



Report and Recommendation of the President to the Board of Directors

Project Number: 48134-007
May 2018

Proposed Policy-Based Loan for Subprogram 3 Republic of Indonesia: Stepping Up Investments for Growth Acceleration Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 May 2018)

Currency unit	–	rupiah (Rp)
Rp1.00	=	\$ 0.000071
\$1.00	=	Rp14,073

ABBREVIATIONS

ADB	–	Asian Development Bank
BKPM	–	Badan Koordinasi Penanaman Modal (Indonesia Investment Coordinating Board)
BAPPENAS	--	National Development Planning Agency
GDP	–	gross domestic product
IMF	–	International Monetary Fund
KKBP	–	Kementerian Koordinator Bidang Perekonomian (Coordinating Ministry for Economic Affairs)
LKPP	–	Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (National Public Procurement Agency)
OSS	–	online single submission
PPP	–	public–private partnership
RIA	–	regulatory impact assessment
RPJMN	–	Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan)
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

GLOSSARY

availability-based public–private partnership	–	Periodic formula-based payments by a government contracting agency to a business entity for making infrastructure available in accordance with the quality and/or other criteria specified in a public–private partnership (PPP) agreement. The payments commence upon completion of construction and/or readiness of the infrastructure facility for operation. Only competitively bid-out PPP projects are eligible for availability payments. Availability payments are not provided for PPP projects that receive viability support.
e-procurement	–	The business-to-business, business-to-consumer, or business-to-government purchase and sale of supplies, work, and services through the internet as well as other information and networking systems, such as electronic data interchange and enterprise resource planning.
public–private partnership	–	A government service or private business venture that is funded and operated through a partnership between the government and one or more private sector companies.
regulatory impact assessment	–	A process and record of the steps carried out by a regulator in preparing new legislation or regulations. The regulator will provide a regulatory impact statement on major proposals. The statement will assess the impact of the proposal on the business community and record stakeholder consultations.
reverse auction	–	A repetitive process involving an electronic device for the presentation of new prices, revised downwards, and/or new values concerning

- certain elements of tenders. The process occurs after an initial full evaluation of the tenders, enabling them to be ranked using automatic evaluation methods.
- sukuk* – Islamic bonds are a mechanism to support long-term project finance that carry specific criteria and obligations related to Islamic finance. The Government of Indonesia has developed *sukuk* as an additional project finance mechanism to support infrastructure development.
 - viability gap funding – A non-remunerated grant made by the public sector for financial support to PPPs, with the objective of making a project commercially viable.

NOTE

In this report, “\$” refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 48134-007	
Project Name	Stepping Up Investments for Growth Acceleration Program (Subprogram 3)	Department/Division	SERD/SEPF
Country Borrower	Indonesia Government of Indonesia	Executing Agency	Coordinating Ministry for Economic Affairs
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Industry and trade	Industry and trade sector development		500.00
		Total	500.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Anticorruption Institutional systems and political economy Public financial governance	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas Pilot-testing innovation and learning		
Partnerships (PAR)	Bilateral institutions (not client government) Official cofinancing		
Private sector development (PSD)	Conducive policy and institutional environment Promotion of private sector investment		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8, SDG17		
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		500.00	
Sovereign Program (Regular Loan): Ordinary capital resources		500.00	
Cofinancing		239.02	
KfW Bankengruppe - Program loan (Not ADB Administered)		239.02	
Counterpart		0.00	
None		0.00	
Total		739.02	

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 3 of the Stepping Up Investments for Growth Acceleration Program.

2. The program supplements coordinated support provided by the Asian Development Bank (ADB) to strengthen investment-led growth in Indonesia. The program promotes higher and better-quality investment through sequenced reforms that (i) provide a more predictable and open business environment, (ii) improve the framework for private sector participation in the infrastructure market, and (iii) make the public procurement system more efficient and transparent. The design and monitoring framework is in Appendix 1. Subprogram 3 is included in ADB's country operations business plan (2018–2020) for Indonesia as a deliverable in 2018.¹

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Programmatic approach and budget support.** The use of a programmatic approach with a policy-based loan and technical assistance (TA) aligns ADB's support with the government's reform program. It also provides incentives and capacity to complete the reforms with the flexibility to add new priority reforms in subsequent subprograms. In September 2014, ADB's Board of Directors approved the programmatic approach for subprogram 1 of the Stepping Up Investments for Growth Acceleration Program, with the loan amounting \$400 million. Subprogram 1 comprised 21 policy actions which established a structured, long-term engagement to improve the investment climate, focusing on reducing foreign equity restrictions and introducing electronic procurement.² Subprogram 2 was approved in July 2016 with a loan of \$500 million, comprising 18 policy actions. It focused on streamlining business licensing regulations, providing a foundation for public-private partnerships (PPP), and implementing public procurement reforms for faster and higher-quality infrastructure delivery.³ At this time, the Board also approved the government's request for the addition of a third subprogram to maintain momentum on investment climate reforms. Subprogram 3 now focuses on consolidating reforms to stimulate and facilitate efficient public and private investment, and to support the successful implementation of earlier reforms. The inclusion of a post-program partnership framework, 2018–2022 continues ADB's engagement utilizing TA and policy dialogue.

4. **The development problem.** Indonesia faces interrelated challenges of increasing its economic growth, alleviating poverty, and reducing income inequalities. From a peak of 6.4% in 2010, growth slowed to an average of 5.0% from 2014–2017. Accelerating global demand suggests modest improvements in growth to 5.3% in 2018.⁴ However, current projections remain significantly below the bottom of the government's target range of 7.0%–9.0% as stated in the National Medium-Term Development Plan (RPJMN), 2015–2019.⁵ Moreover, since 2000,

¹ ADB. 2017. *Country Operations Business Plan: Indonesia, 2018–2020*. Manila.

² ADB. 2014. *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 Stepping Up Investments for Growth Acceleration Program*. Manila.

³ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Republic of Indonesia for Stepping Up Investments for Growth Acceleration Program*. Manila.

⁴ The government forecasted growth of 5.4% for 2018, while ADB, the International Monetary Fund (IMF), and the World Bank projected growth of 5.3%.

⁵ Government of Indonesia, BAPPENAS. National Development Planning Agency. 2015. *National Medium-Term Development Plan: RPJMN, 2015–2019*. Jakarta.

Indonesia has experienced one of the largest increases in inequality in Southeast Asia. The Gini index increased from 0.30 in 2000 to 0.40 in 2015, falling slightly to 0.39 in 2017.⁶ Disparities have a regional dimension. In 2016, per capita income in Jakarta was approximately \$15,656, 13 times higher than the average of \$1,195 in East Nusa Tenggara province.⁷ Access to public services and infrastructure levels show similar disparities.⁸ Inequality is driven by many factors, including the following: job creation is not sufficient to reduce Indonesia's 11 million youth not in employment, education, or training; access to public services (e.g., health and education) is not equal for all; and low-income families have poor resilience to external shocks.

