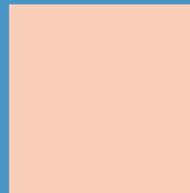


Business Regulatory Reform Evaluation on Policy Package Implementation in 7 Cities



Executive Summary

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PREFACE

A momentum of change for economic policy improvement is approaching this country. An open leadership of this government era commanded by President Joko Widodo, and a clear roadmap for structural reform to strengthen foundation for the economic reform are obviously two main capitals as entrance to promote reform issues in this whole world of economic governance today. A number of policy packages, cancellation of problematic local regulation, deregulation and debureaucratization efforts, etc. are examples of concrete steps that have been generating optimism.

Supplied with strong spirit to support and actively participate in such current reform flow, for the last two years KPPOD has chosen to focus on regulation reform program and bureaucracy upon business sector service. Advocacy in cancellation of local regulation as well as technical assistance in legislation capacity strengthening in the regions are examples of program interventions that have been conducted. At a more strategic level, we did a study series on licensing deregulation at some regions; its result has been used as part of the materials proposed to the government through our involvement in meeting series when preparing economic policy package-12 during first semester of 2016.

After policy package issued, the next agenda shall certainly be guided. The Government has an internal duty to have policy coordination and implementation coordination with Ministries/Institutions at Central as well as Local Government. Another agenda is monitoring and evaluation on implementation of the policy package in order to observe response of the related parties, achievement, and problems in such policy environment. Having some support and cooperation with the British Embassy office in Jakarta (South East Prosperity Fund-Foreign and Commonwealth Office), we did independent evaluation on implementation of part of the policy package content which are the domain of the Local Government at 7 main business cities.

The evaluation study result is the base for writing this report. The main part of the work, in particular evaluation work in the field and its relevant activities have been conducted during the last six months. There are some interesting findings, at the same time challenges having important value for policy improvement as well as for implementation capacity strengthening in the future. All these matters have to be considered and become follow up agenda so as to make our economic reform sound and deepening and expanding, and at the same time approaching the determined target of Ease of Business (EoDB) rank as has been proclaimed by the President Joko Widodo.

For all the works that have been endured, as well as subsequent plans for the future, KPPOD wants to thank many parties for their supports. Special appreciation is extended for the Coordinating Ministry for Economic Affairs, Investment Coordinating Board (BKPM), British Embassy, related Ministries/Institutions, Local Governments and business actor/business associations at 7 main business cities which are our work partners and also our study locations. I do hope all the effort that we have been working on can give significant contribution for a great Indonesia in the future.

Robert Na Endi Jaweng
Executive Director of KPPOD

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INTRODUCTION

1.1. BACKGROUND

Strategy of Indonesia's economic growth obviously can not depend on fiscal and monetary instruments only. Third area of policy, in terms of structural policy area based on quality institution development, becomes a new priority. This supply-side reform has a core on reform of regulation, bureaucracy, and public service in order to encourage conducive, competitive business climate. All of these efforts shall be simultaneously conducted at national as well as regional levels, empowered by strong and institutionalised government leadership, and supported by active participation of private sector and the society in general.

At this present era of Joko Widodo-Jusuf Kalla, such structural reform has been set in a series of economic policy package. Deregulation and debureaucratization have been made as the main instruments for implementing the package, along with targeted focus on industrial and trade sectors. It is not only expected to achieve overall improvement at all lines of intervention areas of the 14 issued packages, the Government also has made a special target on improvement of ease of doing business index based on the World Bank's measurement result, i.e. from position of 109 (2016) to be 40th of 190 countries in 2017.

After issuance of the policy package, a follow up and challenge all together are implementation coordination (horizontal between ministries/institutions and vertically between Central and Regional as well), and monitoring & evaluation (monev) upon performance effectiveness in the field. Implementation coordination is certainly a work domain within internal government institutions, but an assessment of progress report shall be carried out by external institution through independent monev work system. A weakness in performance evaluation, such as not objective evaluation on process and result, will definitely be an obstacle for the government to identify problems, and in turn taking policy improvement resolution (if root of

the problem is at policy level) as well as capacity strengthening of implementation (if root of the problem is at implementation level).

So far, through Economic Policy Implementation Task Force, the Government has conducted evaluation on the package implementation. However, such evaluation is perceived as still limited on its method and its scope of evaluation objects. Therefore, an initiative from an independent institution such as KPPOD shall be taken in order to wrap –and even to present different perspective dimension– regarding ease of business in the regions, implementation progress and local government's policy response as well as the impact felt by business actors, implementation capacity of the bureaucracy, and policy environment which promotes or impedes related policy performance in the regions.

1.2. PROBLEM FORMULATION

Based on the needs to have an independent evaluation as well as problem background in relations with success of the process and policy package implementation achievement, this evaluation will focus on explorative study to answer a number of question formulated as follows:

- 1) How is the general portrait of ease of doing business in the study areas?
- 2) How is the progress of policy package implementation: local government response and impact felt by the business actors?
- 3) How does the local policy environment influence implementation of the economic package?

1.3. THE STUDY GOALS

Goals of the Study are as follows:

- 1) Provide mapping of ease of business situation in the study areas;
- 2) Illustrate effectiveness of policy package implementation as seen at local

- government's policy response as well as early impact on business activities;
- 3) Analyse impediment/obstacles and support/main boost in policy environment which influence implementation process of investment policy package in the regions.

1.4. SCOPE OF THE STUDY

Actually, issuance of the 14 policy packages presently has not been based on a systematic grand design. However, there are some strong underlying causes that can be taken as focus of evaluation and give scope of this study. Firstly, the study will focus on deregulation and debureaucratization of investment, in particular such investments in industrial and in trade sectors. Secondly, the study will be conducted on implementation of policy in the regions, focusing on implementation elements that are within the local government's task and authority domain (referring to Law Number 23 year 2014 on Local Government, Law Number 28 year 2009 on Local Tax and Retribution as

well as delegative tasks received by the local government). Thirdly, following splitting up of before-and-after scenarios, evaluation will be more focused on local government's response and evaluation of impact on business actors after issuance of Central Government policy package.

1.5. LOCATION AND DURATION OF THE STUDY

This evaluation study has been conducted in 6 months from July 2016 until November 2016. The field study have been undertaken at 7 main business cities, i.e. Jakarta, Surabaya (East Java), Bandung (West Java), Pontianak (West Kalimantan), Manado (North Sulawesi), Palembang (South Sumatera), and Denpasar (Bali). The KPPOD Researchers stayed in each region for about 2 weeks, and continued with updating progress regularly through local partner domiciled in the region as well as having meeting at national level attended by representatives of the local governments of the study areas. ■

FRAMEWORK OF THINKING

2.1. POLICY EVALUATION

Public policy, as argued by Thomas Dye¹⁾, is government authoritative decision to do or not to do something. Whatever decision is made, a policy always based on public problem wherein the State gives policy response as a solution. Further, cited from Cochran and Malone, public policy is government's decision and action to overcome such problem that has become the people's unease²⁾. To measure benefit of the policy, it is required to have an evaluation on substance, implementation, and impact which can be seen from various consequences, successes, failures, and so on.

As general cycle of policy implementation – related to policy making process and policy substance, operational preparation and implementation in the field, and monitoring and evaluation (monev) – after a dozen economic policy packages issued by the Central Government and implemented by policy actors/agencies in Central (Ministries/Bodies) as well as in the regions (Local Government), a performance assessment in terms of monitoring and evaluation of the policy shall be conducted. Following the model created by William Dunn and developed by many other administration experts on the cycle of policy formation as well as policy analysis procedures it pours in an assessment, monitoring and evaluation which in turn may be ended in a termination (cancellation of the policy) or back to be a new point in a chain circle so as to revise following policy and/or to improve capacity of implementation in technical way.

In the context of economic policy, in relations with implementation period of the first policy package (issued in September 2015) until the 12th package (issued in April 2016) which is just a short period like maize cultivation age, evaluation to be carried out is formative evaluation (functional), i.e. on the progress period or policy implementation process period. Such time frame makes formative evaluation to be having relative similarity with monitoring work. Aside from differences in their approach, both have role as the main information source and evidence-based at all of those happening during implementation of the policy package, ensuring that implementation is in compliance with planning or as an early warning system when deviation occurs, and assessing achievement and problems³⁾ as basic materials for providing feed back on policy improvement as well as enhancing policy implementation capacity.

Therefore, in this study, monitoring and evaluation is part of the method used in assessment of policy package implementation by relevant parties. However, even though policy package implementation also involves Central Government⁴⁾, in accordance with the study scope described above, this study will be more focusing on the region as assessment object. Such assessment framework will discuss about knowledge and understanding of the package substance, policy response that can be seen from regulation changes, making of new regulation, operational preparation and follow ups on work parts which are the region's domain, until assessment on impact felt by the business

1. Thomas R. Dye, *Understanding Public Policy*, 12th Edition, Pearson/Prentice Hall, 2008.

2. Charles L. Cochran and Eloise F. Malone, *Public Policy: Perspectives and Choices*, 3rd Edition, Lynne Rienner, 2005.

3. Regarding problems behind success or failure of public policy implementation, James E. Anderson [1969] as quoted by Winarno, identified a number of factors: supporting sources, complexity of policy problems, people's response on new policy, disputes between goals in the policy, cost much higher than benefit (resolution of existing problems), shifting of attention to other problems, and so on. Budi Winarno, *Kebijakan Publik Era Globalisasi*, Yogyakarta, CAPS Publishing, 2016.

