programmatic approach and a policy-based loan of $500 million for subprogram 1. This program, consisting of three subprograms, uses a programmatic approach to provide long-term engagement. It supports the sequenced and long-term outlook required to enhance Indonesia’s competitiveness and its low-carbon transition. The program is also designed to be an integral part of the government’s post-pandemic recovery strategy. It will focus on (i) creating an enabling environment for investments, (ii) easing barriers to trade, and (iii) growing and upscaling enterprises. Subprogram 1 supported critical structural reforms to promote investments, simplify bureaucracy, and accelerate human capital development under the Job Creation Law. Policy actions under subprogram 1 supported improved business licensing procedures, investment

---

incentives, new sectors operating in SEZs, efficient and coordinated logistics systems, trade agreements, automated export and import licensing, and MSME infrastructure and skills development. Subprogram 2 builds on these achievements by implementing and enhancing these foundational regulations and systems.

12. When the programmatic approach and subprogram 1 were approved, the government agreed to accomplish eight policy actions for subprogram 2. Five of the eight original policy actions were retained, with three of the five exceeding expectations. One policy action was split into two separate actions to reflect the significance of the reforms because one involved the establishment of a landmark national MSME database that required extensive collaboration between multiple government and nongovernment stakeholders. A new policy action on the implementation of a ministerial sub-decree to support green investment plans was added. Policy sub-actions of two policy actions (policy actions 2.3 and 2.7 in the previous policy design and monitoring framework) were partially completed as more time was required for their completion — progress has been made on those sub-actions during subprogram 2, and they have been moved to subprogram 3 and replaced with new policy sub-actions of greater or equal strength. One further policy action was moved to subprogram 3 because more time was required for consultation given its complexity, but was replaced with a new policy action of equal strength (Table 1). With these revisions, subprogram 2 contains 10 high-impact prior actions — five in reform area 1, three in reform area 2, and two in reform area 3—all of which have been accomplished (box). The expected development results have not changed.

<table>
<thead>
<tr>
<th>Original Policy Action</th>
<th>Thrust of Updated Policy Action or Sub-Action (Footnote 11)</th>
<th>Justification for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>The government will (i) operationalize a land bank to manage state land which would cover planning, acquisition, procurement, management, utilization, and distribution of land; (ii) simplify procedures and clarify requirements for foreign land ownership; (iii) implement parcel-based valuation to make land valuation fairer and more consistent; and (iv) provide clarity on land titles for both above and below the ground.</td>
<td>Policy sub-action (iii) was replaced with the approval of a regulation covering the provision and utilization of green open spaces, which requires local governments to comply with the mandatory provision of 20% of green open spaces in cities to provide social and economic benefits to communities and attract investment.</td>
<td>As parcel-based valuation is a new land valuation method, the national land agency required more time to prepare a ministerial decree after the completion of an academic paper on this method, both of which are supported through technical assistance from the Asian Development Bank. This policy reform is expected to be completed by the end of 2023 and has been moved to subprogram 3.</td>
</tr>
<tr>
<td>The government will (i) provide exemptions or relief from regional taxes and levies and (ii) reduce the tax and duty on acquisition of land and buildings for companies operating inside the special economic zone.</td>
<td>This was replaced by a new policy action covering the approval of implementing regulations for the first health sector special economic zone and issuance of regulations to facilitate immigration checks of foreign workers.</td>
<td>The original policy action on tax incentives was moved to subprogram 3 as more time was required to consult with local governments, given the complexity of the reform and its fiscal implications.</td>
</tr>
<tr>
<td>The government will (i) adopt a road map for the opening of government procurement under its free trade agreements following assessment findings and recommendations, (ii) develop online registration with sex-disaggregated information of</td>
<td>Policy sub-action (ii) was replaced with stronger reform that promotes women-owned businesses in government procurement, including development and testing of a dedicated gender-responsive procurement training module. It is a direct intervention by the</td>
<td>The online sex-disaggregated vendor-supplied database was delayed because the National Public Procurement Agency wanted to ensure alignment of the sex-disaggregated micro, small, and medium-sized enterprises database with the integrated micro, small, and medium-sized enterprises database.</td>
</tr>
</tbody>
</table>

11 Comparison of Original and Revised Policy Actions for Subprogram 2 (accessible from the list of linked documents in Appendix 2).
<table>
<thead>
<tr>
<th>Original Policy Action</th>
<th>Thrust of Updated Policy Action or Sub-Action (Footnote 11)</th>
<th>Justification for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>suppliers, and (iii) identify areas in government procurement to strengthen participation of women-owned businesses.</td>
<td>government to support women-owned businesses in overcoming trade barriers.</td>
<td>medium-sized enterprises database that was launched under reform area 3 of this subprogram. Therefore, it was delayed until subprogram 3.</td>
</tr>
</tbody>
</table>


### Key Achievements under Subprogram 2

**A. Reform Area 1: Creating an Enabling Environment for Investments**

1. Online single-submission, risk-based approach updated to integrate national, subnational, and ministries’ processes to facilitate quicker business license approvals: 3.4 million business licenses issued, of which 1.6 million are for small and medium-sized enterprises.
2. Foreign direct investment for the manufacturing of batteries for electric vehicles approved: five high-value contracts signed and at least 49,000 jobs to be created.
3. Framework for green investment plans issued.
4. Land bank operationalized: 12 rights to manage certificates issued for a total of 4,312 hectares.
5. Property procurement process for foreign nationals simplified.
6. Land titling above and below the ground clarified.
7. Health special economic zones permitted and established, and immigration checks for foreign special economic zone professionals simplified.

**B. Reform Area 2: Easing Barriers to Trade**

1. Single-submission system implemented for domestic and international transportation across various sectors: single submission for quarantine and customs resulted in cost efficiency of 39.1% and time efficiency of 23.8%.
2. Single operating system implemented for port operators at five ports, resulting in (i) delivery order time efficiency of 49.5% and cost efficiency of 36.8% and (ii) cargo release time efficiency of 54.8% and cost efficiency of 38.9%.
3. Online payment platform for logistics services developed, with six banks participating.
4. Features of the national single window expanded to include capabilities for value-added tax exemption, e-sanitary and phytosanitary, e-certificates of origin, and single submission for export, promoting paperless trade and traceability in supply chains.
5. Road map for strengthening the competitiveness of the government procurement framework under its free trade agreements adopted.
6. Program to promote women-owned businesses in government procurement implemented.

**C. Reform Area 3: Growing and Upscaling Enterprises**

1. Presidential regulation on a new integrated national plan for enterprise development adopted.
2. Integrated micro, small, and medium-sized enterprises system, with sex-disaggregated data, launched.
3. Inter-ministerial committee established to improve the delivery of government services to enterprises.


1. **Reform Area 1: Creating an Enabling Environment for Investments**

13. **A faster business registration process.** Policy actions in this area consolidated the issuance of business licenses and the installation of the OSS-RBA in subprogram 1. Under subprogram 2, the government upgraded the OSS-RBA to align with ongoing updates of regulations of relevant ministries and local governments relating to the issuance of licenses and permits. This included the integration of the respective ministries’ risk databases in the OSS-RBA to expedite the evaluation of applications and accelerate the approval process. The government also rolled out the OSS-RBA across all subnational administrations, which reduced regulatory inconsistencies between national and local governments. The upgrade and rollout of the single-submission system reduced the number of steps required for each application. As a result, 3.4 million business licenses were issued from the August 2021 rollout to February 2023—
including 1.6 million for MSMEs—compared with approximately 1.2 million business licenses issued annually before the OSS-RBA system was in place.¹² Under subprogram 3, the government will streamline the licensing process further by updating the business risk categorization of the OSS-RBA and corresponding requirements under a government regulation.