5. Investment constraints have contributed to low growth. A medium-term perspective reveals a 5-year average investment growth rate of just 4.7% since 2013.⁹ Until recently, Indonesia performed poorly in global surveys of doing business and competitiveness. The World Bank's 2015 Doing Business report ranked Indonesia 114th out of 189 countries.¹⁰ This compared unfavorably with many regional peers such as Malaysia (18th), the Philippines (95th), Thailand (26th), and Viet Nam (78th). A cumbersome business licensing regime has contributed to this high-cost business environment, which disproportionately affects small and medium-sized enterprises (SMEs). In addition, investment remains relatively inefficient and expensive considering that every \$7 spent on investment produces only \$1 of income, compared with a \$5 investment for \$1 of income in neighboring countries.¹¹ This reflects inefficiencies in capital budget execution and slow procurement. Finally, from 2008 to 2012, as a share of gross domestic product (GDP), public infrastructure spending averaged only 1.5% and private infrastructure investment 0.6% compared with an average of 3.6% for both public and private across Asia.¹² Consequently, Indonesia's stock of infrastructure in per capita terms is just one-third of the average for emerging markets, or one-eighth of the average for advanced economies.¹³ The country's annual infrastructure investment needs are estimated at approximately 7% of GDP.¹⁴

6. The government has begun to address investment constraints. Beginning in 2015, the government gradually introduced a series of 16 economic policy packages covering a range of reforms, including simplified business and trade regulations, improved trade logistics, and reduced barriers to investment. These packages have also been particularly effective in addressing fragmentation of responsibilities and poor coordination across government agencies by unifying efforts under a shared set of results, answerable to the Office of the President of Indonesia. The government is working to facilitate PPPs in infrastructure and has made significant improvements in public procurement, with 90% of the 2017 budget spending and almost 70% of the 2017 infrastructure budget delivered by November 2017. These reforms contributed to Indonesia's sovereign credit being elevated to an investment-grade rating by both Standard & Poor's and Fitch Ratings in 2017. Compared to 2015, Indonesia jumped 42 places to be ranked 72nd out of 190 countries in the World Bank's 2018 Doing Business report (para. 5).¹⁵ The reforms are also beginning to show up in improved investment data. Growth in investment picked up to

⁶ The Gini index ranges from 0 (perfect equality) to 1 (perfect inequality). A Gini index above 0.36 is comparatively high by international standards.

⁷ Government of Indonesia, Statistics Indonesia. 2017. *Statistics Indonesia Yearbook*. Jakarta; ADB staff calculations.

⁸ Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

⁹ Investment is measured by gross fixed capital formation adjusted for price inflation.

¹⁰ World Bank. 2014. *Doing Business 2015: Going Beyond Efficiency*. Washington, DC.

¹¹ World Bank. World Development Indicators. <http://databank.worldbank.org/data/reports.aspx?source=World-Development-Indicators>. (accessed 10 February 2018).

¹² Average calculated for Asia (excluding the People's Republic of China) from 2007 to 2015. Oxford Economics. 2017. *Global Infrastructure Outlook*. Oxford.

¹³ World Bank. 2017. *Indonesia Economic Quarterly: Closing the Gap*. October 2017. Washington, DC.

¹⁴ ADB. 2017. *Meeting Asia's Infrastructure Needs*. Manila.

¹⁵ World Bank. 2018. *Doing Business 2018: Reforming to Create Jobs*. Washington, DC.

6.2% in 2017, from 4.6% in 2016, and foreign direct investment grew by 8.5% in 2017 year-on-year.¹⁶ The 2018 International Monetary Fund (IMF) Article IV confirms these positive developments, noting that public investment as a share of GDP has grown by more than a full percentage point between 2014 and 2017, from 1.7% to 3.3%.¹⁷ However, additional reform efforts are needed to accelerate investment and close Indonesia's infrastructure gap.

7. **Binding constraints.** While subprograms 1 and 2 achieved significant progress, several additional challenges must be addressed to accelerate investment, boost growth, and promote inclusion. These include (i) further streamlining the high-cost business environment, which deters private investment, especially for SMEs, (ii) improving access and opportunities for citizens by leveraging private sector participation in infrastructure investment, and (iii) accelerating delivery of public investments by resolving inefficiencies in the public procurement system.

8. **Despite recent improvements, the regulatory environment still imposes high costs on businesses.** Costs stem from a proliferation of regulations at national and subnational levels as well as complex, inefficient licensing practices. The combined average number of regulations issued by national and subnational governments increased from 453 per year during 1999–2003 to 1,789 per year during 2010–2014. Starting a business in Indonesia requires an investor to obtain 11 approvals, and the total process takes 22 days, compared with 5 approvals and 4.5 days in Thailand. Outside of Jakarta, this increases to 12 approvals and 27 days.¹⁸ Regulations in Indonesia are often ad hoc and are not considered under a systematic framework that identifies benefits and costs. Tax administration, particularly at the subnational level, is cumbersome and imposes costs that disproportionately affect SMEs and constrains inclusive growth.

9. **An underdeveloped framework for private participation in infrastructure hampers Indonesia's ability to meet investment needs.** Indonesia's infrastructure gap constrains access to key public services like health and education, and limits opportunities for growth and development for citizens with the greatest need. An uncertain regulatory framework for PPPs and the absence of long-term financing for investment have limited private sector interest in infrastructure. Until 2017, the government did not have a dedicated unit or project development facility to help prepare and test project proposals or provide transaction advisory services. A lack of capacity on risk management and pricing has further biased line agencies away from PPPs.

10. **Public procurement systems are not optimized to promote efficient investment and project execution.** Inconsistent application of procurement guidelines and outdated systems create delays in project execution. For example, up to 2017, almost 40% of procurement was bunched in the financial year's fourth quarter.¹⁹ The absence of a strong monitoring and evaluation function in the National Public Procurement Agency (LKPP) limits the provision of key procurement performance metrics to different levels of management. Central agencies have little data on which to gauge performance of key line agencies, and few tools to promote more consistent and timely application of procurement processes. Local governments are constrained by the lack of efficient procurement tools and electronic systems. These constraints result in delays in project execution, cost overruns, and poor value for money in public investment management, all of which restrict the government's ability to execute pro-poor fiscal policies.

¹⁶ Government of Indonesia, Indonesia Investment Coordinating Board (BKPM). 2018. *Indonesia Economic and Investment Outlook 2018*. Jakarta.

¹⁷ IMF. 2018. Article IV Consultation. *IMF Country Report*. No. 18/32. Washington, DC.

¹⁸ Sector Assessment (Summary): Industry and Trade (accessible from the list of linked documents in Appendix 2).

¹⁹ ADB staff calculations based on National Public Procurement Agency (LKPP) procurement execution data.

B. Policy Reform and ADB's Value Addition

11. **The government's reform agenda.** The RPJMN identifies income inequality, disparities in regional service delivery, and low investment as constraints to growth and development. Targets include annual GDP growth rates of 8%, average annual investment growth of 10.2%, and a reduction in the Gini index to 0.36 by 2019 (footnote 7). To meet these objectives, the RPJMN calls for structural reforms to stimulate investment in job-creating industries, increased spending on core services like education and skills development, and more infrastructure investment through both public and private financing channels. These priorities are emphasized in the 16 economic policy packages issued by the President of Indonesia (para. 6). These packages seek to address coordination constraints, cut through red tape, and significantly improve specific investment climate dimensions. Highlighted initiatives include regulatory reform to improve the business environment and facilitate investment, resolution of land acquisition and registration issues that impede timely business development, and public procurement reform to accelerate investment and improve the quality of infrastructure.

12. **The policy reforms.** The program supports the following reform areas: (i) a more predictable and open business environment; (ii) an improved framework for private sector participation in the infrastructure market; and (iii) more efficient and transparent public procurement. During the processing of subprogram 2 in 2016, the government agreed to accomplish eight expected prior actions (or triggers) and 10 policy milestones as a basis for subprogram 3.²⁰ All eight prior expected actions have been completed. One policy milestone has been upgraded into an expected prior action to reflect the government's sustained commitment to improving the PPP enabling environment. One new expected prior action has been added to reflect the government's commitment to further expedite business licensing reforms. At the government's request, ADB refined two policy milestones to streamline the policy matrix. Of these two, one policy milestone was completed and dropped from the policy matrix and the other policy milestone was replaced to reflect progress in streamlining conditions for local government borrowing to finance infrastructure investments.²¹ These refinements have strengthened the overall impact of subprogram 3, which now contains 18 reform actions (10 expected prior actions representing high-impact reforms and eight policy milestones), all of which have been completed.

