



**REPUBLIC OF INDONESIA
MINISTRY OF NATIONAL DEVELOPMENT PLANNING/
NATIONAL DEVELOPMENT PLANNING AGENCY**

OPENING REMARKS

by

Dr. Lukita Dinarsyah Tuwo

Vice Minister of the National Development Planning/

Vice Chairman of the National Development Planning Agency (BAPPENAS)/

**Chairman of the Steering Committee of the Aid for Development
Effectiveness Secretariat (A4DES)**

at

PANEL DISCUSSION

**ON TAX AND FACILITY ISSUES FOR FOREIGN LOANS AND GRANTS IN
INDONESIA**

Jakarta, 31st August 2010

Assalamu alaikum warrahmatuallah wabarakaatuh

Good afternoon Ladies and Gentlemen,

May peace be upon us

I would like to thank to our colleagues from the line ministries, working groups, and representatives from development partners, for attending this panel discussion on tax, custom and facility issues related to aid-financed projects. My gratitude as well for all the panellists and moderator from BAPPENAS, State Secretariat, Ministry of Finance, Ministry of Public Works and the National Public Procurement Agency who are willing to share their expertise and experiences to enrich this discussion.

Following the signing of Jakarta Commitment on 12th January 2009, the Government of Indonesia has established an Aid for Development Effectiveness Secretariat or A4DES. This Secretariat is designated to facilitate our efforts to make an effective use of aid for development effectiveness. For almost a year now since its establishment, A4DES has demonstrated the efforts to formulate any endeavours to

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increase the efficiency and effectiveness of the aid. A4DES also identifies problems or obstacles hindering the efficiency and effectiveness of the aid.

One identified issue is on tax, customs and facilities. This is actually not a new issue. These issues have been emerged even since more than 10 years ago. Many efforts have been done to address and solve the problems of these issues. However, I have to admit that these efforts have not been resulting significant results. Issues and problems are also getting more challenging because: first, there have been many regulations and agreements issued related to tax and customs. Second, there have been official replacements within the internal government bureaucracy as well as the development partners that caused different interpretations to the tax and customs application. And third, there has been growing and expanding modalities of international cooperation.

Ladies and gentlemen,

Even though those issues are still exist, I believe that it is not because of that we lack of regulations but more because of that we do not share common understanding and interpretation on these regulations. Actually, the policy and regulation of the Government of Indonesia on these issues has been clear. According to the Government Regulation No. 42/1995 and its amendments concerning projects financed by foreign loans and grants, the Government exempts custom duties and surcharges. The Government does not collect value added tax and luxury tax, while the income tax is borne by the Government.

However, many project implementing agencies or officials, both at the Government and the development partners seem less informed on the technical application of these types of tax and duties. For example, even though the State Secretariat has issued some recommendations for tax exemption to goods related to grant-financed projects in accordance to regulations, it has often been found in the field that there is issue on who supposed to request for the tax exemption, the Executing Agency or the contractor.

Lack of information on tax and customs issues for foreign loans and grants from time to time, if not managed properly, may potentially hinder the implementation of strategic and crucial aid funded projects, hence the effectiveness of such initiatives.

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This panel discussion is aimed in general at providing an up-to-date information related to tax, customs and facility issues to aid financed-projects. We could also identify together issues related to tax, customs and facility issues for foreign loans and grants that need to be followed up to enhance policy implementation in the spirit of development effectiveness. We would also like to hear any feedbacks and responses from our development partners to ensure our mutual cooperation in accordance with the Jakarta Commitment.

In the end, after this discussion, we hope to have common clear and comprehensive understanding and perception on existing regulations and procedures of tax and facility issues applied to activities funded by foreign loans and grants. From this discussion, we may come out with recommendations, including necessary steps to be taken, to follow up any issues regarding tax and facility for foreign loans and grants considered to be the hurdles for effective aid implementation.

Ladies and gentlemen,

As I have mentioned earlier, today's panel discussion is only one of the efforts by A4DES to expedite and accelerate implementation of development cooperation, to make it more effective and efficient. I do not pretend that the issue we are discussing today is the only one issue that may hinder implementation of our cooperation. I still think there are some other issues as well faced by our colleagues from development partners and the Government itself. Therefore, we are open to your inputs by having this forum to enhance effectiveness and efficiency of our cooperation.

Finally, I would like to thank you all for your participation in this discussion and wish you a fruitful discussion.

Thank you.

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