Overview of Progress and Policy Challenges

Indonesia has successfully overcome immense political and economic obstacles since the late 1990s. New economic laws and policies, based on an increasingly transparent and accountable political system, are bearing fruit in the form of stable growth and a renewed rise in inflows of foreign direct investment. Both domestic and foreign investment are nevertheless still inadequate to meet the country's requirements for basic infrastructure and higher productivity. This overview describes the tremendous political and institutional changes since the Asian financial crisis and suggests ways in which Indonesia's investment performance could be improved through further reforms.

This review presents the new institutional and legislative framework for investment in Indonesia. It describes progress so far and where further measures might help to encourage enterprises to invest in Indonesia. It looks both at investor perceptions and at actual policies – or their absence – and how these might affect investment. The review also considers the vital question of whether and how these policies are being implemented.

The investment climate in Indonesia is examined using the *Policy Framework for Investment* (PFI) developed at the OECD by participants from 60 countries. The PFI provides a checklist of important policy issues for consideration by any government interested in creating an environment that is attractive to all investors and in enhancing the development benefits of investment to society, especially the poor. It consists of a series of questions in ten policy chapters: investment; investment promotion and facilitation; trade; competition; tax; corporate governance; responsible business conduct; human resource development; infrastructure and financial sector development; and public governance.

Through this review, conducted in close collaboration with the Government of Indonesia, the OECD can provide an objective assessment of progress in Indonesia and the reform challenges that remain. It can share the experience of how OECD and partner countries have tackled the same problems, and it can help to benchmark Indonesia's performance against these countries. At the same time, the Government of Indonesia can also use the PFI assessment exercise to help build consensus and capacity within government and to foster a whole-of-government approach to investment climate reform.

1. Overview

Indonesia has achieved impressive success in overcoming immense political and economic obstacles since the late 1990s. New economic laws and policies, based on an increasingly transparent and accountable political system, are bearing fruit in the form of stable growth and a renewed rise in inflows of foreign direct investment (FDI). Both domestic and foreign investment are nevertheless inadequate to meet the country's requirements for basic infrastructure and higher productivity.

With its large internal market, abundant natural resources and location within a dynamic region, Indonesia has a natural appeal to foreign investors.

The economy has exhibited periods of rapid growth in FDI inflows in response to policy reforms, as in the early 1970s and the years before the Asian financial crisis. On this basis, the prospects for future inward investment are good. Investor responses in the aftermath of the 1997-1998 crisis were muted by slow recovery and political uncertainty, but after years of reforms the government may now have accumulated a critical mass of legislation to rekindle investor interest. The payoff from addressing remaining policy challenges to promoting foreign and domestic investment as described in this review could be immense.

Political reforms have strengthened democracy and local autonomy

Political reforms over the past decade have provided a firm basis on which to develop economic policies that have increased the resilience of the Indonesian economy and enabled the government to make further progress in creating an enabling climate for investment. Since the end of the Suharto regime in 1998, Indonesia has put in place a democratic, transparent and accountable form of government. Power has been democratised and decentralised. Policy making is now shared vertically between central and local governments as well as horizontally among the executive, legislature and judiciary. A Regional Representatives Council covers regional issues, together with regional governments. Civil society is flourishing in this new environment.

Amendments to the Constitution and changes in the political environment since 1998 have caused a major reduction in the president's executive powers. The president has overall responsibility for organising the administration of the state to implement policies which foster national development. The president also has emergency law-making powers, but any presidential laws may be recalled by the legislature.

Legislative power rests with the Parliament, although laws must also have presidential approval. The Parliament has three main functions: legislative, budgeting and oversight. It draws up and passes laws and discusses and approves government regulations in lieu of laws and proposals. A National Legislation Programme provides drafting guidelines mandating stakeholder consultations at every step to ensure transparent law-making by government agencies. The public has a legal right to comment on draft laws and draft local regulations. Government officials receive training in the formulation and design of laws and regulations. A guidebook for drafting local regulations is also available for local governments.