4. Other than policy making and determining target of ease of business to be improved, Central Government also becomes implementator: regulation change, making of derived regulation, preparation for operation, follow ups on work kinds which are domain of the Central Government, coordinating implementation and monev, and so on. See many papers and Economic Policy Package No. 1-12 matrices in www.ekon.go.id

actors. Here, assessment on policy process and output will be made on actor/local government agency, while assessment on outcomes will be made based on ease of business which are experienced by business actors after issuance of the package (measured—among others—through EoDB method).

2.2. INVESTMENT POLICY

The machine of (regional) economic growth can not be solely depend on government's fiscal instrument (government spending) and household consumption, but also—even mainly—on investment. Sustainability and growth quality as can be seen from, among others, elasticity level on job opportunity creation are definitely more guaranteed if source of growth is based on productive activities involving mobilisation of great input factor such as investment. Moreover, investment will only come and productively operational if it is supported strongly by conducive, competitive business environment.

In such context, this study has targeted a number of crucial issues in the series of investment policy package as assessment object. As will be described in the following points, such crucial issue in the aforementioned investment package is regarding ease of business (which seen at a number of derived instruments: regulation framework, transaction cost and licensing procedure), labor wage, and affirmative policy for SMEs. Investment pull factor will be arisen if local government is able to facilitate ease for investors to start/enter business activities. At more advance level, business productivity is certainly not apart from labor policy which can be assessed from policy certainty in determining minimum wage⁵⁾. Ease of business as well as

wage policy definitely influences investment operation and productivity, wherein SMEs as our economic support so far have become such business scale experiencing mostly of the impact, whether good or bad, of investment policy implementation in this country.

2.2.1. EASE OF BUSINESS IN THE REGION

Based on assessment and measurement conducted by the World Bank on quality of regulation and its implementation in the fields, in this study KPPOD focuses on evaluation of 3 out of 10 EoDB indicators used by the international institution⁶⁾. As has been mentioned before, selection of the three indicators were made by taking into consideration the regional autonomy, domain of authority and such affairs that become local government's responsibility, and having role as crucial indicators influential in providing ease for business actors when starting and operating their business. The three indicators which are focus of this evaluation along with their conceptual brief description are as follows⁷⁾.

1. Starting a Business

Every economic actor certainly has initial phases in his business operation cycle. Normatively, he shall process all the documents to show legality of the business in relations with formation of corporate body or when starting the business legally. The State should not apply barrier to entry in forms of bureaucratic procedures, transaction cost, and lengthy service time to business actors in processing various required legal documents. The reason for this, not only it is valued as crucial, but this initial phase may become a determining sign for the business owner in making investment decision: whether it

5. Wage system, in particular minimum wage, is a protection instrument for labor to ensure that value of the wage received will not be declining in fulfilling daily needs, and at the same time as a protection for the company to keep labor productivity. Through a proper wage policy formulation it is expected to grant certainty and justice for both labor and business sector.

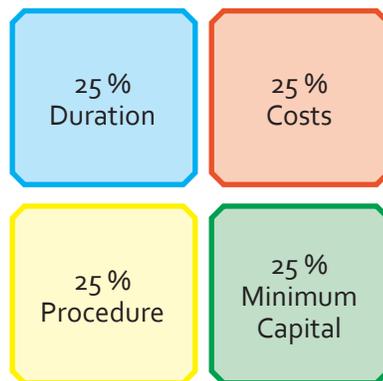
6. Ten indicators in EoDB are Starting a business, Dealing with construction permits, Getting electricity, Registering property, Getting credit, Protecting investors in legal aspects, Paying taxes, Trading across borders, Enforcing contracts, Resolving disputes and workforce regulation. The use of such indicators and newest measurement results can be seen in the World Bank Report, Doing Business 2017: Measuring Regulatory Quality and Efficiency. Washington, DC. World Bank Group, 2016.

7. A more detailed discussion and operationalisation of the concepts of each indicators are presented at funding analysis part.

will go forward to operation stage or on the contrary will make some recalculation which may end in retreat of the business plan! Only if they are successful in this initial phase, they will move forward to the following phase, including obtaining assurance on law and security aspects, access to various governmental services, facilitation and connection to other relevant institutions such as bank, goods/services provision, and so on.

Referring to EoDB method, this initial phase is related to the needs of business actors to process legality of corporate body Ltd. (a "PT") formation, tax administration and social security. As can be seen at Figure 2.1, there are 4 main data measured in this indicator, including equal average weight. Performance index of Government/ Local Government service institutions as well as other relevant institutions will be weighed up based on clarity and procedure succinctness, certainty and speediness of the service, legality and lightness of transaction costs, and provision of options in submission of minimum capital.

Figure 2.1 .Four Main Data for Evaluation of Starting a Business Indicator



2. Dealing with Construction Permit

Although currently we are entering e-business era wherein business activity is no longer based on certain physical location, however, in general business actor still needs a building and certain location for his business activity, including –which becomes a case in this study– warehouse building for storing produced goods. At conceptual level, a legal process (permit issuance) for building

construction is aimed to grant fulfillment of safety requirement of the constructed building, land ownership certainty, and land suitability of the building location so that it will not violate existing regulations on spatial planning, safety, and social and environmental conveniences, and so on.

Taken into consideration the abovementioned goals, such the process of permit issuance (licensing) and determining charges shall be conducted using such principle that complies with the goals and be conducted efficiently. Legal instruments aimed to grant environmental safety and avoiding disturbance, for example, have to be given in one kind of permit, and there is no need to have many layers of permits which, in fact, have the same goal. In addition, in the concept of license for protection, a permit is appropriate to be issued only if its net benefit can guarantee environment/social protection, and not due to such orientation of imposing charges (tax/retribution) while sacrificing prevention aspect of this externality.

Likewise, an inspection is applicable to be carried out at process phase if such action option seemingly can control damage which may potentially impede subsequent stage of building construction. If such many considerations are difficult to be carried on, then frequency of inspection can be minimised, or independent inspection (no need for building owner to be present), or even post-inspection procedures may be conducted. Referring to EoDB method, this indicator contains a series of permit which has to be followed in order to construct and use a warehouse for storing common goods. Alike previous indicator, indicator of Dealing with Construction Permit also contains main similar data [procedure, duration, cost]; the main difference is at the main data of construction quality index. Content of each main data certainly depends on character of the permit. In case of procedure, for example, there are a number of stage classification: pre-construction, construction, and post-construction. Duration and costs in general are as needed following the procedure.

Figure 2.2 Four Main Data for Evaluation of Dealing with Construction Permit Indicator



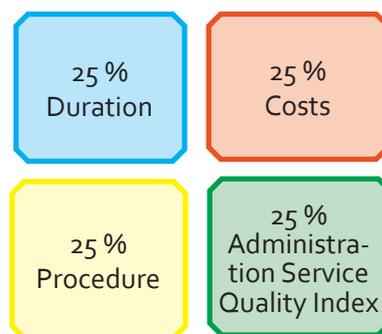
3. Transfer of Land and Building Ownership (Registering Property)

Property (land/building), in almost all of business kinds, is an economic asset and a factor of production that has important value. Quality of regulation on land ownership, including its transfer process from one party (seller/previous owner) to other party (buyer/new owner) has an influence on land's important meaning in business. Good registering property has a potential to increase selling price of the land and investment value significantly. A piece of land with no certainty in its ownership status or having complexity in ownership transferring process obviously causes obstacles in its use and benefit. Adversely, such property will only become abandoned land or dead capital⁸⁾ because it can not be capital or be productive asset, or used as collateral for a bank credit and subsequently may influence credit application, and so on. At the other sides, property ownership process has to ensure realisation of a balance between business process efficiency (duration, costs, and procedure) and legal certainty of ownership transfer, duty and tax payment, and synergy of land governance (Central domain: BPN) and local administration (Local Government). Protection of property ownership – in particular for business of SMEs scale which does not have big capital when dealing with

security system in case a dispute occurs – shall be secured in an integral way and shall be included in all the process stages of transferring ownership which definitely demand for speedy/efficient process in order to fulfill the dynamics of investment needs.

This kind of indicator contains a series of business process that have to be followed by seller and buyer so that property ownership can be transferred in legal way. Likewise the first two indicators, Registering Property indicator contains similar main data (procedure, duration, cost); the difference is on specific data regarding administration service quality. Part of interaction is conducted with Central vertical institution in the region (BPN), while the other part is with local government institutions and third parties such as Notary/PPAT. A series of procedure, duration, and costs are conducted simultaneously or separately according to the stage classification: pre-registration, registration, and post-registration.

Figure 2.3 Four Main Data for Evaluation of Registering Property Indicator



2.2.2. AFFIRMATIVE POLICY FOR SMEs

Referring to EoDB study assumptions and instruments, ease of business advocated in this study clearly has targeted micro/small, and medium scale enterprises. Government commitment towards SMEs may be authentically measured using performance of various existing indicators. It is obviously

8. Dead capital concept, in particular in land case, is elaborated profoundly in the book of Hernando de Soto, The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else. New York: Basic Books, 2000

seemed just as one-sided claim if a certain local government mentions that there are some support to SMEs while in fact licensing procedures at starting a business, for example, showing adverse condition wherein such procedure, duration, and costs become obstacles for business actors.

Basically, a reform on ease of business is a form of policy affirmation and government action in order to build SMEs competitiveness. Such affirmation is important considering susceptibility of SMEs position (the smaller the business scale it tends to bear higher burden of levy/licensing, and it is more difficult to access facility or business development program support from the local government), while at the other sides it has significant contribution for creating job opportunity. In general, government's policy intervention is expected to be realised in the forms of (1) creation of business climate and competitiveness; (2) business development program; (3) entrepreneurship and competitiveness development; (4) business empowerment and capacity increase; (5) increase in economic institutional quality and business unit⁹.