14. **Attracting high-quality foreign direct investment, generating new jobs, and promoting sustainable and low-carbon investment.** Subprogram 1 provided fiscal and nonfiscal incentives to investors to overcome challenges in establishing their operations. Subprogram 2 built on these reforms by promoting investments in energy efficiency and creating an enabling environment for more green investments. For example, through the Investment Coordinating Board (BKPM), the government entered into bilateral agreements for investments in energy efficiency pioneering industries and as a result, approved FDI in manufacturing batteries for electric vehicles. The five major investments approved in this area were the (i) Hyundai, KIA, and LG investment consortium ($1.1 billion), which is expected to create 1,000 jobs; (ii) LG investment consortium ($9.8 billion), which is expected to create 20,000 jobs; (iii) CATL investment consortium ($6 billion), which is expected to create 28,000 jobs; (iv) BASF and Eramet consortium (approximately $2.2 billion); and (v) Envision AESC and Glencore consortium ($9 billion). Recognizing that interest in sustainable investment has risen significantly in the past decade, the government also implemented a ministerial decree that provides guidelines for potential investors, businesses, and policy makers to promote green investment plans. This will help create opportunities for sustainable investments and improve the competitiveness of sustainable businesses. Further, the government merged two separate processes—for environmental assessments and spatial planning—into one using geographic information system technology to facilitate the approval of business licenses and promote low-carbon and climate-resilient development planning. Under subprogram 3, the government will provide time-bound investment incentives to encourage the establishment of more green and sustainable businesses.

15. **Simplifying land-related transactions for investors.** Building on subprogram 1, policy actions under subprogram 2 have made it easier for investors to acquire land. The government operationalized a land bank—through the Land Bank Agency (Badan Bank Tanah)—to manage state land in a sustainable way and for public interest. This covers planning, acquisition, procurement, management, utilization, and distribution of land. It takes into consideration public, social, and national development interests; economic equality; land consolidation; and agrarian reform. The land bank, which began operations in January 2022, is mandated to ensure access to land for investment by (i) overcoming the increasingly limited availability of land for development purposes; (ii) maximizing the potential of abandoned land; and (iii) reducing the costs associated with land acquisition, abandonment, and disputes. By the end of 2022, 12 rights to manage certificates had been issued for 4,312 hectares of land across provinces in Indonesia. Moreover, a ministerial regulation simplified requirements for foreign nationals in Indonesia to procure property by outlining procedures and immigration documentation required for the acquisition, ownership and rights of types of residential properties (e.g., a visa, passport, or residence permit); defining business activities; and clarifying application procedures for property use rights. In July 2022, the government enacted and implemented a regulation that requires local governments to comply with a mandatory provision and utilization of 20% of green open spaces in cities.¹³ The government also clarified land titling for above and below the ground

¹² Source: Investment Coordinating Board (BKPM).
¹³ Green spaces contribute to economic regeneration, environmental and climate benefits, and tourism by improving the image of an area, making it attractive for households and businesses to invest in and locate to. Urban green spaces provide venues for arts and culture, recreation, and events, which spur investment in local communities.
to third parties (i.e., parties other than the title deed holders of the surface land) using a modern electronic land registration system. This eliminated a potential conflict between the right to build and the right to use surface land and improved resource efficiency. This regulation is important for infrastructure projects such as underground mass rapid transit and flyovers. Under subprogram 3, the government will implement the parcel-based valuation method to support accurate land appraisal and administration and to approve additional land transactions for green investment under the National Land Agency’s 2024–2029 program.

16. **Creating special economic zones for new sectors aimed at foreign investors.** Under subprogram 1, the management of SEZs was centralized, the process for obtaining land rights was simplified, and new businesses began operating in SEZs. Under subprogram 2, the government established a health SEZ, which for the first time permitted foreign health care service providers to operate in Indonesia. Sanur, Bali, the first health SEZ in Indonesia, is expected to absorb an estimated 43,000 workers and provide up to $1.28 billion of foreign exchange earnings by 2045. This will allow Indonesians to benefit from high quality medical services domestically. To attract more foreign investments in SEZs, the government began implementing the electronic smart cards process to accelerate immigration checks for SEZ foreign workers and streamline their movement in and out of the country. This will help attract highly qualified foreign professionals to work in SEZs. Under subprogram 3, the government will (i) provide exemptions or relief for SEZs from regional taxes and levies for land acquisition, as well as annual land and building regional taxes in at least one local government; and (ii) implement and accelerate the development of special procedures for companies operating in SEZs to obtain land rights, extensions, and renewals. The government will also update and operationalize the guidelines for the establishment of green SEZs.

2. **Reform Area 2: Easing Barriers to Trade**

17. **Operationalizing the national logistics ecosystem.** Policy actions in this area simplified and reduced the cost of moving goods across borders. Under subprogram 1, the launch of the National Logistics Ecosystem Masterplan, 2020–2024 enabled effective collaboration among government agencies and businesses and improved the layout of ports. Under subprogram 2, the government implemented three new systems under the masterplan to digitally connect the public and private sectors in the logistics chain. First, a single-submission system was implemented for domestic and international sea and air transportation, as well as for key ministries responsible for agriculture, trade, industry, health, and food and drugs. This system connects and allows one submission for various ministries, reducing processing time and costs. In 2022, for example, single submission for quarantine and customs resulted in a 39.1% reduction in cost and 23.8% reduction in processing time. Second, the government implemented a single operating system for port operators, including an integrated container service and delivery logistics platform at five large ports in the country (Tanjung Priok in Jakarta, Tanjung Emas in Semarang, Makassar Port in Makassar, Belawan in Medan, and Tanjung Perak in Surabaya). This resulted in a (i) 49.5% reduction in delivery order time and 36.8% reduction in cost, and (ii) 54.8% reduction in cargo release time and 38.9% reduction in cost. Third, the government rolled out an online payment platform for logistics services with six banks (four state-owned and two private). Under subprogram 3, the government will incorporate rail transport into the integrated container service and delivery logistics platform.

---


18. **Enhancing the national single window with expanded features.** Policy actions in this area built on subprogram 1 to streamline government services relating to exports and imports through the national single window (NSW). Under subprogram 2, the government expanded and operationalized the NSW features by integrating the value-added tax exemption system with the investment list of the BKPM. This feature allows the NSW to send relevant notifications to the Directorate General of Taxes and the Directorate General of Customs and Excise, both under the Ministry of Finance (MOF), and the BKPM, as well as automatically issue requests for value-added tax exemptions (if applicable) and quota monitoring. The integrated e-sanitary and phytosanitary systems and e-certificates of origin were expanded to include trade with the Republic of Korea. The government also streamlined the procedures for licenses by incorporating single submissions for exports and goods export notification into the NSW. This has been piloted in Samarinda in East Kalimantan, Balikpapan in East Kalimantan, and Kendari in Southeast Sulawesi. These digital clearance enhancements (i) support paperless trade and improved traceability in supply chains, (ii) reduce trade times and costs, (iii) lessen the occurrence of fraudulent certificates, and (iv) build trust among trading partners. Finally, the NSW incorporated the customs declaration document of the Association of Southeast Asian Nations (ASEAN), allowing the exchange of export declaration information between ASEAN members. An enhanced NSW will accelerate the export and import of goods and services. Under subprogram 3, the government will upgrade the NSW further and operationalize it to generate a monitoring dashboard covering exports by MSMEs and to include a single-submission system for goods transported by air.

19. **Expanding market access.** Under subprogram 1, the government automated the export-import licensing approval process, introduced self-certification of export documents to ASEAN countries, ratified the Indonesia–Australia Free Trade Agreement (FTA), and signed the Regional Comprehensive Economic Partnership. Under subprogram 2, the government began implementation of a 25-year road map to strengthen the competitiveness of its procurement framework under its FTAs and to raise awareness among National Public Procurement Agency officials. The road map articulates actions required for foreign suppliers to participate in government procurement and prepares local suppliers to participate in international government procurement. This reform will be instrumental in supporting the government’s ongoing negotiations with the European Union of a bilateral trade agreement and the most favored nation clause on government procurement under its FTAs with Japan and the Republic of Korea. The government also implemented a program to encourage WOB to participate in government procurement. This program includes the development and testing of a dedicated gender-responsive procurement training module and monitoring of the participation of WOB in government procurement. It also identified areas in the program to strengthen the participation of WOB. Under subprogram 3, the government will upgrade and roll out its e-procurement system to align it with international agreements for national and international competitive bidding and operationalize the online registration of government procurement suppliers to include sex-disaggregated information.

