



THE REGULATION OF GOODS AND SERVICES IN INDONESIA

AN INTERNATIONAL COMPARISON



Product Market Regulation in Indonesia:

An international comparison



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Product Market Regulation in Indonesia: An international comparison

Key highlights

- The 2020 economy-wide Product Market Regulation (PMR) indicator suggests that regulatory settings are less conducive to competition than in most other emerging market economies or OECD countries.
- The information used to calculate the PMR indicators was collected in early 2020 and, thus, reflects the laws and regulations in force on 1 January 2020. Hence, the indicator values shown in this report do not reflect reforms undertaken during 2020 and 2021. However, these reforms are acknowledged in the text. The largest likely impact on the PMR indicators of recent reforms is expected in the area of regulatory barriers to foreign direct investment.
- The high-level indicator of Distortions Induced by State Involvement in the Economy drives the overall indicator. The indicator of Barriers to Domestic and Foreign Entry is more aligned with peer countries, but has higher values than most OECD countries.
- The high value of the indicator of Distortions Induced by State Involvement in the Economy arises from the extensive presence of state-owned enterprises across the economy, the existence of special voting rights retained by the government in private firms, tight constraints on privatisation, and a comparatively high level of government involvement in network sectors.
- Past reforms to reduce red tape have considerably lowered the administrative burden on start-ups, as measured by the PMR indicators.
- The indicators suggest that the largest potential improvements in regulatory settings – based on the size of the gap with the OECD average – are in the areas of Direct Control over Business Enterprises and Barriers to Entry in Network Sectors (Tables 1 and 2).
- The high value of the indicator on Assessing the Impact on Competition indicates that the process for assessing the impact of new laws and regulations could be improved. There is also scope to foster competition by reducing the use of Retail Price Controls.
- Barriers to foreign direct investment are higher than in other countries. However, significant reforms to foreign investment regulations, which were finalised after the PMR indicators were calculated, have lowered these barriers and a preliminary assessment shows that they would bring the relevant PMR indicator closer to settings in peer countries.
- The PMR sector indicators suggest that regulation of network industries is less competition-friendly than regulation in the services sectors. Regulations in network industries are also more stringent than in OECD or peer countries included in the PMR dataset.
- The sector indicators for network industries comprise two elements: entry regulation and public ownership. In Indonesia, the high level of public ownership in these sectors contributes to a higher indicator value compared to the other countries. However, regulatory settings are also still far from

best practice, and are generally not very conducive to competition, particularly in electricity, water and rail transport, and fixed and mobile e-communications.

Table 1. Overview of scope for improvement in economy-wide PMR indicators

High-level indicators	Medium-level indicators	Low level indicators	Scope for improvement
Distortions Induced by State Involvement	Public Ownership	Scope of State-owned Enterprises (SOEs)	**
		Government Involvement in Network Sectors	**
		Direct Control over Business Enterprises	*****
		Governance of SOEs	*
	Government Involvement in Business Operations	Retail Price Controls and Regulation	****
		Command and Control Regulation	**
		Public Procurement	**
	Simplification and Evaluation of Regulations	Assessment of Impact on Competition	****
		Interaction with Interest Groups	**
		Complexity of Regulatory Procedures	
Barriers to Domestic and Foreign Entry	Administrative Burden on Start-ups	Administrative Requirements for Limited Liability Companies and Personally-Owned Enterprises	-
		Licences and Permits	-
	Barriers in Service & Network Sectors	Barriers in Services Sectors	-
		Barriers in Network Sectors	*****
	Barriers to Trade and Investment	Barriers to Foreign Direct Investment	**** (this would become ** based on first assessment of recent reforms)
		Tariff Barriers	**
		Differential Treatment of Foreign Suppliers	**
	Barriers to Trade Facilitation	*	

Note: Scope for improvement is given by size of the gap with the OECD average relative to the standard deviation across OECD countries. The number of asterisks indicates whether the gap is 1, 2, 3, 4 or 5 or more standard deviations.

Table 2. Overview of scope for improvement in sectoral PMR indicators

Broad sector	Low-level indicator	Scope for improvement
Network sectors		
Energy	Electricity	*****
	Natural Gas	**
Transport	by Rail	*
	by Air	**
	by Road	*
	by Water	****
E-Communications	Fixed	*****
	Mobile	*****
Services sectors		
	Lawyers	
	Notaries	
	Accountants	*
	Architects	
	Civil engineers	
	Estate agents	***
	Retail Distribution	*
	Retail Sales of Medicines	

Note: Scope for improvement is given by size of the gap with the OECD average relative to the standard deviation across OECD countries. The number of asterisks indicates whether the gap is 1, 2, 3, 4 or 5 or more standard deviations.

1. The OECD Product Market Regulation Indicators

The OECD Product Market Regulation (PMR) indicators measure a country's regulatory barriers to competition. The Economy-wide PMR Indicator provides an overall measure of the quality of product market regulation across a variety of sectors and regulatory domains. In addition, a set of Sector PMR Indicators quantify regulatory barriers to firm entry and competition at the level of specific network and service sectors. The PMR indicators were first calculated in 1998, and they have been updated every five years since then. Initially the database comprised OECD member countries, but with time, it has expanded to include non-member countries. Indonesia was first included in 2013¹.

The PMR indicators deepen the knowledge of regulatory practices in individual countries and allow researchers to investigate their link with economic performance. Over time, the PMR indicators have become an essential element of the OECD's policy analysis toolkit. They are used in OECD Economic Surveys of member and non-member countries and form an integral part of the Going for Growth exercise to identify reform priorities and formulate recommendations. These indicators and their underlying database are also widely employed by national governments, other international organisations (for example, the IMF, World Bank, and European Commission), and international forums, such as the G20 and APEC, to determine areas for regulatory change². Academics and research institutions also use the PMR indicators in their research.

¹ The OECD also computed the PMR indicators for the 2008 Economic Assessment of Indonesia, but these values are not in the PMR database that is available on the OECD PMR webpage.

² For example, the PMR indicators have constituted key inputs into OECD deliverables to the G20, such as the G20 Enhanced Structural Reform Agenda and the IMF-led Strong Sustainable and Balanced Growth reports. The PMR is one of the indicators chosen by the APEC secretariat to evaluate progress on structural reform. In addition, for many years the European Commission has been key user of OECD PMR indicators to identify priorities for reforms in EU countries. Further, since 2013, the World Bank has been co-operating with the OECD in broadening the coverage of

The PMR indicators aim to measure the extent to which different types of regulations hamper or promote competition among firms, and enable the identification of best practices across countries. While governments use regulations to address market imperfections and mitigate dangers to health, safety or the environment, if ill-designed they can create unnecessary barriers to the entry and growth of firms and impede the effective development of competition, thereby limiting the economy's growth potential. Evidence from a wide range of firm, industry and macro-level studies shows that regulatory restrictions induce significant negative effects on productivity and growth, by reducing investment and weakening multi-factor productivity performance (Égert, 2018, 2017, 2016; Égert and Wanner, 2016). Reforming product market regulation to yield a regulatory framework that fosters competition can spur productivity growth by encouraging the efficient allocation of resources across the economy, encouraging experimentation and innovation, and diffusing existing innovations (OECD, 2015a, Andrews, Criscuolo and Gal, 2016; Andrews and Cingano, 2014). Lower barriers to entry supported by measures allowing new firms to compete effectively, can reduce consumer prices and facilitate greater job creation, especially in services where there is pent-up demand, and can deliver long-term gains in living standards (Bourlès et al., 2013, Bouis et al., 2012; Égert and Gal, 2017).

This is the first time the PMR indicators for Indonesia have been compiled in close collaboration with the Indonesian authorities. Consequently, this vintage makes a more meaningful contribution to the policy debate. This report aims to assist policymakers in interpreting Indonesia's PMR scores. The first section explains the structure of the OECD PMR indicators and the process followed to collect and score the data. The subsequent section presents the results for Indonesia, first for the indicators included in the high-level component *Distortions Induced by State Involvement*, and then for the indicators included in the high-level component *Barriers to Domestic and Foreign Entry*, including a detailed discussion of the Sector indicators for network and service industries. International comparisons are used to help understand Indonesia's results. After each set of results is presented, potential options for making Indonesia's regulatory environment more conducive to competition are discussed. These suggestions take into account Indonesia's context as a geographically large, middle-income country. The information on which these indicators are based was collected in the first half of 2020 and therefore reflects the laws and regulations that were in force on 1 January 2020. Hence, the discussion of the scores notes where reforms that improve the regulatory environment have taken place during 2020 and first few months of 2021, since these reforms are not captured in the PMR results.

1.1. Structure of the OECD Product Market Regulation Indicators

The PMR indicators are based on an extensive database that is prepared by the OECD, relying on the answers provided by national authorities to the OECD PMR questionnaire. The information included in the database is used to build two sets of indicators: an economy-wide indicator, which provides a general quantitative measure of a country's regulatory stance, and a group of sector indicators that focus on regulation at the level of specific network and service sectors. There is a strong emphasis on network sectors because energy, transport, and e-communications constitute important inputs in most other sectors of the economy (OECD, 2014a). Empirical research has shown that upstream regulations in network and services sectors curb productivity growth in the manufacturing sector and the economy more broadly (Égert and Wanner, 2016; Arnold et al., 2015; Barone and Cingano, 2011; Bourlès et al., 2013).

A key feature of the PMR database is that it captures the "de jure" policy settings. This means that the answers are not based on "subjective" assessments by market participants, but on the laws in force in the country. It also implies that the answers do not reflect the level of enforcement of these laws. These two

the PMR indicators outside the OECD area. The World Bank consider the PMR indicators a very useful diagnostic tool, which complements their own Ease of Doing Business indicator, by providing a wealth of additional information on whether the regulatory environment creates unnecessary obstacles to the entry and expansions of firms.

aspects of the data improve the comparability across countries by insulating them from context-specific assessments and by allowing the OECD to verify the precision of information provided.

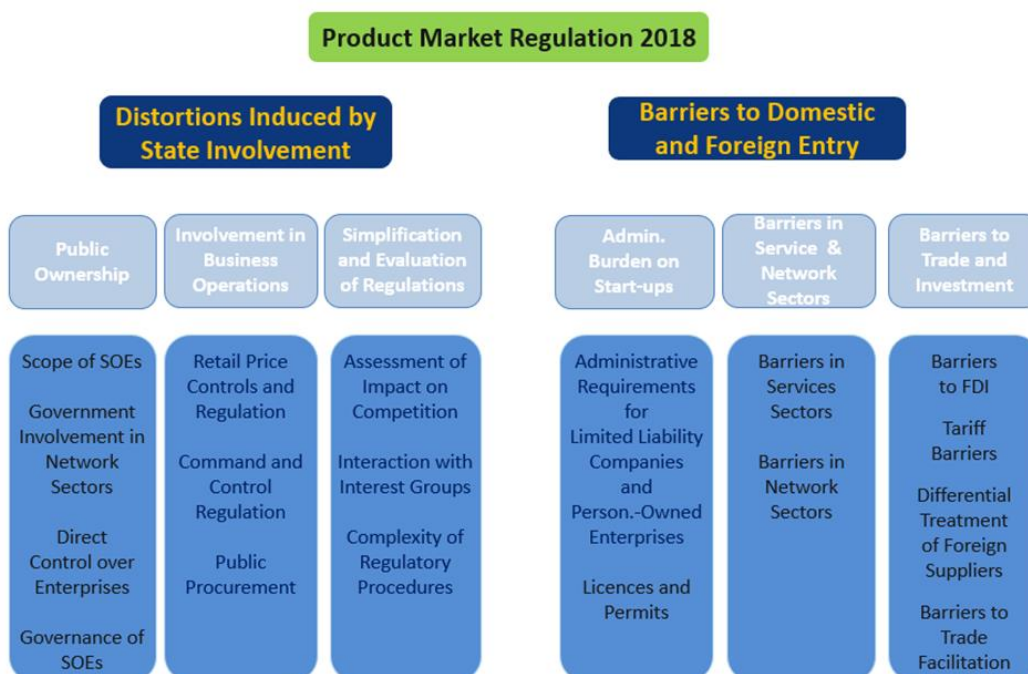
The PMR database for Indonesia includes information on the laws and regulation in force in the country on 1 January 2020. For most other countries in the database, the PMR indicators reflect the situation on 1 January 2018.

The economy-wide PMR indicators are constructed from two high-level indicators capturing two potential sources of barriers to competition in the economy:

- i) those that may arise from state involvement in the economy, and
- ii) those that may arise from regulations of the entry and expansion for domestic and foreign firms.

Each of these two high-level indicators is composed of three sub-indicators, which are in turn composed of a number of low-level indicators that refer to specific regulatory domains (Figure 1).

Figure 1. The structure and content of the economy wide PMR indicator



Source: Vitale et al. (2020).

1.1.1. Indicators of Distortions Induced by State Involvement in the economy

This high-level indicator captures distortions that can be caused by the state's involvement in the economy through the activity of state-owned enterprises (SOEs) and other forms of controls and obligations imposed by the state on private firms. It covers three key regulatory domains, represented by the three medium level indicators (the light blue boxes on the left hand side in Figure 1). These are:

1. Presence of state-owned enterprises in the economy and their governance (*Public Ownership*),
2. Controls and obligations imposed on private firms (e.g. price regulation) including the rules regulating public procurement (*Involvement in Business Operations*), and

3. Rules in place to evaluate new and existing regulations in order to minimise negative impacts on competition and efforts to simplify the administrative burden businesses face when interacting with the government (*Simplification and Evaluation of Regulations*).

The ten low-level indicators (i.e. the dark blue boxes in the left hand side of Figure 1) focus each on a specific and detailed regulatory area, more specifically:

- *Scope of state-owned enterprises (SOEs)*: measures whether the government controls at least one firm in a number of business sectors, with a higher weight given to the key network sectors on which the PMR exercise focuses.
- *Direct control over business enterprises*: measures the existence of special voting rights by the government in privately owned firms and constraints to the sale of government stakes in publicly controlled firms (based on same sectors and weights as the indicator above).
- *Government involvement in network sectors*: measures the size of the government's stake in the largest firm in key network sectors.
- *Governance of state-owned enterprises*: measures the degree of insulation of state-owned enterprises from market discipline and degree of political interference in the management these firms. This sub-indicator is based on the principles underlying the *2015 OECD Guidelines on Corporate Governance of State Owned Enterprises* (OECD, 2015b; from hereon the *2015 OECD Guidelines*).
- *Retail Price Controls*: measures the extent and type of retail price controls in the key network and service sectors.
- *Command and control regulation*: measures the extent to which the government uses command and control regulations, as opposed to incentive-based ones, across key network and service sectors.
- *Public procurement*: measures the degree to which procurement rules ensure a level playing field in access to public contracts for the provision of goods, services and public works.
- *Assessment of Impact on Competition*: measures the level of assessment of the impact of new and existing regulations on competition to ensure minimization of distortions to competition³.
- *Interaction with Interest Groups*: measures the existence of rules for engaging stakeholders in the design of new regulation to reduce unnecessary restrictions to competition and for ensuring transparency of lobbying activities⁴.
- *Complexity of regulatory procedures*: measures the government's efforts in reducing and simplifying the administrative burden of interacting with the government.

1.1.2. Indicators of Barriers to Domestic and Foreign Entry

This high-level indicator captures barriers to firms' entry and expansion across various sectors of the economy. It covers three key regulatory domains represented by the three medium level indicators (the light blue boxes in the right hand side of Figure 1).

1. The administrative burden that new firms have to face when starting their business (*Administrative Burden on Start-ups*),

³ For OECD countries, half of the information used in calculating this indicator comes from the OECD iREG database, which presents in-depth evidence on countries' regulatory policy and governance practices: www.oecd.org/gov/regulatory-policy/indicators-regulatory-policy-and-governance.htm. Since Indonesia is not included in this database, the information was collected directly from the Indonesian authorities.

