



Multi-Country Investment Climate Program – Indonesia (MCICP)

Country/region
Indonesia



Business district area of Jakarta (© Wikimedia)

Rationale

Indonesia's business environment suffers from complex and restrictive regulations and weak property rights protections and institutions. Indonesia has already embarked on a reform agenda and was recognized as top 10 improver in Doing Business 2017. Reform momentum continued in Doing Business 2018.

Economy-wide reforms create the conditions that enable higher levels of productivity in non-commodity sectors; however, they need to be complemented by sector-specific reforms to encourage faster transformation towards these sectors, as well as improved competitiveness through well-designed government policies and programs for sectoral competitiveness. Indonesia also aims to facilitate growth in particular sectors through sector-specific reforms. The government has prioritized tourism development and expects that increased visitor spending can generate significant economic gains. While Indonesia has experienced strong growth in foreign visitor numbers since 2006, it continues to lag behind key regional competitors in reaching its full potential. Private investment in tourism is hindered not only by economy-wide investment climate constraints, but also by a lack of reliable and tailored market data and analysis.

President Joko Widodo has stated that increasing exports and investment will be one of his priorities, which suggests increased prioritization of the reforms. The President is advancing this reform agenda through two Omnibus Bills: (i) one on Job Creation, which aims to amend 79 individual laws to improve the investment climate and add flexibility to labor markets while protecting workers, and (ii) one on Taxation, which features most prominently a cut in corporate income taxes.

Government Counterpart
Indonesia Investment Coordination Board (BKPM), Ministry of Law and Human Rights (MoLHR)

Executing Agency
World Bank

Project duration
2018-2021

Total budget
USD 3,130,000

SECO contribution
USD 3,130,000

Objectives and activities

The overall goal of the program is to increase domestic and foreign investments in Indonesia and to reduce the cost of doing business through support for the overall business environment and enhanced competitiveness of the tourism sector. The program aims to achieve six reforms and generate \$92 million in investment. The project consists of two components:

- Component 1: Economy-wide investment climate reforms to improve the business environment at the national and subnational level. Project activities include: identifying business regulations and practices to be strengthened; providing advice on reforms to make business regulations and services more transparent, predictable and efficient; and providing advice on strengthening the regulatory, legal and institutional framework that supports approaches to addressing uncertainty, complexity and inefficiency in the subnational business environment.
- Component 2: Tourism-specific competitiveness reforms. Project activities include: supporting targeted investment promotion strategies in the tourism sector; reviewing investment restriction and incentives; and enhancing the data management and analytical capabilities of public institutions to provide better market intelligence for foreign and domestic investors.

Governance structure

A review committee at country level is composed of SECO and World Bank. The committee meets twice annually to consult and review the progress of the program.

Results to Date

The project has made progress in the area of resolving insolvency and getting credit, with recommendations adopted in a new Ministry of Law and Human Rights (MOLHR) decree no. 37/2018 that aims to: (i) enhance the supervisory regime of administrators to improve the treatment that creditors receive in an insolvency scenario, and (ii) promote more successful rehabilitation procedures, which means more businesses get rescued and avoid liquidation. MOLHR also agreed with the recommendations on the Amendment of the Fiduciary Transaction Law and now plans to revise and resubmit the draft Law to include moveable assets transactions.

Regarding sub-national business licensing, the WBG continues to inform the preparation of the draft of the Omnibus Bill for Job Creation, by reviewing drafts. The draft aims to streamline the business licensing application process and reform business entity registration. These reforms are expected to lead to greater domestic and foreign investments in Indonesia and to reducing the cost of doing business. The tourism component progressed well. The WBG delivered a discussion paper that, inter alia, includes nine proposed concrete initiatives that key stakeholders can take up to attract more and better investors in the tourism sector.

Overall, the above initiatives are expected to generate greater investment in various sectors of the Indonesian economy.