13. **More predictable and open business environment.** Building on accomplishments under subprograms 1 and 2, this output improves Indonesia's business and investment climate by establishing an institutional framework for good regulatory practice and implementing the government's red tape reduction program. Mandated by a presidential instruction, the government, through the Coordinating Ministry for Economic Affairs (KKBP), established an interministerial task force in 2016 to oversee implementation of economic policy packages and guide institutionalization of the regulatory impact assessment (RIA) program. A new RIA unit was also established within the KKBP, and the Ministry of Trade conducted a pilot assessment of costs and benefits on key trade regulations. The government also continued to implement a red tape reduction program. Major achievements included (i) the implementation of reforms to consolidate business licensing and company registration into a single application process, eliminating administrative fees and the need for regular extensions, and (ii) integrating the issuance of permits for construction within local one-stop service centers. Cost reductions have had a major impact on business growth—from 2015 to 2017, company registrations increased from 84,210 to 182,741, and business license applications grew from 89,262 to 229,902.²² Cost reductions particularly

²⁰ Prior actions are considered loan disbursement conditions and policy milestones that strengthen the program.

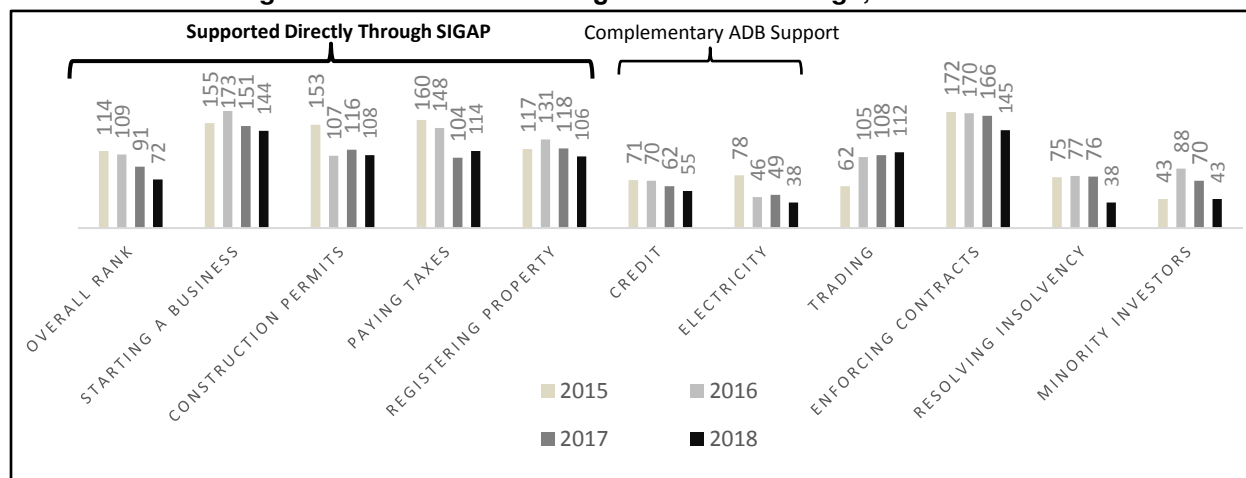
²¹ Summary Assessment of Policy Actions (accessible from the list of linked documents in Appendix 2).

²² Government of Indonesia, Ministry of Trade. 2018.

benefit SMEs, which are least able to bear high cost licensing regimes. Licenses issued by one-stop centers grew from under 10,000 in 2015 to more than 17,000 in 2017.²³

14. The government has also mandated a new round of business regulation and licensing reforms to expedite investment under Presidential Decree 91/2017, which targets rationalization of existing regulations. The decree also introduced an online single submission (OSS) system where investors have a single-entry point for business licensing, even where multiple licenses across various sectors and levels of government may be required. The OSS system features a new mobile application that facilitates communication between investors and government investment facilitation task forces and allows real-time progress monitoring and complaint resolution. Finally, the government reduced barriers to land registration and acquisition, including through the national rollout of an online land registration system to expedite registration at the local level. Under this system, registration grew from 1.1 million parcels in 2016 to 5.2 million parcels in 2017. These various reform efforts helped improve Indonesia's overall ranking from 114th place in the in the World Bank's 2015 Doing Business report to 72nd in the 2018 report (paras. 5–6) (Figure 1). Increased investment in 2017 created more than 1 million new jobs, particularly in less developed regions.²⁴

Figure 1: World Bank's Doing Business Rankings, 2015–2018²⁵



Sources: Compiled by ADB staff based on *World Bank Doing Business: Indonesia* reports (2015-2018).

15. **Improved framework for private sector participation in the infrastructure market.** Building on ADB's earlier Infrastructure Reform Sector Development Program²⁶ and reforms initiated under subprograms 1 and 2, the government has expanded the scope and coverage of PPPs by improving the policy framework. The government established and operationalized the Joint PPP Office of Indonesia.²⁷ To address past issues with coordination, this office ensures structured, regular dialogue on key issues. Local governments were empowered to use availability-based PPP schemes, expanding the range of projects that can be undertaken. The PPP project development facility that was initiated under subprogram 2 has also been expanded

²³ Government of Indonesia, BKPM. 2018.

²⁴ Government of Indonesia, BKPM. 2018. *Indonesia: Economic and Investment Outlook 2018*. Jakarta.

²⁵ Please see World Bank. 2018. *Doing Business 2018: Reforming to Create Jobs*. Washington, DC for additional detail.

²⁶ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Loans, Technical Assistance Grant, and Administration of Grant from the Government of the Netherlands to the Republic of Indonesia for the Infrastructure Reform Sector Development Program*. Manila.

²⁷ This office, which is hosted by the Indonesia Infrastructure Guarantee Fund, is comprised of BAPPENAS, Ministry of Finance, BKPM, Ministry of Home Affairs, and LKPP.

and enhanced. To date, seven projects have been supported through the project development facility. New funding sources such as development partner funds were approved, procurement standards improved, and operating procedures strengthened. The government has also clarified the definition of unsolicited proposals and has issued guidance to relevant agencies to ensure systematic treatment of such proposals. Together, reforms have had a direct impact on Indonesia's PPP pipeline. Prior to 2016, the government had limited success in implementing PPPs other than a small number of toll road projects. Since 2016, 14 projects have been signed, 12 projects are currently under construction (valued at \$8.5 billion), and 2 projects have reached financial close and are being prepared for implementation (valued at \$1.0 billion). The government has continued to expand modalities for financing the public share of capital expenditures for PPPs. Project-based *sukuk* allocations increased to Rp16.8 trillion in 2017, up from Rp13.7 trillion in 2016, with two new projects financed through the *sukuk* modality. At the same time, the government has improved the selection process and criteria for project-based *sukuk* to improve the quality, selectivity, and value for money of *sukuk*-financed projects. These innovative reforms represent one of ADB's first engagements on Islamic finance, with useful lessons for broader regional work in the sector. In all, 2017 the private sector invested about Rp8.2 trillion in infrastructure, up from an average of Rp4.7 trillion per year during 2012–2016.²⁸

16. More efficient and transparent public procurement. The government has built on the tools and systems introduced under subprogram 2 to strengthen governance, transparency, and performance under subprogram 3. Key achievements include the introduction of an enhanced e-procurement system that integrates the reverse auction system, reducing procurement time and improving competitiveness amongst bidders. The government has also strengthened the monitoring and evaluation role of the LKPP, initiating a procurement benchmarking performance process amongst key government contracting agencies. New procurement compliance controls to audit procurement processes have been introduced and piloted. These initiatives provide critical information to department managers, the LKPP, and the government executive, with the goal of identifying and addressing systematic procurement challenges. These reforms effectively complement other ADB support on public investment, including a TA loan to improve engineering capacity for project preparation.²⁹ The government has also strengthened subnational public procurement by rolling out a local electronic procurement catalog and an electronic competitive bidding platform for the city of Jakarta. Because of these efforts, total public procurement undertaken through electronic systems increased from Rp273 trillion in 2015 to Rp344 trillion in 2017, generating an additional Rp62 trillion of savings.³⁰