⁴ As above.

2. The qualitative and quantitative barriers firms face to enter and operate in specific key economic sectors (*Barriers in Service and Network Sectors*),
3. The barriers that could limit the access to domestic markets by foreign firms and foreign investors (*Barriers to Trade and Investment*).

The eight low-level indicators (i.e., the dark blue boxes on the right hand side of Figure 1) focus each on a specific regulatory area, more specifically:

- *Administrative requirements for limited liability companies and personally owned enterprises*: measures the extent of the administrative requirements necessary to set up new enterprises, with a focus on two specific legal forms: limited liability companies and personally owned enterprises.
- *Licences and permits*: measures the existence of initiatives to simplify licensing procedures, such as ‘one-stop-shops’ for informing business about licences and notifications and for issuing/accepting them, ‘silence is consent’ rule and programs to review and reduce number of licences.
- *Barriers in services sectors*: measures the extent of the qualitative and quantitative barriers to competition arising from existing incentive-based regulation in key service sectors⁵.
- *Barriers in network sectors*: measures the extent of the qualitative and quantitative barriers to competition arising from existing incentive-based regulation in network sectors⁶.
- *Differential treatment of foreign suppliers*: measures the level of discrimination that foreign firms may experience when participating in public procurement processes, and the barriers to entry that foreign firms may experience sectors relative to domestic firms in key network and service.
- *Barriers to FDI*: measures the restrictiveness of a country’s FDI rules in 22 sectors in terms of foreign equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners as key personnel and operational restrictions. This indicator reflects the value of the FDI Regulatory Restrictiveness Index developed by the OECD Directorate for Financial and Enterprise Affairs.⁷
- *Tariff barriers*: reflects the value of a cross-product average of effectively applied tariffs. The source of the relevant information is the UNCTAD Trade Analysis Information System database.⁸
- *Barriers to trade facilitation*: measures the level of complexity of the technical and legal procedures for international trade, ranging from border procedures to the simplification and harmonisation of trade documents. This indicator reflects the value of the average of a subset of the Trade Facilitation Indicators developed by the OECD Trade and Agricultural Department.⁹

1.1.3. Sector PMR Indicators

The sector PMR indicators summarise information by sector, and not by regulatory domain, as in the economy-wide indicator. These indicators cover three broad sectors: network industries, professional services and retail distribution.

5 This indicator captures the barriers to competition that can exist in service sectors that are related to incentive-based regulation. The sub-indicator Command and Control Regulation measures the barriers created by the government’s use of coercive regulations in the same sectors.

6 As above, but with reference to network sectors.

7 More information on the FDI restrictiveness index can be found at www.oecd.org/investment/fdiindex.htm.

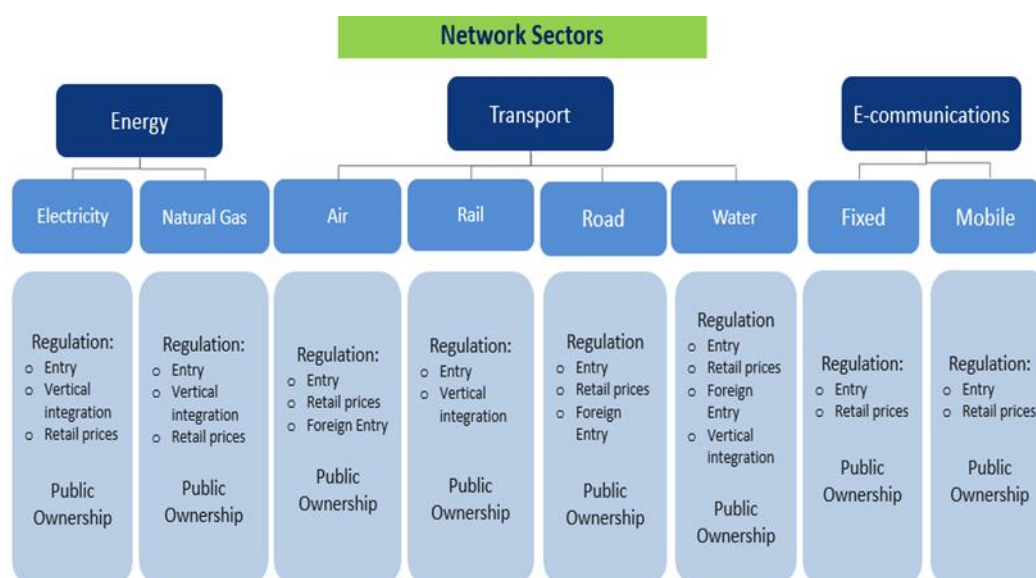
8 The UNCTAD Trade Analysis Information System database can be accessed at <https://wits.worldbank.org/>

9 More information on the OECD Trade Facilitation Indicators can be found at www.oecd.org/trade/topics/trade-facilitation/

The indicators for network sectors assess eight sectors: electricity, natural gas, air transport, rail transport, road transport, water transport, as well as fixed and mobile e-communications. E-communications are traditionally referred to as telecommunications, but to highlight the relevance of data transmission in the PMR questionnaire and indicators they are referred to as e-communications. Each of these indicators include information on how entry and conduct in the relevant sector is regulated, and on the level of public ownership.

These eight indicators are then aggregated into three indicators, one for each industry (energy, transport and e-communications), and in one single overall indicator covering all network sectors (Figure 2).

Figure 2. Structure of the PMR indicators for network sectors



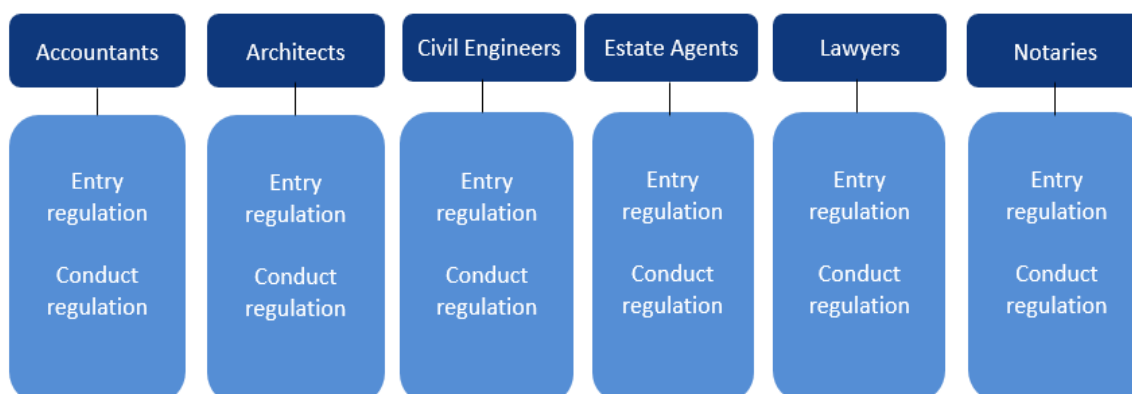
Source: Vitale et al. (2020).

The service sector indicators cover six professions (accountants, architects, civil engineers, real estate agents, lawyers, and notaries), as well as general retail distribution and retail sales of medicines.

The professional services indicators include information on entry requirements and conduct constraints (Figure 3), whereas the retail trade indicators cover a broad set of regulatory issues, ranging from shop opening hours to licensing and retail price regulation (Figure 4).

There is no aggregate indicator covering these eight sectors because of the very different nature of the sectors covered. In addition, there is no single indicator on the regulation of all professional services because some professions do not exist in all countries; hence, a single average would distort comparisons.

Figure 3. Structure of the 2018 PMR indicators for professional services



Source: Vitale et al. (2020).

Figure 4. The structure of the PMR indicators for retail trade



Source: Vitale et al. (2020).

1.2. Collection and calculation of the data for Indonesia

As the Indonesian authorities were new to the PMR exercise¹⁰, the data collection process began with a high-level seminar and a series of short workshops, which were held in Jakarta in February 2020. The aim was to familiarise policymakers with the indicators and the PMR questionnaire. A Jakarta-based OECD PMR expert was also engaged to assist the Indonesian authorities in filling in the PMR questionnaire.

Following the workshops, the OECD sent the PMR questionnaire to a contact person in the Co-ordinating Ministry for Economic Affairs, who identified the relevant ministries, agencies and professional associations in Indonesia with competencies in the areas covered by the questionnaire. This person was also responsible for co-ordinating and collecting the responses.

The data collection process occurred between April and August 2020. Respondents were asked to refer to laws and regulations in force in Indonesia on 1 January 2020, and not to consider possible reforms or laws not yet approved. It should be noted that the Indonesian authorities provided the majority of the

¹⁰ The information used to calculate the 2008 and 2013 PMR indicators for Indonesia were not provided by Indonesian authorities but collected by a local consultant.

information used to build the PMR indicators, but that in some areas (such as FDI restrictions) the PMR database directly drew on other OECD indicators and databases. More detail can be found in Appendix B of Vitale et al. (2020).

After the OECD received the responses, an internal team of experts reviewed them. This verification process helped to ensure that the questions were correctly interpreted and that the answers were consistent with those provided by other countries. The team used the legal references and other supporting information provided by the Indonesian authorities to verify the responses. When doubts about specific answers arose, the team requested clarifications from the respondents.

After the verification process was completed, the PMR team coded the questionnaire responses so that all quantitative and qualitative responses were transformed into a value ranging from 0 to 6, with zero representing international best practice. Because the qualitative questions are closed questions where respondents have to select an answer from a pre-defined menu, responses can be coded easily. The PMR team then aggregated the coded responses to calculate the indicators. The scoring methodologies, the specific weights used to calculate all the indicators, together with the underlying dataset of information, are available on the OECD PMR website¹¹.

2. Indonesia's results for the PMR Indicators

2.1. Results for the economy-wide PMR indicator

Throughout this report, Indonesia's results are presented alongside its G20 peers (Argentina, Brazil, China, Mexico, Russia, South Africa and Turkey) and the other Asian economies that are currently included in the PMR database (Japan and Korea)¹². The average of the G20 emerging economies and the average of all emerging market economies, as defined by the International Monetary Fund, currently available in the PMR database are also included¹³. In addition, the average of OECD members is also shown to provide a reference point, since OECD countries have generally been undertaking pro-competition reforms for longer, these countries tend to be closer to international best practice.

The 2020 economy-wide Product Market Regulation Indicator (PMR) suggests that Indonesia's overall regulatory regime is less conducive to competition than OECD member countries and other emerging economies, apart from China (Figure 5).

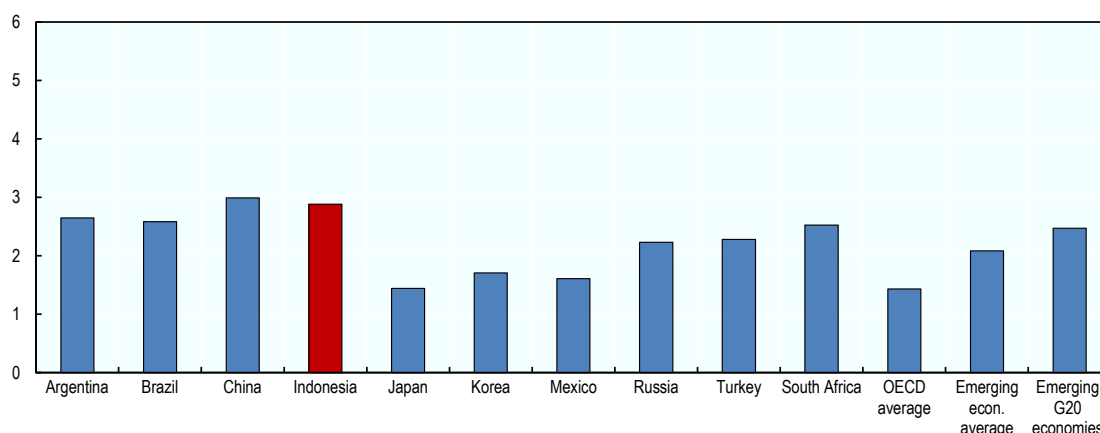
¹¹ See www.oecd.org/economy/reform/indicators-of-product-market-regulation/

¹² The PMR indicators for Malaysia are currently being calculated, but they will not be finalised on time to be included in this report. Once completed they will be available on the OECD PMR webpage.

¹³ These countries are: Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey.

Figure 5. Economy-wide PMR indicator

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

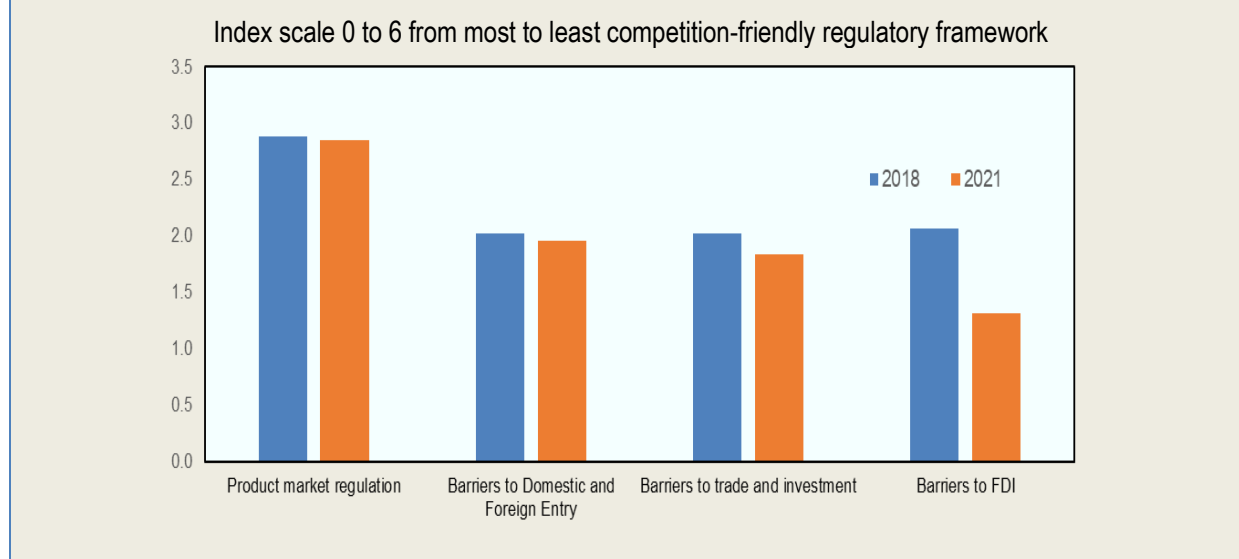
Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

Box 1. Recent reforms and their expected impact on PMR indicators

As discussed in section 1.2, the information used to calculate the PMR indicators presented in this report were collected in the first half of 2020 and, therefore, reflects the laws and regulations in force on 1 January 2020. This implies that the PMR values presented in this report do not include a quantitative evaluation of the reforms that have taken place during 2020 and first few months of 2021. However, the report recognises their impact when discussing indicators that are likely to be affected by these reforms, to avoid suggesting policy improvements where changes have already taken place.

In the case of regulatory barriers to foreign direct investment, where the impact of the reform introduced by Presidential Regulation 10/2021 is likely to be particularly relevant, the report presents also a preliminary quantitative assessment of the expected effects on the PMR indicators at various level of aggregation (Figure 6 and Section 2.3.3). This initial assessment of the impact suggests that the Barriers to FDI sub-indicator could drop by over one-third and the Barriers to Trade and Investment indicator by almost 10 per cent, with a small but still noticeable likely impact on higher level indicators.

