PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB7848
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Operation Name	DPL to reform the Indonesian maritime logistics sector
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Sector	General industry and trade sector (25%); Public administration- Industry and trade (30%); Public administration- Transportation (15%); Ports, waterways and shipping (30%)
Operation ID	P158140
Lending Instrument	Development Policy Lending
Borrower(s)	The Republic of Indonesia
Implementing Agency	Coordinating Ministry of Economic Affairs
Date PID Prepared	May 18, 2016
Estimated Date of Appraisal	September 20, 2016 (tbc)
Estimated Date of Board Approval	November 2, 2016 (tbc)
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision *{Optional}*	*Teams can add more if they wish or delete this row if no other decisions are added*

I. Key development issues and rationale for Bank involvement

Over the past decade, Indonesia has seen strong growth and job creation, supporting poverty reduction; but the end of the commodity boom has exposed structural weaknesses. Following the recovery from the Asian financial crisis, annual growth averaged 5.6 percent over 2001-12. As the external tailwinds of commodity prices and demand and global financing conditions have turned to headwinds, other sectors have not been able to take up the slack of commodity exports. As a result growth has slowed, down to 4.8 percent in 2015 and projected at 5.1 percent in 2016.

The need for efficient logistics has become vital to boost competitiveness in tradable sectors, and to reverse the slowing down of poverty reduction, especially in more remote regions of the country. The Indonesian economy needs to rebalance away from commodity production, whose prices are declining, and towards manufacturing and modern services. Efficient logistics is a vital tool to that end as it can bring smoothly and cheaply products from the source to those who should use them, whether producers or final consumers.

Large inefficiencies still plague the logistics sector in Indonesia, which acts as both a drag on growth and a contributor to inequality. Logistics costs (transport, warehousing and inventory) are higher in Indonesia (25 percent of manufacturing sales) than in neighboring countries including Thailand (15 percent), Malaysia (13 percent) and Vietnam (13 percent). A large share of these costs are associated with the need to carry high inventory levels due to a lack of predictability and unreliability of the logistics chain. On average 19 out of 100 orders will either be late or some units will be missing, a higher share than most countries at similar level of income.

Inefficient port operations, uncompetitive logistics services markets and lengthy trade procedures are at the core of the country's inefficient logistics. Ports are often a bottleneck in the Indonesian logistics chain, hampered chiefly by inadequate infrastructure, although burdensome regulations – related to trade processing and investments - and low labor productivity also play a role. The quality of ports' infrastructure across the country is a weak factor in the overall country's competitiveness and detailed work on 18 ports throughout Indonesia by the World Bank has confirmed relevant infrastructure gaps. A key reason behind under-investment in the country's port infrastructure is the lack of clarity on the roles of the port landlord and the port operator. Finally, cumbersome regulatory requirements and inefficient procedures make trade processing a further weak link in the logistics chain. Indonesian ranks 105 out of 189 economies in the Doing Business "Trading across borders" indicators.

The Government has recognized the importance of improving logistics and has made it one of its priority objectives. The Government's Medium-term Development Plan for 2015-2019 (Rencana Pembangunan Jangka Menegah Nasional, or RPJMN 2015-2019) includes efficient logistics as one of the priorities of its economic development strategy. The effort is guided by two high level strategies, i.e. the national logistics blueprint (SISLOGNAS), and the implementation of the Indonesian National Single Window (INSW), which aims to facilitate trade in and out of the country.

This DPL series forms an integral part of the Indonesia Country Partnership Framework (CPF) *Maritime Economy and Connectivity* engagement, which aims to support the Government's efforts to improve connectivity, and the *Leveraging the Private Sector* supporting beam, which aims to improve the business climate and markets.[1] The proposed DPL series aims to address key policy and institutional bottlenecks in support of the Government's logistics and trade reforms to improve the efficiency of ports, enhance competition in logistics services and streamline trade processing.

II. Proposed Objective(s)

This is the first in a proposed series of two development policy loans supporting the Government of the Republic of Indonesia's critical policy and institutional reforms in the logistics performance. The three pillars of the operation have the following development objectives: Pillar A Enhancing ports' performance: *Strengthening port's management, governance and operations.* Pillar B Improving logistics services: *Enabling a competitive*

[1] *Country Partnership Framework For The Republic Of Indonesia (Fy16 – Fy20),* World Bank, 2015

business environment for logistics service providers by increasing competition. Pillar C Strengthening trade processing: *Making trade processing more efficient and transparent.*

III. Preliminary Description

The proposed DPL series is structured around the following three pillars, set of objectives and government program reform areas:

- **Pillar A: Enhancing ports' performance.** PDO: Strengthening port's management, governance and operations by (i) clarifying the roles of Port Authority vis-à-vis port operators; (ii) facilitating the entry of port services operators; (iii) enhancing coordination of documentary and container examination in ports; and (iv) improving payment operations for port services.
- **Pillar B: Improving logistics services.** PDO: Enabling a competitive business environment for logistics service providers by increasing competition in: (i) courier services; (ii) freight forwarding services, storage and distribution services; (iv) auxiliary shipping services; and (iv) reducing inventory costs of imported materials for producers.
- **Pillar C: Strengthening trade processing.** PDO: Making trade processing more efficient and transparent by (i) reducing licensing requirements for imports; (ii) facilitating traders' compliance with trade regulatory requirements; (iii) expediting the submission of trade documentation; and (iv) improving risk management of border agencies.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

A number of the reform areas in this DPL could potentially have material poverty and inequality impacts. Improving logistics performance, especially maritime, can have important poverty reducing effects in an archipelago like Indonesia. More efficient logistics would also allow greater domestic market integration. As poverty is relatively higher in remote regions, especially in Eastern Indonesia, lowering prices there would have a particularly important poverty reduction effect. Unemployed and poor workers can have access to greater income earning opportunities and small and medium enterprises are able serve a larger number of clients and have greater access to inputs. As with any process of integration, some may also lose out as a result of improved logistics and further assessment is planned ahead of the ROC stage to highlight those cases.

Environment Aspects

The logistics improvements supported by the DPL are unlikely to yield major negative environmental impacts. In fact the operation may have an overall positive impact, insofar as it promotes infrastructure improvements in the ports. Further assessment is planned ahead of the ROC stage.

V. Tentative financing

Source:	($m.)

Borrower	0
International Bank for Reconstruction and Development	400
Borrower/Recipient	
IBRD	
Others (specify)	
Total	400

VI. Contact point

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