

PROGRESS ON PRESIDENTIAL INSTRUCTION NO. 3/2006 DECEMBER 2006

Written by the Presidential Instruction No. 3/2006 Monitoring Team
Monday, 29 January 2007

Jakarta, 18 January 2007 – Today, Coordinating Minister for the Economy Boediono presented a progress report to President Susilo Bambang Yudhoyono based on the monitoring of the first **ten** months of Presidential Instruction (Inpres) No. 3/2006 concerning the Investment Climate Improvement Policy Package. The report covers progress achieved during the **March-December 2006** period. The report is a requirement under the Fourth Dictum of the Inpres, which assigns the Coordinating Minister for the Economy the task of progress monitoring and reporting to the President.

Out of the 85 actions/outputs specified for completion in Inpres No. 3/2006, 54 were to be completed within the December 2006 deadline. Of these, a total of 45 actions/outputs (78%) were completed (appendix 1). Work remained in progress on further 12 actions/outputs during December 2006 (appendix 2).

The progress achieved Inpres No. 3/2006 during the ten months has brought benefits to business as reported by the Monitoring of the Investment Climate survey, organised by the Institute for Economic and Community Research (LPEM) of the University of Indonesia. These benefits include the following:

- ✍ Improvements in regulations on customs and trade.
- ✍ Import document processing time in the red channel reduced from 7.6 days to 7.3 days and in the green channel from 6.1 days to 4.5 days.
- ✍ Faster processing of tax refunds, with productivity up from an average of 39 persons/day to 41 persons/day.
- ✍ Slight reduction in time generally required for completion of monthly VAT refunds (refund period down from 6.9 days to 6.5 days).
- ✍ Faster processing of business licensing compared to previous period (time to process trading licence down from 25 days to 16 days).

Progress could not be observed in other areas because of lack of comprehensive, integrated information and education on the programmes set out in Inpres No. 3/2006 to government agencies and regional institutions. Furthermore, when the survey took place, Inpres No. 3/2006 had been in operation for only 4-5 months. These areas include the following: Illegal

charges by customs and excise, tax refunds, labour issues, infrastructure and the time required for business start-up. Like before, the processing of licences for a new business faces difficulties in overlapping regulations and requirements issued by different institutions as well as by the central government and regional administrations. During **December 2006**, work reached completion on **8 (eight)** Inpres No.3/2006 actions/outputs:

1. Amendment to Government Regulation Number 148 of 2000 concerning **Taxation Incentives for Investment in Specified Businesses and/or Specified Regions**. The Government issued Government Regulation Number 1/2007 concerning Taxation Incentives for Investment in Specified Businesses and/or Specified Regions.
2. **Amendment to estimated net income as basis for withholding tax**. The Government issued Regulation of the Director-General of Taxation Number: PER-178/PJ/2006 dated 26 December 2006 concerning Other Services and Estimated Net Income as referred to in Article 23 paragraph (1) letter c of the Income Tax Law.
3. **List of Auditable Companies, using the profiling and targeting system**, alongside more joint audits with the Directorate-General of Taxation and the Government Audit Agency. Thirty companies were audited by the Directorate-General of Customs and Excise and the Directorate-General of Taxation, while 21 companies were audited by the Government Audit Agency.
4. **Service desks installed at all Regional Tax Offices** in a pilot project for help desks at taxation offices, in which officers will provide information on the completion of tax returns. Out of the 31 Regional Taxation Offices throughout Indonesia, modernisation work had been completed for 20 offices by 31 December 2006. The 20 offices are equipped with help desks and a complaint centre for providing information on the completion of tax returns and receiving complaints. The remaining 11 regional offices will undergo modernisation in 2008. Where offices have not been modernised, assistance to taxpayers for filling in tax returns will be provided by the taxation service office.
5. **Reduced cargo processing times and elimination of fees and charges not based on laws and regulations** in order to speed up cargo handling times and reduce port costs.
6. An **investigative audit** was carried out of port activities and a final report completed on 12 December 2006.
7. **Planned reorganisation of port space**. A master plan for the Tanjung Priok port was completed and presented to the Minister of Communications.