Figure 6. Preliminary assessment of expected effects of recent reforms lowering barriers to foreign direct investment

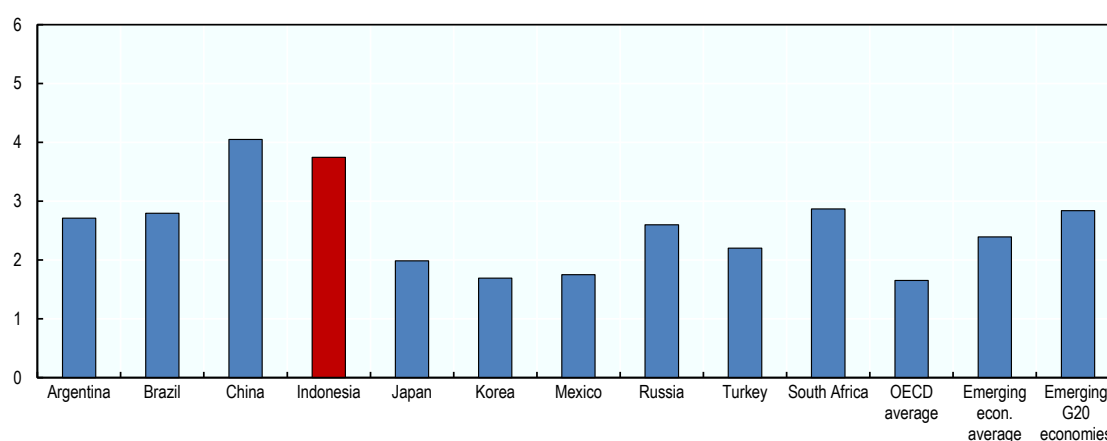


2.2. Results for Distortions Induced by State Involvement

The result for the economy-wide PMR indicator is driven by the value of the high-level indicator of *Distortions Induced by State Involvement*, which is much higher than for most peer countries (Figure 7), while the value of the high-level indicator *Barriers to Domestic and Foreign Entry* (Figure 8) is more aligned with peer countries.

Figure 7. High-level component: Distortions Induced by State Involvement

Index scale 0 to 6 from most to least competition-friendly regulatory framework

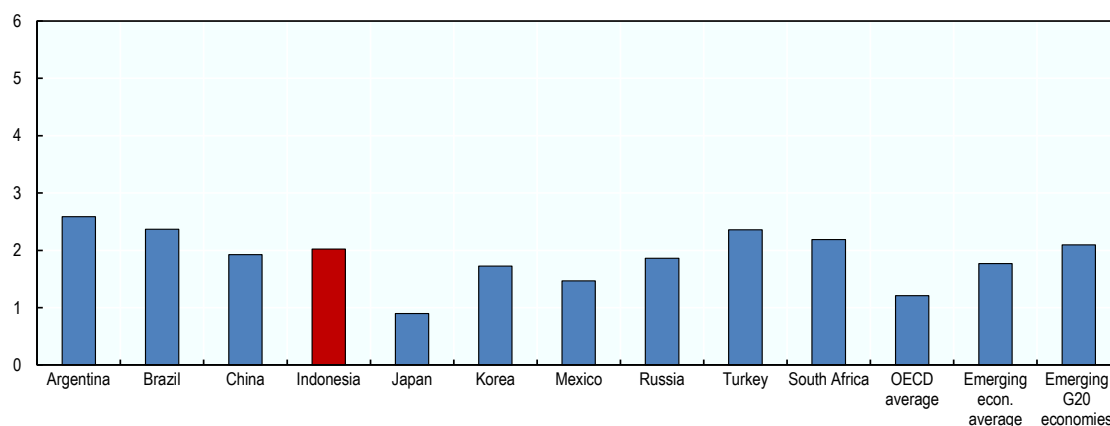


Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

Figure 8. High-level component: Barriers to Domestic and Foreign Entry

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

2.2.1. Public Ownership

The high value of the indicator *Distortions Induced by State Involvement* reflects:

- the wide presence of SOEs across the economy,
- the existence of special voting rights held by the government in privately owned firms,
- the tight constraints on the sale of government stakes in state-controlled firms, and
- a comparatively high level of government involvement in network sectors through its control of incumbent firms.

The PMR indicators capture the level of state presence across the economy in terms of sectors in which the government controls at least one firm and the amount of shares it owns in the largest firms in key network sectors. Extensive state presence warrants that significant attention is paid to how SOEs are organised and managed.

According to data collected through the PMR questionnaire, the **Scope of SOEs** is high in Indonesia, with the central government owning at least one company in 35 of 41 economic sectors covered by the questionnaire (Figure 9, Panel A). Indeed, Indonesia has the highest score for this indicator after China. State ownership of firms is not necessarily a concern per se, and may be justified based on economic rationale and social objectives. However, risks to competition can arise, such as crowding out of private sector, and allocative efficiency can be weakened. Hence, when the presence of SOEs in commercial activities is so widespread, it is crucial that the framework governing these SOEs guarantees that these firms compete on a level playing field with privately owned firms, i.e. that it ensures *competitive neutrality* among SOEs and privately owned firms.

On the low-level indicator that measures the quality of the **Governance of SOEs**, Indonesia performs better than a number of peer countries and its score is a little below the average of emerging G20 economies (Figure 9, Panel D). This is noteworthy given the importance of governance rules when state ownership is pervasive across the economy. However, the comparison with the OECD average shows

there is room to improve the governance rules and to align them and their implementation to the *2015 OECD Guidelines* (OECD, 2015b). For instance, there is no broad requirement to separate activities that are, or could be, exercised in competition with private firms from non-competitive ones, thus creating the risk for cross-subsidies between different activities that can distort competition. In addition, the Constitution protects the role of the state in business activities that are deemed to be “important for the public and for the state” and, as a result, Competition Law 5/1999 includes two provisions that may result in the exemption of SOEs, for instance by allowing SOEs to operate legal monopolies in certain economic activities.¹⁴ In addition, SOEs have access to finance at privileged conditions compared to private firms, as for some, though quite limited, activities such as infrastructure projects, SOEs can benefit from government guarantees coming from the Guarantee Reserve Fund¹⁵. Overall Indonesia could benefit from a comprehensive regulatory framework for ensuring competitive neutrality, which would help the country to bring the governance of its SOEs more in line with OECD standards (see Section 2.2.4 for more details).

The government is heavily involved in network sectors, as indicated by the value of the indicator on **Government Involvement in Network Sectors** (Figure 9, Panel B). This indicator is higher than in peer countries, apart from China. Indeed, the largest firm in most of the network sectors assessed is fully government owned; that is, in electricity generation and retail supply, in gas production, export, and storage, in freight and passenger rail transport, in freight and passenger water transport and in the operation of water terminal facilities (such as harbours and piers) and airports. In addition, the government has a majority equity holding in the largest firm in gas retail supply, in fixed e-communications, and in domestic and international air transport. Other peer countries, such as Brazil and South Africa, have lower scores because the largest players in some network sectors are privately owned, and the government has smaller equity stakes in those sectors where there are state-owned incumbents.

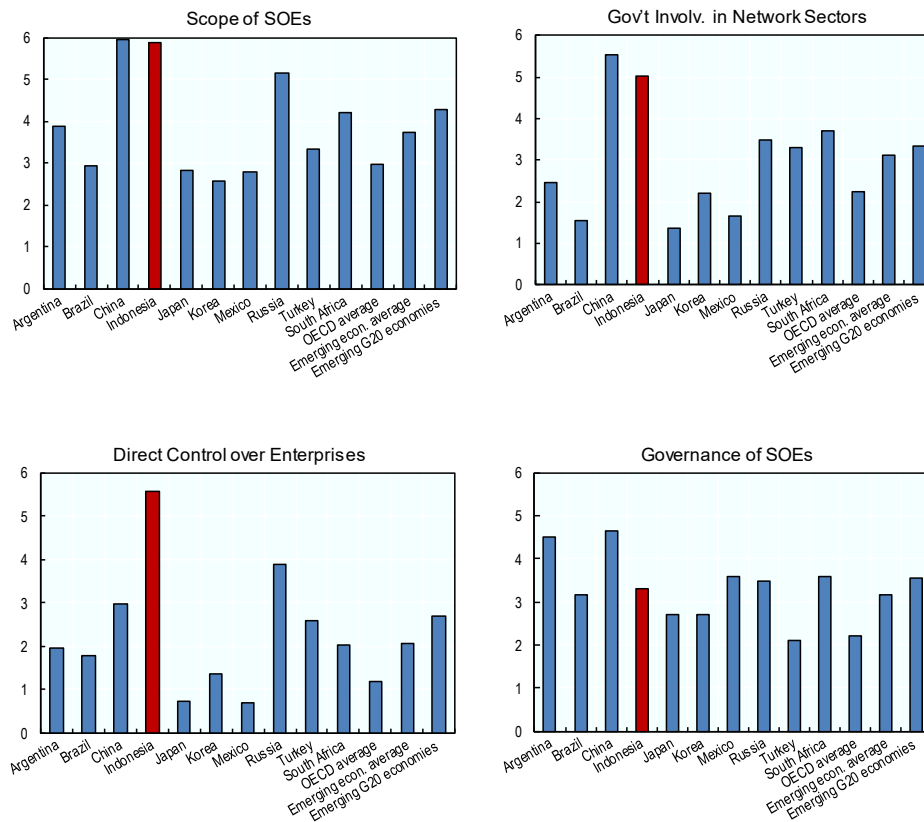
The indicator of **Direct Control over Business Enterprises** measures the existence of special voting rights held by the government in privately controlled firms and of constraints to the privatisation of SOEs. Indonesia has a much higher score than other countries (Figure 9, Panel C). This indicator also has the largest gap with the average across G20 emerging economies and the OECD average. The two main drivers of this result are: (i) the 2003 law on SOEs, which requires Parliament to approve the privatisation of any SOE; and (ii) SOEs’ articles of association, which provide that the government has to maintain a golden share (“dwiwarna” share) upon privatisation. The golden share ensures the government retains significant control over a privatised company through veto powers and the ability to nominate candidates to the Board of Directors and Board of Commissioners. In most countries, decisions about maintaining special voting rights are made on a case-by-case basis. For example, in Kazakhstan the government has retained special voting rights in the water sector, whereas in Brazil there are special voting rights for SOEs involved in operating airports, manufacturing basic metals and manufacturing aircraft, but not in other sectors. Likewise, legislative approval for SOEs’ privatisation is a requirement only in some sectors, even in non-OECD countries (for example, South Africa and Russia).

¹⁴ Articles 50 and Article 51 of Law No. 5 of 1999 on Anti-Monopoly and Unfair Competition are discussed in OECD (2021c).

¹⁵ This fund is subject to Ministry of Finance Regulation No. 30/PMK.08/2012

Figure 9. Low-level components on Public Ownership

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

Box 2. The 2013 Product Market Regulation indicators

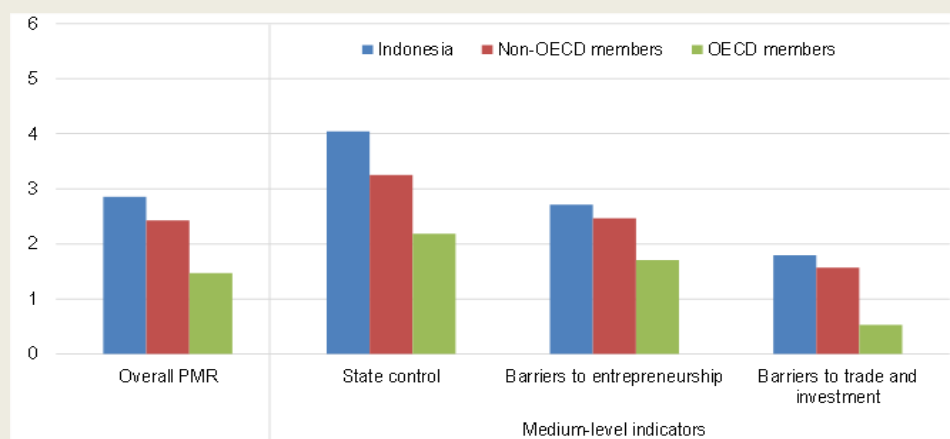
For the latest vintage of the PMR indicators, which started in 2018, the questionnaire and the construction of the indicators were revised to better reflect developments in economic theory and regulatory practices. This methodological change created a break in the time series and the latest PMR results are not directly comparable with those from earlier years. In particular, low-level indicators are not comparable, as the underlying questions have changed. The structure of higher-level indicators has also changed. Most noticeably, in 2013 there were three high-level indicators – State Control, Barriers to Entrepreneurship and Barriers to Trade and Investment – whereas there are only two in the current vintage.

Key changes in coverage of the latest PMR indicators include the addition of a new area on the regulatory process and regulatory simplification, along with questions on public procurement rules. New sectors were also included, notably real estate agents, retail sale of medicines, pre-booked passenger

transport services in urban areas and long-distance coach transportation services, and lawyers and notaries were assessed separately. Conversely, postal services were removed. The section on telecommunications was completely revised to cover key bottlenecks in fixed and mobile networks and to include both voice and data services, for this latter reason it was renamed e-communications. Questions relating to the governance of SOEs, and vertical separation in network industries were updated to reflect the latest OECD Guidelines and Recommendations in these areas. Further details on these changes are available in Annex C of Vitale et al (2020).

Although the 2013 PMR indicators cannot be directly compared with the latest vintage, it is clear that measures of state involvement in the economy, or State Control, were driving the gap in Indonesia's score in 2013 relative to other countries, as is the case in the latest vintage (Figure 10). In contrast, indicators of Barriers to Entrepreneurship and Barriers to Trade and Investment were lower and closer to other non-OECD countries. It is not possible to quantify a precise effect of the substantial improvements made in simplifying the licensing regime and streamlining regulations associated with starting and operating a business since 2014. However, it is reasonable to expect that these changes would have improved the Barriers to Entrepreneurship indicator.

Figure 10. Overview of the 2013 PMR indicators



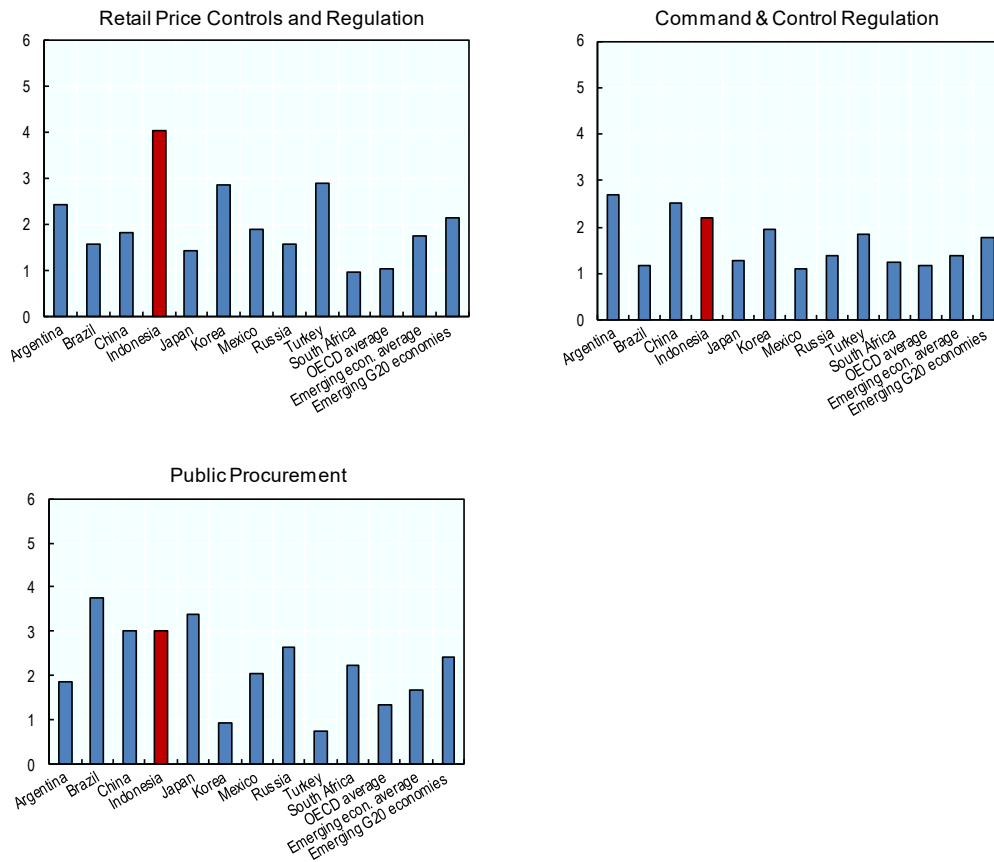
Note: Non-OECD members is the average of Brazil, Bulgaria, China, Croatia, India, Indonesia, Russia, and South Africa.
Source: OECD 2013 Product Market Regulation database; Vitale et al (2020)

2.2.2. Government Involvement in Business Operations

The results for this medium-level indicator suggest that the government imposes relatively extensive obligations on firms. In particular, in Indonesia retail price controls are more widespread than in other emerging economies or in OECD countries (Figure 11). Indonesia also makes greater use of command and control regulation (i.e. coercive rather than incentive-based regulation) in both network sectors and service sectors, and has a less competition-friendly public procurement framework than most peer countries.

