

Indonesia

1. In which areas of structural reforms have the most significant progress been made in your economy in the past five years? Please describe in what way you think the progress has been significant? Any structural reform activity can be included here, and does not necessarily need to be restricted to the five LAISR themes.

Among the five LAISR areas, Public Sector Management is considered to be the sector that has significant progress in Indonesia. The reforms cover a variety of areas in public sector management such as bureaucracy reform, governance reform and public service reform.

The pioneer in the bureaucracy reform is the reform under the Ministry of Finance (MoF). This reform has been conducting in line with the reform of the National Budgeting System that calls for a more efficient, transparent and accountable service under the Ministry of Finance's jurisdiction. To achieve this objective, reward and punishment are enforced accordingly to all levels of bureaucracy under the Ministry of Finance.

Another public governance reform that has been proved to have a very significant impact to the accountability of the public sector is Performance-based Budgeting System. In this system, every government agency is required to have a Strategic Plan (RENSTRA) and a Work Plan (RENJA). At the end of the Fiscal Year, all of government agencies are obliged to submit Performance Accountability Reports (LAKIP) to the President. The performance of the current year will be used as a reference in approving the proposed funding of the respective agency. The reform of the financial management also covers some important measures in establishing good governance in local governments.

The massive implementation of corruption eradication as it is stipulated in the Presidential Instruction No. 5 of 2004 and the National Action Plan for Eradication of Corruption (RAN-PK) of 2005 have contributed enormously on redesigning and improving public services, strengthening transparency, supervision and sanctions on government activities and empowering people in preventing corruption. In this case, the role of the Corruption Eradication Commission (KPK) is outstanding. KPK has recovered a large amount of state funds as a result of its operations: from 2005 to June 2009, the amount of state funds recovered or prevented from potential loss mounted to some IDR 3.7 trillion. In conducting its mission, KPK works in close relationship with the Ministry of Justice and Human Rights, the National Police Office, the Supreme Court, the National Ombudsman Commission and the Audit Board of the Republic of Indonesia and other agencies. The latest agency is empowered by Law No. 15/2004 on Audit Board to expand its jurisdictions to cover audits of central and local governments, SOEs and the judicial system.

Decentralization, which was restructured by Law No. 32/2004 and Law No. 33/2004, results in increasing the competition of local governments to provide better services, which brings more innovation. Many local governments currently provide excellent services such as in issuing the citizen identity card and any kind of local licenses for businesses. Some local governments also are able to provide free education up to high-school level.

Tax Reform and Customs Reform, which include reforms in tax offices and Custom Offices, also contribute significantly to the improvement of public service especially to the tax payers, exporters and importers.

The latest reform is the issuance of Law No. 25 year 2009 on Public Service. This is the law which regulates how people conduct their rights and obligations in getting the service. Combined with the Law on Ombudsman No. 37 of 2008, which regulates how public raises complaints on a government office's conduct and its service, the law on Public Service is expected to be a very powerful law.

2. Describe examples of successful reforms and lessons learned in your economy in implementing structural reforms in the five LAISR areas. Please indicate relevant websites or other reference material, preferably those written in English.

Regulatory reform

Major economic reforms in Indonesia were generally a result of external shocks and pressures which compelled the government to introduce regulatory changes. With the aim of encouraging investment in export sectors, government reforms mostly focused on liberalizing investment and trade policies and simplifying administrative procedures for investment.

Under President Yudhoyono's administration since 2004, regulatory reforms have remained on the government's agenda. The president introduced three economic packages in 2006 aimed at improving the investment climate, reforming the financial sector, and encouraging infrastructure development, followed by two additional packages in 2007 and 2008.

Regulatory reform has had a prominent place in the governments' development's strategy. The Plan for 2004-2009 listed priority reform areas which included (1) legal reform to establish a mechanism for review and reform of laws and regulations and improve transparency in legal enforcement and (2) better public services delivery by enhancing transparency, openness and accountability of civil service. Regulatory reform for improving the investment climate is also one of the important focuses in the Plan and is supervised by the Vice President's Office.

The implementation of regulatory reform takes strong commitment and political will, sufficient capacity to implement and coordination among different ministries and at different levels of government. Most reform initiatives have been taken up at an institutional level, led by a highly reform-oriented head of institution. For example, the introduction of a performance-based budgeting system has been conducted based on the initiatives of Ministry of Finance.

Many regulatory reforms have been introduced via presidential instructions (INPRES) since 2003. They have been limited in scope, applying to specific sectors or objectives, and were assigned to respective government ministries/departments.

