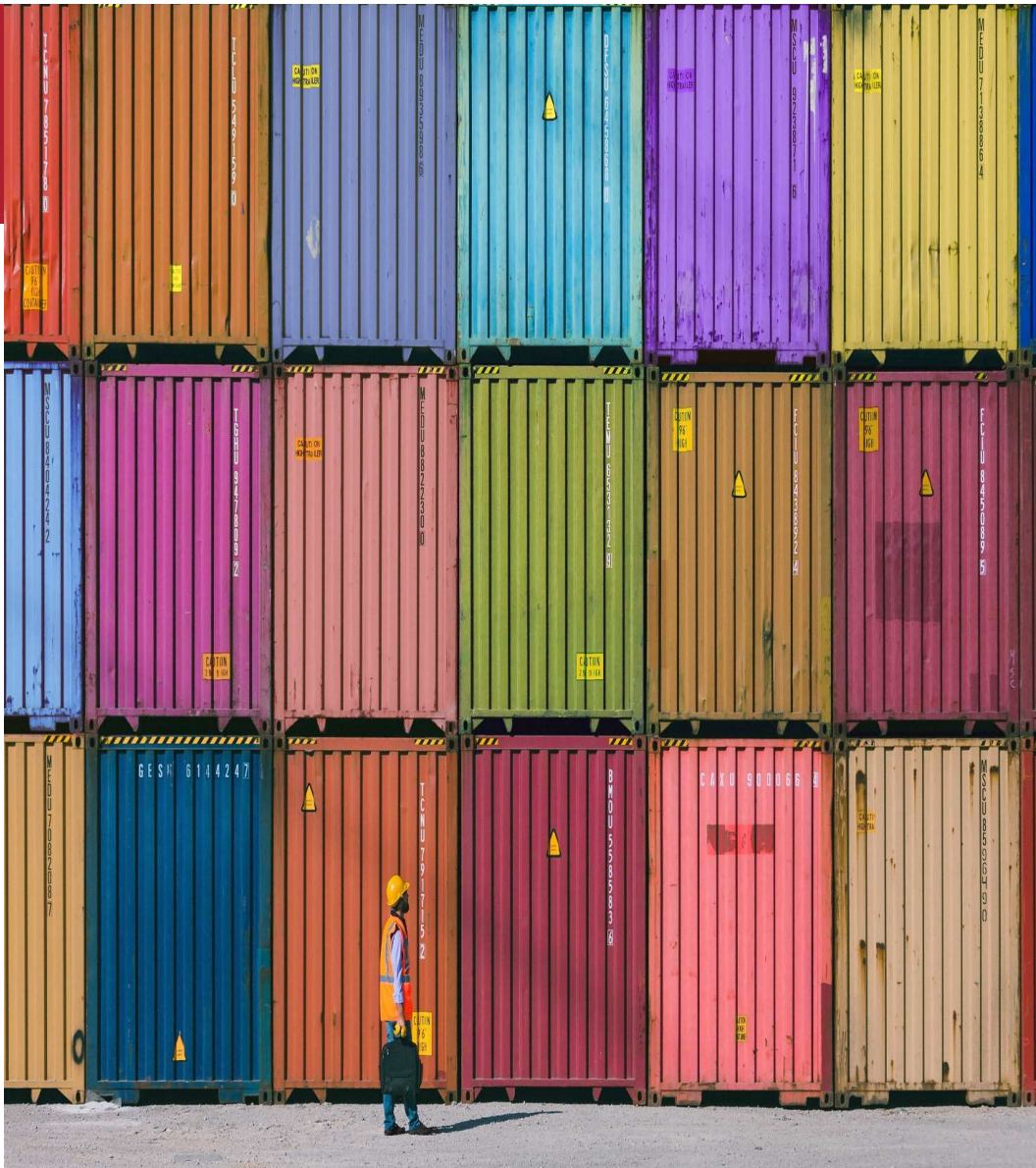


Measuring & Improving National Logistics to support Economic Integration and Connectivity





OUTLINE

1. Measuring national logistics costs / GDP
2. Factors Contributing to High Logistics Costs
3. How to strengthen logistics for economic integration and connectivity?



1. Measuring national logistics costs / GDP

- The new methodology based on the Input-Output table offers the following advantages:
 - ❑ provides a holistic coverage of Indonesia's economy (Input-Output and GDP tables);
 - ❑ is relatively easy to transfer knowledge;
 - ❑ enables comparison with Indonesia's neighboring countries namely Cambodia and Thailand.