17. Post-program partnership framework. While nonbinding, the post-program partnership (P3F) framework provides for an ongoing dialogue over the medium term between the government and ADB on investment climate reform, as well as a framework for continuing TA support. To further reduce the costs of starting a business, ADB will support broader roll-out of the government's good regulatory practice program (including the use of gender-sensitive RIA) through additional capacity building, as well as implementation of the OSS window for licensing through targeted review of reform action plans. ADB will also support innovative approaches for municipal financing of investment projects, including municipal bonds and credit guarantee facilities. ADB proposes to support the P3F through a regional TA project that is currently under

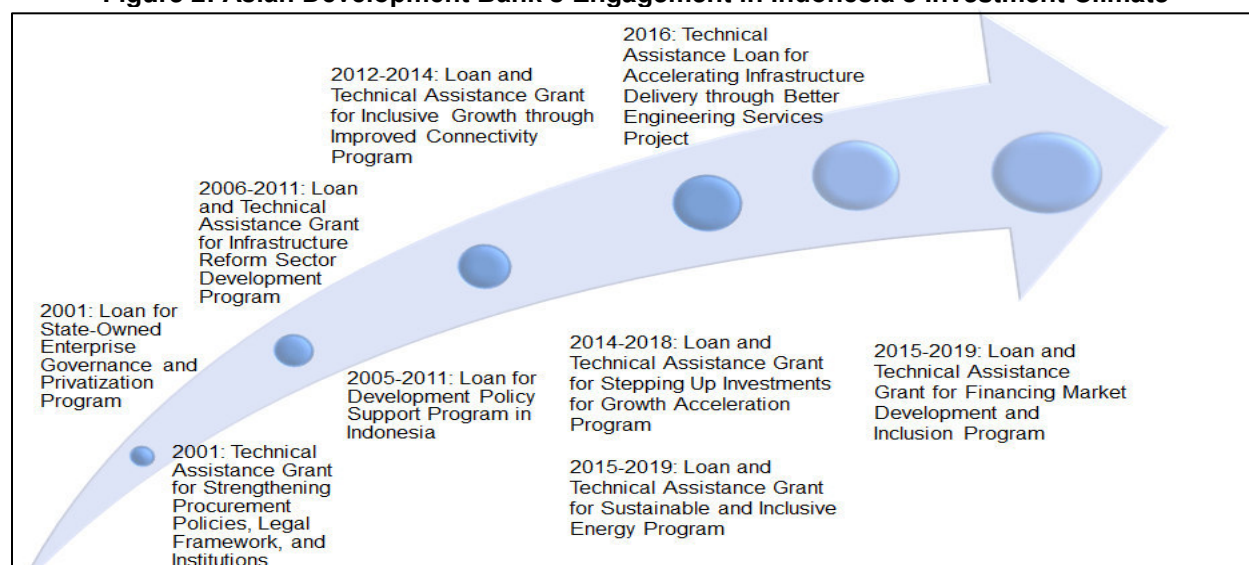
²⁸ World Bank. Private Sector Participation in Infrastructure Database. <https://ppi.worldbank.org/> (accessed 27 April 2018).

²⁹ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Republic of Indonesia for the Accelerating Infrastructure Delivery through Better Engineering Services Project*. Manila.

³⁰ Government of Indonesia, LKPP. 2018. *Procurement Database Smart Report*. Jakarta.

development as well as through TA under a trust fund focused on sustainable infrastructure reform.³¹

Figure 2: Asian Development Bank's Engagement in Indonesia's Investment Climate



Source: Asian Development Bank.

18. **ADB's experience.** Beginning with state-owned enterprise reform in 2001, ADB has supported investment climate reforms through policy dialogue, loan programs, TA, and knowledge products. The 2006 Infrastructure Reform Sector Development Program (footnote 29) improved the quality of infrastructure and connectivity across Indonesia and provided important lessons for future infrastructure engagements. By 2014, ADB began to focus on strengthening the investment climate under an integrated sector approach. In 2016, ADB supported infrastructure delivery through a TA loan of \$148 million to develop capacity for engineering services (footnote 29). This program complements other ADB support in Indonesia, including programmatic support on financial market development and inclusion, an inclusive energy program to strengthen investment conditions and improve access to core services, and programmatic support to better align fiscal policy and expenditure management with sustainable development goals.³² Determined to further capitalize on the reform momentum, the government has requested, and ADB is considering, a second-generation investment climate reform program covering 2020–2025.

19. **Lessons.** The program design has benefited from the following lessons. First, a focused approach to reform is critical where operations cover multiple sectors. Reforms should be prioritized considering institutional readiness at all levels. For example, institutionalization of good regulatory practice lacked traction in Indonesia until the Ministry of Trade demonstrated readiness to serve as a concrete pilot for conducting RIA. Second, the complexity and multi-sector nature of investment climate reforms require an executing agency with strong convening power and the mandate and incentive to coordinate across multiple sectors. The program's partnership with the

³¹ ADB. 2013. *Technical Assistance Report: Sustainable Infrastructure Assistance Program*. Manila.

³² ADB. 2015. *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 Financial Market Development and Inclusion Program*. Manila; ADB. 2015. *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 Sustainable Inclusive Energy Program*. Manila; and ADB. 2016. *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 Fiscal and Public Expenditure Management Program*. Manila.

KKBP has proven effective in meeting the conditions necessary for reforms to the business environment. Third, complex multi-sector reforms demand a regular review of binding constraints and proposed solutions. The program's initial efforts focused primarily on the central government. However, the magnitude of Indonesia's infrastructure deficiency soon revealed that the gap can only be filled with the engagement of multiple partners, particularly those outside the central government. As such, the program deliberately chose to emphasize both local government and private sector participation in infrastructure investment in subprograms 2 and 3.

20. **ADB's value addition to program design and implementation.** ADB plays a lead role in supporting investment climate reform in Indonesia. ADB's long-term engagement and structured policy dialogue has helped ensure that reform measures are well coordinated and properly sequenced, and that policy actions were well designed. Under this program, ADB helped to identify and address business climate impediments, legal and regulatory issues constraining PPPs, and public procurement reforms. ADB supported a more open and predictable business environment by implementing good regulatory practices, including establishing the RIA oversight office at the KKBP. ADB also supported operationalization of the OSS initiative. ADB has contributed to the PPP policy framework and has supported a knowledge exchange with the Philippines on the treatment of unsolicited PPP proposals, where it has strong experience. ADB also supported the development of new selection criteria for projects financed by *sukuk*. ADB supported procurement benchmarking exercises for spending agencies, which improved the analytical basis for LKPP's monitoring and oversight function. These measures have improved the speed, efficiency, and quality of public procurement in Indonesia.

21. **Development partner coordination.** German development cooperation through KfW provided joint collaborative financing of \$245 million in for subprogram 1, \$225 million for subprogram 2, and an indicative €200 million for subprogram 3. ADB and KfW have carried out joint program reviews in Jakarta and, together with the government, have formulated subprogram 3. At a technical level, ADB coordinated with KfW on improving the legal and regulatory conditions for local government borrowing to finance infrastructure projects. KfW supported a knowledge exchange and study program that contributed to streamlined procedures and other regulatory reforms. ADB also partnered with the Government of Switzerland on a \$5 million TA project on local tax for the Jakarta government and other municipalities.³³ ADB has coordinated with the World Bank and the Organisation for Economic Co-operation and Development on improving regulatory practice in Indonesia. The World Bank has developed an RIA toolkit and worked with Indonesia's National Development Planning Agency (BAPPENAS) on its review of existing regulations, complementing ADB's capacity building efforts with the KKBP and other partners. ADB also coordinated with the Australian–Indonesian Partnership for Economic Growth to develop the OSS system for business licensing and the communications protocols to manage investor–taskforce interactions. ADB coordinated with the IMF on Indonesia's structural reform program and macro-fiscal framework.

C. Impacts of the Reform

22. **Economic impact of the program.** Strong investment is a key component of inclusive growth and helps countries overcome middle income constraints.³⁴ The program is achieving results: under subprogram 1, trade liberalization efforts reduced the amount of closed and

³³ ADB. 2015. *Technical Assistance Report: Tax Revenue Administration Modernization and Policy Improvement in Local Governments*. Jakarta.