3. **Reform Area 3: Growing and Upscaling Enterprises**

20. **Coordinating micro, small, and medium-sized enterprises to optimize support.** Under subprogram 1, the government (i) authorized foreign participation in technology start-ups in SEZs, (ii) provided favorable conditions for MSMEs to access public infrastructure, (iii) accelerated the timeline for brand applications, (iv) strengthened support to WOBs, and (v) provided tax incentives for research and development and training. Under subprogram 2, the government issued a presidential regulation introducing a national plan for enterprise development to serve as a single reference point on policies and programs for agencies and
stakeholders. It aims to strengthen the entrepreneurial ecosystem and increase the growth and capacity of enterprises in Indonesia to become more export and technology oriented. The government established and operationalized an inter-ministerial committee, chaired by the minister of cooperatives and small and medium-sized enterprises (SMEs), to improve the delivery of government services to enterprises. It also developed an integrated MSME system with sex-disaggregated data, which will be used to set a baseline for tracking, analyzing, and reporting on the performance of WOB. Under subprogram 3, the government will (i) operationalize MSME business incubators across the national government, subnational governments, universities, and the private sector; (ii) operationalize the inter-ministerial committee; and (iii) implement review findings on incentives to connect MSMEs (at least 30% WOB) more effectively with global value chains. The government will also implement regulations to strengthen research and development by ensuring the effective and sustainable operations of existing and new science and technology parks.

21. **ADB’s value addition and sustainability.** The program was informed by ADB’s flagship knowledge work on Indonesia’s growth potential, policy dialogue, and the predecessor program, Stepping Up Investments for Growth Acceleration Program. It supports the government’s economy-wide reforms to achieve faster, more inclusive, and sustainable growth. ADB provided technical assistance (TA) to support the implementation of several government regulations, including sharing international experience and good practice. This support included (i) a review of the risk-based licensing procedures of the electronics sector, (ii) a review of the challenges in implementing the OSS-RBA, (iii) a study on strengthening the promotion and facilitation of investment to attract foreign investment, (iv) an analysis of the parcel-based land valuation system, (v) development of a road map for strengthening the competitiveness of the government procurement framework, and (vi) development of a program to support the participation of WOB in government procurement. The program also coordinated dialogue with nongovernment stakeholders in academia, think tanks, the private sector, and civil society. It will seek to sustain the reforms by providing knowledge inputs and TA to support policy dialogue, developing partnerships with stakeholders, and building synergy with ADB’s other sovereign and nonsovereign operations. The program will complement ADB’s broader programmatic support to Indonesia for financial inclusion, human capital development, state-owned enterprise reform, and domestic resource mobilization under ADB’s country partnership strategy for Indonesia, 2020–2024.

22. **Lessons.** ADB’s engagement in private sector development, along with increasing competitiveness in subprogram 1 and in other countries, has provided four key lessons that have informed this subprogram. First, continual monitoring and review of the implementation of new systems, capacity building of government officials, and awareness raising among private sector stakeholders are required to sustain complex policy reforms. Second, the establishment of the national logistics ecosystem—a platform that connects the public and private sectors—must

---


consider the readiness of the private sector to digitalize their businesses and ensure optimal use of the platform. Trade facilitation should also be coupled with preparedness to address emerging issues under trade agreements and to achieve quality market access. Third, measures must be in place to encourage women’s participation in economic activities in order to ensure inclusive competitiveness. ADB is addressing these issues through TA (para. 21). Finally, biannual monitoring meetings provide opportunities for the program’s implementing agencies to discuss cross-sector issues and explore policy interventions during implementation.

23. **Sovereign and nonsovereign collaboration and benefits to the private sector.** The program aims to increase foreign investment in Indonesia and enable private sector projects to be more competitive. It will shorten the implementation period of projects by streamlining the end-to-end process—from concept to bid stage, financial close, and construction. ADB’s Private Sector Operations Department and Office of Markets Development and Public–Private Partnership provided inputs to the design of the program and evaluated the progress of the reforms. Reforms under this program could present more opportunities for leveraging private capital, including FDI, through operations of the Private Sector Operations Department and Office of Markets Development and Public–Private Partnership. The private sector will reap the benefits of cost and time efficiency from simplifying processes under the OSS-RBA, and green initiatives will promote sustainable investments. Similarly, accelerating the purchase of land and property by foreigners will provide certainty in acquiring land for investment.

24. **Development partner coordination.** As part of regular country programming dialogue, ADB coordinates with the International Monetary Fund (IMF), the World Bank, and bilateral agencies on policy-based loans to Indonesia. ADB regularly meets and consults with the IMF, including during staff visits and Article IV missions, to exchange quantitative analyses and evaluations, and discuss macroeconomic projections and downstream industrialization. In 2023, the World Bank launched the Non-Tariff Measures database, which complements this program’s policy actions on easing barriers to trade. Australia’s Department of Foreign Affairs and Trade, through its economic governance program Prospera, is providing technical support on policy analysis, including a private sector survey on single submission introduced under the national logistics ecosystem. The United Kingdom supported the development of regulations and a surveillance mechanism for the OSS-RBA. The program has also benefited from close coordination with the Asian Infrastructure Investment Bank as its cofinancing partner, using a joint policy matrix.  

C. **Expected Outcome of the Reforms**

25. The program’s impact will be economic resilience for quality growth strengthened and disparities between regions reduced, in line with the Vision of Indonesia 2045 and the RPJMN, 2020–2024. The outcome will be competitiveness and investment-friendly business environment improved. The effect of the reforms will be demonstrated by 2026 through these performance targets in the policy design and monitoring framework (Appendix 1): under reform area 1, Indonesia’s score on the FDI Regulatory Restrictiveness Index of the Organisation for Economic Co-operation and Development will improve to 0.10 from 0.30 in 2019; under reform area 2, Indonesia’s score on the World Bank Logistics Performance Index will improve to 3.5 from 3.1 in 2019, and the cost of logistics will decline to 20.0% of GDP from 23.9% of GDP in 2019; and under reform area 3, outputs of MSMEs will increase to 65.0% of GDP from 57.0% in 2019. As a result of reform progress made during the program, the following five outcome indicators

---

19 Development Coordination (accessible from the list of linked documents in Appendix 2).
20 The policy design and monitoring framework is in Appendix 1.
targeted for 2026 were revised because they had been achieved by 2022: (i) the average time to start a business reduced to 4 days was revised to 1 day, (ii) the OSS-RBA being operational in 34 provinces was revised to 38 provinces, (iii) 46 business activities with restrictions for investors improved to 44, (iv) manufacturing exports of $183.4 billion was revised to $230.0 billion, and (v) share of value-added by SMEs of 20.0% revised to 21.4%. The values of the baseline and target of outcome on FDI, previously sourced from BKPM, were revised to be consistent with the definition of FDI used by Bank Indonesia and Statistics Indonesia. These reforms will contribute to an overall reduction in restrictions on investments leading to increased FDI, a reduction in logistics costs leading to an increase in exports, and the expansion of MSME outputs and share of the value-addition of the processing industry. Finally, the implementation of the OSS-RBA system can be used as a proxy for the impact of policy reforms as it has been adopted in 34 provinces in Indonesia. Provinces that have adopted the OSS-RBA observed their FDI increase by 2.4% and will see their future FDI increase by 2.5%.²¹

D. Development Financing Needs and Budget Support

26. For 2023, the government projects a programmed budget deficit of Rp598.2 trillion ($40.4 billion), which represents 2.8% of GDP. Projected financing needs (including the budget deficit, debt repayment, and non-debt financing) total $85.1 billion, including $66.2 billion that will be met through debt issuance in rupiah, $11.0 billion through debt issuance in foreign currencies, $0.2 billion through domestic loans, and $7.7 billion through official development assistance.²²

27. The loan will have (i) a 15-year term, including a grace period of 3 years; (ii) an interest rate determined in accordance with ADB’s Flexible Loan Product; (iii) a commitment charge of 0.15% per year; and (iv) such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 9.25 years, and there is no maturity premium payable to ADB. As part of its financing plan, the government has requested a regular loan of $500 million from ADB’s ordinary capital resources to help finance subprogram 2, estimated to represent 1.2% of the budget deficit and 0.6% of the government’s financing needs in 2023.²³ The size of the loan reflects the country’s financing needs. For subprogram 2, the Asian Infrastructure Investment Bank will provide parallel cofinancing of $500 million. ADB will work with the government to ensure that its annual lending program has the right balance between policy reforms and investment projects.