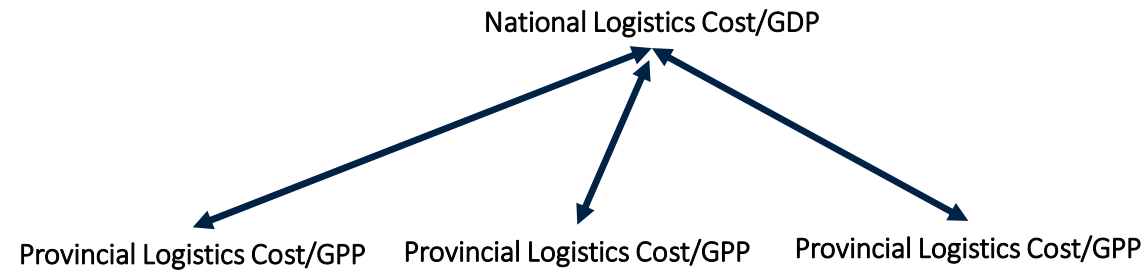
- This NLC model is robust and should be considered as a baseline.
- Further refinement would be needed:
 - ❑ To develop a satellite account in the Indonesian I-O Table specifically for logistics, as logistics is a strategic sector for Indonesia.
 - ❑ To calculate national provincial logistics cost over gross provincial product (GPP), especially due to diversity of Indonesia as an archipelagic country. This requires improved provincial I-O Tables with more logistics related data can improve the accuracy of the provincial logistics cost numbers.

Logistics cost relationship

MACRO LEVEL

Secondary Data
based on national
& provincial I/O

National
Level
↕
Provincial
Level



MESO LEVEL

Primary Data
(Survey based)