Figure 11. Low-level indicators on Government Involvement in Business Operations

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

The indicator of **Retail Price Controls and Regulation** captures the extent and type of controls and regulation imposed on retail prices in key network and services sectors. Indonesia's use of this type of controls is considerably more extensive than other countries, not just OECD ones but also other emerging economies (Figure 11, Panel A).

Retail prices of staple goods (rice, sugar, frozen meat and cooking oil) and household fuels are subject to controls. The Indonesian government imposes them to protect consumers, and, in some cases, producers. However, there is considerable evidence across countries that price controls distort production and investment decisions, delay market entry, misdirect consumer choices (leading often to over-consumption), and favour the development of parallel black markets. As discussed below (Section 2.2.4), there are more efficient ways of supporting low-income consumers than through controls on retail prices. Brazil, a country with a high incidence of low-income households, does not regulate fuel prices, nor prices of staple goods.

In several network sectors (air transport, water transport, road transport, retail supply of natural gas, and fixed and mobile e-communications), retail prices are regulated or, in a few cases, subject to government pricing guidelines, even though these markets are open to competition¹⁶.

The government uses **command and control regulations** across key network and services sectors more extensively than in most emerging economies, with the exception of Argentina and China (Figure 11, Panel B). For example, there are restrictions on the legal structure of some professional firms or on who can have ownership rights in such firms (for lawyers, notaries, accountants, civil engineers and real estate agents). These types of restrictions limit the ability of firms to obtain financing and to be more innovative.

The result for the indicator on **public procurement** of goods, services and public works suggests that the rules in this area do not guarantee that all firms compete on a level-playing field. Indonesia's score is higher than other emerging economies, except Brazil, and on a par with China (Figure 11, Panel C). It should be noted that this is an area where de jure and de facto realities are often quite different, making comparisons difficult (Vitale et al., 2020b). Nevertheless, Indonesia lacks some requirements that, if enforced, would ensure greater competition for public contracts.

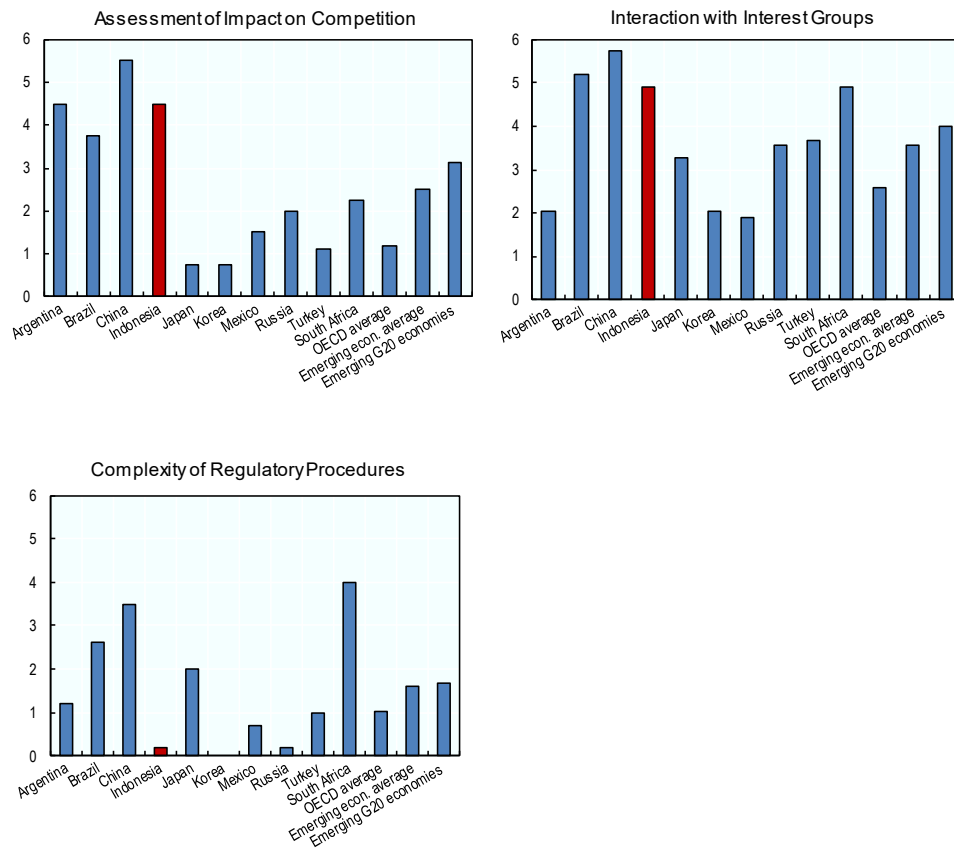
¹⁶ Retail price controls that are imposed because a market is a monopoly are not considered.

2.2.3. Efforts to simplify and evaluate of regulations

Indonesia's performance in the sub-indicators that assess the processes for simplifying and evaluating regulations is mixed (Figure 12).

Figure 12. Low-level indicators on Simplification and Evaluation of Regulations

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020. If the bar for a country or for a specific indicator does not appear on the chart, it means that its value is 0.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

The indicator that measures the **complexity of regulatory procedures** has a relatively low score (Figure 12, Panel C). This reflects past and current programs aimed at reducing red tape, which include the 2018 government regulation on Electronic Integrated Business Licencing Services. This regulation required an assessment of existing regulations to identify those that could be removed or simplified. It also asked ministries to co-ordinate amongst themselves to simplify business licences and permits, facilitated by the Coordinating Ministry for Economic Affairs. Another major innovation introduced by this regulation was an online one-stop shop (the Online Single Submission System) covering many licensing requirements at the national and, increasingly, subnational levels. This one-stop shop continues to be improved, as recommended in the 2018 *Economic Survey* (OECD, 2018a) and in the 2020 *OECD*

Investment Policy Review of Indonesia, because it still does not include all the administrative procedures associated with starting a business.¹⁷ The implementation of the Omnibus Law on Job Creation, which centralises more licensing processes, will further increase the coverage of the one-stop shop.

Requirements regarding the communication of regulatory agendas and the use of plain language in the drafting of new laws are also in line with best practice. However, the regulatory regime for assessing the impact of new and existing regulations on competition (**Assessment of Impact on Competition**) could be improved (Figure 12, Panel A). Indonesia's score is high in this indicator, and well above the average of G20 emerging economies. This result is driven by the lack of a clear requirement to perform regulatory impact assessments (RIAs) as part of policy development. Law 12/2011 on the Formation of Legislation requires policymakers to analyse the impact of new laws, but this requirement is not equivalent to the use of a RIA as defined by the OECD (see OECD, 2012a and OECD, 2020a). Although a Presidential Instruction (7/2017) promotes the use of RIAs for new regulations, it ranks below the law on Formation of Legislation and is not binding in practice.

According to the OECD, a RIA is an exercise that requires policymakers to identify alternative regulatory and non-regulatory solutions to address a specific policy need and to assess their relative costs and benefits, including their impact on the competitive process, in cooperation with stakeholders. These assessments need to be underpinned by robust and reliable data. The RIA helps to identify the most appropriate solution to the policy need and to ensure that stakeholders are appropriately consulted and involved. The use of RIAs enhances the quality of new laws and regulations, and their publication improves transparency around decision-making.

With respect to competition advocacy, the *de jure* situation in Indonesia is similar to most OECD and non-OECD countries: the competition commission (*Komisi Pengawas Persaingan Usaha*, or KPPU) is an independent body with powers to advocate competition, and it can perform market studies, which can be a powerful tool to enhance competition. However, recommendations emerging from these market studies are non-binding and the government is not required to publicly respond to them, which reduces the impact that these recommendations can have in terms of removing barriers to competition that fall outside the traditional scope of antitrust law.

Having clear rules that regulate the **interaction with interest groups** is important, because they ensure that stakeholders' views are taken into account when designing regulatory proposals; these views help to identify potential consequences of any eventual regulations; and are important facet in building trust and a sense of shared ownership in any regulatory framework (Lind and Arndt, 2016). In addition, such rules guarantee transparency in the interaction between policymakers and interest groups and limit opportunities for distorting the regulatory design process at the expense of new entrants and smaller firms. The high value that this indicator has in Indonesia points to a large gap with OECD countries' practices, as well as with the settings in many G20 peers (Figure 12, Panel B). Although policymakers must consult stakeholders (according to Law 12/2011), there is no streamlined process for collecting such comments, nor any obligation to publicly respond to them, which ensures that these comments are properly taken into account in policy design. In addition, there are no rules at the national level to ensure transparency and accountability in the interactions between public officials, such as legislators, and interest groups. The lack of rules in this area may favour lobbying activities by incumbents and firms with greater resources. In addition, Indonesia does not have national-level regulations concerning conflicts of interest for public officials; rather these are delegated to individual ministries and agencies, which creates the possibility for substantial heterogeneity and complicates their enforcement. In addition, there is no requirement for a cooling-off period for public officials that wish to move to the private sector.

¹⁷ OECD (2020e) can provide useful examples of effective one-stop shops.

2.2.4. Opportunities for improving the terms of state involvement in the economy

This section focusses on ways that Indonesia could bring its regulatory settings towards best practice in those areas where the PMR indicator results have shown the largest gaps. A table summarising policy options for improvement is presented at the end of the section.

Options for reducing distortions caused by the presence of the state in the economy

The PMR indicators highlight that public ownership is extensive in Indonesia. According to the Ministry for SOEs on 1 January 2020 there were 114 central government SOEs, which in turn had hundreds of subsidiaries that also had subsidiaries. These figures do not include enterprises owned by provincial or local governments, of which there are many more. The value of the indicators also does not reflect those cases where there is more than one SOE in a sector; for example, three of the four largest banks by assets are state-owned. While it might be justified for the government to retain a certain level of participation in specific sectors, the high score for these indicators suggests there is room for openly reassessing the rationale for the state's presence and possibly reducing controls in firms where the rationale for ownership might be weaker.

Moreover, when state ownership is pervasive there is a greater risk that distortions to competition arise if the corporate governance of SOEs is still distant from best practice. Hence, even though Indonesia is close to the average of emerging G20 economies on the low-level indicator *Governance of SOEs* (Figure 9), it still lacks some of the rules that foster competitive neutrality between SOEs and private firms. The risks of competitive distortions that the lack of these rules can cause are elevated by the level of government's holdings.

The PMR indicator on *Governance of SOEs* shows that in some sectors SOEs do not compete on a level playing field with the private sector, as some of them enjoy a number of benefits, such as interest rate subsidies, government guarantees, and implicit guarantees. Although some of these policies form part of the government's strategy to use SOEs to help meet infrastructure investment targets, there can be costs in using this approach, in terms of competition distortions and loss of efficiency, that should be carefully evaluated (OECD, 2018a). Distortions to competition can also arise in markets for public procurement because SOEs can bid alongside private firms, which creates conflicts of interest for the government as procurer and risks deterring private investment (OECD, 2018a). This can erode value-for-money in procurement processes and hamper the emergence of productivity-enhancing ideas and innovations. Further distortions can arise from the fact that an SOE procuring goods or services may assign the contract to another SOE without running a procurement tender, thus preventing private firms from obtaining such contracts (OECD, 2021c). Direct awards should be limited to ensure that private firms can also compete for the assignment of public contracts and that contracts are assigned to the most efficient provider.

Indonesia could improve the regulatory framework for SOEs by designing and publishing a whole-of-government ownership policy that sets out the rationale for state ownership, as recommended in the 2015 *OECD Guidelines* and the 2018 *Economic Survey* (OECD, 2015b; OECD, 2018a). This would involve reviewing the rationale for state ownership provided in the 2003 Law on SOEs and provide more details on the justification for such holdings (Box 3). This review could eventually guide a decision-making process about possible privatisations (OECD, 2019a).

The OECD *Economic Survey* (OECD, 2018a) also recommended giving clearer mandates to public enterprises along with greater independence to deliver them. In principle, monopoly rights should be granted to SOEs only when the relevant market has the characteristics of a natural monopoly, or when other clearly justified market failures support such an extreme decision. In addition, the 2021 *Economic Survey* of Indonesia recommends ensuring that SOEs are always subject to competition law and held responsible if they abuse their dominant market position (OECD, 2021a).

Further, in particular, SOEs performing both non-competitive activities and activities in which they compete, or could compete, with private firms could be required to separate these activities through accounting, legal or operational separation to avoid cross-subsidies. The choice of the most appropriate form of separation should be guided by an evaluation of the costs and benefits of the various possible options (see OECD 2001). In principle, accounting separation should be implemented as a minimum to avoid cross-subsidies, as these can lead to inefficiencies and competitive distortions.

Allowing the board of SOEs, rather than the Ministry of Finance or Ministry of SOEs, to appoint the top management, especially the CEO, would strengthen independence and accountability. Likewise, publishing the pay scales used to calculate executives' remuneration would introduce greater transparency on the state's policy in this area.

It should be acknowledged that Indonesia has made progress regarding aggregate reporting practices of SOEs, bringing them more in line with the *2015 OECD Guidelines*. The Ministry of SOEs produces a report called "Government Agency Performance Accountability Report" (*Laporan Akuntabilitas Kinerja Instansi Pemerintah*) on an annual basis. The report covers both financial and non-financial aspects of all SOEs in Indonesia. In addition, there are dedicated websites for each SOE and the links for each SOE are available on the website of the Ministry of SOEs. However, more could be done to enhance disclosure and transparency in this sector to bring it closer in line with OECD best practices. The most important changes that the OECD has recently recommended (OECD, 2020c) are: i) including the board composition and their remuneration in the annual aggregate report on the SOE sector; ii) introducing a requirement to report any form of financial assistance granted by the state to the SOE, as well as any commitment that the state undertakes on behalf of an SOE; and iii) improving the quality of accounting and auditing standards for unlisted or small SOEs. On top of those (OECD, 2021c) has also suggested to ensure that the boards of SOEs are sufficiently autonomous and that direct appointments by the minister are limited to very specific circumstances.

In terms of obstacles to possible privatisations, the systematic presence of golden shares increases the potential for state intervention and adds to the uncertainty faced by potential investors, thus possibly reducing the sale price of shares in SOEs (OECD, 2019a). To address this, the blanket rule that the government receives a golden share could be removed. Golden shares could instead be limited to those sectors where they are strictly necessary to protect essential public interests. The accompanying rights should also be proportionate to the objectives they are meant to achieve (OECD, 2015b). For example, limiting the duration of golden shares would ensure that the need for maintaining them is regularly reviewed (OECD, 2019a). Likewise, in non-strategic sectors the requirement for consultation with the parliament before selling all, or part, of any SOE, could be relaxed.

