



Multi-Country Investment Climate Program – Indonesia (MCICP)

Country/region
Indonesia

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

**Executing
Agency**
World Bank

Project duration
2018-2022

Budget
USD 3,130,000



Business district area of Jakarta (© Wikimedia)

Rationale

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

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

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

Objectives and activities

The overall goal of the program is to improve the business environment and facilitate foreign investments (1) through support for economy-wide and sector-specific reforms that create more open and predictable markets, and strengthen business regulations and practices, and (2) through measures to improve the competitiveness and support COVID-19 recovery of the tourism sector. The program aims to achieve four reforms and generate \$50 million in investment. The project consists of two components:

- Component 1: Economy-wide investment climate reforms to improve the business environment at the national and subnational level. Project activities include: identifying business regulations and practices to be strengthened; providing advice on reforms to make business regulations and services more transparent, predictable and efficient.
- Component 2: Tourism-specific competitiveness reforms. Project activities include: supporting targeted investment promotion strategies in the tourism sector; reviewing investment restriction and incentives; enhancing the data management and analytical capabilities of public institutions to provide better market intelligence for foreign and domestic investors; and supporting COVID-19 recovery in the tourism sector through digitalization.

Governance structure

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

Results to Date

On economy-wide investment climate reforms, the passing of the Omnibus Law has been a key result, which includes several reforms recommended by the project that are expected to improve procedures for business registration. Beyond that, the project continued support to the Government on identifying insolvency measures to support distressed firms hit by the pandemic, revising the Insolvency Practitioners Remuneration Framework that is expected to improve the process for resolving insolvency, and providing inputs on the forthcoming Secured Transactions Law, which is expected to contribute to the improvement of the legal framework for 'getting credit', especially for SMEs.

With regards to sector-specific competitiveness reform, the WBG delivered a discussion paper that, inter alia, includes nine proposed concrete initiatives that key stakeholders can take up to attract more and better investors in the tourism sector. COVID-19's impact on the tourism industry has led to the government's inclusion of the sector as part of the national economic recovery strategy. The government is developing Investment Projects Ready to Offer (IPROs) to showcase a pipeline of specific investment opportunities that the Government is bringing to investors as part of the country's economic recovery and the project team is supporting in developing the necessary documents to bring these projects to investors.