³⁴ A. Abiad, M. Gonzales, and A. Sy. 2017. *The Role and Impact of Infrastructure in Middle Income Countries: Anything Special? ADB Economics Working Paper Series*. No. 518. Manila: Asian Development Bank.

restricted industries from 276 to 220, and under subprogram 2, about 150 business and trade regulations were simplified or eliminated, and licensing authority was delegated from 22 agencies to one-stop service centers. These efforts contributed to an increase in net foreign direct investment inflows from 1.3% of GDP in 2013 to 1.7% in 2014 and 2016, and 2.0% in 2017 (footnote 18). Subprogram 3 continues with positive economy-wide effects. The program impact assessment estimates the potential net quantifiable benefits of the program at \$8.7 billion under conservative discounting assumptions. Of this total, about \$4.7 billion accrues from the impact of increased trade and foreign investment inflows caused by strengthening the business climate, improving the regulatory framework, and facilitating the ease of starting a business at the central and local levels. An additional \$1.8 billion will be derived from improvements to the framework for PPP projects and streamlined land acquisition and local borrowing procedures. Improvements in public procurement are also expected to have a net present benefit of \$2.3 billion.

D. Development Financing Needs and Budget Support

23. The government requested a single tranche loan of \$500 million from ADB's ordinary capital resources to help finance subprogram 3.³⁵ The loan will have a 15-year term, including a grace period of 3 years, an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the draft loan agreement. The average loan maturity is 9.25 years, and no maturity premium is payable to ADB. German development cooperation through KfW is providing collaborative financing for subprogram 3 (para. 21). The government's gross financing need in 2018 is \$58.4 billion, with a budget deficit of 2.2% of GDP. To finance the deficit, the government plans to raise \$43.8 billion from the issuance of securities and \$3.8 billion from official foreign loans. The size of subprogram 3 primarily reflects the government's financing needs, the strength of the reform program, and the net economic benefits (para. 22).

E. Implementation Arrangements

24. The KKBP, the executing agency, will be responsible for coordinating the government's economic reform packages. The Ministry of Finance, Indonesia Investment Coordinating Board (BKPM), Ministry of Agrarian and Spatial Planning, PT Sarana Multi Infrastruktur (a state-owned infrastructure financing company), and LKPP will be the implementing agencies. The implementation of program policy actions will be monitored through a steering committee chaired by a deputy minister of the executing agency and consisting of senior representatives from the implementing agencies. The implementation period is from July 2016 to June 2018 for subprogram 3. The proceeds of the policy-based loan will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE

25. **Safeguards.** The subprogram does not trigger ADB's safeguard policies and is classified category C for environment, involuntary resettlement, and indigenous peoples.

26. **Poverty and social.** The reforms supported under the program target sustainable and inclusive growth and will contribute to a reduction in income inequality and poverty reduction. Infrastructure investment helps connect the poor and marginalized with critical public services. A stronger investment climate helps support the growth of job-creating industries. Improvements in

³⁵ The loan may be disbursed in one or more installments.

the regulatory framework reduce the costs of starting a business, especially for SMEs. Given the macro nature of the program's reforms, no gender benefits are directly observed.³⁶

27. **Governance.** Public financial management continues to improve. The recent introduction of new tools, such as the KRISNA integrated budget and planning system, have aligned planning and budget processes under a consolidated performance framework.³⁷ This has improved the policy basis of budget planning and tracking. Efforts to improve financial controls have increased significantly, with more than 70% of government agencies receiving an unqualified audit opinion from the external audit agency in 2017, up from just 40% in 2009. The move toward electronic delivery of licensing, procurement, and other government services increases automation and reduces further opportunities for human interference and leakages. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and KKBP.

28. **Risks and Mitigating Measures.** The program has one substantial risk.³⁸ Effective coordination on structural reforms is necessary for successful implementation. To date, coordination risks have been mitigated by the strong role of the President's office through the economic policy packages. However, there is a risk that new packages will become less strategic and will be politicized, especially in the context of the upcoming general elections in April 2019. To mitigate this risk, ADB is working with the KKBP to strengthen their role to lead the implementation of policy packages, and to facilitate and coordinate good regulatory reform through their role in steering institutionalization of RIA. Additionally, ADB is providing capacity building to the KKBP to institutionalize the RIA process.

IV. ASSURANCES

29. The government and KKBP have 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 loan agreements.

V. RECOMMENDATION

30. 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 3 of the Stepping Up Investments for Growth Acceleration Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; 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.

Takehiko Nakao
President

18 May 2018

³⁶ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

³⁷ This is a specialized budget module linked to the national integrated financial management system that was used by all line agencies for the preparation of the 2018 budget.

³⁸ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objectives			
Investment as a share of GDP increased (National Medium-Term Development Plan, 2015–2019) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Effect of the Reform Public and private sector investments increased</p>	<p>By 2019:</p> <p>a. Private sector investment commitment in infrastructure through PPPs reaches \$4.5 billion per year (1990–2012 baseline average: \$2.4 billion)</p> <p>b. Public sector infrastructure investments increased to at least 3.8% of GDP (2008–2011 annual average baseline: 2.4%)</p> <p>c. Stock of foreign direct investment as a share of GDP increased to 35% (2013 baseline: 26.58%)</p> <p>d. Indonesia's ranking in World Bank's Doing Business report improved to 70 (2015 baseline: 114)</p>	<p>a. World Bank's private participation in infrastructure database</p> <p>b. Statistics Indonesia; and development partner reports</p> <p>c. United Nations Conference on Trade and Development FDI Data</p>	<p>Expected economic growth insufficient to create needed jobs</p>
<p>Reform Areas Under Subprogram 3 1. More predictable and open business environment</p>	<p>Key Policy Actions By 2018:</p> <p>1.1 Line agencies mandated to produce regulatory impact statements for new regulations, and KKBP mandated to review and ensure RIA approach is applied for new regulations with cross-sector or national strategic importance (2016 baseline: no institutionalized framework for regulatory good practice, and no RIA oversight)</p> <p>1.2 Consolidated submission process for business licensing and company registration implemented, administrative fees and renewal requirement eliminated (2016 baseline: consolidated submission process not implemented, administrative fees and renewal required)</p> <p>1.3 Expedited licensing approach approved, OSS system and monitoring task forces introduced (2016 baseline: approach not approved, OSS and task force not introduced)</p> <p>1.4 Online land registration system operational (2016 baseline: system not operational)</p>	<p>1.1 Presidential Instruction 7/2017; and KKBP Decree on RIA</p> <p>1.2 MOT regulation 14/2016; MOT regulation 7/2017; and MOT regulation 8/2017</p> <p>1.3 Presidential Regulation 91/2017; and snapshot of OSS system (KKBP)</p> <p>1.4 Snapshot of online registry (National Land Agency)</p>	<p>Poor coordination between government agencies on structural reforms constrains their impact and effectiveness</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
2. Facilitating private sector participation in the infrastructure market	<p>2.1 Use of availability-based PPP schemes by local government approved, guidelines clarifying treatment of unsolicited proposals issued (2016 baseline: local governments not permitted to use availability-based schemes, unsolicited proposals guidelines not issued)</p> <p>2.2 Joint PPP Office of Indonesia established (2016 baseline: Joint PPP Office not established)</p> <p>2.3 Enhanced policy providing viability gap funding from government budget and streamlining approval process approved by government (2016 baseline: not approved)</p> <p>2.4 <i>Sukuk</i> (Islamic bond) financing expanded, new project selection criteria approved (2016 baseline: <i>sukuk</i> financing totaled Rp13.7 trillion, project selection criteria not issued)</p>	<p>2.1 Ministry of Home Affairs regulation 96/2016; and Guidelines on Treatment of Unsolicited Proposals (LKPP)</p> <p>2.2 SOP for Joint PPP Office (Joint PPP Office of Indonesia)</p> <p>2.3 2018 Annual Budget Financial Notes (Ministry of Finance)</p> <p>2.4 2018 Annual Budget Financial Notes (Ministry of Finance); and <i>sukuk</i> project selection criteria (BAPPENAS)</p>	
3. Faster and more transparent public procurement	<p>3.1 Reverse auction to e-procurement implemented (2016 baseline: not implemented)</p> <p>3.2 Procurement compliance controls issued (2016 baseline: not issued)</p>	<p>3.1 Completion report on introduction of reverse auction (LKPP)</p> <p>3.2 SOP for procurement compliance controls (LKPP)</p>	
Budget Support			
Asian Development Bank: Subprogram 3: \$500,000,000 (loan)			
Assumptions for Partner Financing			
German development cooperation through KfW: €200,000,000 loan or its equivalent in United States dollars (indicative)			

^a Government of Indonesia, BAPPENAS. National Development Planning Agency. 2015. National Medium-Term Development Plan: RPJMN, 2015–2019. Jakarta.