E. Implementation Arrangements

28. The Coordinating Ministry for Economic Affairs (CMEA), also known as Kementerian Koordinator Bidang Perekonomian, is the executing agency. The implementing agencies are CMEA, BKPM, the Ministry of Agrarian Affairs and Spatial Planning or National Land Agency, Ministry of Cooperatives and SMEs, MOF, Ministry of Trade, the National Research and Innovation Agency, and the National Public Procurement Agency.²⁴ The implementation period for subprogram 2 is from 1 July 2021 to 30 June 2023. The proceeds of the policy-based loan will be withdrawn following ADB’s Loan Disbursement Handbook (2022, as amended from time to time) and detailed arrangements agreed between the government and ADB. The CMEA holds monitoring meetings, chaired by its deputy minister for macroeconomy, twice a year with the

²¹ Program Economic Assessment (accessible from the list of linked documents in Appendix 2).
²² Calculated using Rp14,800: $1, as assumed in the 2023 budget. ADB support to Indonesia for 2023 totals $2.57 billion.
²³ The program will support government reforms on competitiveness, private sector and MSME development, and trade and investment.
²⁴ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).
implementing agencies, the private sector (represented by the Indonesian Chamber of Commerce and Industry), ADB, and the program’s cofinancing partners. The CMEA monitors the implementation of the reform actions and coordinates knowledge work and capacity building TA provided by ADB and the program’s cofinancing partners.

III. DUE DILIGENCE

29. **Poverty.** The unprecedented impact of the COVID-19 pandemic reversed Indonesia’s gains in reducing unemployment and poverty. Unemployment rose from 5.0% in February 2019 to 7.1% in August 2020—the highest rate in 9 years—and was at 5.5% in February 2023. The poverty rate, which had not increased since 2015, rose from 9.2% in 2019 to 10.2% in 2020, before dropping to 9.5% in 2022. The program supports the creation of new firms, growth in old firms, and incentives for MSMEs. These reforms should attract would-be entrepreneurs and new entrants to the labor market to start businesses, create jobs, and provide productive employment opportunities for youth, with positive spillovers for women and WOB.

30. **Gender.** Subprogram 2 is categorized effective gender mainstreaming. Data from the Ministry of Cooperatives and SMEs show that Indonesia had 64.2 million business units in 2018, of which 99.9% were MSMEs. Micro enterprises make up 98.7% of the total, while 1.2% are small enterprises, and 0.1% are medium-sized enterprises. Government contracts have been awarded to only 0.26% of these SMEs, with even lower levels for women-owned SMEs as they generally have more restricted access to financial resources.25 A 2021 presidential regulation set a minimum of 40% of government procurement spending on MSMEs and cooperative domestic products. However, data on cooperatives and MSMEs, including WOB, are still disorganized and nonuniform, which has compromised the effectiveness of empowerment programs for cooperatives and MSMEs. To address this, The Ministry of Cooperatives and SMEs, in collaboration with Statistics Indonesia and supported by the Ministry of National Development Planning (BAPPENAS), is conducting an exercise called Complete Data Collection on Cooperatives, Micro, Small and Medium Enterprises, 2022–2024.26 The program addresses gender-related constraints through the (i) implementation of a program to support the participation of WOB in government procurement, including gender-responsive procurement training and annual reporting on and identifying areas for strengthening the participation of WOB in government procurement; (ii) establishment of an inter-ministerial committee, chaired by the minister of cooperatives and SMEs with committee members including the minister of women empowerment and child protection, to improve the delivery of government services to enterprises; and (iii) development of an integrated MSME system, with sex-disaggregated data, for monitoring and reporting on the performance of WOB. The program has synergies with subprogram 2 of the Promoting Innovative Financial Inclusion Program, particularly in promoting access to finance by MSMEs and marginalized groups including women and youth.27

31. **Climate change.** Indonesia is committed to combating global climate change and is pursuing a just and affordable transition to a low-carbon and climate-resilient future, while ensuring the stability and availability of essential services. Under its enhanced nationally determined contribution, Indonesia has set an unconditional target of reducing greenhouse gas emissions by 31.9% by 2030 from a business-as-usual scenario and a 43.2% reduction

conditional on international support. This is aligned with its Long-Term Strategy for Low Carbon and Climate Resilience 2050. Subprogram 2 supports Indonesia’s climate ambition and transition to a green economy by creating an enabling environment for competitive and sustainable investments, promoting pioneering industries such as energy efficiency, adopting sustainable land use and management practices, and implementing integrated assessment frameworks to manage environmental and climate change risks. The program delivered two significant climate outcomes. First, it promoted green jobs and sustainable land resource management. This resulted in a breakthrough in sustainable land management by guiding low-carbon investment, operationalizing the land bank, securing green spaces in cities, and integrating strategic environmental assessment with spatial planning. Second, the program expanded digital and electronic technologies and service delivery, combined with consolidated governance and land registration reforms. This outcome contributed to climate mitigation by enabling resource-efficient operations and reducing cost and time. Subprogram 2 is assessed as contributing $20.00 million to climate change adaptation and $151.25 million to climate change mitigation. Following the Joint Multilateral Development Bank Methodological Approach for Assessment of Paris Agreement Alignment, subprogram 2 has been assessed as aligned with the goals of the Paris Agreement.

32. **Safeguards.** In compliance with ADB’s Safeguard Policy Statement (2009), the program is classified category C for environment, involuntary resettlement, and indigenous people. The program is not expected to have significant adverse environmental or social safeguard impacts within the meaning of ADB’s Safeguard Policy Statement (2009).

33. **Governance.** Numerous regulations, procedures, and overlapping jurisdictions undermine the investment climate in Indonesia. The lengthy and ineffective business settlement process makes enforcing contracts difficult. Moving goods into and within the country also requires the approval of multiple government agencies. The government acknowledges the complexity of the reforms and the limited capacity of the stakeholders to implement them. ADB and other development partners continue to provide TA to support institutional coordination and training of the program’s implementing agencies. The program takes a whole-of-government approach in addressing governance issues that impede investment in Indonesia. The reforms are also expected to increase predictability and transparency.

34. **Public financial management.** Indonesia has improved its public financial management. The institutional and legal framework for public financial management is supported by systems that cover internal controls, accounting and reporting procedures, and internal and external audit systems. The MOF is responsible for coordinating budget formulation and disbursement, while BAPPENAS prepares priority programs and activities and develops plans for investment and capital expenditures. The 2017 Public Expenditure and Financial Accountability Assessment Report concluded that Indonesia has a strong legal and regulatory framework and fiduciary arrangements, particularly for fiscal management and budget execution. However, the IMF’s 2019 Public Investment Management Assessment, which evaluated public financial management

---


30 Climate Change Assessment (accessible from the list of linked documents in Appendix 2).

31 Paris Agreement Alignment Assessment (accessible from the list of linked documents in Appendix 2).

32 Assessment of Involuntary Resettlement, Indigenous Peoples, and Environmental Impacts of the Policy Actions (accessible from the list of linked documents in Appendix 2).

33 Public Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

in Indonesia, indicated that a public investment effectiveness gap remains when compared with other emerging markets (footnote 33).