The Constitution provides that judicial power is exercised by the Supreme Court and subordinate judicial institutions in the form of public courts, religious affairs courts, military tribunals and state administrative courts, as well as by the Constitutional Court. Judicial appointments and supervision of judges are now conducted by a newly-established Judicial Commission, freeing the judiciary from political interference.

Several measures have been taken to promote government integrity and transparency. In 2008 an ombudsman was established to hear complaints against government agencies alleged not to be satisfying minimum service standards. Several government bodies have adopted codes of conduct for their staff and strengthened control mechanisms. Transparency with regard to government actions has been improved by a Law on Freedom of Information passed in 2008.

Human rights protection has been strengthened since the end of the Suharto regime in 1998. The government strengthened the existing National Commission on Human Rights and granted it independence in 1999. In the same year it passed a law guaranteeing freedom of speech. NGOs and academic institutions have sprung up in recent years to voice public concerns, providing a civil society sounding board to comment on government actions.

Labour rights have been strengthened since 1998. In 2000 Indonesia became the first country in Asia to ratify all core ILO conventions. In that year, it enacted a law on labour unions to guarantee the right to form a union. A 2003 Manpower Law consolidated labour regulations and further strengthened labour protection in many areas.

The government gives high priority to fighting corruption. The 2001 Law on Eradicating Corruption is stronger than its predecessors and was modified after Indonesia ratified the UN Convention Against Corruption in 2006. Laws have recently been passed to provide greater protection for witnesses and victims and to set up a corruption court. Other laws are in preparation. A Corruption Eradication Commission was formed in 2003 and given wide-ranging powers to investigate corruption which it has used to great effect. Whistleblower protection is available under a law that became operational in 2009. High-ranking government officials are required to report their assets; compliance is increasing. The public procurement system has been reformed to eliminate bribes. A specialised centre has been set up to eradicate money laundering and Indonesia was removed from the Financial Action Task Force's blacklist in 2006.

Indonesia has made progress in developing a corporate governance framework based on its concept of Good Corporate Governance (GCG). Since corporate governance problems were a major factor in the economic collapse of the late 1990s, commitments to improve performance in this area were included in the conditionalities of IMF rescue loans. As a result, the first corporate governance guidelines were published in 2001. GCG principles are also embodied in the 2007 Company Law. Shareholders are now entitled to legal redress if their rights are violated and they have the right to obtain information.

This transition process has not always been smooth. Indonesian laws tend to leave specific details to implementing regulations, which adds further delays. Even when these regulations have eventually been put in place, government officials may not always have the incentive and the capacity to fulfil them. Capacity shortages are particularly acute at local government level. New institutions also require time to establish their independence and overcome resistance from other parts of government. The work of the Corruption Eradication Commission, for example, could clearly benefit from establishing a *modus operandi* with the Attorney General's Office and the Police. These conflicts are not unique to Indonesia, but the extent and rapidity of institutional change makes them more acute.

The government has persisted with economic reform, despite crises…

Democratic political reform and institution-building have provided an increasingly firm basis for continuing economic reform and macroeconomic stability, creating a virtuous circle where a more stable economy can help reinforce the legitimacy of the new polity.

Since the late 1990s, the government has pressed on with economic reforms and has not resorted to protectionist responses to either the 1997-1998 crisis or the current global economic crisis. In the aftermath of the Asian crisis, multilateral and regional obligations restricted the range of possible policy responses, but the trend towards greater openness was not solely a result of these obligations.

Three packages of economic reforms have addressed a wide range of policy areas, including: macroeconomic and financial policies; infrastructure development; investment regulations and the investment climate; customs; taxation; manpower; financial institutions; small business development; energy security; natural resources; environment; agriculture; labour and transmigration.

The new policies have taken shape in a vast project of law and institution building. The number of laws introduced since 1998 has been unprecedented. Beyond those covering regional autonomy, new laws now exist in almost all areas of economic activity, including: investment (replacing foreign and domestic investment laws from the 1960s), labour, arbitration, bankruptcy, company law, competition, tax administration, human rights, mining, oil and gas, geothermal and other energy, and in other infrastructure sectors.