ADB = Asian Development Bank, BAPPENAS = Badan Perencanaan Pembangunan Nasional (National Development Planning Agency), KKBP = Kementerian Koordinator Bidang Perekonomian (Coordinating Ministry for Economic Affairs), GDP = gross domestic product, LKPP = Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (National Public Procurement Agency), MOT = Ministry of Trade, OSS = online single submission, PPP = public-private partnership, RIA = regulatory impact assessment, SOP = standard operating procedure.
Source: ADB.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=48134-007-3>

1. Loan Agreement
2. Sector Assessment (Summary): Industry and Trade
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
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: Stepping Up Investments for Growth Acceleration Program, Subprogram 1

Supplementary Documents

11. Public Financial Management Assessment
12. Program Impact Assessment
13. Summary Assessment of Policy Actions under Subprogram 3

DEVELOPMENT POLICY LETTER



MINISTER OF FINANCE
OF THE REPUBLIC OF INDONESIA

DEVELOPMENT POLICY LETTER

No.: S-310/MK.08/2018

Jakarta, 3 Mei 2018

✓ **Mr. Takehiko Nakao**
President
Asian Development Bank
Manila, Philippines

SUBJECT: Stepping-up Investments for Growth Acceleration Program (SIGAP), Subprogram 3

Dear Mr. Nakao:

On behalf of the Government of Indonesia (Government), I would like to express our gratitude for the Asian Development Bank's sustained commitment and support towards our overall reform efforts and our national development agenda.

This letter supplements the first Development Policy Letter that was attached to the Report and Recommendations of the President for Subprogram 1 (approved by the ADB board in September 2014), and the second Development Policy Letter that was attached to the Report and Recommendations of the President for Subprogram 2 (approved by the ADB board in June 2016). The letter highlights Government's efforts in achieving inclusive growth through the implementation of business climate reforms, promoting a robust framework for public-private partnerships in infrastructure, and creating a transparent and efficient public procurement system to execute on infrastructure investments. Government is committed to accelerating infrastructure investment to promote inclusive growth in job creating industries, and to provide citizens with opportunities for growth and development by better connecting them to core public services.

In the attached policy matrix, we seek to highlight specific reform initiatives which were supported by the ADB through SIGAP. Subprograms 1 and 2 achieved significant progress in improving the conditions for investment in Indonesia and provided strong foundation for the continuation of reforms under subprogram 3. SIGAP 3 is consistent with the thrusts and strategies under Indonesia's National Medium-Term Development Plan (RPJMN) 2015-2019, specifically on increasing investment levels, and addressing the infrastructure gap Indonesia currently faces.

Under subprogram 1, Government laid the foundation for a sustained, medium-term investment climate reform effort to generate higher and more inclusive economic growth. Government addressed significant trade constraints by raising foreign ownership ceilings in key sectors like land and sea transportation. Government also began to streamline regulations related to starting a business, reducing the processing time for business registration and licensing, and expediting transfers of land rights. Government took steps to diversify the modalities for infrastructure financing by laying the foundations for municipal bond issuance and introducing sharia compliant securities for infrastructure project financing. To improve private sector participation in the infrastructure market, Government established a dedicated office under the National Land Agency to develop and oversee policies related to land acquisition for public purposes, and to conduct valuation for infrastructure projects. Government also set out to accelerate delivery of priority infrastructure projects by mandating an interagency committee to resolve bottlenecks in execution, and by establishing the mandate within Ministry of Finance to set up a project development facility to support preparation of feasibility studies for PPP priority projects. Finally, Government began to transform public procurement by introducing new electronic tools and piloting the establishment of professionalized Procurement Service Units in line agencies and sub-national administrations.

SIGAP subprogram 2 built on this foundation and further expanded reform efforts in key areas to accelerate investment. Government continued to reduce costs of doing business by streamlining 147 business and trade regulations under a new deregulation unit established in the MOT. Government also simplified the process for obtaining business licenses by delegating responsibility of 22-line ministries and agencies to a National One Stop Service Center. The processing time to obtain 8 mandatory business licenses was reduced from 23 days to 3 hours for large investors. Government also expanded the framework for private participation in infrastructure by establishing a PPP unit in the MoF and a project development facility (PDF) to facilitate preparation and transaction of PPP projects. Government also expanded the scope for PPP projects by introducing an availability based scheme and awarding three availability-based telecommunications PPP contracts. Expanding infrastructure financing modalities, Government increased sharia-compliant “sukuk” infrastructure project financing, and further increased Viability Gap Financing available for PPP projects. Government also continued to improve efficiency of public procurement by mandating the use of electronic systems for all public procurement, and by introducing International Competitive Bidding documents to encourage foreign firms’ direct participation in bidding for large public infrastructure projects.

Subprogram 3 now focuses on consolidating reforms to facilitate efficient public and private investment and to ensure the earlier reforms are successfully implemented. A more systematic approach to promoting good regulatory practice and reducing transaction costs for businesses, new tools and mechanisms to facilitate private sector participation in the market for infrastructure at the sub-national level, and a strengthened monitoring and evaluation role for the national public procurement agency alongside the introduction of electronic procurement tools at the sub-national level are key focal areas for Subprogram 3. These reforms contribute to Indonesia’s overall goals of promoting inclusive growth and addressing inequality through investments in job-creating industries, improvements to conditions for SMEs, and delivery of core public infrastructure.

Government continues to improve Indonesia's business and investment climate by establishing an institutional framework for good regulatory practice and implement its red tape (business licenses) reduction program. Under subprogram 3, a new inter-ministerial task force has been established to oversee implementation of economic policy packages and guide institutionalization of the Regulatory Impact Assessment (RIA) program. A Presidential Instruction issued in 2017 requires line ministries to apply the RIA methodology and mandates the task force to oversee new regulations which are of strategic importance or have cross sectoral impacts, to ensure both "public good" and efficiency consideration are well balanced. The RIA methodology has been piloted for key reform areas related to trade and business licensing, and extensive capacity building efforts are underway. Government has also reduced business costs by implementing reforms to consolidate business licensing and company registration into a single application process, eliminating administrative fees, and eliminating the need for renewal of company registration. A new "Online Single Submission" system for business licensing provides investors with a single-entry point, even where multiple licenses across different sectors and levels are required. Government has also taken steps to expedite land registration and acquisition, rolling out an online land registration platform which facilitates registration and the local level.

Government has also improved the policy framework for private participation in the market for infrastructure. A new Joint PPP Office of Indonesia has been operationalized to support project development across both national and sub-national levels, and to build capacity for project development and execution. Government has also expanded opportunities for PPPs at the subnational level by empowering local governments to use availability-based PPP schemes. Additional resources have been provided to ensure commercial viability of PPP projects, under the Viability Gap Funding instrument, and approval processes have been streamlined for faster processing of requests. New regulations clarifying the definition and treatment of unsolicited proposals have been developed to promote responsible use of this project modality by line agencies. Government has also worked to expand modalities for infrastructure delivery, including a significant increase in allocations for sharia-compliant Islamic project bonds (*sukuk*). Additionally, new regulations on project selection criteria were developed to help to ensure quality and value for money in the delivery of *sukuk*-funded projects specifically, and public investment more broadly.

