

The Improving Business Environment for Prosperity (IBEP) Program implemented by the World Bank Group aims to strengthen the design and implementation of business environment reforms in middle-income countries. IBEP is supported by the UK Prosperity Fund, whose mission is to support the inclusive economic growth needed to reduce poverty in partner countries, contributing to the UN Sustainable Development Goals.

COUNTRY FACTSHEET

MARCH 2020



IBEP Indonesia

PROJECT OVERVIEW

The IBEP Indonesia project aims to increase domestic and foreign investments through economy-wide and sector-specific reforms in the logistics and port sectors. The targeted reforms are expected to create open and predictable markets and strengthen the business regulatory environment leading to increased investment attractiveness. The project focuses on a range of reforms across three main components.

COMPONENTS

Regulatory Governance

This component aims to strengthen the governance of the rulemaking process by supporting the implementation of mechanisms for evidence-based policy making, the adoption of consistent and transparent consultation practices, and the consistent compliance with good regulatory practices.

Opening Markets and Increasing Investment and Competition

This component seeks to eliminate and/or reduce restrictions to entry and expansion for both foreign and domestic investors focusing on the most distortive measures by reviewing policies and legislation to identify barriers and formulate recommendations. It also aims to strengthen institutional capacity to identify and prevent anticompetitive regulations and practices as well as promote competitive neutrality.

Supporting Investments in the Logistics and Port Sectors

This component aims to support investments in the logistics and port sectors by reducing sector-specific regulatory burden, barriers to investment entry, and restrictions to FDI. The work will provide advice on the specific reforms needed as well as support reform implementation by strengthening related institutions and their capacities.

REFORMS TARGETED

PILLAR

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| 1 | New/improved laws or regulations governing the rulemaking process that clarify and enhance the consistency of current legal and regulatory requirements to observe good regulatory practices | I |
| 2 | New regulation to establish a regulatory oversight body | I |
| 3 | Improved law/regulations to enhance the effectiveness of competition policy | I |
| 4 | Improved merger control framework to reduce undue regulatory burden and prevent anticompetitive mergers | I |
| 5 | Negative Investment List banning or limiting foreign investments in certain sectors positively updated | I |
| 6 | Signing of at least one new Bilateral Investment Treaty (BIT) on the basis of a new template | I |
| 7 | Implementation of a more effective and less fiscally burdensome tax incentive system for investments | I |
| 8 | Reforming port tariffs to make them less distortive and more conducive to private investments | I |
| 9 | Improve the concession framework for ports to make the rights and obligations of the parties clearer | I |
| 10 | Introducing a compulsory waste notification system in the main ports including the development of the electronic infrastructure, the template for notification and its inclusion in the port system INAPORT | I |
| 11 | Setting a waste fee structure that reduces the burden on vessels while remaining profitable for the private sector to operate | I |



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RESULTS AS OF MARCH 2020

- In October 2019, Indonesia's Commission for the Supervision of Business Competition (KPPU) issued Regulation No. 3/2019 in October 2019 (see reform 4 in the table above), which supports the merger control framework to reduce undue regulatory burden and prevent anticompetitive mergers by minimizing the administrative burden, delays and uncertainty for the private sector during the merger review process. This reform benefitted from the support provided by the project, which included inputs and feedback during the drafting process to align the merger review process with international best practices.
- The project also supported the Ministry of Transport and the Ministry of Environment and Forestry on the implementation of a ship waste management system—with the aim of supporting increased investment in the logistics sector (i.e. ports) and enhancing the environmental sustainability of ports. The ship waste notification system was introduced and included in the Indonesia Sea Transportation Online Application (INAPORT), becoming mandatory in 16 ports—well above the initial target of only introducing the system in the Tanjung Priok port (reform 10). Implementation support from the project including facilitating the coordination of the various public sector entities involved and providing technical inputs on various aspects of the system (e.g. online system, governance structure, regulatory measures, etc.). Currently, waste management in most Indonesian ports is done on an ad hoc basis through an informal trade system that only collects recyclable waste. Other waste is illegally dumped in the sea, polluting marine and coastal areas as well as harming the fishing and tourism industries. By opening up the opportunity for a new business live in port services, the project aims to improve the environmental sustainability of ports in Indonesia.
- The series of the International Investment Agreement Workshops that the project facilitated resulted in the reversal by the government of Indonesia of the practice of terminating its Bilateral Investment Treaties (BITs) upon expiration. After almost five years of this practice, the government has agreed on a new BIT template, which includes more safeguards on the use of international arbitration on investment dispute settlement.
- **COVID-19:** Upon the outbreak of the COVID-19 pandemic, the project continued targeting reforms for increased competitiveness to facilitate the post-COVID-19 economic recovery. The crisis has also peaked government interest on the usage of an online platform to conduct online public consultations as a good regulatory practice. The project is currently supporting the government on initiating a web-based consultation platform by expanding features of the existing regulatory inventory.

PROJECT COUNTERPARTS

The Office of Cabinet Secretariat (CABSEC), Coordinating Ministry of Economic Affairs (CMEA), Ministry of National Development and Planning (BAPPENAS), Ministry of Foreign Affairs, Ministry of Transportation, The Commission for Business Competition (KPPU), PELINDO (Port Operator)

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