Indonesia is now a signatory to almost all conventions or treaties covering intellectual property rights. The government has also demonstrated leadership in contributing to the transition to a low carbon economy, with

President Yudhoyono announcing a target for Indonesia to reduce greenhouse gas emissions by 26% by 2020 compared to expected levels – or up to 41% if international support is forthcoming to assist the abatement effort.

Indonesia has also created new institutions, such as the Commercial and Constitutional Courts, as well as several other specialised courts, sectoral regulators and numerous task forces designed to improve implementation, including the National Task Force for Intellectual Property Rights Violation Prevention. New agencies have also been created to combat corruption or anti-competitive practices, and national teams have been formed to enhance exports and investment and to expand private participation in infrastructure. A National Council for Climate Change has been established.

... providing a foundation for improving the investment environment

Economic reforms are starting to bear fruit. Macroeconomic stability, once a major worry for investors, has been re-established and has so far survived the global economic crisis relatively unscathed. The economy is growing steadily, although not rapidly enough fully to address problems of unemployment or poverty. Foreign investors have returned, though they remain cautious, and exports were also growing before the recent crisis, albeit insufficiently in labour-intensive sectors.

Economic policy certainty has increased, providing the predictability needed for long-term investments. A landmark Investment Law passed in 2007 covers both domestic and foreign investment, stipulating national treatment for foreign investment. It has also increased the transparency of Indonesia's policy framework for investment, in particular by clarifying which sectors are closed to foreign and/or domestic investors.

In line with the political reforms alluded to above, there is also greater transparency in making and implementing economic laws and regulations. For example, the government actively consulted foreign investors when preparing the 2007 Investment Law. Decisions on investment projects can now be challenged in the courts. The government is also striving to increase the transparency of its investment regime by slashing red tape, especially by streamlining the investment project approval process and implementing one-stop integrated services for investors.

These efforts to improve transparency are not just paper commitments. The central government is actively encouraging streamlining of licensing and other local level investment procedures by giving investment awards to local governments offering good investor services and by providing a wide range of relevant capacity building courses at local level.

Fiscal incentives do not discriminate between domestic and foreign investors. The government now has in place an organisation, the National

Team on Export and Investment Promotion (PEPI) whose brief explicitly includes conducting cost-benefit analyses of such incentives and, where necessary, proposing changes in the level of incentives and sometimes revoking them.

The Indonesian government is making strenuous efforts to curb intellectual property rights (IPR) violations. These efforts can help provide a more attractive investment environment for firms considering bringing in new technology. Consistent with the many international treaties and conventions on IPR that it has signed, Indonesia has put in place and updated IPR legislation to bring it closer to internationally-recognised standards. Concrete steps have been taken to strengthen enforcement of these laws, while also raising public awareness and building institutional capacity to handle complaints. Applying for IPR protection has been made easier.

The competitive environment for investors has improved since the enactment of a Competition Law in 1999 and the establishment of a Commission for the Supervision of Business Competition (KPPU) in 2000. KPPU is an independent body reporting directly to the President; it has a separate budget from the rest of government. The government is preparing to issue regulations on merger and acquisition review. During the 2000s, KPPU has become increasingly active. As well has handling cases referred to it, KPPU conducts competition impact assessments of government policies and regulations. KPPU co-operates actively with international and regional bodies, potentially facilitating its work on cases involving foreign parties, which are explicitly within its jurisdiction.

Acknowledging the country's infrastructure weaknesses, the Indonesian government has put in place a major programme of infrastructure construction that allows for greater private participation and a reduced, more accountable, role for state-owned enterprises. This Review examines the programmes to address deficiencies in telecommunications, electricity supply and transport facilities, including measures to facilitate and encourage public-private participation projects.