35. **Risks and mitigating measures.** Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.\(^{35}\)

**Table 2: Summary of Risks and Mitigating Measures**

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global economic uncertainty.</strong> High uncertainty resulting from commodity price shocks, tighter monetary policy in advanced economies and its impact on growth and financial markets, and possible future pandemics.</td>
<td>Export volume remains healthy and export prices have significantly increased, raising the purchasing power of Indonesian consumers. Domestic demand in 2022 was stronger than expected, and private consumption has been boosted by the removal of mobility restrictions, rising income, and improving confidence. Fiscal and monetary policies are being appropriately tightened, supported by strong macroeconomic coordination.</td>
</tr>
<tr>
<td><strong>Institutional coordination and capacity.</strong> Weak institutional coordination and capacity to address social and environmental issues relating to the implementation of the OSS-RBA, NSW, and the national logistics ecosystem.</td>
<td>The government continues to build the capacity of officials on the implementation of the OSS-RBA system, NSW, and the national logistics ecosystem. It holds ongoing consultations with stakeholders. The Asian Development Bank provided technical assistance for legal and safeguard issues to support the implementation of the OSS-RBA.</td>
</tr>
</tbody>
</table>

NSW = national single window, OSS-RBA = online single-submission, risk-based approach.

36. ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the CMEA.

**IV. ASSURANCES**

37. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement, as described in detail in the draft loan agreement.

**V. RECOMMENDATION**

38. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of $500,000,000 to the Republic of Indonesia for subprogram 2 of the Competitiveness, Industrial Modernization, and Trade Acceleration Program, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s Flexible Loan Product; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa  
President

1 September 2023

---

\(^{35}\) Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).
## POLICY DESIGN AND MONITORING FRAMEWORK

### Country’s Overarching Development Objective
Economic resilience for quality growth strengthened and disparities between regions reduced (National Medium-Term Development Plan 2020–2024; Vision of Indonesia 2045)\(^a\)

### Outcome
Competitiveness and investment-friendly business environment improved

### Risks and Critical Assumptions
- R: Global economic uncertainty.
- R: Weak government institutional coordination and capacity of social and environmental issues, relating to the implementation of OSS-RBA system, NSW and the national logistics ecosystem.

### Prior Actions:

<table>
<thead>
<tr>
<th>Prior Actions: Subprogram 1 Completed</th>
<th>Prior Actions: Subprogram 2 Completed</th>
<th>Policy Actions: Subprogram 3 (July 2023–June 2025)</th>
<th>Outcome Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>(July 2019–June 2021)</td>
<td>(July 2021–June 2023)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Reform Area 1: Creating an enabling environment for investments

1.1. To make starting business easier and faster, the government:
(i) consolidated the issuance of business licenses under BKPM; and (ii) under the Job Creation Law, installed the OSS-RBA for business licenses at the BKPM. (Ministry of Investment/BKPM)

1.2. To attract FDI in the manufacturing sector, the government:

2.1. The government:
(i) upgraded the OSS-RBA to align with ongoing updates of regulations of relevant ministries and local governments and integrate their risk databases to the OSS-RBA to expedite the evaluation, approval and issuance of licenses and permits; and (ii) rolled out the OSS-RBA across all subnational administrations (at the provincial level) which significantly reduced the regulatory inconsistencies between the national and local governments. (Ministry of Investment/BKPM)\(^c\)

2.2. The government, through the BKPM, entered into agreements for

3.1 The government will further streamline the business licensing process by updating the business risk categorization of the OSS-RBA and its corresponding requirements under government regulation 5/2021. (CMEA, Ministry of Investment/BKPM)

3.2 The government will provide time-bound investment incentives to encourage the

By 2026:

- a. Indonesia’s score in the OECD FDI Regulatory Restrictiveness Index improved to 0.10
  (2019 baseline: 0.30; 2021: 0.35)\(^b\)
  (Source: OECD FDI Regulatory Restrictiveness Index)

- b. FDI increased to $30 billion per annum
  (2019 baseline: $25.0 billion; 2022: $21.7 billion)
  (Source: Bank Indonesia)\(^a\)

- c. Average time to start a business reduced to 1 day
  (2019 baseline: 13 days; 2022: 2.5 days)\(^f\)
  (Source: BKPM)

- d. OSS-RBA operational in 38 provinces
  (2019 Baseline: 0; 2022: 34 provinces)\(^g\)
  (Source: BKPM)
<table>
<thead>
<tr>
<th>Prior Actions: Subprogram 1</th>
<th>Prior Actions: Subprogram 2</th>
<th>Policy Actions: Subprogram 3</th>
<th>Outcome Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) established tax incentives (tax allowances, tax holidays, and investment allowances) and import duty exemptions for eligible investors (imported machinery and goods and materials for industrial development); and (ii) directed the BKPM to provide nonfiscal support to eligible investors such as facilitating access to electricity and connectivity, registration of workers in government’s insurance program, and immigration process. (MOF, Ministry of Investment/BKPM)</td>
<td>investment in energy efficiency pioneering industries which resulted in the approval of FDIs for five contracts worth approximately $28.1 billion in the manufacturing of batteries for electric vehicles. (Ministry of Investment/BKPM)</td>
<td>establishment of more green and sustainable businesses. (CMEA)</td>
<td></td>
</tr>
<tr>
<td>1.3. To simplify land-related transactions for investors, the government issued ministerial decrees that: (i) rolled out digitalization of land administration systems, including an e-land services program; and (ii) provided clarity on strata titles and land titles, including rights to manage, use, and build. (MAASP/NLA)</td>
<td>2.3. The government: (i) implemented a ministerial decree that serves as a framework for investors, businesses, and policy makers to promote green investment plans; and (ii) merged environmental assessments with spatial planning into one process using geographic information system technology, to accelerate the approval of licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. The number of business activities with certain restrictions for investors reduced to 44 (2019 baseline: 350; 2021: 46)(^{h}) (Source: BKPM and CMEA)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.3 The government will: (i) implement the parcel-based valuation method to facilitate accurate land appraisal and administration; and (ii) approve at least one land transaction annually under the 2024–2029 program for green investment. (NLA)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Prior Actions: Subprogram 1  
Completed  
(July 2019–June 2021) | Prior Actions: Subprogram 2  
Completed  
(July 2021–June 2023) | Policy Actions: Subprogram 3  
(July 2023–June 2025) | Outcome Indicators |
|---|---|---|---|
| | for sustainable businesses and promote low-carbon and climate-resilient development planning. (BKPM and NLA)
| 1.4. To enhance the attractiveness of SEZs to investors, the government: (i) centralized SEZ management under the SEZ National Council; (ii) simplified procedures for obtaining land rights; and (iii) permitted eight new business activities to operate in SEZs. (CMEA)
| 2.4. The government: (i) operationalized a land bank to manage state and abandoned land, in a sustainable way and for public interest, covering planning, acquisition, procurement, management, utilization, and distribution of land; (ii) simplified procedures and clarified requirements for foreign land ownership; (iii) in July 2022 enacted and implemented a regulation on the provision and utilization of green open spaces, which requires local governments to comply with the mandatory provision of 20% of green open spaces in cities, providing social, environmental, climate and economic benefits to communities that attract investment; and (iv) clarified land
| 3.4. The government will: (i) provide exemptions or relief for SEZs from regional taxes and levies for land acquisition and annual land and building regional taxes in at least one local government; and (ii) implement the acceleration and special procedures for companies operating in SEZs to obtain land rights, extensions, and/or renewals. (CMEA)
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>tilling for above and below the ground using a modern electronic land registration system. (MAASP/NLA)</td>
<td>2.5. The government: (i) established a health SEZ that for the first time permitted foreign healthcare service providers to operate in Indonesia; and (ii) began implementing the electronic smart cards process to accelerate immigration checks for foreign workers. (CMEA)</td>
<td>3.5 The government will update and operationalize the guidelines for the establishment of green SEZs. (CMEA)</td>
<td></td>
</tr>
</tbody>
</table>