8. **Amendment of VAT status for agricultural (primary) products to non-taxable goods, in order to strengthen competitiveness.** This amendment was issued in Government Regulation Number 7 of 2007 concerning the Third Amendment to Government Regulation Number 12 of 2001 concerning Imports and/or Delivery of VAT-Exempt Taxable Goods of Strategic Value, dated 8 January 2007.

The following are actions marked by significant progress with work now in the final stages:

1. **More vigorous prosecution of smuggling cases.** In December 2006, the Directorate-General of Customs and Excise was investigating 142 cases involving crimes in the areas of customs and excise.
2. Submission to Parliament of the draft amendment to Act Number 39 of 2004 concerning **Deployment and Protection of Overseas Workers** and the draft amendment to Act Number 15 of 1997 concerning **Transmigration**. In the latest development, the State Secretariat has called on the Minister for Labour and Transmigration to provide the required documents for Conceptual Approval from the Minister of Law and Human Rights.
3. Implementation of Act Number 2 of 2004 concerning **Resolution of Industrial Disputes**. Training was provided to mediators on:
 - ✍ 3 July 2006 for 60 participants (2 groups).
 - ✍ 16-20 October 2006 in Jakarta and Batam (in cooperation with ILO).
 - ✍ Selection of Ad Hoc Judges throughout Indonesia completed on 29 November 2006.

Through internally coordinated actions within the Ministry of Manpower and Transmigration, information was gathered for distribution to stakeholders and monitoring of the resolution of industrial disputes throughout Indonesia commenced in December 2006.

4. **Enhanced role for Online Job Centres** and improvements to mechanisms for management of information on the employment market. Work moved forward on the development of Online Job Centres in 25 locations, with operations to start in early December 2006. On 15-16 December 2006 an Online Job Fair was held at the Jakarta International Expo in Kemayoran.

5. Drafting of Presidential Regulation on Licensing of Modern Markets. The draft Presidential Regulation is undergoing a consultation process with stakeholders at relevant government agencies. The current draft includes the substance of former legal provisions consistent with the latest developments, and reflects input from:

- ✍ The Ministry of Public Works in regard to zoning
- ✍ The Ministry of Home Affairs in relation to the division of government functions in the retail trade
- ✍ The Office of the State Minister for Cooperatives and SMEs in relation to implementation of partnerships.

6. Amendment to Government Regulation Number 16 of 1997 concerning Franchises. Current progress:

- ✍ On 19 December 2006, the Ministry of Trade held interministerial consultations.
- ✍ A final interministerial consultative meeting will be held on 15 January 2007.
- ✍ A meeting will be held on 20 January 2007 to harmonise the content of the draft Government Regulation.

Monitoring Team for Presidential Instruction No. 3/2006 Concerning the Policy Package for Improvement of the Investment Climate

Appendix 1:

Actions under Inpres No. 3/2006 Completed

as of December 2006

I. Actions/outputs completed in March 2006:

1. Tabling of the Draft Investment Law with Parliament on 21 March 2006. This draft law had undergone intensive discussions within government agencies and consultations with the business community. The Draft Investment Law sets out some fundamental principles: legal certainty, transparency, accountability, and equal treatment for domestic and foreign investments (outside the negative list). The law also prescribes equal treatment for investors, regardless of country of origin.
2. Organisational restructuring of the National Team for Export and Investment Promotion (PEPI) in Presidential Decree No. 3 of 16 March 2006. Tasks now assigned to PEPI are: formulation of general policy for export and investment promotion, economic deregulation and streamlining of bureaucratic procedures, integrated promotion of tourism, trade and investment and promoting the use of domestic products.
3. The Coordinating Minister for Economic Affairs held a dialogue with members of the business community, represented by the Indonesian Chamber of Commerce and Industry (KADIN), on 10 March 2006 to discuss government measures for improvement of the investment climate in Indonesia. Similar events will be held again in the future. The Minister of Trade is regularly involved in consultations with business in Jakarta and the regions to discuss the actions needed to boost exports. In April 2006, the Minister of Trade organised a dialogue with the business community in Pekanbaru. Similarly, the Minister of Industry met with business associations on 7 April 2006.

