

ANNEX A.1

Progress in structural reform

This table reviews action taken on recommendations from previous *Surveys*. Recommendations that are new in this *Survey* are listed at the end of the relevant chapter.

Recommendations in previous <i>Surveys</i>	Action taken since March 2015
a. Fiscal, monetary and financial policy	
Deepen and broaden financial markets by making more room for non-banks and the stock market in financing the economy.	The Financial Market Deepening Blueprint was prepared as a guideline for the improvement and development of financial market structure for the upcoming 5-10 years. The Blueprint contains guidance for money market development programmes along with the foreign exchange market, sharia financial markets and bond market (coordinative). Financial market development shall be achieved through five strategies, namely (i) the development of instruments and the investor base; (ii) strengthening regulations and standardization; (iii) infrastructure development; (iv) institutional strengthening; as well as (v) effective education and dissemination. Development based on the five strategies is expected to create deeper, more liquid and efficient financial markets, thus supporting monetary policy effectiveness, financial system stability and economic development financing. Indonesia continues to accelerate financial market deepening initiatives to reduce the pressure on the foreign exchange market. The recent Bank Indonesia's (BI) recent initiatives include (i) simplifying foreign exchange transactions; (ii) allowing market participants to do netting in forward transactions; as well as (iii) expanding the documentation required in foreign exchange transactions
Further develop the foreign exchange market by reducing the role of BI, generalising hedging and options, and enlarging the class of assets underlying the transactions.	Bank Indonesia encourages the private sector to manage their foreign exchange risk through FX hedging transactions. On 1 January 2015 BI implemented regulations that require non-bank corporate borrowers of foreign debt to maintain a minimum hedging ratio of 20%. A current update of BI's Financial Deepening Programme include regulations concerning the Jakarta Interbank Offered Rate, Net Open Position of Commercial Banks, forex to IDR trading within banks and among domestic or foreign parties, and the Interbank Sharia Money Market.
Raise government tax revenues in order to fund a needed longer-term increase in government spending. Revenue could be raised by bringing more self-employed into the tax net and by improving the effectiveness of tax collection.	Since 2013, the Director General of Taxation (DGT) has been implementing simplified schemes to bring more SMEs into the tax net by setting the rate of tax on turnover at 1%. DGT is very active in strengthening cooperation and coordination with many other institutions with a view to sharing information to capture unregistered taxpayers and initiating shadow economy mitigation.
Introduce a carbon tax at an initially low rate.	No action taken.
Allocate more tax audits on the basis of risk assessments, and eliminate automatic audit requirements. Increase the number of government auditors.	To improve the effectiveness of tax collection, DGT started to develop and implement Compliance Risk Management (CRM) in 2014, which will assist in decision making and resource allocation based on taxpayer risk. In 2015 the project focused on audit and compliance assurance. Tax collection and other functions will follow in the coming years. In early 2015 DGT established a Centre for Tax Analysis (CTA), a unit dedicated to enhancing its capacity to identify and assess revenue risks. This unit distributes potential uncollected revenue (tax gap) and taxpayers' non-compliance behaviour/pattern to all tax offices.

