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PRESS RELEASE

INSTRUCTION OF PRESIDENT ON POLICIES TO ACCELERATE DEVELOPMENT OF THE REAL SECTOR AND EMPOWER MICRO, SMALL AND MEDIUM ENTERPRISES TO PROMOTE ECONOMIC GROWTH AND TO ALLEVIATE UNEMPLOYMENT & POVERTY

Jakarta, 12 June 2007 – Coordinating Minister for Economic Affairs Boediono today announced that the Government has issued an Instruction of President (*Inpres*) Number 6 of 2007 concerning the Policies to Accelerate Development of the Real Sector and Empower of Micro, Small and Medium Enterprises (MSMEs). The *Inpres* mandates the Coordinating Minister for Economics, 19 other ministers, 3 Head of Non-Departmental Government Institution (LPND) as well as all governors, regents, mayors to conduct the Policies on Acceleration of Real Sector Development and Empower of MSMES. The issuance of this *Inpres* will increase the transparency of Government work plan in accelerating economic growth to alleviate unemployment and poverty. Hence, all policies as attached in the *Inpres* detail the program, action, output with a clear measured target, along with time for accomplishment and the Minister/ Head of LPND responsible for the implementation.

In the last three quarters, Indonesia's economic growth has been around 6 percent. Considering this momentum, the Government and Parliament have targeted 2007's economic growth at 6.3 percent and around 6.6-6.9 percent for year 2008. The open unemployment rate that reached 10.44% or 11.1 million in year 2006 has decreased to 9.76 percent or 10.5 million in early year 2007, and the Government has targeted to cut it further to around 8.0- 9.0 percent in year 2008. The acceleration of economic growth and a decrease in the unemployment rate, in due course, will be able to reduce poor population rate from 17.75 percent in year 2006 to around 15.0-16.8 percent in year 2008.

The *Inpres* issued today covers 4 components: 1) Investment Climate Improvement, 2) Financial Sector Reform, 3) Acceleration of Infrastructure Development, and 4) Empowerment of MSMES. The first three policies above are the continuation of similar policies that have been conducted since last year, while the package for MSMES Empowerment serves as an expansion of several programs that were accommodated in the Investment Climate Improvement Policy.

Based on the experiences from previous policy packages, the President of Republic of Indonesia emphasizes the importance of implementation and effectiveness of monitoring of policy stipulated in the *Inpres*. For that purpose, The President of Republic of Indonesia has assigned the Coordinating Minister for Economics to monitor the implementation of the *Inpres* more effectively. In addition to Government Team, the Minister also invited independent External Team to monitor the implementation of the *Inpres*.

Recapitulation of Number of Actions of Inpres 6

Number	Person in Charge	Investment Climate	Financial Sector	Infrastructure Development	MSMEs	Number of Actions	
						units	%
1	Minister of Trade	6	0	0	6	12	8.5
2	Minister of Home Affairs	3	0	2	0	5	3.5
3	Minister of Industry	1	0	0	1	2	1.4
4	Minister of Finance	21	29	3	7	60	42.6
5	State Minister for Public Sector Reform	1	0	0	0	1	0.7
6	Coordinating Minister for Economic Affairs	3	8	0	3	14	9.9
7	Chairman of Investment Board	4	0	0	0	4	2.8
8	Minister of Communication	2	0	7	1	10	7.1
9	State Minister for SOEs	0	6	1	1	8	5.7
10	Minister of Energy and Mineral Resources	0	0	2	0	2	1.4
11	Minister of Information and Telecommunication	0	0	3	0	3	2.1
12	Minister of Public Work	0	0	4	0	4	2.8
13	State Minister for National Development Planning/Chairman of Bappenas	0	0	2	0	2	1.4
14	Minister of Public Housing	0	0	2	0	2	1.4
15	Chairman of National Land Agency	0	0	2	1	3	2.1
16	Minister of Cooperative and SMEs	0	0	0	6	6	4.3
17	Chairman of Development and Financial Audit Agency	0	0	0	1	1	0.7
18	Minister of Labor and Transmigration	0	0	0	1	1	0.7
19	Minister of Culture and Tourism	0	0	0	1	1	0.7
	TOTAL	41	43	28	29	141	100.0

A brief background, the accomplishments achieved under last year's policy packages and an outline of each policy in newly Inpres follows:

A. The Improvement of Investment Climate

The issuance of the Investment Climate Improvement policy last year was intended to accelerate economic growth driven by investment activities following the slowdown in economic growth in the last quarter of year 2005 and early year 2006 as a result of the increase in the fuel price. Meanwhile, at a regional level, competition among Asian countries such as China, India, and Thailand were increasing and the entrance of a new comer such as Vietnam made the competition to attract investment even tighter.

Under those circumstances, it was necessary to improve the investment climate so that Indonesia could reemerge as an attractive investment destination for domestic & foreign investors. The main target of the package was to boost economic growth above 6 percent by making investment one of the major moving forces.