Box 3. State ownership policies in practice

An ownership policy for SOEs should ideally be a concise, high-level policy document that outlines the overall rationales for state enterprise ownership and the role and responsibilities of the state. It provides all stakeholders, including the company's board and management, parts of government and employees and labour groups, with a clear understanding of the state's overall objectives and priorities as an owner. It also provides predictability for market participants and accountability for the general public, who are the ultimate owners of SOEs. It can also help to identify possible candidates for privatisation, based on when an SOE no longer falls within the rationale for state ownership.

State ownership policies include the following features:

- Set out the state's overall objectives and priorities as an owner and explicit rationales for state ownership. These could include the provision of public services, or strategic goals such as the maintenance of certain industries under national ownership.

- Identify state's role and responsibilities in the governance of SOEs. This includes the mandate of the ownership entity, as well as the main functions, roles and responsibilities of all government entities that exercise state ownership. It should synthesise main elements of relevant policies, laws and regulations as well as any other guidelines that inform how the state exercises ownership rights. If relevant, it should also include information on any privatisation policy and plans.
- Used to define rationales for shareholdings in individual firms. For example, fulfilling public policy functions, for strategic reasons or because they operate in sectors with characteristics of natural monopoly. If individual SOEs or groups of SOEs are required to achieve public policy objectives, these should be clearly mandated and disclosed.
- Reviewed periodically. For example, this could be as part of state budgetary processes, medium-term fiscal plans or with the electoral cycle. Early consultation with stakeholders and the public can increase credibility.

In Korea, the ownership policy for SOEs is determined by legislation and government decree. The ownership entity is required to regularly review and revise its ownership policy. In Norway a whole-of-government state ownership policy is expressed as a white paper that is presented to the Norwegian Parliament but not subject to its approval. A new White Paper is published every four years after each parliamentary election. The White Paper includes the overall objectives for state ownership and for each individual company in which the state is a shareholder and states how the government intends to exercise its ownership. In Germany, the portfolio of SOEs is reviewed every two years and ongoing state ownership of each must be justified or it will be privatised.

Source: Adapted from OECD (2020b), OECD (2019a); OECD (2015b).

Options for reducing government involvement in business operations

The PMR results highlight that there could be scope for liberalising retail prices that are currently subsidised or subject to ceilings, such as staple foods and household fuels. The OECD has previously recommended to Indonesia alternative policy approaches to address food security (OECD, 2015c, 2015d) and access to fuel (OECD, 2019b, 2018a). In particular, the substantial improvements in targeting, coverage and delivery of the social safety net in recent years makes it feasible to undertake further reforms that liberalise prices of household foods and fuels, while relying on targeted income support and vouchers to protect poor households. Cost-reflective pricing would also reduce the fiscal cost of subsidies and encourage efficient levels of consumption (OECD, 2019b; OECD, 2019c; OECD, 2018a).

In several network sectors (air transport, water transport, road transport, retail supply of natural gas, and fixed and mobile e-communications) retail prices are regulated, even though these markets are open to competition. Where competition is effective such price regulation is unnecessary and distortive (see for example, the analysis of road transport in OECD (2021b)). In those markets where competition is still developing, such as retail supply of natural gas, retail price regulation may be necessary to protect consumers. However, regulated tariffs are currently not based on costs of the most efficient supplier. Gas and electricity prices are also held down by requirements for gas and coal producers (along with oil producers) to sell some production on the domestic market at discounted prices¹⁸. This means that prices will neither give consumers the right signals to consume efficiently, nor provide the correct incentives for entry by new players, thus hampering the development of effective competition. Additionally, the lack of cost-based retail prices discourages investment in efficiency-enhancing technology and

¹⁸ See also the OECD June 2020 Fossil Fuel Support Country Note at <http://stats.oecd.org/wbos/fileview2.aspx?IDFile=52efa13c-bd5d-4493-9dc6-9ba637821ae4>

innovation by the incumbent (Restuccia and Rogerson, 2017). Ensuring that retail tariffs for network services reflect the cost of the most efficient supplier would strengthen competition, encourage investment and ultimately improve productivity (OECD, 2019b; OECD, 2019c; OECD, 2018a).

Similarly, retail prices for fixed and mobile e-communications services are regulated because the incumbent operators in both markets (PT Telekomunikasi Indonesia and PT Telekomunikasi Selular) have a very large market share. However, the PMR assessment of the regulatory framework in these markets shows that more could be done to foster the development of competition. Introducing number portability, for example, would remove an important obstacle to consumer switching and could foster competition (see Box 4).

In the service sectors, competition and innovation in professional services would benefit from tariffs being further liberalised, and from restrictions on the legal and ownership structure being reduced. These restrictions do not provide benefits to consumers, while they limit access to sources of funding and to better management skills for professional firms.

Public procurement policy could be brought closer to that of OECD countries by ensuring greater transparency and creating the conditions for a level playing field for all firms – foreign and domestic, large and small. This would allow the state to benefit from acquiring goods and services at lower prices, while supporting the most efficient firms. Some parts of the public sector already have introduced e-procurement, but requiring all procurement agencies to make all tender documentation freely available online would increase the openness and transparency of the process and would simplify the acquisition of the information necessary to firms to decide where to bid. Systematically allowing bids to be submitted online, rather than in paper form, would also increase competition by expanding accessibility. Currently a reference price is published online: this can facilitate collusion amongst bidders by giving a price on which to coordinate. Hence, it would be more appropriate for the procuring authority not to disclose the reference price, but instead to use it only internally to assess value-for-money. Further, tightening exemptions to competitive tenders would generate efficiencies and reduce opportunities for corruption. The 2021 *Economic Survey* recommended limiting direct awards only to satisfy urgent and unforeseeable needs, when there really is only one qualified supplier, and terminate them as soon as possible (OECD, 2021a). In addition, there should be no discrimination in favour of domestic firms in the award of tenders for public work, as this only discourages efficiency.

Box 4. Success factors for number portability

Number portability allows consumers to keep their number when they switch to another service provider. This regulatory requirement is widely regarded as a fundamental prerequisite for effective competition and choice in telecommunication markets. OECD countries have adopted it, with a positive impact on the level of consumer mobility and, hence, on competition (Cho et al, 2016). International experience points to some key factors for successful implementation:

- **Application of international experience.** Regulators should use, when possible, well-established processes and technical solutions.
- **Involvement of operators.** Because the operation of number portability falls on service providers, it is crucial that regulators make sure all service providers work with them to define and implement number portability processes.
- **Porting time.** A shorter porting process is better for competition and consumers. Long porting times discourage users from switching provider and translate into lower numbers of ports. Regulators should require that the shortest possible time is taken to complete number portability. In most countries included in the PMR where number portability is implemented, porting of mobile numbers must be completed within one business day (e.g. European Union

states, Chile and Peru. Regulating the number of days would ensure that consumer switching is not discouraged by long waiting times.

- **Porting fees.** High porting fees hinder porting opportunities. Ideally, no onus should fall on consumers once they have expressed a preference to change provider. If fees do exist, they should fall on the operator that receives the number. Fees should in any case only reflect the costs that an efficient operator would incur to port the number and should be set or approved by the sector regulator to avoid abuses that could discourage customer switching.
- **Simplified processes for consumers.** Number porting should be simple and rapid for consumers. All information on cost and maximum time required to port numbers should be made available in advance to consumers.
- **Consumer awareness.** In some countries, regulators have gone to significant lengths to make consumers aware of number portability, such as through marketing campaigns and publications in their websites and on social media. Service providers should give consumers accurate information on portability before, during and immediately after portability processes.
- **Clear guidance.** Regulators should ensure that service providers are aware of, understand and comply with all obligations relating to national legislation on number portability.

Source: Adapted from OECD (2016a) and BEREC (2010).

Options to improve the design of new regulations

There is scope to reduce the gap between Indonesia and other countries in terms of the requirements that should be met when addressing novel public policy needs and designing new policies. Aligning with international best practice would contribute to higher quality of laws and regulations over time, enhanced regulatory stability, and increased well-being. The current framework in Indonesia (see section 2.2.3 above) does not require RIAs to be undertaken systematically. As a result, it is difficult for policymakers to identify the most appropriate solution to address a specific policy need, as well as to ensure that the costs of any government intervention do not exceed its benefits. This risk is further heightened by the fact that the regulatory framework ensuring transparency in the interactions between policymakers and interest groups is comparatively weak, which can make it easier for some interest groups to have an excessive influence over policy design.

The OECD has developed detailed guidelines on RIA (Box 5). Embedding RIAs and stakeholder engagement in the policy development process from the outset would improve the quality of new laws and regulations by helping to avoid potential unintended negative consequences, and would increase the buy-in and trust of stakeholders and citizens. This, in turn, can help to boost compliance and reduce government enforcement costs. Malaysia's experience illustrates how these processes can be improved (Box 5).

The quality of laws and regulations would benefit if ministries were required to perform a RIA whenever a new policy need is identified and well before starting any resultant regulatory drafting process. The practice of institutionalising RIAs is increasingly widespread among OECD and accession countries. RIAs identify and evaluate all potential alternative solutions for addressing the policy need identified, and select the most appropriate instrument, or mix of instruments, to achieve it. RIAs also include an assessment of all potential economic, social and environmental costs and benefits borne by businesses, citizens or government for the possible alternative options. Costs and benefits are usually assessed in a quantitative manner whenever this is possible. RIAs also consider the impact of the proposed solutions on the competitive process and carefully evaluate any adverse effects that these solutions may have against their claimed benefits. To ensure that new regulatory interventions are effectively needed a "no policy change" option is always examined among the proposed solutions. In addition, stakeholders are involved in the process to help better identify all potential costs and benefits and to foster buy-in and improve trust in government

action. Good practice also includes ensuring that an oversight body is responsible for reviewing the quality of the RIAs.

Indonesia could benefit from institutionalising and embedding RIA into its policy making processes. A gradual approach to their introduction could help build a better understanding of the instrument and its use, as well as of the skills necessary to complete them, to avoid the exercise becoming compliance-oriented and bureaucratic.

In a growing number of jurisdictions, detailed RIAs are employed for those regulatory proposals that are expected to have significant impact on the economy, while a simplified format is used for proposals of lesser anticipated impact. Notably, several countries, such as Japan and Korea, have adopted a threshold test to decide whether a detailed RIA or a more simplified one would be justified. These threshold tests help to ensure that RIAs are proportionate to the significance of the potential impact (OECD, 2020a).

In addition, appropriate regulation of the interactions between policymakers and interest groups could increase transparency and accountability, while enhancing the quality of regulation. The lack of such rules may favour lobbying activities by vested interests with greater resources, which can distort the regulatory design process at the expense of new entrants and smaller firms. Transparency could be improved by requiring disclosure of the interest groups consulted in a regulatory process and imposing on policymakers the obligation to make public their calendar of meetings. Bringing regulations on conflict of interest closer to best practices would reduce the risk of regulatory capture. Moreover, setting these regulations at the national level would ensure these are uniformly applied across the public sector. Further, the requirement to consult stakeholders (in Law 12/2011) could be made more effective by providing policymakers with written guidance on how to conduct stakeholder engagement and by requiring that a summary of all significant issues raised in the comments received and an explanation of how the agency addressed those comments be made public. In the context of tax policy, the 2018 OECD *Survey* highlighted how meaningful public consultation could help reduce policy uncertainty and increase the quality of legislation (OECD, 2018a).

Box 5. Best practice in implementing Regulatory Impact Assessments

According to the OECD Best Practice on Regulatory Impact Assessment (OECD 2020a), RIAs should:

- Always start at the inception phase of the regulation-making process.
- Be proportionate to the significance of the regulation.
- Clearly identify the specific policy need and the desired goals of the proposal.
- Identify and evaluate all potential alternative solutions of addressing the policy need identified, both regulatory and non-regulatory ones and select the most appropriate instrument, or mix of instruments to achieve policy goals.
- Always attempt to assess all potential economic, social and environmental costs and benefits, both direct (administrative, financial and capital costs) as well as indirect (opportunity costs) whether borne by businesses, citizens or government and indirect, including the distributional effects over time.
- Consider the impact on the competitive process and carefully evaluate any adverse effects against the claimed benefits of the regulation, which includes exploring whether the objectives of the regulation cannot be achieved by other less restrictive means.
- Always assess these costs and benefits for the “no action” option.
- When policy proposals are likely to have significant impacts, assess costs, benefits and risks in a quantitative manner whenever possible, and qualitative where no quantification is possible.
- Be developed transparently with stakeholders, and have the results clearly communicated

- Lead to identifying the approach likely to address the policy need while delivering the greatest net benefit to society, including complementary approaches such as through a combination of regulation, education and voluntary standards.
- Be publicly available so they can be scrutinised by stakeholders and the public.
- Have an oversight body that checks the quality of the analysis of all RIAs.

Two examples of good practice in implementing RIAs

Malaysia

In 2013, Malaysia launched the National Policy for the Development and Implementation of Regulations to, *inter alia*, improve the overall regulatory process using a people-centred approach. According to this policy, a ministry drafting a new law or regulation must perform a regulatory impact assessment (RIA), consult with the public and prepare a regulatory impact statement (RIS). This includes an assessment of the impact on various policy variables, including competition, of the preferred regulatory approach, a “do nothing” approach and feasible alternatives, such as non-regulatory options. The Malaysia Productivity Corporation and National Development and Planning Committee are responsible for reviewing the RIA and the RIS. If the quality of the RIS is inadequate, this is returned to the relevant ministry for revision before the proposal can advance to the cabinet. The introduction of this policy was gradual and its rollout was accompanied by training and outreach by the Malaysia Productivity Commission, as well as by guidelines to support policymakers. A RIA is not required if the impact of the proposed regulation is minor and it does not significantly change regulatory requirements.

United Kingdom ¹⁹

Regulatory impact assessment (RIA) is a key tool in delivering better regulation supporting the government's aim of only regulating when necessary and to do so in a way that is proportionate to the risk addressed. Deregulate and simplification should be endorsed wherever appropriate.

Before introducing a new regulation, the relevant Ministry has to carry out a RIA, outlining the problem it aims to address and evaluating the costs and benefits of the possible regulatory and non-regulatory solutions to this problem. The RIA must be signed off by the senior departmental analyst and the responsible Government Minister, who is required to confirm that they have read the RIA and that they are satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options. The RIA is then submitted to the Regulatory Policy Committee, an independent advisory non-departmental public body that provides independent scrutiny on the quality of evidence and analysis for all RIAs. Once this Committee gives the green light, the Reducing Regulation Cabinet sub-committee must give its clearance. This sub-committee provides strategic oversight of the government's regulatory framework and provides the mechanism for clearance and scrutiny of any measure that regulates or deregulates business. Deregulatory measures and low-cost measures (i.e. proposals with a gross cost to business and civil society organisations below £1 million a year) are eligible for a Fast Track “Regulatory Triage Assessment”. This fast track ensure that the RIA process focuses on the most significant regulatory changes and that deregulatory proposals are brought forward more quickly.

Source: OECD (2020a, 2018b, 2018c, 2017, 2016b, 2015e, 2012b).