2.3. POLICY REGULATION

In governmental administration, in general there are two kinds of law products that are used as the State's instrument in making a policy, i.e. decision (*beschikking*), regulation (*regeling*), and policy regulation (*beleidsregel*). According to H.D. van Wijk, *beschikking* is a government decision for a matter having concrete and individual characteristics which historically has long been made as the main governmental juridical instrument. While regulation (*regeling*) is law that is in abstract or general norm which has binding characteristics or generally applicable and its function is to control general matters¹⁰.

Besides difference between the above said law products, other important dimension is concerning hierarchy of the norms or law order. In Indonesia, such hierarchical concept has been adopted since year 1966, started with MPRS Decision Number XX/MPRS/1966, MPR Decision Number III/MPR/2000, Law Number 10 Year 2004 in connection with Law Number 12 year 2011¹¹). It brings consequence on law applicable principle, i.e. law having lower hierarchy may not be contrary with law of higher hierarchy/*lex superior derogat lex inferiori* (Article 7 subsection (2) Law Number 12 year 2011).

In relations with scope of content of the law/policy, model of law order can be divided into three groups, i.e.:

1. Public policy having macro (general or basic principle) characteristics consisting of the Constitution, MPR Decision, Law/ Government Regulation in lieu of Law;
2. Public policy having meso (medium or implementation elaboration) consisting of Government Regulation and Presidential Regulation;
3. Public policy having micro characteristics as implementation guidelines for the law of higher hierarchy, consisting local regulations. Scope of policy content which has implication on law hierarchy can be classified into 4 levels of policy according to the law hierarchy, i.e. the Constitution, Law, Executive Decision (executive order), Autonomous Local Regulation (local governance).¹²

In this study, such policy having a form of law product and its implementation evaluation in the Region are definitely conducted within the aforementioned hierarchical frame. Deregulation action carried out by the Government undoubtedly considers hierarchical relatedness and law coherence in the present law order. In turn, local government give a

9. Compare with Sudaryanto, Ragimun and Rahma Rina Wijayanti. 2015. Strategy to Empower SMEs in facing Asean Free Trade, Ministry of Finance of the Republic of Indonesia.

10. Ridwan HR. State's Administration Law. Jakarta: Radjawali Pers, 2014 page 141.

11. Reference for regulation hierarchy currently is in Law No. 12 year 2010. Article 7 subsection (1), hierarchy of regulation consists of: (1) Constitution of the Republic of Indonesia year 1945; (2) Decision of People's Consultative Council; (3) Law/Government Regulation in Lieu of Law; (4) Government Regulation; (5) Presidential Regulation; (6) Provincial Local Regulation; (7) District/Municipal Local Regulation.

12. Riant Nugroho. *Metode Penelitian Kebijakan*. Yogyakarta: Pustaka Pelajar, 2014.

response to the deregulation through follow up action in improving/adjusting local regulation and its implementation in the field. However, following government's deregulation model, evaluation is not targeting public policy of macro characteristics (general or basic principle) consisting the Constitution, MPR Decision,

Law/ Government Regulation in lieu of Law, but limited to executive decision (executive order) which is public policy of messo characteristic consisting of Government Regulation, Presidential Regulation and other regulations at national level until follow ups in regulation at the local level (local governance). ■

EVALUATION METHOD

This study uses qualitative method, while the approach used is descriptive (illustration of the situation and problems), evaluative (implementation facts and practice are based on policy aim/related regulation), and prescriptive (recommended solution and follow up agenda of improvement). Regulatory Mapping (RegMap) and primary and secondary data collection techniques in the field are selected as tools for monitoring and evaluation of policy package implementation. Both are conducted systematically in order to answer a number of research questions concerning ease of business, Local Government response on policy package, initial impact experienced by business actors, and policy environment in relations with support/barrier upon regulation implementation.

In evaluation work, firstly an analysis on national regulation to understand substance of policy package is carried out using Regulatory Mapping (RegMap) tool. Result of this regulation mapping is subsequently followed by monitoring and evaluation in the field in order to identify ease of business in the region by means of thinking framework and the method of Ease of Doing Business. Resulted profile of ease of business becomes starting point to assess investment package implementation performance wherein a diagnose to the result is made upon policy environment in relations with support/barrier to the reform happening in the region.

3.1. REGULATORY MAPPING (REGMAP)

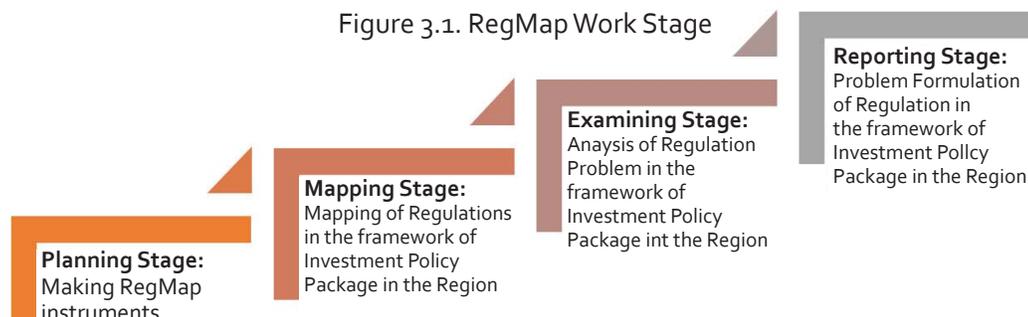
RegMap is used as a means to map and examine national and local regulations and sectoral as well

in relations with follow ups and implementation of economic policy package. Work stages that have been adjusted for this evaluation study purpose can be visualised as follows:

- 1. Planning Stage:**
Make RegMap instruments by deciding scope of regulation to be evaluated, tools to be used for analysis, try-out of the analysis instruments in order to obtain depiction of regulation profile and problem intensity;
- 2. Mapping Stage:**
Identify and classify various derivation of regulation at national level as follow up of economic policy package implementation that has impact on, and becomes the authority of the region;
- 3. Examining Stage:**
Analyse regulation so as to find problems related to the aspects of juridical, substantial, and disharmony occurring inter law and regulations;
- 4. Reporting Stage:**
Formulate findings/analysis result (problem and carrying capacity of the regulation) in relations with economic policy package implementation, in particular investment in the region.

3.2. MONITORING AND EVALUATION OF POLICY IMPLEMENTATION

In evaluation of progress as well as problems in implementation of the policy package in the region, monitoring and evaluation are conducted



using combination of two data collection techniques as follows:

- a) Obtaining of data/information, knowledge, experience, and expertise of resource persons through in depth interview techniques at each of the regions and FGD at national level.
- b) Obtaining information through observation of behavior/interaction within parties – target group, beneficiaries – concerning policy implementation in the region.

In brief, combination of the abovementioned two methods can be visualised into the following work plan:

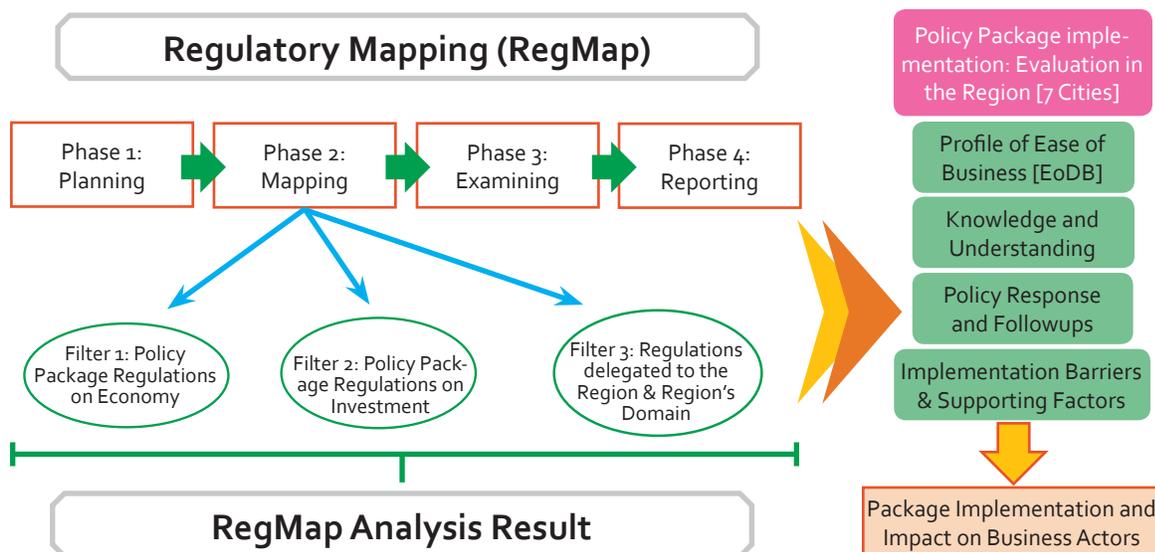
3.3. KINDS AND SOURCE OF DATA

Kinds of data used in this study are primary data and secondary data. Primary data are

obtained through in-depth interview with some key resource persons and Focused Group Discussion (FGD) which were attended by related stakeholders (Ministries/Institutions from Central Government, related SKPD in local government), professionals (such as Notary, Entrepreneur/Business Association, and so on).