4. Eight laws and regulations concerning trade licensing were streamlined and simplified in a Decree of the Minister of Trade. Licensing products covered under the amended provisions are Trading Licenses (SIUP), Trading Company Representative Licenses (P3A), Surveyor License (SIKUS), Franchise Registration (STPUW), Agent and Distributor Registration, Licence to Sell Alcoholic Beverages (SIUP-MB), Multilevel Marketing License (IUPB) and Warehouse Registration (TDG). Examples of improvements in the revised regulations include a reduction in the number of documents required for the SIUP from six to four. The time required for issuing an SIUP was also shortened from the previous 7-10 days to 5 days.
5. In Regulation No: M.837-KP.04.11 issued on 24 March 2006, the Minister of Law and Human Rights delegated powers for legal approval of limited liability companies to the Regional Offices of Law and Human Rights throughout Indonesia. This delegation of powers to the regional offices is expected to accelerate the process for legal approval of limited liability companies.
6. Establishment of the Assistance and Evaluation Team for Draft Regional Government Regulations and Regional Government Regulations under Decree of the Minister of Home Affairs No. 900.05-152 dated 29 March 2006. Tasks assigned to this team include assistance and evaluation of Draft Regional Government Regulations and existing Regional Government Regulations on Regional Taxes and User Charges, with the aim of strengthening regional fiscal management. Of the 130 Regional Government Regulations slated for revocation in the Minister of Finance recommendation to the Minister of Home Affairs, 85 regulations were revoked and 45 other Regional Government Regulations are awaiting signature from the Minister of Home Affairs.
7. The National Single Window Preparation Team was established in Decree of the Coordinating Minister for the Economy No. KEP-22/M.EKON/03/2006 dated 27 March 2006. This team was founded in fulfilment of Indonesia's commitments in the Agreement to Establish and Implement the ASEAN Single Window, signed by ASEAN economic ministers in Kuala Lumpur on 9 December 2005.
8. In regard to the status of the draft laws on General Provisions and Procedures of Taxation, Income Tax, and Value Added Tax on Goods and Services and Luxury Goods Tax previously tabled with Parliament, the Minister of Finance decided that the draft laws on Taxation would be final and not withdrawn by the Government. A special team has been assigned the task of finalizing the content of these drafts for subsequent deliberations with Parliament.
9. Streamlining of visa and residency permit procedures for investors and expatriates as follows:

- ✍ In a Ministerial Decree dated 29 March 2006, the processing time for Foreigner Work Permits (IMTA) by the Ministry of Manpower and Transmigration was reduced from the previous 7 working days to 4 working days; and
 - ✍ Improvements in the issuance of Residence Permit Cards (KITAS) by Immigration Offices are set out in Government Regulation No. 38 of 2005. Previously, the KITAS would be valid for 1 year at a time, but may now be valid for up to 2 years with the option of no more than two consecutive extensions.
10. Memorandum of Understanding on the development of industrial estates for SMEs and cooperatives signed by the Minister of Industry and the State Minister for Cooperatives and SMEs on 22 February 2006. Information on the MoU has been conveyed to the Chair of the Industrial Estates Association.
 11. Decree of the Minister of Manpower and Transmigration concerning Industrial Relations, issued on 29 March 2006, in which processing time for legal validation of Company Regulations is reduced from 14 to 7 working days and for registration of Collective Bargaining Agreements from 7 to 6 working days.
 12. Issuance of Regulation of the Minister of Home Affairs Number 2 of 2006 dated 27 January 2006 for reduction in tax rates on motor vehicles used for public transportation. In Article 7: "Taxable value for imposition of Vehicle Tax (PKB) and Vehicle Ownership Transfer Fees (BBN-KB) on public transport vehicles is reduced to 60% of vehicle selling value."