¹⁹ For further details see: www.economy-ni.gov.uk/articles/regulatory-impact-assessment-ria-guidance

Table 3. Policy options for improvements in the area of state involvement in the economy

Area of product market regulation	Options to consider for potential reforms based on the PMR indicators
Direct Control over Business Enterprises	<ul style="list-style-type: none"> • Replace rules that give the government a golden share in all privatised firms with a requirement for a case-by-case assessment of the need for such a golden share. • Review and scale back requirements for the parliament to approve partial or full privatisations of firms in non-strategic sectors.
Other aspects of the exercise of public ownership	<ul style="list-style-type: none"> • Develop and publish a whole-of-government ownership policy for SOEs and an associated rationale for individual stake-holdings; and use this policy to identify where to scale back state ownership. • Evaluate the feasibility of vertical separation of remaining SOEs' non-competitive activities from potentially competitive activities, and introduce accounting separation in other cases • Expose SOEs to greater market discipline by scaling down favourable finance conditions that are not available to privately owned firms and making them more transparent. • Increase disclosure and transparency to be in line with the 2015 OECD Guidelines, for instance, by including the board composition and their remuneration in the annual report on SOEs • Subject all SOEs to competition law and hold them accountable for any abuse of their dominant market position.
Retail Price Controls and Regulation	<ul style="list-style-type: none"> • Remove price controls prices in network sectors where competition is effective, and, where regulation is still necessary, ensure that prices are set efficiently to encourage entry and investment. • Gradually liberalise prices for staple foods and household fuels at the same time as increasing the targeting of the social safety net. • Further liberalise tariffs charged by regulated professionals to foster competition.
Other aspects of government involvement in business operations	<ul style="list-style-type: none"> • Mandate fixed and mobile phone number portability, with clear rules on the costs that can be charged to consumers and operators, and on the maximum time in which the operation must be performed. • Increase the information that must be provided to customers by requiring that energy bills show clear information on usage and pricing. • Relax rules on the legal and ownership structure of professional firms • Require that documents for all public tenders for the procurement of goods, services and public works are made available online. • Systematically requiring procurement agencies to accept online bids
Assessment of Impact on Competition	<ul style="list-style-type: none"> • Amend legislation to explicitly require ex-ante regulatory impact assessments (RIAs) of all new laws and regulations. • Ensure that these RIAs are aligned with OECD best practices and that public authorities have the relevant skills to undertake them.
Other aspects of improving the formation of regulation	<ul style="list-style-type: none"> • Increase the transparency and accountability of interactions with interest groups by issuing national regulations to guide the engagement and the sharing of information with the public. • Replace ministry-level regulations on conflicts of interest with national-level regulations and impose a cooling-off period for senior public officials seeking to move to the private sector.

Note: Most but not all of these reforms would improve Indonesia's PMR score. The areas of product market regulation in the first column are based on the PMR low-level indicators. Low-level indicators are highlighted specifically where the gap between Indonesia's score and the OECD average is more than two standard deviations (across OECD countries) (see Table 1).

2.3. Results for Barriers to Domestic and Foreign Entry

The PMR results on the barriers to both domestic and foreign firms entering and expanding into markets show that the regulatory set-up in this area is more conducive to competition than the regulatory framework concerning the state involvement in the economy (Figures 7 and 8).

2.3.1. Administrative Burden on Start-ups

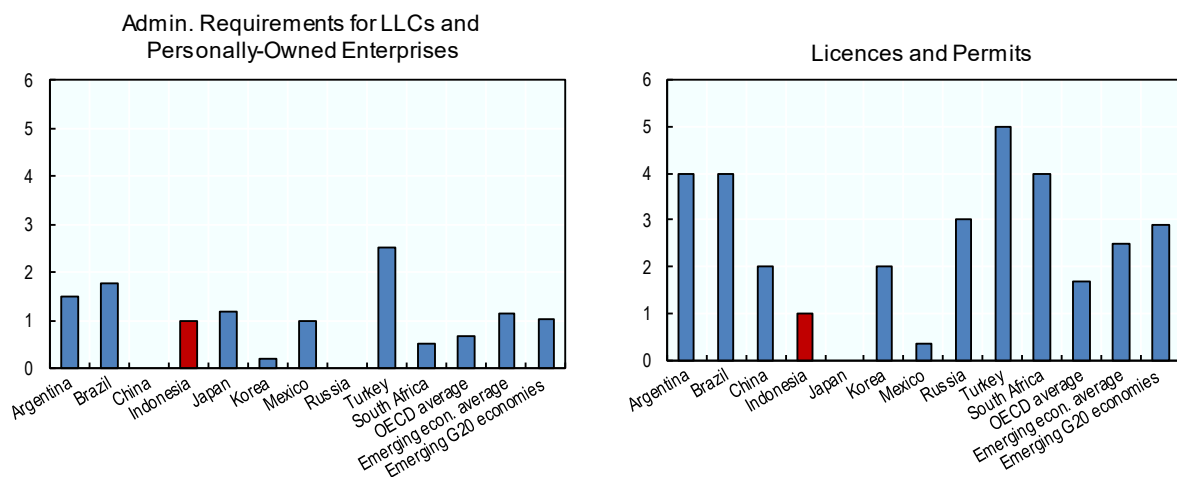
Indonesia scores well in the two low-level indicators on the administrative burden that new firms, must face to start their business (Figure 13). This reflects the government's focus on reducing administrative costs and cutting red tape since 2014, which lifted Indonesia's ranking in the *Ease of Doing Business* indicators

from 114th in the 2015 report to 73rd in the 2020 report. However, more can still be done to ease administrative burden on new firms to ensure that the good processes captured by the PMR results generate improvements in practice and that implementation is consistent across the country. Indeed, the *Ease of Doing Business* sub-indicator for *starting a business* has improved by 40% since 2014, but its value is still high.

The indicator on **Administrative Requirements for Limited Liability and Personally owned Enterprises** (Figure 13, Panel A) captures the amount of administrative requirements necessary to set up a new enterprise, including the number of bodies to be contacted and the associated compliance costs. Regional one-stop shops and various websites, including the online single submission system, facilitate this process. These were established in 2016 and have been improved upon since, as part of a reform agenda to speed up the process for registering a business. As a result of all these efforts, the value of this indicator for Indonesia is quite low and not far from the OECD average. However, the one-stop shop and online single submission system do not yet cover all bureaucratic steps, which hampers the efficiency of the system (see also OECD, 2020b). The government is seeking to further streamline the process, and further improvements are expected as a result of recent reforms.

Figure 13. Low-level indicators on Administrative Burden on Start-ups

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020. If the bar for a country does not appear on the chart, it means that its value is 0.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

Indonesia also performs well on the measure of the presence of initiatives to simplify licensing procedures (**Licences and Permits**), with a better score than most peers (Figure 13, Panel B). Past and ongoing efforts to reduce the burden of licences and permits drive Indonesia's performance. The one-stop shops in the largest cities and online single submission system cover many national and subnational licences, thereby lowering the administrative burden associated with starting a business. Nevertheless, as mentioned earlier, the online single submission system still does not cover all the necessary administrative requirements, but recent reforms are likely to further expand its scope. In addition, the PMR score is based on the de jure progress and it does not assess implementation. Some recent improvements, which fall

outside the scope of the PMR questionnaire, could help in this direction. For instance, a 2019 Presidential Instruction (7/2019) delegated responsibility for permits of 22 ministries and institutions to the Indonesia Investment Coordinating Board. In addition, the 2020 Omnibus Bill on Job Creation aims to eliminate overlap (and differences) between national and sub-national licences by centralising licensing responsibilities and then delegating them back to regional governments accompanied by norms and procedures. Its practical effects will depend on how it is implemented, including the interaction with subnational governments and regional one-stop shops, and ensuring that centralisation does not weaken the evaluation of requirements in areas such as Environmental Impact Assessments (OECD, 2021a, 2021b).

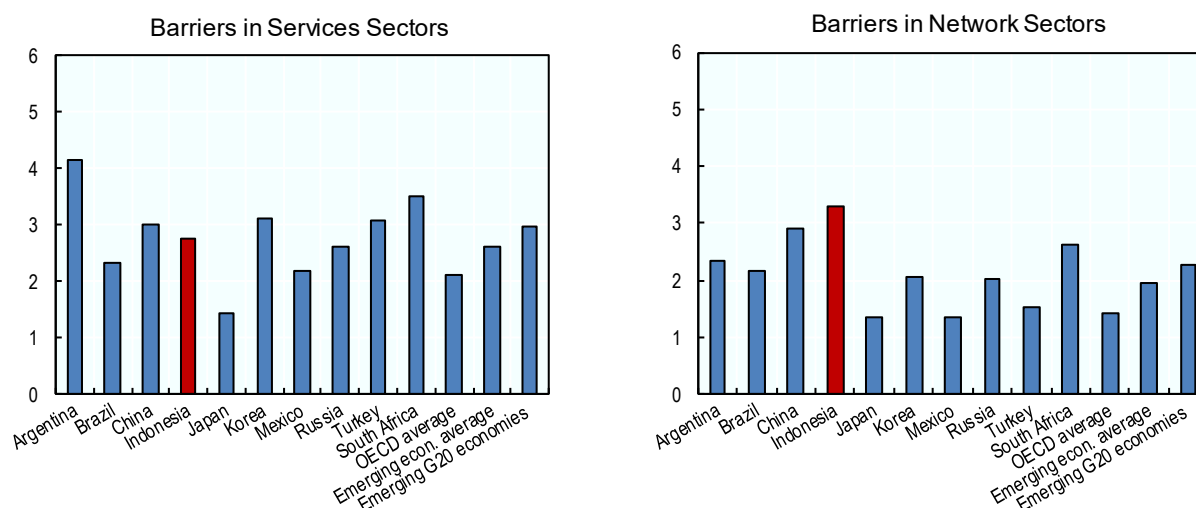
The one improvement to this PMR sub-indicator that Indonesia could still introduce is a “silence is consent” rule, which would further speed up licensing procedures and reduce uncertainty. An increasing number of OECD and non-OECD countries, including Mexico, Costa Rica and Kazakhstan, have such a rule.

2.3.2. Barriers to entry and competition in service and network sectors

The PMR results suggest that barriers to entry in network sectors are more significant than in services sectors (Figure 14). The indicator of **Barriers in Services Sectors** is somewhat higher than the OECD average, but similar to peer countries (Panel A). Regulatory **Barriers in Network Sectors**, instead, are significantly higher than in the average OECD country and higher than in peer countries (Panel B). The following sections use the sectoral indicators to better understand the nature of these barriers to competition.

Figure 14. Low-level indicators on Barriers in Service and Network Sectors

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

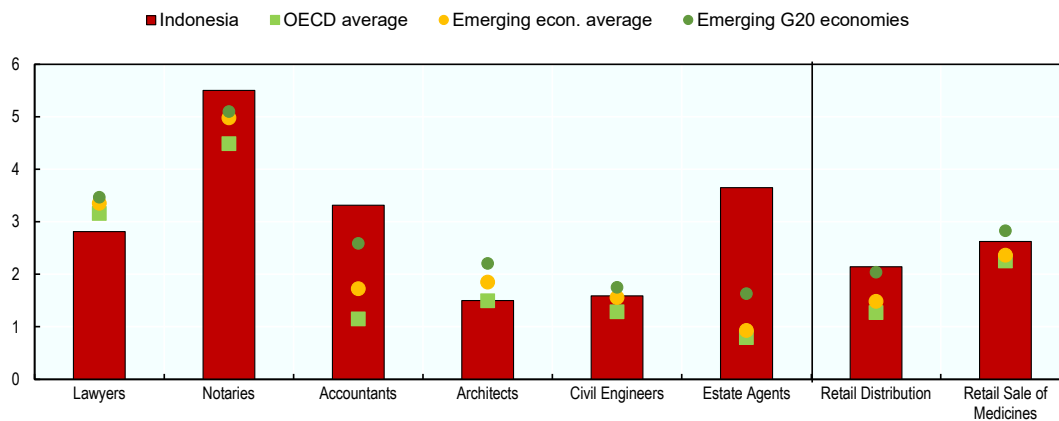
Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

Insights from sectoral PMR Indicators: services sectors

Indicators of the regulatory framework in **professional services** show a mixed picture (Figure 15). Regulations appear less restrictive than in many other countries, including OECD ones, in some professions and more restrictive in others.

Figure 15. Indicators of regulation in service sectors – professions and retail trade - across countries

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

The profession where the stringency of regulation is highest in comparison with other countries is **real estate agents**. This profession is highly regulated in Indonesia, both in terms of barriers to entry and of regulation of the professionals' conduct. For example, real estate agents have the exclusive right to perform activities that are not restricted in many countries, such as obtaining information about properties to be bought and sold and showing properties to interested parties. Professional exams and membership of the professional organisation are also compulsory, unlike many other countries.

The provision of **notarial** services is also very strictly regulated. In this area, Indonesia does not differ from most OECD countries, but still its regulatory regime for this profession is one of the most restrictive ones. Some countries, such as France and the Netherlands, have started deregulating the profession showing that there are margins for introducing greater competition in this profession without harming consumers (Vitale et al., 2020b).

Accountants and **lawyers** also face high entry barriers. In both professions, the requirements to pass an entrance exam set by professional bodies and to become a member of the professional association hamper access. In terms of conduct regulation, law partnerships can accept external investors, who benefit from limited liability, while partners cannot benefit from limited liability. This arrangement allows for external sources of funding, but still exposes partners, who make the most important decisions in the firm, to unlimited liability and hence to a high level of risk. Accountants also face restrictive conduct regulation in the form of limits on who can hold ownership interests and voting rights in accounting firms.

Regulations for **architects** and **civil engineers** are less restrictive than for the other professions and comparable to (civil engineers) or better than (architects) in peer countries. However, entry regulations are still a little higher than in the average OECD country.

The stringency of regulation of **retail distribution** is close to that of other large peer countries, but more restrictive than in OECD countries (Figure 15). The indicator captures barriers to entry caused by registration and licensing requirements, as well as limits on shop opening hours. Entry regulations include requirements to obtain an authorisation to open stores larger than 500 sqm (including minimarkets, supermarkets and department stores), as well as the need for a business licence²⁰. In addition, a request to establish a retail outlet can be denied based on an economic needs test, which the OECD considers an unnecessary test, since such business decisions are better taken by entrepreneurs, who then face the risk of failing if there is not enough demand. As already discussed, the prices of some retail goods and services are regulated. In general, direct price regulation should be avoided, as it distorts market mechanisms: if vulnerable consumers need protection, the government should rely on subsidies and other forms of more direct and targeted support. Regulation of shop opening hours, instead, is quite light, leaving outlets rather free to decide their opening schedule.

Entry barriers for selling online have so far been very low, but the OECD is aware that, starting from 13 November 2020 a separate licence will be necessary for online sales based on Minister of Trade Regulation No. 50 of 2020²¹. The introduction of additional administrative steps for online shops, which may place them at a disadvantage with respect to brick and mortar ones, should be carefully considered, as online shopping is an important area of growth, especially as a result of the COVID-19 pandemic.

The restrictiveness of regulation of **retail sale of medicines** is around the OECD average. Competition is still constrained by limitations on the number of pharmacies that can be opened in a given area and on their specific location. However, there are no restrictions on who can own a pharmacy nor on their opening hours and most non-prescription medicines can also be sold in para-pharmacies and drugstores.

