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Indonesia sets up new ministry to make country more investor-friendly

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The newly appointed Minister of Investment, Bahlil Lahadalia, who will retain his current position as chairman of the Indonesia Investment Coordinating Board (BKPM), said his new portfolio will include pushing for investments from small and medium-sized enterprises (SMEs).

PHOTO: INDONESIA PRESIDENTIAL SECRETARIAT

Jakarta

THE ongoing Covid-19 pandemic continues to put a damper on consumer and investor confidence in Indonesia, even as Jakarta tries to boost economic growth by attracting greater foreign and domestic direct investments.

Market watchers and investors are thus waiting to see whether President Joko Widodo's move to create a new Ministry of Investment will help the government achieve its goal.

For years, foreign and domestic investors have complained about the excessive red tape and licensing procedures in the way of individuals seeking to start a new business.

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Speaking at the swearing-in ceremony last Thursday, he said: "The president instructed us to not only focus on big companies, but also on SMEs when we seek new investors.

"We must establish connections between big businesses and SMEs, between the national-level players and those out in the regions. Our task is to not only boost the economy, but to ensure economic development is distributed equally."

Whether Mr Lahadalia succeeds in his new role will be highly dependent on his standing within the Cabinet, said market analysts.

Government watchers are asking whether setting up another ministry is the solution, given an already large number of government agencies. The current government already has 34 ministries and more than 30 non-ministerial government institutions.

A consultant who has worked with investors said: "BKPM was already a powerful body as its chairman holds a ministerial-level position, though he is not a member of the Cabinet.

"What is not clear is whether the Minister of Investment will also be a member of the Cabinet."

One reason behind the decision to establish a new ministry could be the president's frustration over Indonesia's poor showing in the World Bank's latest Ease of Doing Business (EODB) rankings.

Over the past few years, the country has stagnated at 73rd position, despite Mr Widodo's having set a target for Indonesia to be ranked 40th by the end of this year.

Sources told The Business Times that BKPM has approached a large consulting firm to help it with improving the country's ranking in the EODB index.

The passing of the Omnibus Law on Job Creation was a major milestone in Jakarta's efforts to improve the country's investment climate, but concerns remain over the implementation of this drive to attract investment, create jobs and boost the economy by, among other things, simplifying the licensing process, rationalising laws and regulations, and making policy decisions faster.

Sarman Simanjorang, deputy chairman of the Advisory Council of the Jakarta Chamber of Commerce and Industry, noting that the new minister's key task will be coordinating and harmonising licensing regulations between the central government and regional authorities, said: "The business world has high hopes for this new institution, especially in terms of smooth, fast, precise and accurate digital-based licensing.

"Streamlining licensing requirements from the central government to the regions will be critical to attracting investors to Indonesia."

In the more immediate future, government spending remains the key to boosting GDP growth, said Fauzi Ihsan, chairman of the Indonesia Financial Group, which oversees a number of state-owned financial institutions.

"Government spending remains the engine of growth during the pandemic until the situation stabilises," he said.

"Investors and consumers must feel completely safe before we can see a pick-up in consumption and investments."

Indonesia's GDP growth in the first quarter of 2021 is still expected to be between minus 1 per cent and 0.1 per cent, said Finance Minister Sri Mulyani Indrawati.

She noted that although the economy has started to pick up on the back of domestic consumption and the government's fiscal incentives, growth would be slow this year.

The government had earlier predicted that GDP growth would be in the range of 1.6 per cent to 2.1 per cent in the first quarter of 2021, following a crippling recession in 2020 brought by the pandemic.

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