**Reform Area 2: Easing barriers to trade**

1.5. To improve logistics management, the government launched the National Logistics Ecosystem Masterplan, 2020–2024, which (i) established collaboration between various government agencies as well as between government agencies and businesses, and (ii) improved the physical layout of ports. (CMEA)

2.6. Under the National Logistics Ecosystem Masterplan, 2020–2024, the government implemented: (i) a single submission system for domestic and international sea and air transportation and for key ministries responsible for agriculture, trade, industry, health, and food and drugs; (ii) a single operating system for port operators, including an integrated container service and delivery

3.6. Under the National Logistics Ecosystem Masterplan 2020–2024, the government will incorporate rail transport into the integrated container service and delivery logistics platform in 2024 to improve cost and time efficiency. (CMEA)

f. Indonesia’s score in the World Bank Logistics Performance Index improved to 3.5
(2019 baseline: 3.1; 2022: 3.0)
(Source: World Bank Logistics Performance Index)

g. The cost of logistics reduced to 20.0% of GDP (2019 baseline: 23.9% of GDP)
(Source: BAPPENAS)

h. Manufacturing exports increased to $230 billion per annum
(2019 baseline: $115.7 billion; 2022: $206.4 billion)
(Source: BAPPENAS)
<table>
<thead>
<tr>
<th>Prior Actions: Subprogram 1</th>
<th>Prior Actions: Subprogram 2</th>
<th>Policy Actions: Subprogram 3</th>
<th>Outcome Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed (July 2019–June 2021)</td>
<td>Completed (July 2021–June 2023)</td>
<td>(July 2023–June 2025)</td>
<td>i. Multimodal goods transportation integrated under the NSW and border clearance fully upgraded and operationalized in line with the MOF’s plan (2019 baseline: None) (Source: CMEA, MOF)</td>
</tr>
</tbody>
</table>

1.6. To simplify the business processes of government logistics services, the government expanded the NSW to include: (i) connections with SEZs; (ii) joint customs and quarantine inspections; (iii) a single submission for goods by maritime transportation; and (iv) export and import licensing submission and interisland (domestic) trade. (MOF)

2.7. The government further enhanced and operationalized the features of the NSW by incorporating: (i) a value-added tax exemption system which was integrated with the investment list of the BKPM; (ii) e-sanitary and phytosanitary systems; and (iii) single submission systems for exports and goods export notification; (iv) an expanded e-certificate of origin; and (v) ASEAN customs declaration document. (MOF)

3.7. The government will upgrade the NSW and operationalize it to: (i) generate a monitoring dashboard covering exports by MSMEs; and (ii) include a single submission system for goods transported by air, to accelerate the export and import of goods and services. (MOF)

1.7. To facilitate trade and provide predictability to the private sector, the government: (i) adopted automatic approval for export-import licensing requests pending for more than 5 days, with guaranteed legal standing of such automatic

2.8. The government: (i) approved and commenced the implementation of a 25-year roadmap for the strengthening and competitiveness of government procurement under its trade agreements, which

3.8. The government will: (i) upgrade and roll out its e-procurement system to align with international agreements for national and international competitive bidding; and (ii) operationalize the online registration of suppliers with
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>approval; (ii) permitted the private sector to self-certify goods’ origin documents for exports to ASEAN countries; (iii) introduced a “reputable traders” mechanism for automatic export and import licensing; and (iv) ratified the Indonesia–Australia Free Trade Agreement and signed the Regional Comprehensive Economic Partnership to open markets for value-added exports. (MOT)</td>
<td>(a) guides foreign supplier participation in government procurement, and (b) prepares local suppliers for participation in international government procurement; (ii) raised awareness among NPPA officials on government procurement provisions in trade agreements; and (iii) implemented a program to promote WOB in government procurement, which includes (a) developing and testing a dedicated gender-responsive procurement training module and (b) undertaking annual reporting of the participation of WOB in government procurement and (c) identifying areas in government procurement to strengthen participation of WOB. (NPPA)</td>
<td>sex-disaggregated information of suppliers. (NPPA)</td>
<td></td>
</tr>
</tbody>
</table>

Reform Area 3: Growing and upscaling enterprises

<table>
<thead>
<tr>
<th>1.8 To encourage growth in businesses, the government, through the Job Creation Law: (i) permitted foreign</th>
<th>2.9 The government: (i) issued a presidential regulation for a new integrated national plan for enterprise</th>
<th>3.9. The government will: (i) establish and operationalize MSME business incubators annually across the</th>
<th>j. MSMEs’ output increased to 65% of GDP (2019 baseline: 57% of GDP; 2022: 60.5%) (Source: BAPPENAS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Actions: Subprogram 1 Completed</td>
<td>Prior Actions: Subprogram 2 Completed</td>
<td>Policy Actions: Subprogram 3 Completed</td>
<td>Outcome Indicators</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>investors to invest in technology-based start-ups located in SEZs; (ii) extended preferential treatment for MSMEs such as minimum space allocations in public infrastructure (a minimum 30% of total space at a maximum 30% of the market rental rate); (iii) reduced the timeline for approving brand applications to a maximum of 30 days (from 150 days) for simple products; and (iv) issued through MCSM a decree to strengthen support for women-owned businesses, including through integrating sex-disaggregated data in the system. (MCSM, CMEA)</td>
<td>development by synerizing government programs to support enterprises in becoming more export- and technology-oriented; and (ii) established and operationalized an inter-ministerial committee to improve the delivery of government services to enterprises. (MCSM)³</td>
<td>national government, subnational governments, universities, and the private sector; (ii) operationalize the inter-ministerial committee; and (iii) incentivize MSMEs (of which at least 30% are WOBs) to participate in government procurement and, through the automation of logistics and the national single window, facilitate MSMEs’ participation in international trade, enabling them to become first tier suppliers in global value chains. (MCSM)</td>
<td>k. The share of value-added by small and medium enterprises in total value-added by the processing industry (non-oil and gas) increased to 21.4% (2019 baseline: 18.5%; 2022: 21.37%)³ (Source: BAPPENAS)</td>
</tr>
<tr>
<td>1.9 To incentivize firms to adopt new technologies and upgrade workers’ skills, the government permitted tax deduction from gross income as follows: (i) up to 300% of the cost for research and development; and (ii) up to 200% of the cost for work experience,</td>
<td>2.10 The government developed an integrated MSME system with sex-disaggregated data, used to track, analyze and report on the performance of WOB. (MCSM)</td>
<td>3.10. The government, to strengthen the research and development ecosystem, will implement regulations for effective and sustainable operations of existing and new science and technology parks. (BRIN)</td>
<td>l. An integrated system to improve inter-ministerial policy coordination and targeting for MSMEs operationalized (2019 baseline: None) (Source: MCSM)</td>
</tr>
</tbody>
</table>

(Source: BAPPENAS)
## Prior Actions:

<table>
<thead>
<tr>
<th>Subprogram 1</th>
<th>Subprogram 2</th>
<th>Subprogram 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed</td>
<td>Completed</td>
<td>Completed</td>
</tr>
</tbody>
</table>

- apprenticeships, or learning. (MOF)

## Policy Actions:

<table>
<thead>
<tr>
<th>Subprogram 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>(July 2023–June 2025)</td>
</tr>
</tbody>
</table>

## Outcome Indicators

- apprenticeships, or learning. (MOF)

## Budget Support

### Asian Development Bank
- Subprogram 1: $500.00 million (policy-based loan)
- Subprogram 2: $500.00 million (policy-based loan)
- Subprogram 3: $500.00 million (policy-based loan, indicative)