II. Actions/outputs completed in April 2006:

1. Issuance of the Decree of the Chair of the National Professional Certification Agency concerning rules for faster processing of manpower competency certification;
2. Issuance of the Decree of the Chair of the National Professional Certification Agency concerning rules for expediting the accreditation process for Professional Certification Institutions;
3. Issuance of Decree of the Chair of Vocational Training Accreditation Agency concerning rules for expediting the accreditation process for Overseas Worker Vocational Training Institutions;
4. Issuance of Decree of the Chair of Vocational Training Accreditation Agency concerning rules for expediting the accreditation process for Regional Technical Implementation Units.

III. Actions/outputs completed in June 2006:

1. Process guidelines developed for classification of certain key products for establishment of clear, transparent tariffs in Circular Letter of the Director-General of Customs and Excise Number: SE-22/BC/2006 dated 21 June 2006 concerning Process Guidelines for Classification of Goods;
2. Regulation Number 37/M-IND/PER/6/2006 on Development of Consultancy Services for Small and Medium Industries (SMIs) issued by the Minister of Industry on 27 June 2006.

IV. Actions/outputs completed in July 2006:

Issued Regulation of the Minister of Home Affairs Number 24 of 2006 dated 6 July 2006 concerning Guidelines for Operation of Integrated One-Window Services. This regulation is related to the program for regulatory reforms in the area of SMME licensing.

V. Actions/outputs completed in August 2006:

1. Development of EDI system at the Directorate-General of Customs and Excise to reduce times to 30 minutes in the green channel and 3 days in the red channel for achievement of time release targets under the powers of the Directorate-General of Customs and Excise (other than analysing points and bank confirmation).
2. Simplification of customs inspection processes through the issuance of a number of regulations, including Regulation of the Minister of Finance Number KEP-39/PMK.01/2006 dated 19 May 2006 concerning Procedure for Submission of Notice of Planned Imports of Transportation (RKSP), Manifests for Arrival of Transportation and Manifests for Departure of Transportation; Regulation of the Director-General of Customs and Excise Number: P-05/BC/2006 dated 25 April 2006 concerning Instructions for Processing of Imported Goods Shipped via Courier Companies; and Regulation of the Director General of Customs and Excise Number: P-10/BC/2006 dated 16 June 2006 concerning Procedure for Submission and Administration of RKSPs, Manifests for Arrival of Transportation and Manifests for Departure of Transportation.
3. Reduction in Street Lighting Tax from 3% to 1.5% for industries is now included in the Draft Law on Regional Taxes and User Charges.

VI. Actions/outputs completed in September 2006:

In an amendment to Decree of the Minister of the Environment Number 17 of 2001 (deadline November 2006), the Government issued Regulation of the Minister of Environment Number 11 of 2006 concerning Business and/or Activity Plans Requiring Environmental Impact Analysis dated 2 October 2006. This regulation is a revision of Regulation of the Minister of Environment Number 17 of 2001.

VII. Actions/outputs completed in October 2006:

1. Some Regional Government Regulations on regional charges for telecommunications towers, weighbridges and cargo, previously applied in 70 regencies/municipalities, were revoked in a Decree of the Minister of Home Affairs (deadline May 2006). The revocation of such charges will be expanded to other regencies/municipalities.
2. Work reached completion on the draft Investment Credit Scheme for Small-Scale Businesses. The draft has now been sent to the Director-General of the Treasury, attn. Director of Two-Step Loans, Ministry of Finance to inform the draft Regulation of the Minister of Finance on Investment Credit for Small-Scale Businesses before adoption as a legal product (deadline June 2006).