Insights from sectoral PMR Indicators: network sectors

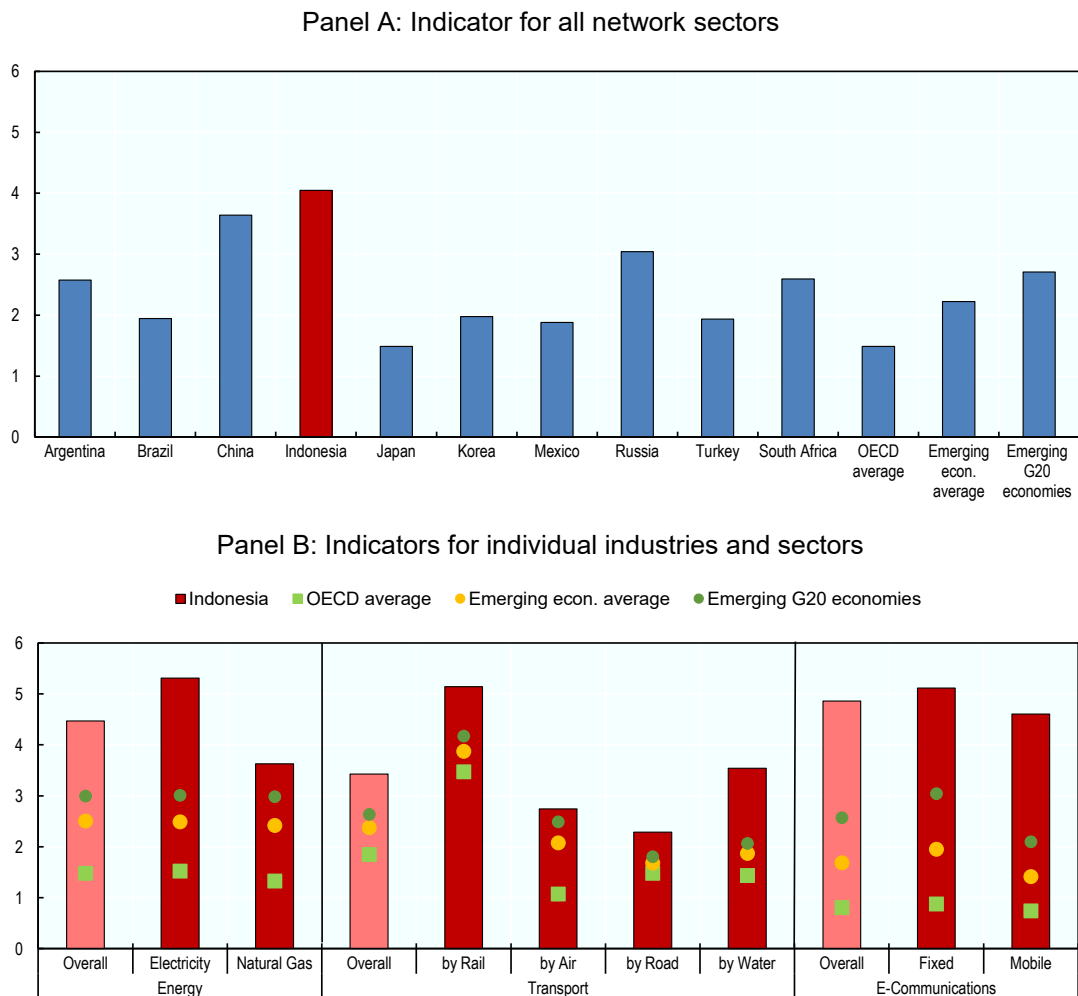
The overall indicator of regulation in **network sectors** suggests that regulatory settings in network sectors are more restrictive than in other emerging economies included in the PMR dataset (Figure 16, Panel A). These sectoral indicators comprise two elements: entry regulation and public ownership. In Indonesia, the high level of public ownership in these sectors (discussed in section 2.2) contributes to a higher indicator value compared to the other countries, but regulatory settings are also still far from best practice, and are generally not very conducive to competition. Indonesia performs less well than the average of G20 emerging economies and of OECD countries in each sector, but particularly in electricity, water and rail transport, and fixed and mobile e-communications (Figure 16, Panel B).

²⁰ The opening of a retail outlet requires a store permit under Presidential Regulation No.112 of 2007 and Minister of Trade Regulation No. 8 of 2020 on Electronically Integrated Business Licensing Services in Trade Sector.

²¹ Ministry of Trade Regulation No. 50 of 2020 is implementing Government Regulation No. 80 of 2019.

Figure 16. Indicators of regulation in network sectors across countries

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

Within the energy industry, the **electricity** sector is highly regulated in both absolute and relative terms. This is mostly because PLN – a fully state-owned company that dominates all segments in the sector - is heavily protected from competition at all stages of supply. By contrast, most other countries in the PMR database have opened generation and retail supply to competition. Indonesia's 2009 Electricity Act, which followed the Constitutional Court's 2004 decision to overturn the 2002 electricity law that would have increased private participation, still gives the state-owned incumbent, PLN, priority rights for each element of operations (IEA, 2015; Box 6). As a result, PLN dominates all segments of Indonesia's power market, and this is limiting the development of competition in generation and retail distribution (OECD, 2021d).

Regulation in the **gas** sector restricts competition less than in electricity. Notably, production and retail supply are open to competition, though in the latter market only large and medium non-residential

consumers can choose their provider. Still, regulatory barriers to competition are higher than in OECD countries. There is no national wholesale market for gas and, while all retail prices are regulated, including those of those consumers that are free to choose their supplier, there is no requirement to ensure that retail price regulation is based on the cost of the most efficient operator.

Within the transport sector, regulatory barriers to competition are highest in **rail transport**, which is also the case for most non-OECD countries and OECD countries. However, in many OECD and non-OECD countries some form of competition in the market for passenger services is allowed, often through the use of public service contracts, this is not the case in Indonesia.

Regulations in **air transport** and **road transport** are closer to those of peer countries, while regulation of **water transport** is more restrictive. The OECD is currently in the process of publishing a report on barriers to competition in the logistics sectors that examines in detail the regulation of freight transport by road and the reforms that would be needed to foster competition (OECD, 2021b).

The indicators suggest that regulatory settings in **fixed and mobile electronic communications** are not conducive to competition. PMR values in these sectors are considerably higher than in peer countries and in OECD countries.²² A key driver of the indicator is that the regulator does not perform regular forward-looking assessment of the state of competition in key wholesale markets (wholesale fixed local access, wholesale provision of leased lines, wholesale fixed call origination and termination, and wholesale mobile call origination and termination). The regulator is required to determine the market shares and to assess and approve the reference offers issued by operators with shares greater than 25% of total market revenues. This is not in line with international best practice that consists in requiring that competition is regularly assessed in a forward-looking manner, using a number of indicators to establish if there are no significant or non-transitory barriers to entry and if the market structure tends towards effective competition. The lack of a regulatory approach ensuring that interventions are gauged to the effective level of competition and regularly adapted as competition evolves, implies that healthy and long-lasting competitive environment is unlikely to develop.

In addition, Presidential Regulation No. 112 of 2020 dissolved the Indonesian Telecommunications Regulatory Agency (BRTI). This raises further concerns on the quality of the regulatory framework in this sector. The OECD considers that independent sector regulators are an important element of a competition-friendly regulatory environment, especially when the state controls the largest firms in the industry.

Further, unlike all other countries in the PMR database in Indonesia there is no requirement to offer phone number portability both for fixed and mobile telephony services. This limits the ability of consumers to switch providers and disadvantages new entrants (see Box 4).

It should be noted that when the Information to build the PMR indicators was collected frequency spectrum could not be traded among operators. However, in 2021, regulations implementing the Omnibus Bill on Job Creation have introduced the possibility for network operators to lease or pool spectrum, subject to approval from the relevant ministry. This reform is likely to have a small impact on PMR sector indicator for mobile ecommunications, as it represents a positive step towards a more efficient allocation of a scarce and valuable resource.

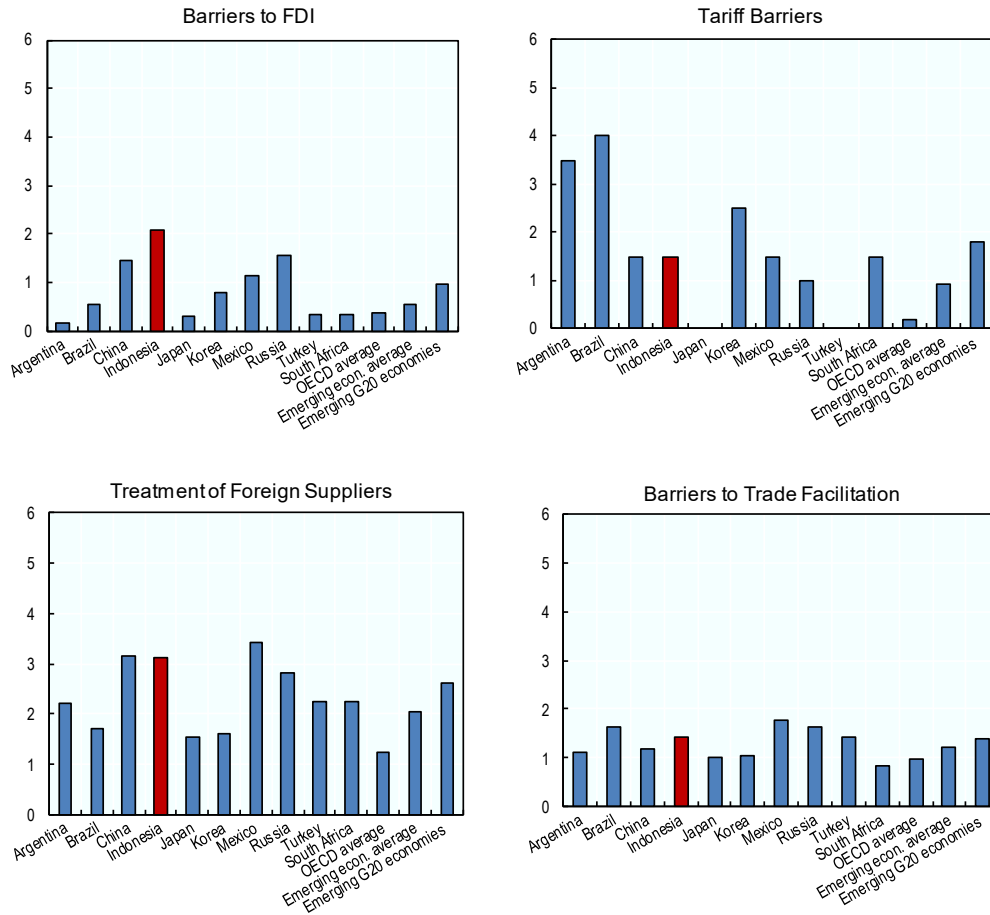
2.3.3. *Barriers to trade and investment*

The PMR results indicate that regulatory barriers to trade and investment are low relative to other elements of the PMR indicator, but are high relative to other countries (Figure 16).

²² As the PMR indicator reflects regulatory settings on 1 January 2020, it does not capture any changes due to the Ministry of Communications and Information Technology Regulation No. 13/2019 which came into effect in April 2020.

Figure 17. Low-level indicators on Barriers to Trade and Investment

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020. If the bar for a country or for a specific indicator does not appear on the chart, it means that its value is 0.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

Regulatory **barriers to FDI** – as measured in the OECD FDI Regulatory Restrictiveness Index that feeds directly into this PMR low-level indicator²³- were amongst the most restrictive across peer countries at the time of the PMR computation in 2020 (Figure 17, Panel A). This is true of other Southeast Asian countries, such as the Philippines and Thailand, which are not included in the PMR database, but for which the FDI Regulatory Restrictiveness index is calculated. Indonesia's FDI Regulatory Restrictiveness Index score is driven by extensive restrictions on foreign equity in a range of sectors, as governed by a negative investment list (*Daftar Negative Investasi*) that was in place until February 2021. Under this negative list, restrictions were relatively high in services and primary sectors. In addition, some parts of sectors were reserved for domestic small and medium enterprises (SMEs).

In early 2021, the government approved Presidential Regulation 10/2021, which implemented changes introduced as part of the Omnibus Bill on Job Creation that lowered foreign equity limits in a range of sectors. Particularly large changes were in: fisheries; mining, oil and gas; distribution; transport; and communications. These reforms could not be included in the PMR indicators as the indicators were calculated in late 2020 based on information collected in the course of that year and the reform was introduced afterwards. However, a preliminary assessment suggests that the overall effect would lower the Barriers to FDI indicator by over one-third and the Barriers to Trade and Investment sub-indicator by almost 10 per cent (Figure 18 Panel A). The Presidential Regulation also includes investment incentives in a number of sectors, but it continues to restrict some sectors fully or partly for investment by domestic SMEs (e.g. some types of constructions, retail trade and services) or by domestic firms (e.g. media, air transport and water transport and traditional manufacturing).

The PMR indicator also captures a range of other policies that hinder foreign investment by imposing different and stricter requirements on foreign companies. These include higher minimum capital requirements for foreign companies, stringent conditions on the employment of foreigners in key management positions, limitations on branching and access to land by foreign legal entities and preferential treatment accorded to Indonesian-owned entities in public procurement. Indonesia also makes extensive use of local content requirements, which add to the hurdles of carrying out foreign investments in Indonesia (OECD, 2020c).

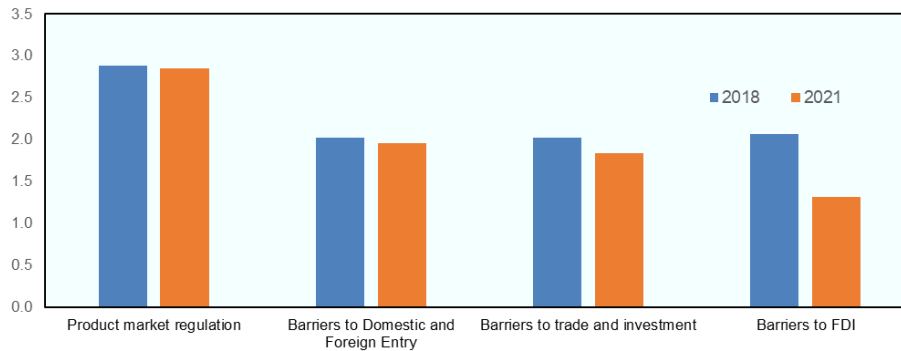
Overall, after allowing for the most recent reforms, barriers to FDI as measured by the PMR indicators have decreased, but they are still likely to remain above the average of peer countries (Figure 18 Panel B).

²³ The FDI Index is used to calculate the low-level indicator Barriers to FDI. The value of this low-level indicator is set equal to the value of the FDI index, adjusted to a 0 to 6 scale. For more detail refer to www.oecd.org/economy/reform/A%20detailed%20explanation%20of%20the%20methodology%20used%20to%20build%20the%20OECD%20PMR%20indicators_FINAL.pdf

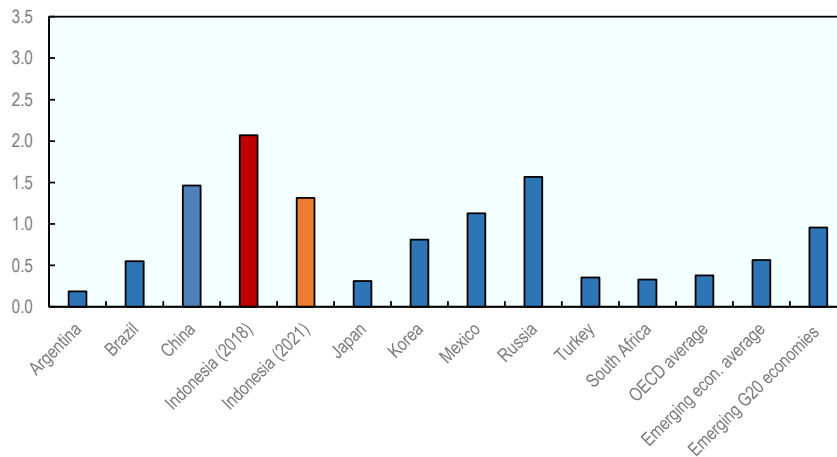
Figure 18. Preliminary assessment of expected effects of recent reforms lowering barriers to foreign investment

Index scale 0 to 6 from most to least competition-friendly regulatory framework

Panel A: Expected impact on PMR indicators



Panel B: Expected impact on cross-country comparison for the indicator Barriers to FDI



Note: The OECD average includes Costa Rica, which has become a member of the OECD in May 2021. Emerging economies average is the average of all emerging economies, as defined by the IMF, which are currently in the PMR databases (Albania, Argentina, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Croatia, Hungary, Indonesia, Kazakhstan, Mexico, Poland, Romania, Russia, Serbia, South Africa and Turkey). Emerging G20 economies is the average of Argentina, Brazil, China, Indonesia, Mexico, Russia, South Africa and Turkey. For most countries the indicators are based on laws and regulation in force on 1 January 2018, but for Bulgaria, Costa Rica Croatia, Estonia, Romania and the US the information refers to 1 January 2019 and for Indonesia and China to 1 January 2020.