Marked improvements have taken place in the financial sector. The banking system has been restructured in recent years, enabling it to weather the current global economic crisis far better than it did the 1997-1998 crisis. The government has granted independence to the central bank and strengthened its supervisory powers while partially divesting the government's own shares in local banks. Prudential regulations have been improved, as has co-ordination between the central bank and the Ministry of Finance. Commercial banks have been strengthened by increasing capital requirements and promoting consolidation. Lending has been facilitated by the recent establishment of a Credit Bureau to provide debtor information.

Measures have been taken to strengthen the expanding capital market, in which foreign investors play a major role.

Indonesia's trade policies have been liberalised in recent years. Border procedures have been streamlined, as the Indonesian customs have been reformed to increase transparency and accountability and the Indonesian National Single Window launched in 2007 to handle export-import licences, data and information related to customs documents and the release of goods. The government is committed to reducing uncertainty with regard to trade policy and minimising regulatory changes. Domestic and foreign chambers of commerce are involved in trade policy formulation as part of the process of stakeholder consultation. The fruits of economic reform are stable growth and rising FDI inflows

2. Policy challenges and options to address them

The achievements outlined above demonstrate the tremendous efforts the Indonesian government has made to improve the investment environment, which have already achieved impressive results. However, Indonesia inevitably faces continuing challenges which need to be analysed and addressed.

Indonesia's impressive investment performance could be improved further

Although it has improved markedly in recent years, the business climate still lacks dynamism and attractiveness, as attested by many global indicators. These indicators can be criticised, with some justification, for presenting only a partial image of the complex array of factors which shape a business climate. Methodologically, they also tend to capture established perceptions rather than changes on the ground. But at the same time, the fact that Indonesia lags behind some of its regional peers in a number of international surveys of the business climate suggests that there is scope for improvement.

The *Doing Business* indicators of the World Bank, for example, rank Indonesia 122nd out of 183, only slightly worse than Indonesia's ranking in the Corruption Perceptions Index of Transparency International (111/180). Indonesia nevertheless outperforms Vietnam and the Philippines on corruption perceptions and is ahead of Brazil, India and the Philippines in terms of *Doing Business*. Indonesia was also the star reformer in Asia in the most recent *Doing Business* survey which, if sustained, will help to turn perceptions around. Indonesia also performs much better in some other surveys, such as the World Economic Forum's Global Competitiveness Index (54/133) and the World Competitiveness Index of the International Institute for Management and Development where it ranked 42 most recently, up from

51 in 2008. Indonesia is expected to continue at 61st of the 82 economies covered by the Economist Intelligence Unit's business environment rankings, though it is forecast to improve its absolute score over the next five years.

Another test of the investment climate is how much investment is actually undertaken. A decade of legislative reform seems to be paying off in terms of promoting domestic investment and attracting foreign investors. Total fixed investment as a proportion of current-price GDP is on a steadily rising trend, reaching nearly 25% in 2007 compared with 19.5% in 2003 – though this is well below the rates achieved by faster-growing economies in Asia. Recent FDI inflows have returned to pre-crisis levels, with strong growth in mining investment in 2007. But Indonesia still lags behind many of its peers in the region in attracting FDI relative to the size of its economy and given its rich natural resources. A comparison of FDI inflows and policy changes in Indonesia over four decades suggests a high degree of elasticity in terms of investor responses to policy changes, which should encourage reformers.

The challenges Indonesia faces can be seen in inter-related areas which tell much the same story. Export performance has lagged regional peers since the 1997-98 crisis. This can be seen in declining market shares in goods and services in world markets (now at 1% of world trade) and in the low share of high-technology exports within total exports, which are still dominated by the energy sector.[1] Most of the post-crisis expansion in exports has occurred outside the manufacturing sector and has been more from price gains than volume growth.[2]

The weak export performance and the relative scarcity of export-oriented FDI projects are both cause and consequence of weak productivity growth in Indonesia in the post-crisis period. The OECD's *Economic Assessment of Indonesia* (2008a, p. 21) concludes on the basis of available evidence that "input accumulation, rather than productivity enhancement, has been the main driver of growth in Indonesia".[3] This trend started in the early 1990s and is not solely a result of the crisis. Recent empirical analysis has nevertheless emphasised a recovery in total factor productivity in recent years.