Secondary data in general are in the forms of law product and economic statistics related to investment activity in the region. Secondary data are obtained from various formal source such as Coordinating Ministry of Ecoomy (*Kemenko Perekonomian*), Investment Coordinating Board (BKPM), Central Bureau of Statistics (BPS), website of the relevant Ministries/Institutions, and Local Government concerning local regulations to add data into our data base and into data base of Documentation Network and Law Information (JDIH) of the Ministry of Law and Human Rights. ■

Figure 3.2. Evaluation Work Frame



EASE OF BUSINESS PROFILE

This Chapter, containing profile, will show an illustration of situation and evaluation result on indicator performance and business environment in the region. This profile is focusing on three indicators, namely starting a business, dealing with construction permits, registering land and building ownership. Components discussed in each indicator are main data related to number of procedures, duration of time and cost amount at 7 main business cities as study areas. Findings at the 7 areas are subsequently compared with national target as determined by the Central Government in the 12th Policy Package.

It can be seen (Table 4.1), at Starting a Business indicator, Surabaya and Pontianak apply the least procedure (8). From aspect of time, business actor in Surabaya enjoys the shortest time, i.e. 8.5 days. While at component of cost, Jakarta can be said as relatively efficient compared to that of the 6 other cities: applies the cheapest cost of IDR 5,000,000. However, although number of cities have shown good performance, most of them have not yet reached the national target, i.e. 7 procedures and duration of 10 days (except Surabaya). This is due to, among others, the regions still require Letter of Recommendation or Business Domicile Letter (SKDU) from Sub District/Urban Village when starting a business. Moreover, outside Jakarta and Surabaya, other regions apply procedure of Nuisance Permit (HO) as a requirement to obtain SIUP.

At indicator of dealing with construction permit, Jakarta and Denpasar can record themselves as cities of relatively efficient: applying the least procedure for IMB licensing (10). From aspect of time Surabaya needs shortest time of 15.5 days. While in terms of cost, Palembang has the highest IMB retribution amounting to IDR 128,291,184. In order to meet the 12th Package target which determines deregulation to be only 7 procedures and duration for IMB licensing 52 days, Bandung and Palembang have met these targets, while the other 5 cities still require further more serious efforts.

Concerning the last indicator, i.e. Registering land and building ownership, achievement of some regions are still far from the general target: 5 procedures and 8 days duration for the process (Minister of ATR/BPN Regulation Number 8 year 2016). While for Jakarta and Surabaya which are determined to have special target based on Circular Letter of the Minister of ATR/BPN Number 1763 year 2016, i.e. 5 procedures and lengthy, practices in the field are still unsatisfactory. Regarding cost component, nominal amounts at the 7 regions do not show significant differences. Here, Jakarta is the city relatively efficient; it applies costs for transfer of ownership amounting to IDR 182,565,184 as an impact of highest NPOTKP, i.e. IDR 80,000,000 as deduction value in BPHTB payment formula.

4.1. STARTING A BUSINESS

As working standard in the Doing Business study, Starting a Business phase is a phase containing of procedures, duration, and total amount that shall be fulfilled by a business actor when he builds a corporation and operates the business legally. (Figure 4.1.). From field study, an illustration of situation and main data performance of Starting a Business indicator at 7 main business cities can be briefly described as follows.

A requirement to have Business Domicile Letter (SKDU) causes additional procedure, lengthen the time, and creating illegal charges when starting a business. Looking at its function, this document is not a licensing instrument and only be one of such essential requirements for processing a certain permit. Based on the Director General of Taxation's Regulation Number 20 year 2013, SKDU is a requirement for a corporate body to obtain Corporate Body's Taxpayer Identification Number (NPWP) if it does not have business license document (SIUP/TDP). However, in Palembang, SKDU is still required although the Ltd (PT/corporate body) holds SIUP and TDP. In Surabaya, SKDU is needed by Notary as a requirement to process establishment of an

Table 4.1. Summary of Performance of 3 Indicators at 7 Main Business Cities in 2016

Indicator	National Target	Jakarta	Surabaya	Bandung	Pontianak	Denpasar	Palembang	Manado
Starting a Business								
Procedure	7	9	8	12	8	10	11	9
Time (day)	10	17.5	8.5	13.5	15	25	23	11
Costs (IDR)	2.700.000	5.000.000	8.000.000	7.360.000	5.200.000	8.319.000	6.375.000	8.600.000
Costs (% of income per capita)	6.1	11.2	17.9	16.5	11.7	18.7	14.3	19.3
Minimum Capital	0	0	0	0	0	0	0	0
Dealing with Construction Permits								
Procedure	14	10	11	14	11	10	16	12
Time (day)	52	42	15.5	55.5	39	40	63	31
Costs (IDR)	70.000.000	104.627.000	73.141.678	92.859.600	12.830.097	40.350.220	144.660.484	154.657.448
Costs (% of building value)	3.2	4.8	3.4	4.3	0.6	1.9	6.7	7.1
Building Control Quality Index	-	14	13	13	12	9	7.5	11.5
Registering Land and Building Ownership								
Procedure	3*	6	5	7	6	5	6	5
Time (day)	5*	31	15	49	9	42	21	95
Costs (IDR)	197.417.368	182.565.184	182.565.184	183.295.184	183.295.184	183.295.184	183.353.982	183.295.184
Costs (% of building value)	9.12	8.43	8.43	8.47	8.47	8.47	8.47	8.47
Land Service Administration Quality Index	-	18	17	8.5	10	11	10	9.5

Note:

Per capita income Value 2016 (IDR) : 44.570.450

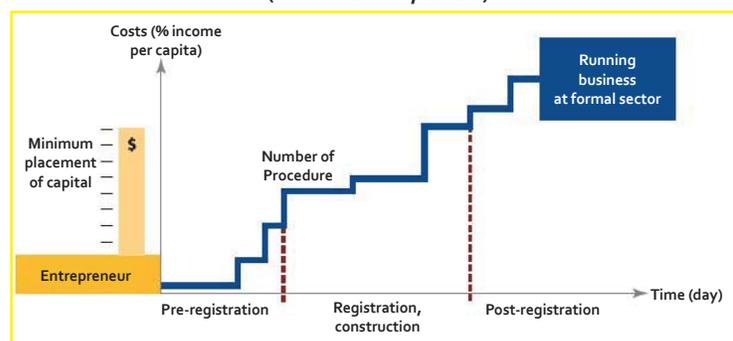
Building value 2016 (IDR) : 2.165.060.274

*) Only for Jakarta and Surabaya

Ltd. Such practices of applying an illegal charge, occur, among others, in Surabaya (IDR 600,000) and Pontianak (IDR 100,000). Time needed to obtain SKDU varies between regions: Denpasar

is considered as the city with the longest time, i.e. 3 days; Jakarta, Surabaya, and Pontianak is 2 days; Palembang, Bandung, and Manado is one day.

Figure 4.1 Measurement of Starting a Business Indicator
(World Bank, 2016)



STUDY ASSUMPTION

- **Type of company:** Limited Liability Company (PT);
- **Company shareholder:** domestic, 5 shareholders all of non-corporate body;
- **Initial capital:** IDR 444.860.800,- (10 times per capita income of 2016);
- **Business omzet:** IDR 4.448.608.000,- (100 times per capita income of 2016);
- **Business turnover:** General trading such as producing or selling products and goods/general services. The company does not carry out international trading activities and does not deal with products that are subject to special taxation regulation, such as alcoholic beverages or tobacco. The company does not utilise high polluting production process;
- **Property ownership:** Rent;
- **Employment:** At least 10 until 50 employees, one month after the company starting its business, and all of them are Indonesian citizen;
- **City:** DKI Jakarta Province, Surabaya, Bandung, Palembang, Pontianak, Denpasar, Manado.

Table 4.2. Summary of Findings in Starting a Business Indicator

Indicator	Jakarta	Surabaya	Bandung	Pontianak	Denpasar	Palembang	Manado
Starting a Business							
Procedure	9	8	12	8	10	11	9
Time (day)	17.5	8.5	13.5	15	25	23	11
Costs (IDR)	5.000.000	8.000.000	7.360.000	5.200.000	8.319.000	6.375.000	8.600.000
Minimum Capital	0	0	0	0	0	0	0
Note:							
Per Capita Income Value 2016 (IDR) : 44.486.080,- (USD 3.440)							
Building Value 2016 (IDR) : 2.165.060.274,- (50 times per capita income)							

Cancellation of Nuisance License (HO) shortens procedure and time at Starting a Business phase in Surabaya and Jakarta.

A movement on regulation reform and deregulation of licensing has been performing its result at the local level. As a follow up of Mayor of Surabaya's Instruction Number 3 year 2016 on Termination of Nuisance Permit Licensing services (HO), business actor in Surabaya no longer needs HO licensing. Similarly, in Jakarta in the newest SOP issued by BPTSP, HO is no longer required in processing SIUP and TDP. Such kind of policy response should be performed by local government of the 5 cities that still apply HO licensing. Application of HO licensing shows that implementation of Minister of Home Affairs Regulation Number 27 year 2009 on Nuisance Licensing.

In business cost component, Nuisance licensing that is still applicable in five region has an impact on charge burden which has to be paid by business actor.

Manado applies highest HO retribution cost, i.e. amounting to IDR 1,100,000. While in Denpasar it is IDR 819,000, Pontianak IDR 400,000, Palembang IDR 375,000, Bandung IDR 360,000. Although national regulation has canceled HO licensing, all the charges are still considered as legal charges since local regulation is still applicable as the base of taxation. Regarding amount, variation of retribution value happens due to different index and rate structure applied in each region: Manado applies base rate of IDR 5,500/m², Bandung IDR 600/m², and Pontianak IDR 2,000/m². Different step is taken by Palembang local government: HO retribution cost is directly applied amounting to IDR 375,000 per license issued.