Finally, subprogram 3 included efforts to further improve transparency, efficiency and performance of public procurement. Reverse auctions, where service providers compete for government contracts by submitting progressively lower bids, were incorporated into the e-procurement system, promoting cost competitiveness and value for money. Efforts to strengthen the monitoring and evaluation role of the National Public Procurement Agency, including the roll out of a procurement benchmarking exercise and introducing and piloting procurement compliance controls, aim to provide management with better quality information on systematic strengths and challenges in public procurement. At the sub-national level, new e-procurement tools were piloted and implemented in the city of Jakarta, and the development of e-learning modules on good procurement practice were used to build capacity for procurement officers at all levels of government.

To assist in the implementation of continuing investment climate reforms, the Government of Indonesia is requesting financing in an amount of USD 500 million for SIGAP 3. Loan proceeds are expected to help finance the Government's budget deficit, which will fund operations and priority investment climate reforms in line with the objectives of SIGAP.

In closing, I wish to reiterate the Government of Indonesia's ongoing commitment to promoting inclusive growth and reducing income inequality by accelerating investment in job-creating industries, and by delivering core public infrastructure to connect citizens to crucial public services. The Government will continue to work with ADB and other development partners to achieve these objectives. To ensure this strong reform momentum continues, we look forward to sustained policy dialogue with the ADB through the Post-Program Partnership Framework.

Sincerely,

**Minister of Finance
Republic of Indonesia**



Sri Mulyani Indrawati

Cc:

1. Director General of Budget Financing and Risk Management, Ministry of Finance
2. Deputy Minister for Macro Economy and Financial Coordination, Coordinating Minister of Economic Affairs

POLICY MATRIX

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
Output 1: More predictable and open business environment			
<p>1.1. Improved regulatory reform process</p> <p><i>ADB TA, Stepping Up Investment for Growth Acceleration Program (SIGAP) (TA-8661)</i></p>	<p><i>The government implemented measures to ease investment restrictions. Accomplishment included:</i></p> <p>1. The government commenced a national regulatory reform program which included: (i) the establishment of the deregulation unit in the Ministry of Trade (MOT); and (ii) the streamlining of 147 business and trade regulations.</p> <p>2. The government revised the negative investment list further liberalizing foreign investment by allowing for: (i) at least 67% foreign ownership in investments in the services sector covering most of the creative and tourism related industries; and</p>	<p><i>The government continued business climate reforms. Accomplishments included:</i></p> <p>1. The government institutionalized good regulatory practices by (i) mandating line agencies to produce regulatory impact statements (RIS) for new regulations, and (ii) establishing KKBP as an oversight body to ensure compliance and quality with the regulatory impact assessment (RIA) program.</p> <p>2. The government has piloted its RIA program in the MOT which included: (i) establishing a MOT RIA team; and (ii) completing RIAs on proposed regulatory changes on trade on beef and/or cattle, trade on coconut, and the consolidation of business licensing</p>	<p>Regulatory Impact Assessment (RIA) use piloted across a wider range of line ministries using ADB support</p> <p>Gender sensitive RIA training conducted in National Land Agency to help support government in reducing barriers to women's land ownership</p> <p>RIA training conducted for Eseleon (level of civil servant in Indonesia) 1–4 officials</p>

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
	(ii) 100% foreign ownerships in film studios, movie production and distribution.	(SIUP) and Company Registration Certificates (TDP) into a single unified document.	
1.2. Reduced the cost of doing business	<i>The government implemented measures to reduce the transaction costs in doing business. Accomplishments included:</i>	<i>The government streamlined business procedures to start business, improve land registration and local tax payment. Accomplishments included:</i>	
ADB TA, Stepping Up Investment for Growth Acceleration Program (SIGAP) (TA-8661) ADB TA on Tax Revenue	<p>3. The government simplified the process for obtaining business licenses of 22-line ministries and agencies by delegating their licensing authority to BKPM’s National One Stop Service Center.</p>	<p>3. The government implemented a new round of red tape reforms to facilitate investment, comprising of: (i) establishing a legal mandate and institutional structure for cascading task force teams to oversee and monitor business licensing; (ii) requiring a review and rationalization of existing regulations to reduce compliance burden for investors; and (iii) introduced a new online single submission (OSS) platform for business licensing, with mobile applications for investors to track license applications.</p>	OSS system fully operationalized incorporating local government licensing, further reduction in time for starting a business
	<p>4. The government has lowered the regulatory cost of setting up a business by: (i) BKPM reducing the processing time to obtain the 8 mandatory business licenses from 23 days to 3 hours for large investors; and (ii) the Jakarta local government reducing the time for</p>	<p>4. The government has reduced startup costs by implementing a consolidated application process for SIUP and TDP, eliminating administrative fees for the application process, and eliminating the need for</p>	

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
	<p>small and medium-sized enterprises to obtain SIUP and TDP to 3 hours.</p>	<p>companies to reapply/extend business trade licenses.</p>	
	<p>5. The government has reduced the administration costs to businesses in making tax payments by: (i) the Ministry of Finance (MOF) implementing the electronic tax filing and tax payment system; and (ii) the Jakarta local government increasing local tax payment facilities from 1 bank to 11 banks.</p>	<p>5. The Jakarta local government has reduced the time to setting up a business by mandating simultaneous processing of construction permits, warehouse registration certificates, and Declaration Letters for Environmental Management and Monitoring Capacity at one-stop-service centers.</p>	
		<p>6. The government operationalized in 2017 an online land registration system which allows for electronic land registration at local government offices and real-time updating of the land registry database expediting the registration process. As a result, registration rates grew from 1.1 million parcels in 2016 to 5.2 million parcels in 2017.</p>	<p>Land Registration reaches 8 million parcels per year</p>
	<p>7. The Jakarta local government operationalized in June 2016 a system for online payment of Tax on Acquisition of Land and/or Building. The system supports real-time tracking and verification of payments and allows for immediate processing of property tax.</p>		

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
Output 2: Creating an Efficient Market for Infrastructure through PPPs			
<p>2.1 Institutional and policy framework strengthened</p> <p><i>ADB TA, Stepping Up Investment for Growth Acceleration Program (SIGAP) (TA-8661)</i></p>	<p><i>The government implemented measures to strengthen the PPP institutional, legal and regulatory frameworks in order to advance its PPP program. Accomplishments included:</i></p>	<p><i>The government improved infrastructure governance and for PPP and regulatory framework on PPP. Accomplishments included:</i></p>	
	<p>6. To develop a robust PPP pipeline, the government allocated Rp146.7 billion (\$11.1 million) in 2015 and 2016 to operationalize the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP), which is responsible for screening, monitoring, and evaluating 30 strategic projects for potential investments including through PPP scheme.</p>	<p>8. The government strengthened the PPP policy framework by: (i) allowing local governments to use availability-based PPP schemes; (ii) enhancing the Project Development Facility to allow the use of development partner funds for project development; and (iii) improved the process for unsolicited PPP proposals covering feasibility stages and limits for government financing and guarantees.</p>	<p>Local government availability-based PPP projects executed in at least two municipalities Draft white/policy paper recommendations on new legal framework for private sector participation in infrastructure codified into law</p>
	<p>7. The government strengthened its PPP framework by: (i) establishing a PPP Unit in MOF and a Project Development Facility to facilitate preparation and transaction of PPP projects; (ii) enabling PPPs in social infrastructure, such as in the health and education sectors; and (iii) introducing availability-based scheme for PPP projects.</p>	<p>9. The government has established and operationalized the Joint PPP Office of Indonesia, comprising of Bappenas, MOF, BKPM, Ministry of Home Affairs (MOHA), National Public Procurement Agency (LKPP) and Indonesia Infrastructure Guarantee Fund (IIGF), to strengthen coordination, and project and program</p>	