Overall productivity can be improved by increasing the productivity of individual sectors (with more productive firms displacing weaker rivals) and by reallocating resources from less to more productive sectors. Either outcome will depend on increasing the levels of investment, including foreign investment, in the economy and on allowing capital to flow to where it can be used most productively. This will depend in turn on efforts to improve the climate for business in Indonesia.

The new era of political and macroeconomic stability offers a propitious time to discuss how further reforms and improved governance can build on the progress achieved so far to address the weaknesses in the business climate described above and thereby to propel the Indonesian economy onto a new growth trajectory as seen in other Asian economies.

Inadequate infrastructure in Indonesia's geographically challenging archipelago has slowed the country's progress in joining the rank of the world's economic powerhouses such as China and India. The years after the Asian financial crisis witnessed very little of either public or private investment in most infrastructure sectors. Filling this infrastructure gap cannot be financed exclusively by the public purse. In line with the experience in a large number of OECD and other countries, Indonesia has made efforts to incorporate private participation in infrastructure to boost both the coverage and efficiency of infrastructure services.

The experience with public-private partnerships in Indonesia in the 1990s, in keeping with that in much of the rest of the developing world, was not always a favourable one. The goal of ensuring financial sustainability while at the same time meeting user needs and social objectives has often proved elusive. The OECD *Principles for Private Sector Participation in Infrastructure* could be useful in this context. They are intended to assist governments seeking private sector involvement in infrastructure development, in attracting investment and mobilising resources for the benefit of society and achieving sustainable development.

Investment promotion needs to be focused

In terms of investment promotion, the focus of the Investment Co-ordinating Board (BKPM) has been shifting more towards investor services, policy formulation and co-ordination as investment administration responsibilities are further delegated to local level. Performance indicators for BKPM are being adjusted to reflect its evolving focus.

The new Special Economic Zones being set up in Indonesia may go some way in addressing many investor concerns, but care needs to be taken in ensuring that incentives provide value for money. The OECD *Checklist for Foreign Direct Investment Incentive Policies* helps governments to assess the costs and benefits of using incentives to attract FDI, to provide operational criteria for avoiding wasteful effects and to warn against the pitfalls and risks of excessive reliance on incentive-based strategies. The National Team on Export and Investment Promotion (PEPI) may be well placed to conduct such reviews.

More could also be done to promote development of investment linkages between foreign affiliates and local enterprises. A broad policy to build the capacity of local enterprises to profit from business opportunities with foreign affiliates has been important, along with the government's role in facilitating business matching. Capacity development programmes for local firms could be offered in close partnership with the foreign investors.

Investment restrictions have been declining with few interruptions since 1985

Indonesia has been liberalising its investment regime through various rounds of reforms beginning in the mid-1980s. Unlike in earlier periods when abundant oil revenues led to more inward-looking development strategies, the past 25 years have seen very little backtracking. The Asian financial crisis led to substantial liberalisation, particularly in the banking sector and for acquisitions of local firms, but seen from a longer term perspective the crisis merely served to speed up a process which was already under way. More recently, the government has largely resisted protectionist responses in the current global crisis, as shown in the OECD-UNCTAD-WTO monitoring report to the G20.

Indonesia now has no general approval process for investment which might discriminate against foreign investors. In many sectors, particularly in services, foreign investors face a limit on the share of foreign equity, but in many cases foreigners are allowed to hold a majority stake. The Negative List of sectors where foreign investors face equity or other restrictions appears to be long in comparison with other countries and indeed even with earlier lists published by the government, but this is partly a consequence of its transparency.