The use of self assessment system in HO licensing can shorten service time. Self assessment applied in Pontianak, for example, has contributed in shortening licensing processes of HO, SIUP, and TDP in package form, i.e. one working day. If all the required documents have a status of complete and correct, applicant can get HO, SIUP, and TDP

directly in one day in which BP2T official does not need to make field check. While the use of conventional system at other regions causes licensing process more lengthy. Although Manado and Denpasar apply package system for HO, SIUP, and TDP, but they still need more than one day: Manado 3 days and Denpasar has a record of having the most lengthiest time, i.e. 14 working days.

In licensing process, Manado applies Tax Clearance Certificate (SKF); this is an odd requirement. Although decentralisation has been applied in relatively long period, such instrument as inheritance from pre-autonomy era since 1987 is still kept before business actor applies for licenses in the Starting a Business phase. SKF is applicable as a letter explaining that the applicant has paid a number of charges such as Advertisement Tax, Ground Water Tax, and Garbage Retribution. This odd practice is applicable only in Manado. Moreover, it does not have legal base; it is merely because it has long been a common practice therefore it is perceived as a formal requirement. From 48 permits processed in BP2T, there are 9 kinds (SIUP, TDP, IPPT, IUJK, TDI, IP, IUI, TDG, *Minol*) that determine SKF as a requirement.

Besides Local Government, other third party dealing with business actors is Notary who provides services and takes the highest cost in the procedure of Starting a Business.

In average, cost for notary at 7 cities is IDR 4,790,000. Surabaya is a city having the highest rate of notary, i.e. IDR 6,220,000, while Jakarta and Pontianak are recorded as having the lowest cost for notary, i.e. IDR 3,220,000. Costs for this professional is higher compared to other costs paid to the Central Government as well as to the local government. Although in its practice cost for service is determined based on agreement within all the parties and in line with Law on Notary¹⁾, this highest cost still has to be given attention in order to make cost of doing business more efficient, in particular in start-up business in micro/small, and medium scales (SMEs).

1. Based on Law Number 30 year 2004 as amended by Law Number 2 year 2014. This regulation stipulates that honorarium of Notary is determined based on economic and sociologic values of each deed. Based on economic value determined using the study assumption of IDR 444,860,800 then notary's honorarium (included in the classification of economic value of IDR. 100,000,000 until IDR 1,000,000,000.00 will be received in maximum amount is 1.5% or in nominal amounting to IDR 6,672,912.

4.2. GETTING BUILDING CONSTRUCTION PERMIT

Constructing a building is a separate indicator, but in fact it has a crucial role at the starting period of business, in particular for such company which at the operational phase has main businesses of trading, storing goods, and distribution of products. By recognising the business cycle, we may get some understanding upon level of urgency of an ease in processing and obtaining building (warehouse) construction permits (Figure 4.2). Illustration of the situation and performance of the indicator according to the number of procedures, time, and costs since pre-construction stage until post-construction stage as well as its comparison with national target can be described in a number of points as follows.

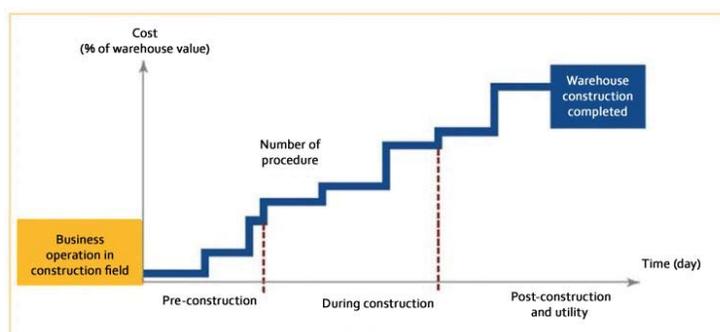
In Manado, business actor is obliged to process Tax Clearance Certificate (SKF) as a requirement to obtain Warehouse Registration Letter. Similar with procedure for starting a business, to obtain building construction permits Manado requires SKF. It is free of charge to get SKF, but applicant has to pay other charges as requirements to get SKF, i.e. advertising tax (IDR 400,000), ground water tax (IDR 85,000) and garbage retribution (IDR 500,000). Such obligations may be aimed to prevent business actors avoiding obligations to pay those kinds of retributions in the future, however, applying them at initial phase of the business (even when licensing arrangement as the base for calculating retributions has not been made yet) has made SKF seemingly odd (this is applicable only in Manado, with no legal base) and definitely becomes an obstacle in business starting activity.

In Denpasar and Palembang it is required to have Village Chief's or Borough/Head of Sub District's Approval Letter to obtain Building Construction Permit. In Denpasar,

such document called as Accompanying Letter (*Surat Penyanding*) reflects Head of Banjar/Village's administrative power on building that will be constructed in the location. Accompanying Letter is made as an instrument for applying influence of the Head of Banjar and traditional society, who are powerful in Bali, upon people's productive business activities. In order to obtain this letter, business actor has to spend illegal charge amounting to IDR 1,000,000 – IDR 1,500,000. While in Palembang applicant has to process a Recommendation Letter from local Borough/Sub District; such Letter has an authoritative bond in forms of difficulties faced when processing subsequent permit if the business actor has not got this document. Referring to the Minister of PUPR Regulation Number 5 year 2016 on Building Construction Permit (IMB), requirements to obtain IMB have been simplified including no need to have Accompanying/ Approval Letter from Urban Village/Village for processing IMB².

Except Jakarta and Palembang, the other 5 regions apply procedure to process UKL/ UPL in order to obtain IMB. Environmental Management Efforts (UKL) and Environmental Monitoring Efforts (UPL) are required for business kind that has impact on the environment. Surabaya, Pontianak, Bandung, Manado, and Denpasar require UKL/UPL for warehouse building. The five regions determine criteria based on building area. In Surabaya,

Figure 4.2 Measurement of Getting Building Construction Permit Indicator (*World Bank, 2016*)



2. In the Minister of PUPR Regulation Number 5 year 2015, IMB requirements are only related to administrative documents containing forms of applicant's data (ID), data on land, KRK, letters of building's main requirements and technical requirements which consist of data on building in general and documents of technical designs.

STUDY ASSUMPTION	
➤ Company, Build.Co:	<ul style="list-style-type: none"> - Is a Limited Liability Company (PT) and operates in the local City; - 100% owned by private company with in-country shareholders; - Has complete permits and is insured to carry out development project, such as constructing a warehouse; - Has already paid all taxes and all insurance applicable for business activities in general
➤ Ownership and Employees of Build.Co:	<ul style="list-style-type: none"> - Has 5 shareholders of non corporate-body; - Employs 20 building construction experts and other employees, all Indonesian citizens having technical expertise and professional experiences required to obtain construction permits and approvals; - Employs at least one employee having profession as licensed architect and has been registered at local architect association.
➤ Warehouse Specifications:	<ul style="list-style-type: none"> - Consists of 2 floors, on the ground (no underground), with total building area of 1,300.6 m² (14,000 feet²). Height of each floor is 3 meters (9 feet, 10 inches). - For storing non-hazardous goods, such as books.
➤ Estimated Value of Warehouse:	IDR 2,165,060,274.- (50 times income per capita)
➤ Warehouse Location:	<ul style="list-style-type: none"> - Total area 929 m² (10.000 feet²) - 100% owned by <i>Build Co</i> and has been registered at real estate registry and local land agency; - Has an access road and is located in the local city (for example, at suburbs but is still within the legal jurisdiction of the city) - Is not located at economic zone or industrial zone, but meets the requirements of area zoning for warehouses wherein similar warehouses can be found in this area.
➤ City:	DKI Jakarta Province, Surabaya, Bandung, Palembang, Pontianak, Denpasar, Manado

Table 4.3. Summary of Findings on Obtaining Building Construction Permit Indicator

Indicator	Jakarta	Surabaya	Bandung	Pontianak	Denpasar	Palembang	Manado
Building Construction Permit							
Procedure	10	11	14	11	10	16	12
Time (day)	42	15.5	55.5	39	40	63	31
Costs (IDR)	104.627.000	73.141.678	92.859.600	12.830.097	40.350.220	144.660.484	154.657.448
Costs (% of Building Value)	4.8	3.4	4.3	0.6	1.9	6.7	7.1
Building Control Quality Index	14	13	13	12	9	7.5	11.5

Note:

Per capita income value 2016 (IDR) : 44,486,080.00 (USD 3.440)

Building value 2016 (IDR) : 2,165,060,274.00 (50 times per capita income)

for example, a building with total area of more than 1,300 m² shall process UKL/UPL, while Local Government of Denpasar and Pontianak determine that UKL/UPL has to be process when the building has total area of more than 500 m².

Business actors in Jakarta and Palembang enjoy simpler procedure. Local government of the two regions only require a document, i.e. a Statement Letter of Environmental Management (SPPL) as guarantee made by the responsible party to undertake environmental management and monitoring if an environmental incident occurs. Even in Jakarta SPPL does not become a new procedure in building construction licensing since applicant will be only asked to make by himself the statement letter without contact with and/or use third party service. While in Palembang, although requires SPPL, applicant has to be present when field check is conducted by the Environmental Agency (BLH), therefore in practice and according to the study's assumption it can be perceived as a new procedure in getting building construction permits.

Business actors in Surabaya, Denpasar, Pontianak, and Bandung still have to go to two different agencies for getting IMB.