Source: OECD 2018 PMR database; and OECD-World Bank Group 2018 PMR Database.

Tariff Barriers to trade – as indicated by effectively applied tariffs – are around the average of G20 peers (Figure 17, Panel B). This reflects past tariff reduction programmes as well as trade patterns: Indonesia was a founding signatory to the ASEAN Free Trade Area agreement, which all but eliminates tariff barriers on goods and services between members. Still tariff barriers in Indonesia are higher than in almost all OECD countries and a number of other emerging economies. Tariffs on consumer goods are highest: in 2018, effectively applied tariffs averaged 4.4% for consumer goods, compared to 0.8-1.9% for upstream goods.

Regulations create relatively high barriers for foreign firms participating in public procurement processes or trying to operate in key network and service sectors (**Differential Treatment of Foreign Suppliers**)

(Figure 17, Panel C). Indonesia's result is one of the highest in the PMR database, though China, Mexico, and Kazakhstan also have high scores. The gap with the OECD average is quite large.

When it comes to public procurement, in Indonesia only some tenders are open to international firms²⁴, thus implying that a share of public contracts are reserved for domestic firms. In addition, foreign firms may only participate in tenders for public works through a joint venture with a domestic firm, and there are local content rules. As highlighted above and in OECD (2020d), it is unusual to discriminate against a resident firm even if it is foreign owned.

Restrictive cabotage regimes in air and sea transport prevent foreign planes and ships from operating internal routes. At the time when the information for calculating the PMR indicators was collected, there was a limited exemption allowing foreign vessels to carry out specific activities (such as drilling or dredging), but only if no domestic vessel was available and a permit was obtained, which lasted for a limited period of time. The subsequent Omnibus Bill on Job Creation has opened up some activities in the shipping sector by allowing specialised foreign-owned ships to operate, which is welcome, but it does not include passenger or freight services. As a result, this reform does not affect the PMR results.

Accountants and lawyers are protected from competition from foreign professionals, since Indonesian citizenship is required in order to be able to practice. This restriction is not in place for architects and civil engineers, where a transparent system of assessment of recognition of foreign titles is in place.

The indicator of **Barriers to Trade Facilitation** reflects the degree of complexity of the technical and legal procedures for international trade (based on the OECD Trade Facilitation indicators, which aim to mirror the key provisions of the World Trade Organisation's Trade Facilitation Agreement²⁵). The indicator for Indonesia is similar to other large economies, such as Brazil, and only a little above the OECD average (Figure 17, Panel D). As in other regulatory domains, Indonesia has lowered barriers by streamlining procedures and making information more accessible in recent years. However, there are gaps with best practice in areas such as consultations with the trade community and the degree of automated processing.

2.3.4. Opportunities for improving Barriers to Domestic and Foreign Entry

This section discusses existing barriers to entry in network sectors and barriers to trade and investment. Potential policy options for fostering competition in these areas are summarised at the end of the section (Table 5).

Lowering entry barriers in network sectors

OECD research drawing on the sectoral indicators has shown that the effects of competition-friendly regulation in upstream sectors cascade through the economy improving productivity (Égert and Wanner, 2016; Boursès et al., 2013). Liberalisation of entry in potentially competitive network sectors has been associated with higher productivity and may have a larger effect when countries are further from the technology frontier (Nicoletti and Scarpetta, 2003). The PMR indicator results for Indonesia reveal substantial scope for pro-competition reforms in the energy industry, particularly in electricity, as well as in water transport and in fixed and mobile e-communications.

The importance of energy for economic activity, investment, competitiveness and welfare suggests there could be sizeable benefits from exploring all margins within the Constitution for introducing competitive forces to the sector. In 2015, the Constitutional Court issued guidance that electricity services cannot be unbundled, if it would result in the State having less control over the sector (Firmansyah and Karim, 2020).

²⁴ These are tenders above IDR 50 billion, or IDR 1 trillion for construction works (around USD 3 million and USD 68 million, respectively).

²⁵ For more information, see <https://www.oecd.org/trade/topics/trade-facilitation/>.

Nevertheless, the omnibus law has opened the possibility of greater private sector participation in different aspects of electricity supply. It is not yet clear how it will be implemented given the constraints that have been repeatedly imposed by the Constitutional Court (see Box 6), but some interpretations do suggest that private-sector involvement could be possible (Butt and Lindsey, 2012). Introducing some vertical separation by requiring accounting separation between the various activities would increase transparency, thus limiting, or at least exposing, cross-subsidies and fostering more cost-reflective pricing at all levels of the value chain. This could be a precursor to introducing greater competition in some parts of the sector. An independent regulator could help balance cost, availability and reliability and improve investor confidence (IEA, 2015). Nevertheless, some activities currently undertaken by PLN are unlikely to be profitable, such as ensuring that households in remote regions have access to electricity, and measures such as transparent subsidies for supplying these households will be needed.

Box 6. Constraints imposed by Article 33 of the Constitution and the Constitutional Court's interpretation

Article 33 of the 1945 Constitution of Indonesia sets out the provisions on 'economic rights' in 4 paragraphs:

1. Art 33(1) provides that "the economy shall be organised as a collective endeavour based on the family principle". This has been interpreted by the Constitutional Court to mean that production activities are conducted 'by all and for all' under the ownership of the members of society and that cooperative and private ownership is only possible in companies that are not controlling 'the people's necessities of life'.
2. Art 33(2) provides that "branches of production that are important to the state, and that affect the people's necessities of life, are to be controlled by the state." The Constitution does not provide clarity on which branches of production are considered as 'important' and affect the 'people's necessities of life'. However, the Constitutional Court considers electricity as one of them.
3. Art 33(3) provides that "earth, water and other natural resources contained within shall be controlled by the state and utilised for the maximum prosperity of the people".
4. Art 33(4), which was added in 2002, provides that "the national economy is to be run on the basis of economic democracy, and the principles of togetherness, just efficiency, sustainability, environmentalism, and independence, maintaining a balance between advancement and national unity." Many local commentators argue that this was included to give the government greater flexibility in managing the economy.

The Constitutional Court is responsible for ensuring that the state respects the Constitution and has the authority to hear judicial reviews on whether the substantive content of any law meets the provisions of the Constitution and, if the law is inconsistent with these provisions, to declare it void of legal force.

The Constitutional Court's interpretation of Art 33 with respect to the electricity sector, which has emerged through a number of reviews concerning various elements of the 2003 and 2009 Electricity Act, can be summarised as follows:

- Article 33 is not against the free competition and market principles, but requires the state to maintain control on the important branches of production that affect 'the people's necessities of life', like electricity.
- Control over these sectors cannot be realised only through regulatory and supervisory functions, but must be exercised through SOEs; as only in this manner the state can ensure sufficient

supply, equitable distribution, and affordability of important resources, such as electricity, to all the Indonesian people.

- The state does not have to be the majority owner of these SOEs. Hence, partial privatisation is possible, but only in so far as the state maintains control over their decision-making process.
- SOEs must be given priority in strategic sectors like electricity, and private companies can only operate in those shares of the market that the SOEs cannot satisfy.
- The state cannot unbundle the electricity sector in separate generation, transmission, distribution and retail sales activities.
- The state should control retail prices of essential services like electricity.

Source: Adapted from Yudihanto (forthcoming)

In **natural gas**, more vertical separation could be introduced, including some form of separation of gas storage from transmission and distribution. Having an independent regulator would support the process (Indonesia's sector regulators are generally less independent than in OECD countries (OECD, 2012c).) The creation of an integrated national wholesale market is hampered by Indonesia's geography and infrastructure, so any attempt to create one would need to be preceded by reform of wholesale prices and form part of a comprehensive longer-term plan, as proposed in IEA (2015). A regulatory impact assessment could evaluate the costs and benefits of such a reform with a view to establishing a path.

Given Indonesia's geography, the price and availability of **water transport** services for passengers and freight has substantial knock-on effects to households and firms alike. Encouraging more competition, even in parts of the sector, would benefit economic activity and firms' competitiveness. Lowering regulatory barriers to entry by domestic and foreign firms and relaxing price controls would bring Indonesia's regulatory settings closer to those of other emerging economies. Liberalising prices and relaxing barriers to foreign entry are discussed in sections 2.2.4 and below. Repealing the government's ability to limit industry capacity would increase the attractiveness of investing in the sector for investors; Indonesia is one of a handful of countries to retain such an ability. Although licensing is common, requiring new firms to notify the regulator, rather than obtain a licence, would ease entry. This is the case in other island nations like New Zealand and Greece. Such reforms could be introduced as part of the shift to risk-based licensing envisaged by the 2020 Omnibus Bill on Job Creation. The OECD *Competition Assessment Review* of the logistics industry (OECD, 2021b) includes more detailed suggestions on how to increase competition in some of the transport sectors.

Lowering barriers to entry in **e-communications** could increase competitive pressures in a sector that is increasingly important given the digital transformation that currently is underway around the world. Even though the number of firms operating in the sector has increased in recent years, the majority government-owned Telkom still has an 80% share of the fixed line market and its subsidiary Telkomsel has the largest revenue share in the mobile market. Indonesia could improve the regulatory framework in this sector by tasking an independent regulator to regularly undertake market studies to assess the state of competition in the key fixed and mobile e-communications markets²⁶ in a forward-looking manner and considering a variety of indicators (not just market shares) and regulating the sector accordingly. In addition, the regular repetition of this exercise, e.g. every four to five years, ensures that as competition develops unnecessary regulatory obligations are lifted or reduced. In most OECD countries such assessments are used to determine what type of *ex-ante* regulation is necessary and on which player(s) (see Box 7).

²⁶ Key markets to assess should be wholesale fixed local access, wholesale leased lines, wholesale fixed call origination and termination, and wholesale mobile call origination and termination, as these represent potential bottlenecks for the development of healthy competition.

Box 7. Assessing the state of competition to set ex ante regulation in the ecommunications sector: the European Union

The European Union is an example of best practice in setting up ex-ante access regulation in the e-communications sector. In broad terms, this requires independent sector regulators establishing whether competition is effective in key retail and wholesale markets and, if not, imposing ex-ante remedies to foster its development.

Under this approach, a market warrants *ex-ante* regulation if it satisfies three criteria:

- (i) There are high and non-transitory barriers to entry, whether structural, legal or regulatory;
- (ii) There is no trend towards effective competition within a relevant time horizon; and
- (iii) General competition law is insufficient.

The regulators should then impose remedies to address the competition problem. These remedies must be proportionate to the objectives. Wholesale markets should be regulated first and retail markets only as a last resort. The regulators should review each market periodically until competition is effectively working in order to ensure that appropriate regulation is adopted where necessary to foster the development of competition, and adapted or rolled back as competition becomes effective.

Good practices include:

- Making the market analysis methodology and rules for imposing ex-ante obligations transparent.
- Identifying the markets to be assessed in advance.
- Reviewing each market periodically to ensure that regulation is reflecting the developments in state of competition.
- Using a variety of qualitative and quantitative indicators to assess the level of competition in each market and how this is likely to develop in the near future
- Using geographical segmentation of markets if competition differs greatly.
- Avoiding subjecting new and innovative services to regulatory obligations.
- Subjecting preliminary conclusions of market analysis and proposed regulatory interventions to public consultations.
- Ensuring adequate experts and resources to undertake these analyses

Source: Adapted from OECD (2014b), OECD and IDB (2016), and European Commission (2020)

Lowering barriers to foreign investment and trade

Reforms to attract foreign investment form part of Indonesia's overall plan to improve its business environment. The significant reforms implemented in February 2021 contribute to such an objective and will generate a more growth- and competition-friendly regulatory environment. Nonetheless, the PMR indicators point to further scope for improving Indonesia's openness to FDI by reducing regulatory restrictions. The stock of inward FDI in Indonesia was equivalent to 21% of GDP in 2019, only a little over half the ratio in Brazil and South Africa. FDI in services sectors is particularly low (OECD, 2020d, OECD 2019d).

In addition to constraining investment, restrictions on foreign investment limit the transfer of new technologies and skills such as managerial and technical skills. Scaling back restrictions on investment, especially in services sectors, could lift trade and innovation, thereby raising productivity and growth (Nicoletti et al, 2003). Cross-country research and studies of Indonesia show that by raising the quality and

quantity of services, FDI in services sectors can boost services sector productivity as well as contribute to a more competitive manufacturing sector (since manufacturing firms use services sectors) (OECD 2019d; Duggan et al., 2013). Restrictions on FDI in services sectors may be contributing to Indonesia's low level of participation in global value chains (OECD, 2020d).

The 2021 reform has clearly removed some of these restrictions and made regulatory settings friendlier for foreign investors. However, with other restrictions still in place, further reforms could yield additional economic gains. The 2020 *OECD Investment Policy Review of Indonesia* shows that a reform equivalent to removing **all** foreign equity restrictions would lower the FDI Restrictiveness Index to the average of non-OECD countries and would likely translate into a massive increase in FDI in services and manufacturing (OECD, 2020d). The government could determine priorities for future reforms by assessing the costs and benefits of lifting the remaining restrictions, such as high minimum capital requirements still imposed on foreign investors and the reservation of some activities to domestic SMEs.

The PMR results also point to significant scope to boost competition by granting foreign suppliers of goods and services greater access to Indonesian procurement markets and to its services markets. Although other countries favour resident firms in public procurement, Indonesia is particularly unusual in discriminating against foreign-owned resident companies (as opposed to non-resident companies) (OECD, 2020d). Levelling the playing field would increase competition and increase value for money for the taxpayer. Local content requirements in procurement may aim to develop local markets for goods and services but the impact will depend on market power and the potential for foreign contestability (Stone et al., 2014). These requirements also create inefficiencies by increasing costs, lowering quality, or constraining options. Thus, the effect of these requirements should be evaluated with a view to removing them, if the costs outweigh the likely benefits.

Given Indonesia's geography and the importance of connectivity for consumers and firms alike, opening up air and sea transport routes to foreign operators could lower costs and increase productivity. Relaxing cabotage rules could help develop the coastal shipping industry as it would make Indonesian ports more attractive for global shipping companies designing their routes (ITF, 2017). The *OECD Competition Assessment Review of the logistics sector* suggests several alternative reforms (OECD, 2021b).

Table 4. Policy options for improvements related to Barriers to Domestic and Foreign Entry

Area of product market regulation	Options to consider for potential reforms based on the PMR indicators
Barriers in Network Sectors	<ul style="list-style-type: none"> • Introduce some form of vertical separation of business activities in the electricity sector, as a minimum accounting separation, and strengthen separation in the gas sector. • Explore ways of liberalising the electricity sector within the provisions of the Constitution. • Evaluate the costs and benefits of a wholesale gas market, including the impact on competition and consumers. • Replace the obligation for new firms in road and water transport to obtain a licence by a simple notification to the relevant authorities. • Task an independent regulator for the e-communications sector with the responsibility to regularly assess the state of competition in fixed and mobile electronic communications markets, relying on a variety of indicators, and to use the outcome to determine appropriate and proportionate ex-ante regulation that can foster the development of competition. • .
Other barriers to trade and investment	<ul style="list-style-type: none"> • Evaluate the costs and benefits of remaining barriers to FDI, such as reserving some activities to domestic SMEs. • Level the playing field between foreign-owned and domestic companies, including by lowering minimum capital requirements. • Lift restrictions on foreigners holding key management positions. • Relax restrictions on foreign suppliers' participation in public procurement tenders, particularly resident companies. • Evaluate the effectiveness of local content requirements in public procurement. • Lower trade tariffs, particularly on consumer goods.

Note: Most but not all of these policy options if implemented would improve Indonesia's PMR score. The areas of product market regulation are based on the low-level PMR indicators. Low-level indicators are highlighted specifically where the gap between Indonesia's score and the OECD average is more than two standard deviations (across OECD countries) (see Table 1).

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