… but foreign equity limits remain at the sectoral level

The pervasiveness of foreign equity restrictions in numerous sectors nevertheless makes Indonesia much more restrictive towards FDI than the average in OECD countries, according to the OECD *FDI Restrictiveness Index*. At the same time, Indonesia is not an outlier within its own peer group of major emerging economies and is less restrictive than China based on this measure. A useful future exercise in benchmarking might be with other economies within Southeast Asia.

While foreign equity limits by themselves are not likely to pose a serious obstacle to foreign investment in Indonesia, depending on their levels, these measures could be reassessed in light of the policy objectives they are intended to achieve. Performing regulatory impact analysis on existing restrictions and any proposed new ones when they arise should help to find non-discriminatory alternatives to meet policy objectives and improve the investment climate. At the very least, it will make sudden changes to the *status quo* by line ministries less common and hence add to predictability.

Other entry barriers exist for both domestic and foreign investors

State-owned enterprises (SOEs) operate in many sectors in Indonesia, although their number has gradually declined over the years. In some nationally strategic sectors, such as electricity, railways and gas, SOEs continue to have a monopoly or market dominance. Policy changes concerning both competition and corporate governance move in the right direction, but recent institutional innovations still need time to become established. In this context, the government might consider reviewing certain provisions of the Competition Law with due regard to the development of Indonesia's industrial structure. The government is currently preparing regulations to allow the Competition Commission to review anti-competitive mergers and acquisitions.

Judicial reform has not yet provided the expected benefits

The judicial system is asserting its independence, after being tightly controlled by the Ministry of Justice under the New Order regime. A Constitutional Court and a Commercial Court have been created, among others, but capacity building remains a priority. Judicial activism has delayed new legislation in some cases, and investors complain about the lengthy and inefficient process of settling disputes through the local courts.

Decentralisation has created an urgent need for capacity building

The policy of decentralisation has an inherent logic in a country as geographically dispersed and ethnically diverse as Indonesia. But after four decades in which all major decisions were made by the president, the transfer of competence in a number of areas to the local level has not proceeded evenly. Some regions have progressed much better than others. Capacity building is already undertaken by a number of agencies and non-governmental organisations.

The government is complementing capacity building by further efforts to streamline the regulatory environment, including by further rationalising licensing requirements and implementing one-stop integrated services at both the central and local levels. The allocation of licensing authorities among ministries as well as between central and local governments has been clarified in various regulations and decrees. The strong commitment of the government leadership and careful planning of implementing steps, in consultation with stakeholders, are required in order to provide more efficient and predictable investment administration services

Implementing the new initiative targeted at improving the investment climate as outlined in the Medium-Term Development Plan of 2010-14 systematically to inventory, review and simplify laws and regulations at both central and local government levels, supported by stakeholder consultations and awareness campaigns, would help alleviate some of the administrative burden on local government.

There is also room for improvement in policy areas related to the investment environment

This Review explains how improvements are being made in policy areas that impinge on investment, including financial market regulation, competition, corporate governance, tax policy and policies for promoting responsible business conduct. For example, difficulties with implementing existing legislation relating to common business practices such as debt collection or winding up a business need to be remedied to ensure the predictability that investors prize above all else.

Enterprises are being encouraged to embrace principles of responsible business conduct in their core corporate strategy and investment. Reform efforts here should be deepened and business awareness that adoption of responsible business conduct is more than an additional cost to comply with laws and regulations needs to be increased. This can also support the government's efforts to improve corporate conduct in areas such as core labour standards and environmental protection by providing an impetus for companies to comply not only with applicable law but also with societal expectations expressed in other ways than through law.

Co-operation with the OECD has begun in investment policies, including the OECD's Freedom of Investment project, and also in other policy areas that relate to the overall environment for investment, such as competition policy and corporate governance. Indonesia can benefit from developing and deepening this co-operation to share experience with its peers and to exert influence on international rule-making to the benefit of its own people.