Licensing authorities that are still held by technical agencies (technical SKPDs) have made IMB procedures in the region increasing [have another stop]. In its practice in Denpasar, applicant has to go through a procedure to obtain Spatial Planning Information (ITR) at City Spatial Planning Agency. This procedure is required to confirm position of building location and its suitability with the prevailing regional spatial planning (RTRW). While in Pontianak, to get City Planning Statement (SKRK) the applicant has to go to City Planning, Spatial Planning and Housing (DCK-TRP). In Bandung, applicant has to get SKRK and approval on architectural drawing at the City Planning Agency. All the documents are required and shall be attached to IMB application documents and sent to the local Agency of One Stop Service (BPPT).

Except Pontianak and Bandung, the other 5 regions have not yet followed up Minister of PUPR Regulation Number 5 year 2016 concerning time/duration. Referring to the

Minister of PUPR Regulation concerning Building Construction Permit, maximum time allowed for IMB processing for simple building having 2 floors (as this study assumption) is 4 days. In its practice, the 5 regions have not applied the targeted duration determined by the Minister of PUPR. In average duration to obtain IMB at the 5 regions is 12 days. The longest time to issue IMB is in Palembang and Manado (15 days), followed by Jakarta and Denpasar (14 days), and Surabaya (6 days).

Palembang is a region applying the highest rate of IMB retribution. As has been stipulated in Minister of PUPR Regulation Number 5 year 2016, formula used in IMB retribution calculation is based on activity, building index, retribution unit cost, and building infrastructure. Retribution unit cost is determined by the Local Government according to the level of economic capability. In its practice, Palembang applies relatively high retribution unit cost compared to that of other regions, i.e. amounting to IDR 48,000. Such unit cost has an influence on the final multiplication result; it makes IMB retribution in Palembang reaching IDR 128,291,184. While in the other 6 regions: Manado (IDR 36,505), Bandung (IDR 25,000), Jakarta (IDR 25,000), Surabaya (IDR 24,000), Denpasar (IDR 17,000) and Pontianak (IDR 3,090 or 1% of PBB NJOP/m²).

Pontianak, Palembang, Bandung and Makassar require Nuisance License (HO) as a requirement to process Warehouse Registration Certificate (TDG), while in Manado HO is required in order to get UKL/UPL and IMB. The first four cities consider a warehouse as extension of a business place and a warehouse is perceived as having a potential to cause nuisance therefore business actor is obliged to hold Nuisance License document as a requirement to process TDG. Different with other regions, Manado considers that a business activity has begun since construction of a warehouse started off, therefore this kind of permit is needed as a requirement to get UKL-UPL and IMB. In fact, in the context of construction of a (new) warehouse, it is obvious that there has not yet been any business activities made. Here, issuance of Nuisance License is not based on business activity but on warehouse construction activity.

Manado is a region having the highest Nuisance License (HO). In the region, HO is one of the license kinds used as the base to impose retribution on certain licenses following the Law Number 28 year 2009. The highest HO retribution rate is in Manado amounting to IDR 37,050,000. Such high charge is due to high base rate used following Local Regulation Number 5 year 2011. One of the clauses in the Local Regulation stipulates that a simple warehouse having two floors is subject to retribution base rate of IDR 9,500/m². While other regions apply much lower retribution rate: Palembang is IDR 13,656,300, Bandung is IDR 3,780,000, Pontianak is IDR 3,251,500, and Denpasar is IDR 1,370,000.

Jakarta requires processing of Functionally Suitable Certificate at post-construction. The purpose to issue Functionally Suitable Certificate (SLF) by the Local Government is to declare administrative as well as technical suitability of a warehouse building with regard to its function (DKI Province Local Government Regulation Number 7 year 2010 on Building). Such requirement is considered important to be applied so as to make every building be utilised in accordance with its purposed function and fulfill the standards of strength, health, convenience, ease of use and be in harmony with its environment. Although it is a requirement, but SLF in Jakarta does not add number of procedure into the indicator of Getting Building Construction Permits since SLF can be processed in one package with TDG (Decision Letter of the Head of BPTSP DKI Jakarta Number 31 year 2016).

Jakarta has the highest index of Building Quality (14), while region with the least index is Palembang (7.5). As has been determined in EoDB method, composite index which is made of regulation quality, pre-construction stage control, construction stage control, responsibility and insurance, and profession certificate is a control instrument on the construction quality. Concerning the five elements, Jakarta has the highest index (read: best) when compared to other regions in conducting monitoring and granting quality of the building as stipulated in Local Regulation Number 7 year 2010. In addition, control/supervision over a building is always conducted at pre-construction stage, at construction stage, and at post-construction

stage. Palembang has the lowest index because, among others, there has not been any Local Regulation on Building (regulation quality element). Moreover, this capital city of South Sumatera Province does not apply supervision/control process at construction stage and post-construction stage of the building. The Local Government only carries out supervision at the pre-construction stage in order to process Building Construction Permit (IMB).

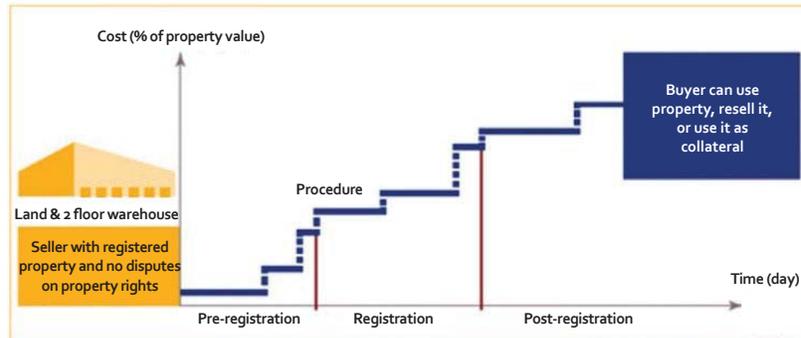
4.3. REGISTERING RIGHTS UPON LAND AND BUILDING

From the three indicators measured in this evaluation study, registering rights upon land and building is a combination of performance results of many parties' services: vertical agency (BPN) in the region, professionals (notary), local government, and other parties. Their performances are measured according to main data of number of procedures, duration and legal charges that must be borne by business actor when transferring rights upon property from one seller/previous owner to buyer/new owner. In this indicator, quality of administration transparency and land system in each of the existing main business city.

BPHTP payment using self assessment system reduces procedures and time to process conveyance of property rights. Applicant can calculate independently the property value subject to taxation. Such practice is applied in Jakarta, Surabaya, Palembang, and Manado. While Pontianak and Bandung need approval (verification and validation) to determine NJOP as the base to impose BPHTB. Validation is aimed to minimize business actor's deceit in determining sell-and-purchase transaction value before buyer pays BPHTB. In Bandung, this procedure needs 2 days, while in Pontianak it is 1 day. Variation in its practices occurs in Denpasar: validation is conducted when making payment to the Local Revenue Office with no field inspection.

In Palembang, BPN requires every license applicant to process land value zone letter before registering land deed at BPN. As per its function, land value zone is used as a base to determine value of land per meter in all areas

Figure 4.3 Measurement of Registering Land and Building Indicator (World Bank, 2016)



STUDY ASSUMPTION

- **Land and building to be transferred are that located in the suburban area.** The Buyer has agreed to the Seller's offer to buy the property (land and building) and the terms of contract between the two parties have been agreed. Both parties are ready to fulfill the general requirements before conveyance of the rights of the land and building occurs.
- **Assumptions regarding the company that registers the land and building:**
 - An Ltd. resides in the city;
 - Privately owned and with domestic shareholders (no foreign or State ownership);
 - The company conducts general commercial activities.
- **Land Status:**
 - Land and building are entirely owned by another Ltd. (PT) which is possessed by private company with domestic shareholders;
 - Located in local city;
 - Is not subject to encumbrance of mortgage (does not become a collateral/mortgage);
 - The owner has had the land and building for the last 10 years;
 - Has been registered to BPN and/or the local land registry office and free from any dispute on land rights.
- **Estimated Property Value:** IDR 2,165,060,274.00 (50 times per capita income)
- **Condition of Land and Building:**
Consist of one piece of land and one building. The land area is 557.4 square meter (6,000 feet square). On the ground there is a 2 floor building (warehouse) with total area of 929 meter square (10,000 square feet).
- **City:** DKI Jakarta Province, Surabaya, Bandung, Palembang, Pontianak, Denpasar, Manado

of Palembang. In addition, land value zone is also a base for calculating costs for processing land deed registration at BPN on the name of the new owner. In fact, land value zone is re-formulation of NJOP. However, land value zone has not yet included all the regions in Indonesia. Land value zone should be part of land information provided by BPN, so that applicant does not have to process it. While 6 other regions use directly such formulation contained in Government Regulation Number 24 year 1997

and Head of BPN/Minister of ATR Regulation Number 128 year 2015, i.e. IDR 50,000 + (01% of the property value). This requirement lengthens the procedure and duration for processing transfer of land building rights.