Recommendations in previous Surveys	Action taken since March 2015
B. Promoting inclusive and sustainable economic growth	
Direct more public resources to improving education access and outcomes. Continue regular teacher assessments and professional development, and link teacher salaries more closely to qualifications and performance.	No action taken.
Raise public spending on infrastructure. Focus on transportation and logistics to support industry, as well as natural disaster prevention and water treatment.	The government is supporting 14 industrial areas outside of Java with investments in roads, ports, railways, airports, and sanitation in 2016. Policy is targeting lowering port dwelling time to 3-4 days by 2019 and targeting lowering logistic cost to 19.2% of GDP by 2019.
Avoid protectionist measures that inhibit openness to trade and foreign investment with uncertain development payoff.	Indonesia has revised the negative investment list in 2016 to provide more opportunities for both foreign and domestic investors. Some trade restrictions have been relaxed as a result of implementation of economic policy packages.
Lower electricity subsidies, and have recourse to cash transfer schemes to compensate poor households for the rise in electricity prices.	Electricity subsidies are being further lowered in 2016.
In provinces where minimum wages are high in relation to average wages, resist real increases that exceed trend productivity gains. Introduce a subminimum wage for youth directly linked to the general minimum wage. Reduce onerous severance payments and ease dismissal procedures in the formal labour market. In return introduce unemployment benefits coupled with individual unemployment savings accounts.	As of 2016 minimum wage increases are limited to real GDP growth plus the rate of inflation. Using this formula, real GDP growth in Q2 2015 of 4.7% and September 2015 inflation at 6.8% resulted in a minimum wage increase of 11.5% across all provinces in 2016.
Improve the enforcement of intellectual property rights.	No action taken.
Remove formal education from the negative investment list.	No action taken.
Encourage tertiary education financing through student loans.	No action taken.
Create a national training fund to consolidate resources allocated to training and direct them to their most cost efficient use.	No action taken.
C. Reducing poverty and inequality	
Increase, and further improve targeting of, spending on poverty alleviation and health measures. Direct more public resources to improving education access and outcomes.	The target recipient of Healthy Indonesian Card (<i>Kartu Indonesia Sehat/KIS</i>) has been extended to also include Person with Social Welfare Problems (<i>Penyandang Masalah Kesejahteraan Sosial/PMKS</i>), babies who were born using the Contribution Assistance Recipient (<i>Penerima Bantuan Iuran/PBI</i>). In 2015, KIS has reached 88,2 million of poor community and less capable. In 2016, the participant of PBI is targeted to 92,4 million people, with additional 3,8 million of poor community, and 1,8 million of unregistered PMKS, as well as 400 thousand babies from PBI participants.
Increase financial inclusiveness by further developing branchless banking, drawing lessons from such countries as India, Mexico, the Philippines and Kenya.	The BI financial inclusion programme consists of a transformation from an inefficient cash society to less cash society entailing wider use of safe and efficient electronic money, and credit and debit cards. BI and relevant institutions (the Coordinating Ministry of Economic Affairs, Ministry of Finance, DKI Jakarta Province Government, and the Association of Indonesian Provincial Governments) as well as industry participants in the payment system under the Association of Payment System in Indonesia (ASPI) launched the Non-Cash National Movement (GNNT) in August 2014. Going forward, to expand financial access to unbanked and under-banked people in remote areas, BI provides a Digital Financial Services (DFS) programme. The DFS not only serves as a means to open financial access, but is in line with Non-Cash National Movement since its launch in 2014. There 24 561 DFS agents (individual and legal entity agents) in February 2015, including PT Post Indonesia, covering around 418 of 537 regencies/cities, and reaching over one million customers.
Tackle labour market informality by reducing rigidities in the formal sector, and by enhancing the effectiveness of the tax-transfer system for poverty alleviation and channelling other social benefits.	No action taken.
Continue building a single registry of vulnerable households to better target assistance.	The national poverty database (PSP14) is regularly updated and expanded. Statistics Indonesia conducts National Economic Social Survey (<i>Susenas</i>) annually, which includes data of national poverty rate.

Recommendations in previous <i>Surveys</i>	Action taken since March 2015
D. Better regulation and reducing corruption	
Improve mechanisms to prevent corruption, while further increasing efforts to combat all forms of corruption.	No action taken.
Expand support to sub-national governments for capacity building, including the provision of technical and administrative assistance by the central government.	No action taken.
E. Making the most of natural resources while preserving the environment	
Refocus the mineral ore export ban based on an evaluation of the costs and benefits of onshore processing for each mineral. Provide infrastructure and electricity to the new smelters.	The Power Supply Business Plan by PT PLN (the National Electricity Company) provides for smelter and new industrial area developers to build their own power plants to support their electricity demand. It also allows companies to use power plants owned by other Electricity Supply Business Licensees (IUPTL) and/or use distribution and PT PLN's transmission network through power wheeling schemes.
Increase agricultural productivity by providing technical assistance and training, including through agreements between smallholders and large estates. Increase farmers' access to credit by accelerating land titling. Lower food prices by decreasing trade restrictions.	An insurance scheme for small farmers is being introduced to protect farmer incomes in the case of poor harvest to low prices.
Devote more resources to enforcing laws against illegal forest clearing, logging and mining.	<p>Since 2013, the Ministry of Environment and Forestry has been tackling and preventing illegal logging activities by implementing a timber legality verification system in the management of production forests in Indonesia. The timber legality verification system is a system that ensures sustainability of forest management and / or legality of timber and timber tracking through the Certification of Sustainable Forest Management Assessment and Certification of Timber Legality and Suppliers Declaration of Conformity.</p> <p>Negotiations of a timber verification agreement with the European Union have entered their final stage. A legality verification system has also been recognised by Australia and can meet the legality assurance with enforcement of the law on illegal logging prohibition.</p> <p>Additional funds have been allocated in the national budget to support activities related to the promotion, and capacity building in timber legality verification systems.</p> <p>The implementation of timber legality verification system in 2013 has resulted in a reduction of the number of cases of illegal logging but further monitoring will be needed in the years to come.</p>
Reduce greenhouse gas emissions by further developing clean power, especially geothermal.	<p>The Indonesian government encourages the development of geothermal power plants to facilitate the purchase of electricity from geothermal power and geothermal steam by PT PLN. Meanwhile, to speed up its development, geothermal capacity of 4.8MW has been added to the list of Power Plant Development Acceleration Program Phase II.</p> <p>The draft National Electricity General Plan for the period of 2015-34 implements the National Energy Policy which aims at a geothermal share of energy supply of at least 23% by 2025 and 31% in 2050.</p>



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