In the implementation of last year's policy package for the improvement of investment climate, more than 80 percent of 85 actions were successfully concluded. Some significant actions are, among others, the issuance of a new law concerning capital investment, simplification of procedures for granting investment approval and for endorsement in establishing a limited company; simplification of a number of licensing procedures in the trade sector; simplification of procedures for the extension of the validity period of an Expatriate Employment Permit (*IMTA*) and for granting of an extension of the validity period for a limited stay permit (*KITAS*); revocation of more than 100 regional regulations that cause a high cost economy; the granting of a fiscal incentive for priority investment activity and a revision of the status of value added tax on agriculture products to become non-taxable goods; simplification of the custom examination procedure,

automation of activities in the Bonded Hoarding Zone (TPB) and cost & time reduction in handling cargo at the ports

For the last three quarters economic conditions have improved with an average growth of 6 percent, which is supported by strengthening exports and investment from domestic & overseas. The government views that it is necessary to enhance the recovery momentum by continuing the measures to improve the investment climate as part of the Inpres issued today.

Recapitulation of the Policies for the Improvement of Investment Climate

No.	Area	Policy	Number of Action
I	Institution	A. Strengthening Investment Service Institution;	15
		B. Synchronization of regional and central regulations.	2
II	Smooth Flow of Import & Export Goods	A. Improvement of Cargo Services at Tanjung Priok;	3
		B. Accelerating Customs Service;	6
		C. Development of Customs Facilities;	1
		D. Customs Control.	3
III	Taxation	A. Improving taxation service;	7
		B. Enhancing Good Governance;	2
		C. Protecting the rights of tax payer	1
TOTAL			40

B. Financial Sector Reform

Financial Sector Reform Policy in this newly issued-Inpres is the continuation of the Financial Sector Policy issued in the middle of year 2006. In the previous Financial Sector Policy several policies were implemented which were aimed at strengthening financial sector stability in order to improve public & market confidence, as well as to minimize the risk of recurrence of 1998's economic crisis. The programs that have been successfully concluded for that purpose are, among others, those related to the settlement of non-performing loans of state owned banks and the treatment of ailing insurance companies. In addition, the strengthening of the capacity of the Deposit Insurance Corporation in dealing with troubled banks which bring systemic impact has been stipulated.

Recapitulation of Financial Sector Reform Policies

No.	Area	Policy	Number of Action
I	Financial Stability System	A. Strengthening financial sector coordination mechanism;	6
		B. Strengthening financial institution;	3
		C. Conducting financial education.	1
II	Banking Financial Institution	A. Improving banking policy coordination;	2
		B. Facilitating the development of sharia banking;	2
		C. Human Resources Development	1
III	Non-Bank Financial Institution	A. Strengthening of Insurance Industry;	3
		B. Strengthening of Pension Fund Industry;	1
		C. Developing export financing;	1

		D. Placing the foundation of risk based supervision in financing company;	1
		E. Developing Pawn Service Industry;	1
		F. Increasing product diversification and financing services;	1
		G. Developing venture capital industry.	1
IV	Capital Market	A. Enhancing the efficiency and liquidity of capital market;	2
		B. Enhancing the liquidity and stability of bond market (debt securities);	6
		C. Strengthening legal basis for supervising money laundering practices in capital market;	1
		D. Preparing taxation policy to promote capital market activity	2
V	Others	A. .Harmonizing regulations in financial sector;	2
		B. Expanding diversification of Development Financing Source for Development;	1
		C. Enhancing the performance of State Owned Enterprises.	6
TOTAL			44

The previous Financial Sector Policy Package also included policies which were aimed to support diversification of funding sources that can be used by business sector from banking, through the capital market as well as other financial institutions. In this policy group, the government has supported the implementation of bond repo market development and Sharia based capital market development, government retail bond issuance, and the drafting of regulation concerning Sukuk instrument.

That policy package was also aimed to develop competition among banks, non-bank financial institutions, and the capital market to enhance the efficiency of the financial sector. A number of ongoing programs in line with this aim are the merger of the Jakarta Stock Exchange with the Surabaya Stock Exchange, the implementation of e-reporting, e-licensing, e-registration, and e-monitoring systems, as well as the implementation of remote trading in the capital market. Meanwhile, in order to implement Basel II, the banking sector began risk-based supervision. The operationalization of a Credit Information Agency for debtor database service is being initiated. Further a tax facility has been granted for banking, capital market and insurance industries to promote the development of each industry.

Various policies mentioned above are the outcome of 55 actions conducted from July 2006 to first quarter of year 2007. The actions which are scheduled to be implemented after first quarter of year 2007 and yet-unfinished actions will be continued through the Financial Reform Policy component of this Inpres.

The framework of newly -issued Financial Sector Reform Policy Package is similar to the previous policy package comprising five groups of policy namely Financial System Stability, Banking , Non-Bank Financial Institution, Capital Market, and others.