BPN in Jakarta, Bandung, and Pontianak have followed up Minister of ATR Regulation Number 8 year 2016 and Head of BPN Regulation Number 1 year 2010 on duration of certificate examination. In this procedure an

Table 4.4. Summary of Findings in Registering Land and Building Indicator

Indicator	Jakarta	Surabaya	Bandung	Pontianak	Denpasar	Palembang	Manado
Registering Land and Building							
Procedure	6	5	7	6	5	6	5
Time (day)	31	15	49	9	42	21	95
Costs (IDR)	182.565.184	182.565.184	183.295.184	183.295.184	183.295.184	183.353.982	183.295.184
Costs (% Value of Building)	8.43	8.43	8.47	8.47	8.47	8.47	8.47
Land Administration Quality	18	17	8.5	10	11	10	9.5
Note: Per capita income Value 2016 (IDR) : 44,486,080.00 (USD 3,440) Building Value 2016 (IDR) : 2,165,060,274.00 (50 times per capita income)							

examination on authenticity and legality of the land certificate therefore it can be seen whether the land is in the dispute status or not. Therefore, ideal time needed is only one day. Jakarta, Bandung, and Pontianak have achieved this ideal target. However, at other regions, BPN service performance has not been optimum yet nor in line with the regulation: Denpasar and Palembang spend 2 days, Manado and Surabaya reach 3 days. This could happen, among others, because the process is still manual in examining authenticity of the document, and this also depends on availability of the land book which in fact is often used for examination of other documents.

Regarding Income Tax, Tax Service Office in all regions refers to Government Regulation Number 34 year 2016 concerning reduction of Income Tax (PPH) from 5% to 2.5%. This regulation is aimed to expedite implementation of the government's development program for public interests, to support ease of business, and to protect low income people or business of SMEs scale. Reduction in PPH percentage on land and building consequently reduces costs in the indicator of land and building rights registration. Then PPH shall be paid in Perception Bank and Post Office appointed by the Directorate General of Treasury – Ministry of Finance of the Republic of Indonesia on behalf of the Ministry of Finance.

In Manado, Denpasar, Palembang, and Bandung apply illegal charge for certificate

examination. According to Government Regulation Number 128 year 2015, cost for certificate examination is IDR 50,000. However, BPN at the four regions apply illegal charge with various amount: Manado IDR 400,000, Bandung IDR 150,000, Denpasar and Palembang apply additional charge of IDR 50,000. These illegal charges are posed by BPN in order to expedite examination of authenticity and legality of land certificate. In fact even in Denpasar PPAT asks for service costs amounting to IDR 300,000. All these costs obviously create business uncertainty and give more cost burden upon business actor in processing land and building rights registration.

Registration of land rights transfer of title at BPN takes the biggest portion of duration of all the procedures of land and building rights registration indicator. When dealing with this procedure, business actor in Manado has to go through the longest time, i.e. 90 days. Other regions have better performance: Denpasar 38 days, Bandung 30 days, Jakarta and Palembang 14 days, Surabaya 10 days, and Pontianak is in the position of shortest duration, 5 days. Lengthy process in Manado is due to BPN being not transparent to public in information of the procedure, requirements and costs applied. The impact is that BPN does not have any commitment to work on and finish the procedure in line with targeted time as has been determined nationwide. Only Pontianak has been applying standard of service

following the Head of BPN Regulation Number 1 year 2010 which determines longest time of certificate registration to be only 5 days. High commitment of BPN Agency of Pontianak can also be seen at information transparency, including access for applicant (through *short message service* 2409) desiring to know progress of the process. At the contrary, Jakarta, Surabaya, and Bandung have not yet fulfilled registration target of 2 working days (Minister of ATR Regulation Number 8 year 2016). Such lengthy process has a potential to cause illegal charge: in Bandung, for example, registration process can be completed in shorter time if applicant pays illegal charge amounting to IDR 150,000 until IDR 1,000,000.

Jakarta has the highest Land Administration Quality Index (18), followed by Surabaya (17),

while Bandung is the least (9). The region's performance in fulfilling score (this composite index consists of infrastructure availability, transparency of information, geographical reach, conflict resolution, justice in rights access) is still far away from the maximum index (30). Jakarta has the highest index position due to its superiority in component of infrastructure availability. This State capital city has quality infrastructure: digital land certificate storage, electronic database, geographical information system related to land registry, application of ID number for each land certificate, and so on. Other regions only apply partial step: Bandung has only ID number for each land certificate but has not yet applied electronic system, while Surabaya provides digital map showing information on land value zones but does not provide information regarding land rights. ■

IMPLEMENTATION OF INVESTMENT POLICY PACKAGE IN THE REGION

This Chapter discuss about a number of key findings of implementation of investment policy in the regions, all relevant context on policy environment consisting of reform process, problems, and achievement at the 7 main business cities at once. The first few pages contain mapping result and regulation analysis as mandated in the policy package. The following step describes evaluation analysis on how far substance of the package is recognised and understood by the target group as beneficiaries (business actors) as well as the stakeholders (notary and local government), response on such policy and follow up actions which have been made/are being undertaken by the local government, and early benefit felt by the business actors regarding changes in ease of business.

5.1. MAPPING AND REGULATION ANALYSIS

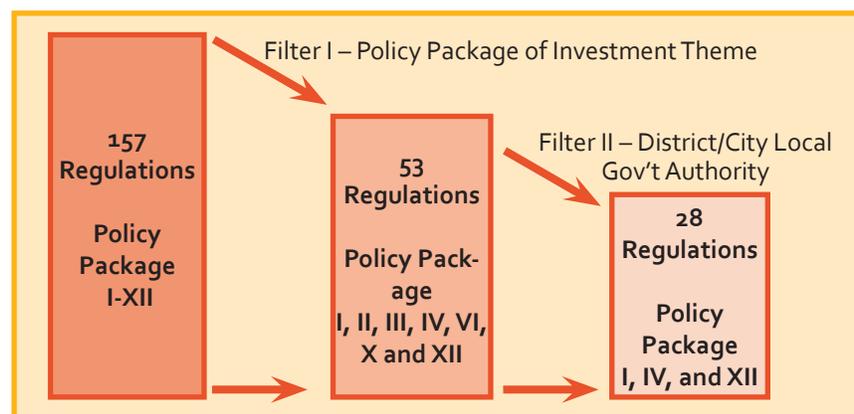
The process of Regulatory Mapping (RegMap) is conducted to map policy package regulations in line with the research scope. The main phase in the RegMap is mapping and analysing regulation content. Mapping is made on economic policy package regulations which have been issued, while analysis phase is conducted upon investment policy package regulations in the regions and policy package implementation findings in relations with regulation reform happening within the Central Government. Mapping is made on various regulations which have been issued as response to Central Government's Policy in following up Economic Policy Package I-XII, which consist of:

- **Package I:** promote competitiveness, expedite implementation of national strategic project, increase investor in property sector, protect people of low income;
- **Package II:** attract investor with various

ease, investment facility and quick service in issuing investment license (three hours);

- **Package III:** reduce electricity rate, fuel oil and gas price, extent KUR acceptor and simplify land licensing for investment activity;
- **Package IV:** the State is present to boost people's economy;
- **Package V:** taxation incentive, asset revaluation, and promote Islamic financing (*Syariah*);
- **Package VI:** boost the economy at the periphery areas, provide potable water for the people, and speedy process of importing raw materials for medicine;
- **Package VII:** speed up land certification up to tax incentive for labor intensive industry;
- **Package VIII:** one national map policy, oil refinery and waive of aircraft spare parts import duty;
- **Package IX:** speed up construction of electricity infrastructure, stabilisation of meat price, and increase village-city logistic sector;
- **Package X:** protect small entrepreneur, granting certainty on ownership limitation of foreign shareholder;
- **Package XI:** increase national competitiveness in battle of the global economy;

Figure 5.1 Regulation Mapping



- **Package XII:** deregulation on ease of business for SMEs.

Based on the above mentioned economic policy package regulations Number I-XII **phase one filtering** is made by sorting such regulations related to investment policy¹⁾. Here, we identify 53 national regulations issued by the Central Government containing policy substance with specific target as follows:

- **Package I:** Legal certainty on land rights; Ease of business in forestry sector; Ease of business in energy and mineral resources; Ease of business in horticulture; SMEs development and enhancement of cooperatives economic function; Enhancement of OSS function in licensing and non-licensing services;
- **Package II:** Speedy licensing service in 3 hour investment licensing and speeding up ease of business process in forestry sector;
- **Package III:** Simplification of land licensing for investment activity;
- **Package IV:** Simpler, fair, and projected determination of minimum wage;
- **Package VI:** Incentive and ease of investment in Special Economic Zone (KEK) and business certainty for business actor and/or potable water provision;
- **Package VII:** Income tax (PPh) incentive for employee of labor intensive industry (regulation is not available yet);
- **Package X:** Revision of Presidential Decree on Negative List of Investment (DNI);
- **Package XII:** Deregulation on ease of business for SMEs.

Next, **second filtering** process is conducted by sorting regulations by mapping scope of authority of the District/City Local Government²⁾. Here 28 regulations issued by the Central are found as included in the Policy Packages Number I, IV, and XII:

- **Package I:** SMEs development and enhancement of cooperatives economic function, and enhancement of OSS function

- in licensing and non-licensing services;
- **Package IV:** Increase employee welfare;
- **Package XII:** Deregulation on ease of business for SMEs.

Subsequently, in **third filtering**, we noted two policies that are decided as not to be included in such regulations to be evaluated, i.e. policies related with special economic zone (KEK) and advancing of national strategic project. As can be seen from its stipulations, KEK policy is limited on certain regions that are located outside the 7 cities as the study locations. While the other policy, related to national strategic project is excluded from the third filtering scope because it is only related to central government program and is not specially directed to creation of investment climate linked with business actors and society at large.

Based on the abovementioned RegMap process stages 28 regulations are finally obtained as analysis objects (Figure 5.1). Regulation bundles spreading over Package I, IV, and XII are shown in the following recapitulation table (Table 5.1).

Upon regulation list resulted from mapping as shown at the above table, an analysis on contained substance is made, in particular on problem aspect as the basic material for implementation evaluation in the field. Summary of findings can be presented in the following two points.