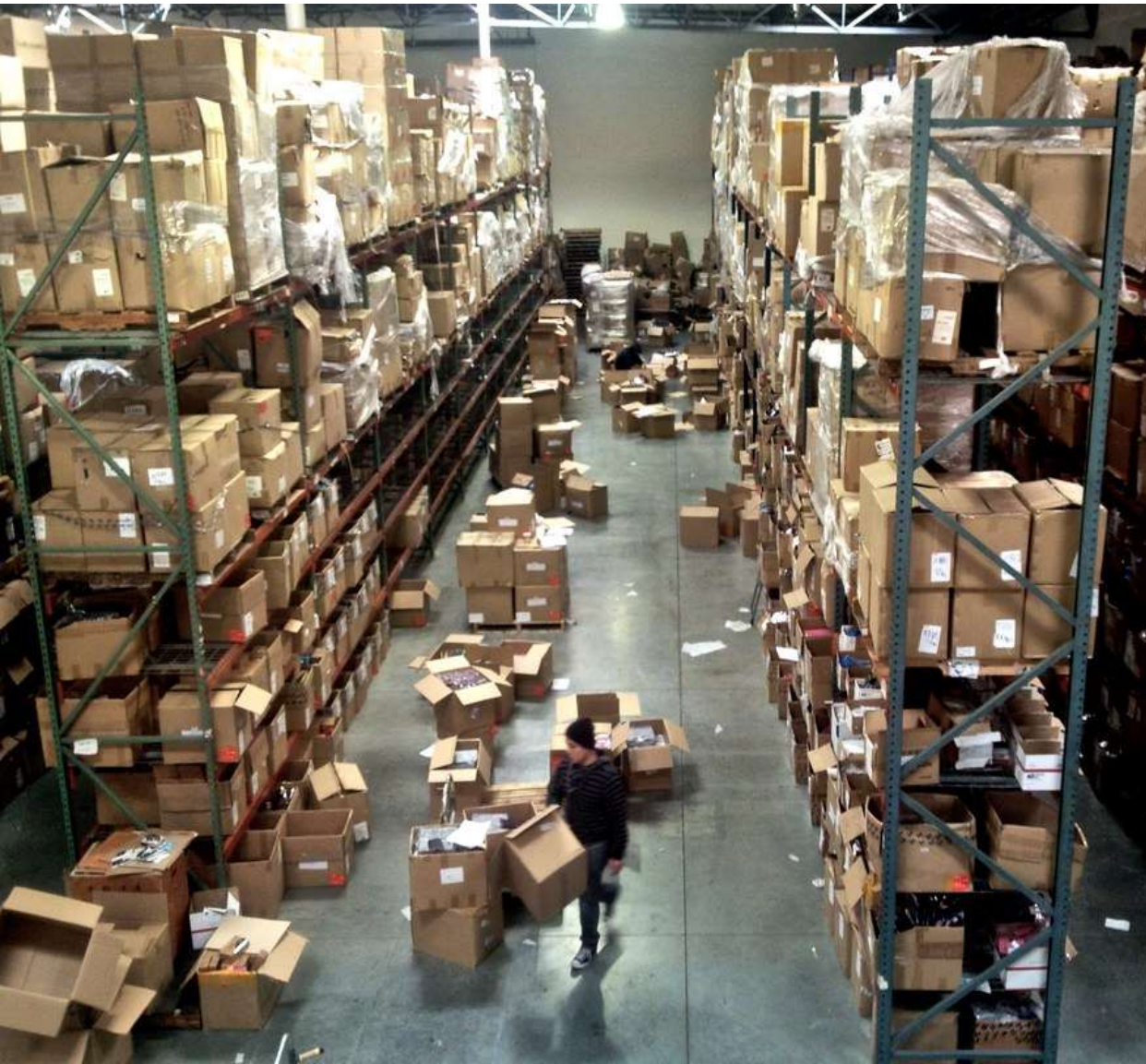
Sector
Level

Sector log cost/sales Sector log cost/sales Sector log cost/sales

MICRO LEVEL

Firm Level

Firm log cost/sales Firm log cost/sales Firm log cost/sales ... Firm log cost/sales



2. Factors Contributing to High Logistics Costs

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Factors to high transportation costs



- **Domestic Logistics Challenges:** Inefficient and costly domestic logistics, particularly outside of major cities, due to weak land and maritime infrastructure, inadequate transport equipment, inefficient logistics services, and a lack of skilled labor force.
- **International Logistics Challenges:** Costly international logistics due to limited domestic connectivity to outer-islands and international markets, as well as high port tariffs on international ship operators that make Indonesia less competitive.
- **Infrastructure Investment Climate:** A challenging investment climate with market entry restrictions and red tape that leads to low participation of the private sector in infrastructure development. Additionally, the mechanisms of direct assignment of projects to State-Owned Enterprises (SOEs) and limited borrowing capacity of SOEs, which dominate in infrastructure development and operation, further limit private sector involvement.
- **Land Ownership Challenges:** cause delays and lead to high costs.



Factors to high Warehousing costs



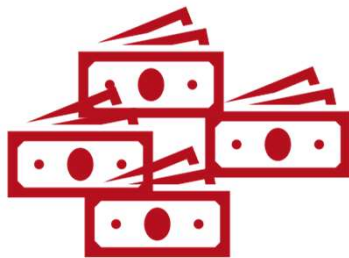
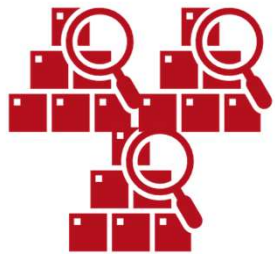
- **Warehousing services Investment climate:** Licensing red-tape discourage investment and limit competition; high cost of access to finance.
- **Shortage of skilled manpower:** unskilled warehousing staff can lead to losses in several ways. Unskilled staff may also mishandle materials, leading to damage or loss of products. Additionally, they may not be able to coordinate logistics activities efficiently, leading to delays, missed deadlines, and increased costs.

Factors to high Administration costs



- **Bureaucracy:** Unpredictable processing times of government-issued documents such as licenses and permits can create delays and uncertainty for traders. Based on interviews with the private sector, several government agencies have not yet simplified their processes, do not have Service Level Agreements towards traders, and have limited digitalization.
- **Risk Management:** Delays in implementation of risk management and Integrated Risk Management by trade and border agencies still leads to bureaucracy, more inspections, and unpredictable processing.
- **Uncertainty of Regulation:** The implementation of the Commodity Balance, which aimed to simplify licensing, has disrupted traders and producers.
- **Non-Tariff measures implementation:** NTMs such as import approvals, are costly, unpredictable, which further increases administration costs.