VIII. Actions/outputs completed in November 2006:

1. Amendment to Regulation of the Minister of Finance pertaining to **Applications for registration and facilities**, which do not need to go through the Regional Offices of the Directorate-General of Customs and Excise (deadline August 2006).
2. **Optimised activities at Bonded Storage Areas (TPB)** by implementing a mandatory system for application for services at TPBs (deadline September 2006).
3. **Expansion of web-based system for import and export application** in preparation for implementation of the web-based import and export application system to support the launching of the National Single Window (NSW) in 2008 (deadline December 2006).
4. Articles 44-47 of Act No. 19 of 1995 concerning Customs and Excise pertaining to **Instructions for Bonded Zone Role** amended in the amendments to Act No. 17 of 2006 dated 15 November 2006.

IX. Actions/outputs completed in December 2006:

1. Amendment to Government Regulation Number 148 of 2000 concerning **Income Tax Incentives for Investment in Specified Businesses and/or Specified Regions**. The Government issued Government Regulation Number 1/2007 concerning Income Tax Incentives for Investment in Specified Businesses and/or Specified Regions.
2. **Amendment of estimated net income used to calculate withholding tax**. The Government issued Regulation of the Director-General of Taxation Number: PER-178/PJ/2006 dated 26 December 2006 concerning Other Services and Estimated Net Income as referred to in Article 23 paragraph (1) letter c of the Income Tax Law.
3. **List of Auditable Companies, using the profiling and targeting system**, alongside more joint audits conducted by the Directorate-General of Taxation and the Government Audit Agency. Thirty companies were audited by the Directorate-General of Customs and Excise and the Directorate-General of Taxation, while 21 companies were audited by the Government Audit Agency.
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6. An **investigative audit** was carried out of port activities and a final report completed on 12 December 2006.
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the Third Amendment to Government Regulation Number 12 of 2001 concerning Imports and/or Delivery of VAT-Exempt Taxable Goods of Strategic Value, dated 8 January 2007.

Appendix 2:

The 12 actions/outputs that **count not be completed** as of **December 2006** are as follows:

I. Ministry of Finance

1. Establishment of clear, transparent and consistently applied criteria for use of the **green channel** and the **red channel**, backed by the appropriate equipment and technology. Use of the red channel to be reduced to 20% (original deadline June 2006) and subsequently to 15% (original deadline September 2006).
2. Establishment of clear, transparent and consistency applied criteria for use of **priority lanes**, supported by the use of appropriate equipment and technology; use of priority lanes to be expanded from 71 importers to 100 importers (original deadline June 2006).
3. Provision of incentives for MSMEs to make use of **innovative technology** (deadline for draft fiscal incentives set at June 2006, deadline for Minister of Finance Regulation September 2006). *(Note: two action items.)*
4. Minister of Finance Regulation concerning development of **investment credit scheme** for MSMEs (original deadline September 2006).
5. Presidential Regulation on formulation of national policy and strategy for **microfinance** development to promote MSMEs access to financial resources and other productive resources (original deadline October 2006).

II. Ministry of Trade

1. Presidential Regulation concerning **Licensing of Modern Retail Markets**. The draft of this regulation is currently being finalised at the Ministry of Trade (original deadline March 2006).
2. Amendment of **Presidential Decree Number 127 of 2001** concerning lines of business reserved for small-scale businesses and lines of business open to medium or large scale businesses operating in partnership schemes,

subject to the exclusions of the Negative Investment List and Conditional Investment List (original deadline June 2006).

3. Amendment of **Government Regulation Number 16 of 1997** concerning Franchises (original deadline June 2006).

III. Ministry of Manpower and Transmigration

1. Draft amendment to **Act Number 13 of 2003** concerning Labour tabled with parliament (original deadline April 2006). (*Note: the government delayed this action while waiting for the outcome of bipartite consultations.*)
2. Draft amendment to **Act Number 15 of 1997** concerning Transmigration tabled with parliament (original deadline August 2006).
3. Draft amendment of **Act Number 39 of 2004** concerning Deployment and Protection of Overseas Workers tabled with parliament (original deadline October 2006).

IV. Ministry of Cooperatives and SMEs

1. Issuance of land titles for MSMEs to enable greater access to bank credit, with 10,250 ownership titles to be issued for land owned by MSMEs (original deadline December 2006).