### Japan International Cooperation Agency
- Subprogram 1: $226.55 million

### Export-Import Bank of Korea through the Economic Development Cooperation Fund
- Subprogram 1: $100.00 million

### Asian Infrastructure Investment Bank
- Subprogram 2: $500.00 million

---

ASEAN = Association of Southeast Asian Nations; BAPPENAS = Ministry of National Development Planning; BKPM = Investment Coordinating Board; BRIN = National Research and Innovation Agency; CMEA = Coordinating Ministry for Economic Affairs; FDI = foreign direct investment; GDP = gross domestic product; MAASP/NLA = Ministry of Agrarian Affairs and Spatial Planning/National Land Agency; MCSM = Ministry of Cooperatives and Small and Medium Enterprises; MOF = Ministry of Finance; MOT = Ministry of Trade; MSMEs = micro, small, and medium-sized enterprises; NPPA = National Public Procurement Agency; NSW = National Single Window; OECD = Organisation for Economic Co-operation and Development; OSS-RBA = Online Single Submission Risk-Based Approach; R = risk; SEZ = special economic zone; WOB = women-owned businesses.

b OECD used a now outdated regulation on restriction of foreign shareholders. More recent regulations (2021 onwards) which reduce the number of restrictions will result in an improved score after 2021. This correlates with the significant decrease in restrictions as observed in indicator e.
c Letter issued by the Ministry of Investment confirming the implementation of the policy action.
d New policy action added in subprogram 2.
e The value of the FDI data was revised in the baseline and target indicators, making it consistent with the definition of FDI used by Bank Indonesia and Statistics Indonesia.
f The original indicator of 4 days by 2026 has been improved to 1 day as the original target has been achieved in 2022.
g The original indicator of 34 provinces by 2026 has been revised upward to 38 provinces in accordance with the government’s decision to expand the number of provinces to 38 in November 2022.
h The original indicator of 46 by 2026 has been improved to 44 as the original target has been achieved in 2022.
i Government Regulation Number 20 of 2021 on the Management of Abandoned Areas and Land states that, privately-owned land can become abandoned land if there is no intention of using or maintaining it, which may result in (i) it being controlled by the community and becoming a village area; (ii) it being continuously controlled by another party for 20 years without any legal relationship with the rights holder; or (iii) the social function of the land rights not being fulfilled, whether or not there is a rights holder. Furthermore, abandoned areas are defined as non-forest areas that have not been attached to land rights that already have concession.
Appendix 1

or business permits. Abandoned land is defined as private land, land with management rights or land obtained under the basis of land tenure, which is deliberately not cultivated, used, or maintained.

(i) President Regulation Number 113/2021 on The Structure and Administration of Land Bank Agency (27 December 2021), (ii) Regulation of Minister of Agrarian and Spatial Planning of Republic of Indonesia Number 18 Year 2021 concerning Procedures for Determining Management Rights and Land Rights stipulates that the right to use with term may be granted to an Indonesian citizen, a legal entity established according to Indonesian law and is domiciled in Indonesia, a foreign legal entity that has a representative in Indonesia, a religious and social body, and foreigners; defines business activities; specified length of term; clarified application procedures for property and building use rights; outlined procedures and immigration documentation requirements for acquisition, ownership and rights to use various types of residential properties. This regulation, coupled with the Decree of the Minister of Agrarian Affairs and Spatial Planning Number 1241/SK-HK.02/IX/2022 on the Acquisition and Prices of Residential Houses for Foreign Citizens, were issued, among others, for the purpose of facilitating the acquisition of property by foreigners and is expected to have a positive impact on tourism and industry and create employment, (iii) Regulation of Minister of Agrarian and Spatial Planning of Republic of Indonesia Number 14 Year 2022 on the Provision and Utilization of Green Open Spaces (enacted 20 July 2022), (iv) Regulation of Minister of Agrarian and Spatial Planning/ Head of National Land Agency of Republic of Indonesia Number 16 Year 2021 Concerning Third Amendment to Regulation of State Minister of Agrarian/Head of National Land Agency Number 3 Year 1997 Concerning the Implementation Provision on Government Regulation Number 24 Year 1997 Concerning Land Registration.

The regulation must first be approved by the national government following which each subnational government issues its own regulation with its own parameters based on the overarching government regulation. As the government regulation requires time for preparation and approval, a target of at least one local government has been set for achievement during the subprogram 3 implementation period.

(i) Government Regulation Number 41 Year 2022 on Special Economic Zone Sanur (enacted on 1 November 2022) and Minister of Health Regulation Number 1 Year 2023 on Organizing the Hospital Business Activities in Special Economic Zone, (ii) Minister Regulation of Law and Human Rights No. 28 Year 2021 on Facility and Ease on Immigration in the Special Economic Zone (16 August 2021) and Minister Regulation of Law and Human Rights No 13 Year 2022 Immigration crossing system electronic card facilities at immigration checkpoint (July 2022).


Original target indicator of $183.4 billion by 2026 has been revised upwards to $230 billion as the original target has been achieved in 2022.

Confirmation from Ministry of Finance and Coordinating Ministry for Economic Affairs.

President Regulation Number 2/2022 on National Entrepreneurship Development Year 2021–2024, among others, established the National Entrepreneurship Development Committee with immediate effect, which is tasked with implementing the plan and reports to the President. It consists of a steering committee represented by the Coordinating Minister of Economic Affairs, the Coordinating Minister of Maritime and Investment, the Coordinating Minister of Human and Culture Development, the Minister of National Development Planning/ National Development Planning Agency, the Minister of Finance, and a Cabinet Secretary. The executing committee is chaired by the Minister of Cooperatives and Small and Medium Enterprises and vice-chaired by the Minister of State-owned Enterprises, Minister of Tourism and Creative Economy/Head of Tourism and Creative Economy Agency and Minister of Home Affairs, with members represented by 20 ministries. The role of the committee includes providing policy and resource support, making policy recommendations to the President, and coordination, monitoring and evaluation of policies.

The original target indicator of 20.0% by 2026 has been revised upward to 21.4% as the original target has been achieved in 2022.

**Contribution to Strategy 2030 Operational Priorities:** Operational priority indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

LIST OF LINKED DOCUMENTS
http://www.adb.org/Documents/RRPs/?id=53211-002-3

1. Loan Agreement
2. Sector Assessment (Summary): Industry and Trade
3. Contribution to Strategy 2030 Operational Priorities
4. Development Coordination
5. International Monetary Fund Assessment Letter
6. Summary Poverty Reduction and Social Strategy
7. Program Economic Assessment
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Approved Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of Indonesia for the Competitiveness, Industrial Modernization, and Trade Acceleration Program

Supplementary Documents
11. Comparison of Original and Revised Policy Actions for Subprogram 2
12. Country Economic Indicators
14. Climate Change Assessment
15. Public Financial Management Assessment
16. Paris Agreement Alignment Assessment
DEVELOPMENT POLICY LETTER

Mr. Masatsugu Asakawa
President
Asian Development Bank
Manila, Philippines

Subject: Competitiveness, Industrial Modernization, and Trade Acceleration; Subprogram 2 - Development Policy Letter

Dear Mr. Asakawa,

On behalf of the Government of Indonesia (the government), we would like to express our appreciation for the continuous commitment and support of the Asian Development Bank (ADB) towards our overall reform efforts and the national development agenda.

This Development Policy Letter outlines the government’s reform priorities in creating an enabling business environment for investments, easing the barriers to trade, and growing and upscaling enterprises. It should be read in conjunction with the program’s Policy Design and Monitoring Framework in which we have identified key reform actions that target the real sectors and encompass the whole of government. We recognize that these reforms are vital for raising the living standards of low-income populations, promoting the development of micro, small, and medium-sized enterprises (MSMEs), increasing employment opportunities, reducing poverty and social inequality, enhancing climate resilience, and boosting post-pandemic economic recovery.

We would like to request financial assistance in the form of a $500 million policy-based loan for subprogram 2 of the Competitiveness, Industrial Modernization, and Trade Acceleration Program to fund the government’s reforms and meet our development financing needs in 2023, which are estimated to be $45.1 billion. The reforms under this program are aligned with the government’s Vision of Indonesia 2045 and the National Medium-Term Development Plan (RPJMN) 2020-2024.