Policy options to address the challenges

The Indonesian government is strongly encouraged to:

- *Persist with efforts to ensure greater consistency in policies and laws*. The recent initiative systematically to inventory, review and simplify laws and regulations at all levels of government constitutes a major step in the right direction. These laws also need to be accompanied by the prompt creation of implementing regulations.
- *Continue to relax restrictions on foreign investment*. Current efforts to harmonise the bewildering array of foreign equity limits and introduce cost-benefit analysis are to be encouraged as part of broader reforms to fulfil public interest objectives through non-discriminatory means.
- *Continue to streamline business licensing*, as foreseen in the 2010-2014 Medium-Term Development Plan. A timely review of this streamlining showing progress in, for example, eliminating unnecessary licences and overlaps in information collection, would be welcome at an appropriate time.

- *Expand the role of BKPM to include a consolidated programme of consultations with investors and local IPAs leading to recommendations to government.* The BKPM could implement a consolidated programme of annual consultations and dialogue with investors. Problems and grievances brought up in such consultations could be shared with local IPAs and these in turn could notify BKPM of problems met with at local level. Based on the outcome of this process, BKPM could produce a set of recommendations to the government.
- *Improve the BKPM website.* A user survey on BKPM's online services could indicate specific areas for improvement. The BKPM website could be expanded to include a complete set of laws and regulations affecting investors, and to publicise other already available promotional materials; the site could also be updated more regularly.
- *Develop policies to facilitate and encourage the development of backward linkages and spillovers from FDI to the local economy.* These could, for example, include: capacity-building for local suppliers, including micro, small and medium-sized enterprises, provided by the government or the private sector; a cluster-based approach to investment attraction, based on existing local competitive advantage in terms of the resource base, including skills; and the publication of a user-friendly business directory to facilitate business matching between domestic and foreign-invested enterprises.
- *Strengthen the regulation of network sectors.* As the role of the state diminishes over time in these sectors, regulatory structures need to be strengthened to ensure adequate competition
- *Ensure that investment incentives are non-distorting, transparent and broad-based.* Indonesia lags behind many other countries in the region in terms of its participation in global supply chains. The creation of special economic zones to boost labour-intensive, export-oriented manufacturing might help in this area, but care needs to be taken to ensure that any incentives offered are transparent and based on a clear assessment of the likely costs and benefits.
- *Reinforce* ad hoc *institutional arrangements to promote co-ordination and further reform.* Many teams and task forces have been created to address specific problems, such as the National Team on Export and Investment Promotion (PEPI). These teams can supplement government capacity by drawing from the pool of high quality local experts and can become advocates for reform within the government. These *ad hoc* arrangements require political support at the highest level in order to overcome resistance in other parts of government and also need to have clear roles and missions, adequate resources and qualified staff.
- *Improve reporting of foreign investment in Indonesia.* Adequate information on the activities of foreign firms is important both for policy formulation and

for targeted investment promotion. Statistics on FDI inflows into Indonesia need to be improved and aligned with international standards such as the *OECD Benchmark Definition of FDI* to provide a clear picture of trends and patterns, concerning both the sector and the country of origin.

- *Review arrangements for handling bankruptcies* with a view to creating a credible and efficient mechanism that can be resorted to when out-of-court negotiations between creditors and debtors break down.
- *Consider the establishment of a centralised registry system for collateral*. This can reduce existing fragmentation, dispersal and incompleteness of collateral recording that makes it difficult and time-consuming for lenders to recover collateral when a borrower defaults.
- *Encourage domestic and foreign-invested enterprises to comply with standards of responsible business conduct* compatible with internationally-recognised instruments such as the OECD *Guidelines for Multinational Enteprises*. Indonesia is invited to participate actively in consultations regarding the 2011 revision of the OECD *Guidelines* to help ensure that this process can take full account of the needs and interests of developing countries.
- *Conduct an in-depth assessment of Indonesia's competition policy in co-operation with the OECD*. This can help record progress in opening markets to competition and develop policy options to address remaining challenges.

Notes

1. Molnar and Lesher (2008), p. 5.
2. OECD (2008), p. 18.
3. For a more complete discussion, see OECD (2008), pp. 21-26.