Currently, Bappenas and related agencies are taking the initiative to inventory and to review laws and regulations and both central and local government level.

Public Sector Governance

As it is mentioned above, Public Sector Governance reform is considered to be the most significant reform in Indonesia in the last five years. The success and the lesson learned from this reform can be summarized as follows:

- In some regions (Kabupaten/Kota) decentralizations has led to innovations in public services provision, the result is a very positive improvement in the public services of local governments.

- Decentralization of functions and budget to local governments, brings greater authority to local government officials that make local politicians and citizens interested in good governance.
- The fight against corruption has been progressing; the legal framework to fight corruption has been strengthened and stronger efforts are being made to pursue legal cases against corruption.
- The accountability and the effectiveness of government activities are increasing, due to the effort to implement the Performance-based budgeting and the close supervision of the internal system as well as the external supervision bodies.
- Public awareness for good governance is increasing. The involvement of civil society participation as well as the media helped people in monitoring the performance of agencies, the process of stipulating the laws and regulations and how public service is delivered.

The websites that could be visited are all government agencies website, especially <http://www.depkeu.go.id>, <http://www.menpan.go.id>, <http://www.bappenas.go.id>, <http://www.kpk.go.id>, <http://www.depdagri.go.id>.

Competition Policy

Indonesia started its reform in the Competition Policy with the enactment of Law No. 5/1999 on Competition and the establishment of the Commission for the Supervision of Business Competition (KKPU) in 2000. The main task of KPPU is as an independent body to enforce the Competition Law. The law is in line with international norms and practices in competition policy. The implementation of the law is to put in place the good and sound competitive process which is expected to attract more investment.

The competition policy reform is accompanied by reforms in other related areas including investment policy reform, sectoral reforms and reforms of state-owned enterprises (SOEs).

Various guidelines have been developed and disseminated by KPPU which also plays an active role in building a competition culture among enterprises, government agencies and the general public. The guidelines include guidelines on tender conspiracy, determination of the relevant market, application of administrative sanctions, mergers and issues related to Intellectual Property Rights (IPR), franchises and SOEs.

Policy advocacy and recommendations made by KPPU have reformed government policies and regulations into the policies and regulations which accommodate competition.

One latest product of KPPU is a regulation on voluntary pre-merger notification, issued in 2009, which allows enterprises to obtain an advance binding clearance from KPPU. This regulation contributes to a better legal framework for investment.

The government has also implemented sectoral reforms to promote competition and productivity, such is in infrastructure and utility sectors; which result in the termination of monopoly and monopsony of SOEs. These reforms have opened important sectors to private sector participation.

Experience and knowledge in competition policy have been steadily accumulating in a wider area such as in the universities and law schools, research centers, also in the courts.

The reports received and the cases handled by KPPU are increasing. The number of reports received by KKP increased to 232 in 2008 and reached a total of 1,019 over 9 years (200-2008) of KPPU's operation. KPPU has handled 204 cases and has issued more than 50 judgments; and the total amount of fines and compensation imposed by KPPU reached IDR 1,001 trillion by end-2008.

The examples of successful implementation of Competition Policy is in the mobile telecommunication, fuel retailing and airline industries where originally were dominated by State-Owned Enterprises. At the end, consumers are the ones who enjoy the benefit of competition.

The website of KPPU is <http://www.kppu.go.id>. KPPU has also published a textbook on the Competition Law as the main reference in competition law study.

Corporate Governance

Indonesia has made significant progress in developing a corporate governance framework based on its concept of Good Corporate Governance (GCG). GCG principles were first introduced into law in Law No. 1 of 1995.

Corporate governance problems were a major contributor to Indonesia's economic collapse in 1997-1998. In 1999, the Indonesian government signed a Letter of Intent with the IMF that encouraged the establishment of an institutional framework to ensure the implementation of the GCG Principles. It then established a National Committee on Corporate Governance Policy (KNKCG) to formulate and propose national policy recommendations on GCG principles. Following that, the government set out a programme that includes adopting a new code of corporate governance, strengthening capital market regulation and improving the oversight of non-bank financial institutions,

The main regulatory measure to ensure good corporate governance is the Company Law enacted in 2007 that replaced the previous Law of 1995. The 2007 Law stipulates a two board system consisting of a Board of Directors and a Board of Commissioners and the General Shareholders meeting (GSM). These three bodies share equivalent and proportional roles and functions in the company. There is no one of these three bodies higher than another. GCG principles of transparency, accountability and fairness also feature in the Capital Market Law and in regulations governing state-owned enterprises (SOEs) and banking.