The first subprogram covered the period 2019-2021 and set out the program’s framework and underpinning policy actions that interlinked and empowered institutions to establish a competitive and business-friendly environment. We present achieved policy actions for subprogram 2, covering the period 2021-2023, which incrementally built on and strengthened subprogram 1 reforms. We also present subprogram 3 policy actions, proposed to be implemented over the period 2023-2025, which aims to further expand business and trade policy reforms and deepen implementation.

Good post-pandemic economic recovery

Indonesia’s economic growth contracted by 2.1% in 2020 due to the coronavirus disease (COVID-19) pandemic but recovered in 2021, with gross domestic product (GDP) growing by 3.7% and even higher in 2022 by 5.3%. The unemployment rate increased from 5.3% in 2019 to 7.1% in 2020 but has since decreased to 5.9% in 2022. At 9.3%, the poverty rate in 2022 has
returned close to its pre-pandemic level and Indonesia has recently regained its upper-middle income status after losing it in 2021 because of the pandemic. Our government’s response to the pandemic has been pivotal in cushioning its negative impact on our economy, with increased fiscal spending through the National Economic Recovery Program and Bank Indonesia supporting macroeconomic stability by temporarily helping to finance the deficit, preserving liquidity; and lowering its benchmark interest rate. 2022 budget deficit was 2.38% of GDP, one year ahead of the scheduled return to the 3% deficit ceiling in 2023. As stated in the Indonesia Vision 2045, we aspire to be a high-income country by 2045. Towards that goal, RPJMN, 2020-2024, seeks to achieve economic resilience for quality growth and reduce disparities between regions. The government is committed to pursuing structural reforms to attract investments and increase the competitiveness of the economy. These reforms are vital for an accelerated economic recovery from the pandemic and achieving faster and broad-based growth towards the long-term goals of Indonesia Vision 2045.

Creating an enabling environment for investment

Following achievements in subprogram 1, the government upgraded the Online Single Submission Risk-Based Approach (OSS-RBA) system to align with ongoing updates to the regulations of relevant ministries and local governments relating to the issuance of licenses and permits under subprogram 2. The government also rolled out the OSS-RBA across all subnational administrations which significantly reduced the regulatory inconsistencies between national and local governments. The government, through the Investment Coordinating Board, entered into bilateral agreements for investment in energy efficiency pioneering industries and as a result, approved FDI in the manufacturing of batteries for electric vehicles resulting in five major investments in this sector. Recognizing that interest in sustainable investment has risen significantly in the last decade, the government implemented a ministerial decree which serves as a framework that serves as guidelines for potential investors, businesses, and policymakers to promote green investment plans, which will contribute to creating opportunities for sustainable domestic and foreign investments and improving the competitiveness of sustainable businesses. Furthermore, the government merged two separate processes for environmental assessments and spatial planning into one using geographic information system technology, to facilitate the approval of business licenses and promote low-carbon and climate-resilient development planning. Under subprogram 3, the government will further streamline the licensing process by updating the business risk categorization of the OSS-RBA system and corresponding requirements under a government regulation; and provide time-bound investment incentives to encourage the establishment of more green and sustainable businesses.

The government operationalized a land bank (the Land Bank Agency or Badan Bank Tanah) to manage state and abandoned land, in a sustainable way and for public interest, covering planning, acquisition, procurement, management, utilization, and distribution. In addition, the requirements for foreign nationals in Indonesia to procure property were simplified; the government also approved a regulation which requires local governments to comply with a mandatory provision and utilization of 20% of green open spaces in cities, and provided clarity on land titling for above and below the ground to third parties using a modern electronic land registration system. Under subprogram 3, the government will implement the parcel-based
valuation method to facilitate accurate land appraisal and administration; and approve additional land transactions for green investment under the National Land Agency’s 2024-2029 program.

The government issued regulations to establish a health special economic zone (SEZ) that for the first time, permitted foreign healthcare service providers to operate in Indonesia, allowing Indonesians to benefit from good quality medical services domestically. To further attract foreign investments in SEZs, the government began implementing the electronic smart cards process to accelerate immigration checks for SEZ foreign workers which should streamline their movement in and out of the country. Under subprogram 3, the government will (i) provide exemptions or relief for SEZs from regional taxes and levies for land acquisition and annual land and building regional taxes in at least one local government, and (ii) implement the acceleration and special procedures available to companies operating in SEZs for obtaining land rights, extensions, and renewals. The government will also update and operationalize the guidelines for the establishment of green SEZs.

Easing barriers to trade

Under this reform area, the government implemented three new systems under the National Logistics Ecosystem Masterplan 2020–2024 to digitally connect the public and private sectors in the logistics chain. A single submission system was implemented for domestic and internationally sea and air transportation and for key ministries responsible for agriculture, trade, industry, health, and food and drugs. The government also implemented a single operating system for port operators, including an integrated container service and delivery logistics platform at five large ports. Finally, the government rolled out an online payment platform for logistics services with the participation of six banks (four state-owned and two private) thus far. Under subprogram 3, the government will incorporate rail transport into the integrated container service and delivery logistics platform.

The government further expanded and operationalized the features of the NSW by integrating the value-added tax exemption system with the investment list of the Investment Coordinating Board. The use of integrated e-sanitary and phytosanitary systems and e-certificates of origin were expanded to include trade with the Republic of Korea. The government also streamlined the procedures for licenses by incorporating single submissions for exports and goods export notification into the NSW. The NSW incorporated the Association of Southeast Asian Nations (ASEAN) customs declaration document allowing exchange of exports declaration information between ASEAN member states. Under subprogram 3, the government will further upgrade and operationalize the NSW to (i) generate a monitoring dashboard covering exports by MSMEs, and (ii) include a single submission system for goods transported by air.

Recognizing that government procurement is one of the emerging issues in trade negotiation, the government approved and commenced the implementation of a 25-year roadmap for strengthening the competitiveness of its procurement framework under its trade agreements, which guides foreign supplier participation in government procurement and prepares local suppliers for participation in international government procurement, and began implementation by raising awareness among National Public Procurement Agency officials on government procurement provisions in trade agreements. The government also implemented a program to
promote women-owned businesses (WOB) in government procurement, which includes developing and testing a dedicated gender-responsive procurement training module and undergoing annual reporting of the participation of WOB in government procurement. Under subprogram 3, the government will upgrade its e-procurement system to align with international agreements for national and international competitive bidding, and operationalize the online registration of government procurement suppliers to include sex-disaggregated information.

**Growing and upscaling enterprises**

To optimize support to enterprises, the government issued a presidential regulation on a new integrated national plan for enterprise development to serve as a single reference point on policies and programs by agencies and stakeholders in enterprise development. An inter-ministerial committee, chaired by the Minister of Cooperatives and SMEs, was established to improve the delivery of government services to enterprises. The government also developed an integrated MSME system with sex-disaggregated data, which will be used to set a baseline for tracking, analyzing, and reporting on the performance of WOB. Under subprogram 3, the government will: (i) establish and operationalize MSME business incubators across the national government, subnational governments, universities, and the private sector; (ii) operationalize the inter-ministerial committee; and (iii) implement review findings on incentives to connect MSMEs (of which at least 30% are WOB) more effectively into global value chains. The government will also implement regulations for effective and sustainable operations of existing and new science and technology parks, to strengthen research and development.

The government appreciates ADB’s strong support for these reforms, including quality knowledge work and responsive technical assistance, and remains firmly committed to the structural reform agenda outlined above and to implementing the reform actions already instituted. We value ADB’s strong long-term partnership in advancing the government’s reforms and continued engagement and support.

We look forward to ADB’s early consideration and approval of this policy-based loan under subprogram 2 of the Competitiveness, Industrial Modernization, and Trade Acceleration Program.

Minister of Finance

Ditandatangani secara elektronik
Sri Mulyani Indrawati

Cc:
1. Coordinating Minister for Economic Affairs
2. Director General of Budget Financing and Risk Management, Ministry of Finance
3. Deputy for Macroeconomy and Finance, Coordinating Ministry for Economic Affairs
4. Director of Loans and Grants, Ministry of Finance