C. Acceleration of Infrastructure Development

Last year's policy package for infrastructure was the consolidation of coordinated strategic measures to realize a policy framework reform, regulatory reform, and institutional reform in managing infrastructure. It includes cross-sector strategic policy reform, corporate & sector policy reform in order to promote the realization of healthy competition in infrastructure provision; regulation to eliminate manipulation of a natural monopoly right as well as to protect the public & investors in infrastructure provision; clear separation of role between Minister/ Head of Institution/ Head of Region that acts as policy maker and State-Owned Enterprises/Regional Owned Enterprises as a business player (operator).

Some outputs that have been successfully completed are the foundation & policy framework, regulation and institution of public private partnership in infrastructure development including regulations such as finalization of the Railway bill and Maritime bill, land transportation traffic bill, and the bill concerning aviation in transportation sector and an electricity bill.

In cross-sector policy, the government has issued a regulation concerning the Secretariat to the Policy Committee for the Acceleration of Infrastructure Development (*KPPI*), and Procedure and Criteria for the projects which will be collaborated with private sector. In addition to that, a directive for the implementation of the projects involving collaboration between the government and private sector was completed. Furthermore, The regulation related to land was finalized as stipulated in Presidential Regulation (*Perpres*) No. 65 of year 2006. Concerning infrastructure financing, the government has issued a regulation of the Minister of Finance as stipulated in *Permenkeu* No. 38/2006 concerning a directive for controlling the implementation and risk management of infrastructure provision.

In year 2006, the Government of Indonesia successfully conducted the Indonesia Infrastructure Conference Exhibition (*IICE 2006*) in which there were more than 1000 participants.

Recapitulation of Policies for Acceleration of Infrastructure Development

No.	Area	Policy	Number of Action
I	Regulatory Improvement	Expediting finalization of infrastructure regulations	5
II	Institutional Reinforcement	A. Increasing capacity of Contracting Agency in preparing a project which is collaborated with private sector within the framework of implementation of Presidential Regulation No. 67 of year 2005; B. Separation of authority between Central Government and Regional Government in development of infrastructure; C. Regulation on Regional Owned Enterprises (<i>BUMD</i>) to clarify the function, position, role of <i>BUMD</i> in development of infrastructure; D. Establishment of Non-Bank Financial Institution for Infrastructure; E. Establishment of institution to accelerate infrastructure development.	1 1 1 1 3
III	Improvement in Management of Infrastructure Development	A. Enhancement of electricity access in rural area; B. Policy Review on Public Service Obligation (<i>PSO</i>); C. Acceleration of land acquisition process for public interest;	1 1 1

	D. Preparing operational guideline for private & public partnership in the framework of Presidential Regulation No. 67 of Year 2005;	1
	E. Acceleration of Housing Provision;	3
	F. Improvement in management of infrastructure maintenance and transportation safety.;	3
	G. Preparing Blue Print/ Sector Master Plan	3
TOTAL		25

D. EMPOWERMENT OF MICRO, SMALL, MEDIUM ENTERPRISES (MSMES)

This policy serves as an expansion of several programs which last year were accommodated in the Investment Climate Improvement Policy Package. The development of this policy is designed in accordance with the survey on business climate in rural area and active consultation with KADIN and other business players.

The main objective of the MSMES Empowerment policy is to enhance the productivity of MSMES, to promote improvement in the effectiveness of program and activity which related to the empowerment of MSMES. This policy also aimed to give a more positive signal on the importance of joint commitment to support MSMES empowerment.

The MSMES Empowerment Policy Package covers 4 major aspects namely (i) Enhancement of MSMES access to financing sources, (ii) Development of entrepreneurship and Human Resources , (iii) Enlargement of possible market for MSMES products, and (iv) Regulatory Reform. Overall the MSMES the Empowerment Policy Package within those 4 areas covers 11 policies, 20 programs, and 28 actions as set out below:

Recapitulation of MSMES Empowerment Policy

No	Area	Policy	Number of Action
I	Enhancement of MSMES access to financing source	A. Increasing institutional capacity and MSMES access to financing source	2
		B. Strengthening loan guarantee system	8
		C. Optimizing the use of non-banking fund for the empowerment of MSMES	3
II	Development of Entrepreneurship and Human Resources	A. Increasing the mobility and quality of Human Resources	5
		B. Promoting the growth of technology-based entrepreneurship	1
III	Enhancement of possible market for MSMES product	A. Promoting the development of promotial institution and MSMES product creation	3
		B. Promoting the development of traditional market and trade relation	3

		system among partnership-based market players	
		C. Developing sea transportation information system for MSMES	1
		D. Developing market synergy	1
IV	Regulatory Reform	A. Granting tax incentive for MSMES	1
		B. Preparing policy for MSMES sector	1
TOTAL			29

With the policy package for MSMES empowerment, it is expected that business climate can facilitate Micro Small Medium Enterprises (MSMES) to overcome the problems which they face.

In addition, it is expected that the funds available in the banking sector, government, SOEs as well as the public can be utilized in a more optimal way to support MSMES empowerment. It is expected also that MSMES entrepreneurship will be able to develop in a more professional way by utilizing innovation and technology development, so that MSMES can be more competitive in a globally competitive marketplace.

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