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
	<p>8. LKPP issued implementation procedures for procurement of PPP projects and recruitment of consultants for preparation and transaction of PPP Projects</p> <p>9. The government awarded two availability-based telecommunication PPP contracts. In addition, the government has completed the competitive bidding process for a water supply PPP project.</p>	<p>management with support to local governments.</p>	
<p>2.2. Fiscal and financial risks addressed.</p> <p><i>ADB TA, Stepping Up Investment for Growth Acceleration Program (SIGAP) (TA-8661)</i></p>	<p><i>The government implemented measures to support sustainable funding for government support for bankability and preparation of PPP projects, improve land acquisition process for PPP projects, and improved the procurement of PPP projects. Accomplishments include:</i></p> <p>10. The government allocated Rp814 billion (\$62 million) in the 2015 budget and Rp1.1 trillion (\$86 million) in the 2016 budget to finance Viability Gap Funding (VGF), and approved VGF for three water supply PPP projects.</p> <p>11. The government enhanced transparency, efficiency and predictability in the land acquisition</p>	<p><i>The government strengthened the fiscal framework for PPPs. Accomplishments include:</i></p> <p>10. The government has enhanced VGF policy by: (i) simplifying the application process and clarifying eligibility criteria; and (ii) allocated Rp1.2 trillion for VGF under the 2018 budget – with 7 projects supported by VGF.</p> <p>11. The government has removed constraints to land acquisition by (i) introducing new financing</p>	<p>VGF budget increased in 2019/2020</p>

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
	<p>process for infrastructure projects by: (i) allowing the private sector to fund land acquisition on the government’s behalf; (ii) introducing time-bounded procedures for preparation and implementation of land acquisition; and (iii) requiring land compensation payments made within 7 days after validation of claims.</p>	<p>measures to expedite land acquisition for national strategic projects and infrastructure investments; and (ii) improving internal controls by establishing audit and grievance resolution mechanisms for timely resolution of conflicts.</p>	
<p>2.3. Infrastructure financing modalities expanded</p> <p><i>ADB TA on Strengthening the Local Government Bond Market (TA-8753)</i></p>	<p><i>In order to develop and expand long-term financing of infrastructure projects, the government continues to build local government capabilities to issue subnational bonds, expand the use of Islamic finance, and consolidated infrastructure financing facilities.</i></p> <p><i>Accomplishments included:</i></p>	<p><i>The government introduced new financial instruments to finance infrastructure projects.</i></p> <p><i>Accomplishments included:</i></p>	
<p><i>ADB TA, Stepping Up Investment for Growth Acceleration Program (SIGAP) (TA-8661)</i></p>	<p>12. The West Java local government, in preparation of issuing subnational bonds to finance local infrastructure projects: (i) established a debt management unit; and (ii) trained and certified 14 staff members as debt and risk managers, of which four are women.</p>	<p>12. The government has implemented mechanisms for facilitating long term financing of PPPs through project bonds by: (i) establishing a task force comprising OJK, MOF, BI and KPPIP to facilitate policy promoting long term financing of PPPs through project bonds or equity investments; and (ii) implemented the PINA scheme which promotes PT Sarana Multi Infrastruktur (SMI) and state pension funds to invest in project companies to support leveraging debt.</p>	

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
	<p>13. The government increased sukuk infrastructure project financing from Rp1.6 trillion in 2014 to Rp13.7 trillion in 2016.</p>	<p>13. The government has expanded availability of project-based sukuk financing by allocating through the 2017 national budget Rp16.8 trillion (up from Rp13.7 trillion in 2016) for project-based sukuk and has introduced new project selection guidelines to strengthen value for money.</p>	<p>Project selection guidelines rolled out to cover all financing modalities</p>
	<p>14. In order to improve efficiency, MOF consolidated its infrastructure financing facilities by transferring assets of Government Investment Agency (PIP) under MOF to PT SMI, a state-owned infrastructure financing company.</p>	<p>14. The government and PT SMI have signed an MoU establishing a framework for sub-national infrastructure finance, reducing local government borrowing time from approximately 6 months to just 40 days.</p>	<p>Legislation passed converting PT SMI into Indonesia Development Financing Institution.</p> <p>Project based municipal bonds issued in at least two municipalities.</p>
Output 3: Faster and more transparent public procurement			
<p>3.1. Adoption of ICT for public procurement process.</p>	<p><i>The government implemented measures to improve public procurement governance in order to expedite infrastructure delivery. Accomplishments included:</i></p>	<p><i>The government improved the governance of public procurement to expedite public procurement process at national and subnational levels. Accomplishments included:</i></p>	

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
<p><i>ADB TA Aligning ADB and Country Systems for Improved Project Performance (TA-8548)</i></p> <p><i>ADB RETA–INO Subproject: Strengthening e-Purchasing Capacity as Catalyst to Accelerate Infrastructure Development (RETA 6455)</i></p>	<p>15. The government mandated the use of electronic public procurement system (e-procurement) for all public procurement of goods and services, which increased the total value of public procurement of goods and services through e-procurement from Rp2.8 trillion (\$212 million) in 2013 to Rp580.9 trillion (\$4.4 billion) in 2015.</p>	<p>15. LKPP introduced reverse auctions to the e-procurement system to promote cost competitiveness in public procurement.</p>	
	<p>16. The LKPP and the Jakarta local government introduced the electronic platform for transparent competitive bidding for procurement of local goods and services.</p>	<p>16. The City of Jakarta, with assistance from the LKPP, operationalized transparent and competitive e-procurement tools including: (i) An electronic platform for competitive bidding on procurement of local goods and services; and (ii) a local electronic catalogue with list prices for standard goods and services.</p>	<p>Electronic procurement tools rolled out more broadly to cover additional municipalities</p>
<p>3.2. Improved capacity of public procurement delivery</p> <p><i>ADB TA, Stepping Up Investment for</i></p>	<p><i>The government, through the LKPP, started to measure public procurement performance to enhance the capacity of public procurement entity and ensure timely delivery of national priority infrastructure projects. Accomplishments included:</i></p>	<p><i>The government has implemented measures to accelerate procurement delivery. Accomplishments included:</i></p>	

Outputs	Subprogram 2 Accomplishments (Policy Triggers in bold) October 2014–June 2016	Subprogram 3 Accomplishments – (Policy Triggers in bold) July 2016–June 2018	Post Partnership Framework
Growth Acceleration Program (SIGAP) (TA-8661)	17. LKPP improved capacity of public procurement units in line ministries by introducing: (i) tools to assess and benchmark procurement performance; and (ii) e-learning platforms for training public procurement officers on public procurement regulations.	17. The LKPP conducted procurement benchmarking in 3 large central government agencies and 2 local governments and introduced e-learning modules to build capacity on procurement.	
	18. LKPP opened up foreign firms' direct participation in competitive bidding for large public infrastructure projects by introducing International Competitive Bidding documents for procurement of goods and services.	18. The government has strengthened the legal framework on public procurement by introducing procurement compliance controls to track and evaluate spending agency compliance with government procurement procedures.	Monitoring and evaluation role of LKPP further strengthened, regular procurement process audit reports provided to senior management.

BKPM = Badan Koordinasi Penanaman Modal (Indonesia Investment Coordinating Board), KKBP = Coordinating Ministry for Economic Affairs, IIGF = Indonesia Infrastructure Guarantee Fund, KPPIP = Kementerian Koordinator Bidang Perekonomian (Committee for Infrastructure Priorities Development Acceleration), LKPP = Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (National Public Procurement Agency), MOF = Ministry of Finance, MOHA = Ministry of Home Affairs, MOT = Ministry of Trade, MOU = Memorandum of Understanding, OSS = online single submission, PDF = project development facility, PIP = Government Investment Agency, PPP = public-private partnership, PT SMI = government infrastructure financing company, RIA = regulatory impact assessment, RIS = regulatory impact statements, SIUP = business trade licenses, TDP = company registration certificates, VGF = viability gap fund.