The role of the National Committee on Corporate Governance Policy (KNKCG) is to create a general code and sectoral codes and to publish best practices of corporate governance and technical guidelines for a whistle-blowing system (issued in 2008). The KNKCG published General Guidelines on Good Corporate Governance in 2001 and Corporate Governance Guidelines for the Banking Industry and for insurance and reinsurance companies in 2004. The government renamed KNKCG the National Committee on Governance Policy (KNKG) in 2004 with the intention to include public sector.

In its 2004 report on the Observance of Standards and Codes (ROSC) in Corporate Governance in Indonesia, the World Bank recognized that Indonesia had put its place an "elaborate system of formal corporate governance rules". Since then, there has been major development of corporate governance in Indonesia. For example, there have been some revisions to several regulations concerning internal audits and annual reports which require companies to report on GCG implementation. In 2009, this programme was continued through ROSC Financial Services Assessment Programme (FSAP), which covers corporate governance practices in Indonesia.

Improvement on corporate governance issues helps creating a better climate for investment and develops more active capital markets, contributing to its economic growth and financial stability.

The website of KNKG is <http://www.knkg-indonesia.com>.

Strengthening Economic and Legal Infrastructure

The economic crisis that hit Indonesia in mid-1997 triggered the government to reform the business law and enacted Law No. 4 of 1998 on Bankruptcy which then was reformed by Law No. 37 of 2004 on Bankruptcy and the Suspension of Obligation for Payment of Debt. Indonesian bankruptcy law is pro-creditor and provides a wide range of creditor remedies.

The law regulates that a debtor that has two or more creditors can be declared bankrupt if it is failed to pay at least one of its matured debt, either by its own petition or by one or more of its creditors.

From a debtor's standpoint, this law helps prevent an instant asset's execution requested by the creditor. It also avoids an arbitrary action of creditor in relation to a debt payment.

The law sets up two mechanisms to deal with insolvency: (i) the first mechanism includes the provision of the petition to declare a debtor bankrupt with the aim to liquidate the debtor's assets, (ii) the second mechanism is the suspension of payment, with the aim is to encourage debtors and creditors to restructure their debts and payments schedules.

Another important element of the law is the establishment of special court (commercial court) to handle commercial cases especially corporate bankruptcy cases.

The availability of this law reduces the uncertainty of legal procedures for the investors in the case of bankruptcy. This is one important measure in improving the investment climate in Indonesia.

3. What in your economy's experience are the keys to the success of reform? (e.g. leadership, institutional framework, communication strategy, consultation process) What are the factors, if any, that impeded reform? What lessons can we learn from your experience?

The key success for the reform in Indonesia depends to each reform. Reforms in the competition policy, public sector governance and corporate governance are formulated and implemented successfully mostly due to two factors, institutional framework and the consultation process. On the other hand, bureaucracy reform under the Ministry of Finance is considered to be succeeded because of the leadership and the good institutional framework.

The factors that might be considered as the impediment of reforms are the problem of coordination among related agencies and between central government and local governments. In addition, the abundant numbers of regulations which might be conflicting one and another are also a kind of obstacle in reforms. The difference in awareness and understanding of reforms among executives, legislatives and judicative agencies also may discourage the reforms.

4. What are the impacts, both positive and negative, of the reform on the economy and the flow of trade and investment? Please provide data or statistics where available.

The impact of the reform is very positive to the economy. The economic growth in the last quarter of 2010 was 5 percent compared to 4.5 percent in the 2009, with the inflation rate of 2.85. Foreign debts are declining. Both domestic and foreign investments have been increasing in the last five years. There are also increased in exports; exports are returning to the level before crisis.

5. In what ways can APEC better promote structural reform in the region? What would be some possible next steps beyond 2010 based on the achievement of the LAISR process?

The Forward Work Program (FWP) on LAISR 2010, which is mostly in the forms of capacity building activities such as seminars, roundtable discussions, workshops, has been really raising the awareness on how important structural reform is for improving trade and investment of economies, especially for developing economies like Indonesia. The APEC-agenda of structural reform also brings the attention of the high-levels of government to this issue, which is not always easy.

On some possible next steps beyond 2010, one thing is to continue with the capacity building activities on some issues of the structural reform. Regulatory reform and public sector governance are the two issues that should be continued to work on. Following that, Strengthening Economic and Legal Infrastructure is also one area of reforms that need to be pushed.

Since Growth Strategy is one of the APEC 2010's agenda mandated by APEC Leaders, structural reform which supports growth strategy should also be explored.