Factors to high inventory carrying costs

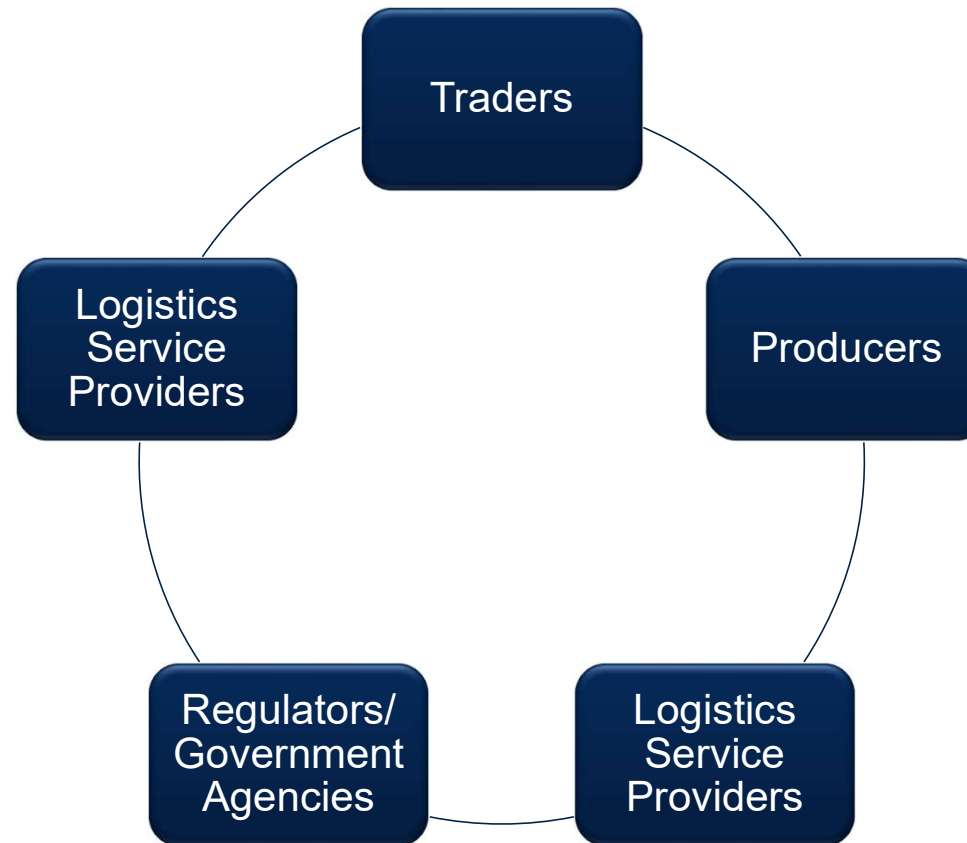


- **Transportation and administration challenges:** Low connectivity and uncertainty pose a significant problem for traders. This, in turn, forces traders to maintain higher inventories, particularly in areas with limited road connectivity, even within Java and Sumatra, and in eastern Indonesia. Moreover, high transportation costs compel traders to transport larger quantities to achieve economies of scale, further driving up inventory levels.



3. How to strengthen logistics for better domestic and international integration?

Building Trust and Collaboration in Logistics Management



Building trust and collaboration with beneficiaries

Traders / Producers

- **Streamlined compliance:** A centralized information source to meet regulatory requirements.
- **Seamless logistics:** Efficient logistics solutions to manage movement of goods and reduce delays.
- **Reliable Processes:** Consistent and dependable government business processes that provide clarity and transparency for traders.
- **Regulatory Certainty:** Regulatory risks are limited thanks to transparency of the regulatory processes, which ensures a stable and predictable business environment.

Creating a conducive business environment for logistics service providers

Logistics Service Providers

- **Favorable Regulations:** A simple and transparent regulatory environment that enables Logistics Service Providers (LSPs) to operate efficiently and effectively.
- **Level Playing Field:** An equal and fair investment climate that promotes healthy competition and encourages innovation.
- **Robust Infrastructure:** Strong transport and telecommunication infrastructure that facilitates the movement of goods and information across borders.
- **Skilled workforce:** enabling institutions (public and private) to train logistics professionals at all levels who possess the knowledge and expertise.
- **Certainty in Regulation:** Regulatory certainty to ensure a stable and predictable business environment, enabling LSPs to plan and invest with confidence.

Tracking, Improving, and Building Trust and Collaboration in Logistics

Regulators

- **Performance Metrics:** To measure the right logistics indicators over time.
- **Customer Satisfaction:** To measure their own performance against service levels, thus tracking satisfaction.
- **Risk Management:** To learn how to trust traders and LSPs, through risk management.
- **Collaboration and Communication:** To communicate across the logistics community and among government agencies to foster collaboration and build strong partnerships.
- **Process Improvement:** Regularly reviewing business processes to identify opportunities for improvement and enhance efficiency.

Thank you!
Terima kasih semuanya !!

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