Substance of the regulation/policy on OSS enhancement as contained in Head of BKPM Regulation Number 15 year 2015 shows problems in terms of multi interpretation of permit kinds which are not specific.

Nomenclatures of business permits in such regulation are not described specifically, in particular for SIUP/TDP scope or other business operation permits which nomenclatures have been determined in such higher hierarchical regulations. This has a potential to cause multi interpretations of business permits: whether include new kind of permit, or only for business permits which in fact have had

1. Material for meeting of Working Group I Planning of Economic Policy Package, 23 July 2016.

2. Law Number 23 year 2014 on Local Government (authorities on governmental affairs and conducts dimension) and Law Number 28 year 2009 on Local Tax and Retribution (authorities on charges dimension).

Table 5.1 Recapitulation of 28 Regulations for Analysis Object

Policy Package	Target	Regulation	Total
Package I	SMEs Development and Enhancement of Cooperatives Function	Minister of Cooperatives and SMEs Regulation	16
	Enhancement of OSS Role	Head of Investment Coordinating Board Regulation	2
Package IV	Increasing Employee Welfare	Government Regulation (PP)	1
		Minister of Manpower Regulation	4
Package XII	Deregulation on ease of business for SMEs	Minister of Trade Regulation	2
		Minister of Public Works and Public Housing Regulation	1
		Minister of Home Affair Regulation	1
		Circular Letter of the Minister of Public Works and Public Housing (Non-regulation)	1
Total			28

their own nomenclatures. This condition potentially causes adding of new kind of permit³⁾ in the region which consequently creates more complex procedure and not in line with deregulation spirit in the Package I as to boost investment competitiveness through OSS enhancement.

Content of regulation/policy in the Minister of PUPR Circular Letter Number 10 year 2016 has no conformity on transformed object with that of Package XII target. Minister of PUPR tries to simplify procedure and shorten the duration as efforts for increasing ease of doing business (EoDB) rank of Indonesia. However, the rule on warehouse building stated in such regulation is just exactly different from that assumed in EoDB method of the World Bank. Warehouse building object indicated in the Minister of PUPR regulation is a warehouse building having total area of 1,300 m²; while assumption of total area of a warehouse building in EoDB survey are 14,000 feet. Obviously, such disconnection does not contribute on achieving rank target; moreover, it is substantially not directed toward the target of policy change on ease of doing business itself.

5.2. POLICY RESPONSE AND FOLLOW UPS IN THE REGION

In the following section, an illustration and assessment points on policy response and Local Government follow ups in implementation of the economic policy are presented, in particular Policy Packages Number I, IV, and XII which contain 28 kinds of regulations that shall be implemented in the region.

5.2.1. KNOWLEDGE AND GENERAL RESPONSE

Local Government of 7 studied cities hear and are generally aware of Economic Policy Packages issued by the Central Government. However, such knowledge is limited only on information that the central government has already issued policy packages, and they just recognise the aim and direction of the policy packages in general, i.e. to enhance investment climate and to boost economic growth. While, at an advance level, i.e. from knowledge to understand each policy package substantially it is seemingly weak, not spread evenly and comprehensively within officials/related apparatus. Such limited understanding certainly

3. It is potentially contrary to Presidential Regulation Number 97 year 2016 which stipulates delegation of licensing to related officials, i.e. Minister and Head of Board

becomes obstacle in subsequent step of taking follow up actions and response in terms of policy/regulation transformation in the region. Local government tends to keep referring to prevailing regional development strategy which has been determined in RPJMD and RKPD, while having minimum special direction from the Head of the Region (except for Jakarta and Surabaya) concerning prioritization of policy package implementation.

Business actors, Notary, and PPAT know the policy packages in general but have not yet reached detailed understanding level of the substance. Similarly with the Local Government, business actors also know availability of the Policy Package from social and electronic media. According to business actor circles, availability of Policy Packages is relevant and becomes a strategic instrument in creating investment climate. However, limitation of information on Local Government response upon the Packages has made business actor facing difficulties in monitoring their follow up actions. Business actors also expect local government to be more proactive in building communication and relation with business association, including in the context to response to the Policy Packages issued by the Central Government. Collection of newest and complete information will be distributed to become information for member of the association and for other business actors.

Business actor and PPAT in Jakarta and Surabaya feel benefit of the change in licensing ease as an impact of Package XII. Follow ups of Economic Policy Package Number XII have been felt beneficial and have accelerated the process of ease of business procedure. The ease is in terms of cost reduction, establishment of online system which has saved time/procedure, and so on. PPAT in Jakarta and Surabaya, for example, feel the benefit upon ease of processing certificate examination and transfer of land rights using online system and shortened number of days of the process. Business actor circles in Surabaya in particular have gained benefit of SIUP and TDP issuance simultaneously in one day, also cancellation of nuisance licensing requirement (HO). While in Jakarta business actors have gained benefit upon online service and AJIB (Shuttle service for Motor Vehicle License) program.

5.2.2. ECONOMIC POLICY PACKAGE I

In general there are two topics in relations with investment in this Package: development of SMEs-Cooperatives and enhancement of OSS role. Development of SMEs and Cooperatives function are conducted through revitalisation of business incubator; they are aimed for new entrepreneur candidates so as to make their business be more stable and sustainable, and for promotion of SMEs to develop association through cooperatives. To support this, there are 15 Minister of Cooperatives and SMEs Regulations issued to enhance existence of new business actors at such business scales, wherein a number of regulations shall be followed up as delegative tasks by the Local Government.

The subsequent Policy is regarding OSS enhancement. Through this policy it is intended to promote ease for business actors in accessing license in fast, cheap, transparent, certain, and reachable way. Enhancement of the OSS role is conducted through delegation of licensing which is completed with capacity enhancement for nurturing and supervision by the Province. For such needs, there are at least two BKPM regulations containing delegation of authority of licensing to BPMPTSP at the District/City, and OSS nurturing activities. It is then followed by a rule, determining a time limit of 90 days for the Local Government to make follow up of the regulation that has been issued.

In fact, 7 cities evaluated have not yet taken follow up action on Policy Package I. However, as its own initiative before the Package issued, Local Government has undertaken similar program that was formulated in the regional planning to promote SMEs and Cooperatives development as part of its tasks and function. Some regions also make some innovations as can be seen in following Table 5.3. However, in relations with such follow up as stipulated to issue regulation regarding SMEs and Cooperatives, in general Local Government has not followed it up. Until now only Surabaya has made a plan to issue two Local Regulation related to enhancement of Cooperatives and SMEs. While regarding OSS enhancement, local regulation related to delegation of licensing authority from the Head of the Local Government to OSS has not yet fully been

Table 5.2 Delegation Regulations for SMEs and Cooperatives Development in the Region

Regulation	Task Delegation to the Local Government
Minister of Cooperatives and SMEs Regulation Number 24 year 2015 on Norms, Standard, Procedure, and Criteria for Entrepreneur Incubator Implementation	<ul style="list-style-type: none"> • Impose administrative penalty on business incubator implementation fraud; • Issuance of incubator implementation license • Budget facilitation for operational and activities from APBD; • Create and/or promote establishment of incubator institution (at least one in the region).
Minister of Cooperatives and SMEs Regulation Number 10 year 2015 on Cooperatives Institution	Nurturing and supervision of Cooperatives business institution
Minister of Cooperatives and SMEs Regulation Number 11 year 2015 on Guidelines for Collection of Partnership Capitals in Cooperatives	Guidelines for Cooperatives which conduct partnership capital and Local Government may place its capitals to the Cooperatives
Minister of Cooperatives and SMEs Regulation Number 14 year 2015 on Guidelines for Accountancy of Savings and Loan Business and Islamic Financing (Syariah) by the Cooperatives	Guidelines for accountancy of savings and loan business and islamic financing (Syariah) by the Cooperatives to the authorised related official at the District/City local government
Minister of Cooperatives and SMEs Regulation Number 13 year 2015 on Guidelines for Accountancy of Savings and Loan Business by the Cooperatives	Guides for Cooperatives which conducts savings and loan business in Indonesia and authorised officials at the Central Government, Provincial Government, and District/City Local Government and all the concerned parties.
Minister of Cooperatives and SMEs Regulation Number 18 year 2015 on Guidelines for Training and Education of Cooperatives, Micro, Small, Medium Enterprises' Human Resources	<ul style="list-style-type: none"> • Conduct training and education for Cooperatives; • Conduct training and education for micro enterprises.
Minister of Cooperatives and SMEs Regulation Number 23 year 2015 on Cooperatives Development Index Assessment	Guidelines on assessment of cooperatives by the Local Government in order to increase quality of Cooperatives institution
SMEs Regulation Number 17 year 2015 on Supervision of Cooperatives	<ul style="list-style-type: none"> • Implementation of cooperatives supervision; • Koperasi Arrangement of requirement and obligation of Cooperatives supervising official.
Minister of Cooperatives and SMEs Regulation Number 22 year 2015 on Cooperatives of Big Scale	<ul style="list-style-type: none"> • District/City Government in cooperation with business sector create at least 2(two) Cooperatives of Big Scale having membership areas in one District/City; • District/City Government present report to the Provincial Government on achievement by Big Scale Cooperatives having membership areas in District/City.

Regulation	Task Delegation to the Local Government
Minister of Cooperatives and SMEs Regulation Number 19 year 2015 on Conduct of Members' Meeting of the Cooperatives	Nurturing and Supervision upon conduct of Cooperatives Members' Meeting (scope of nurturing and supervision: a. Guidance and consultation of Members' Meeting implementation; b. Education/ socialization/publication; c. Accompanying; d. Monitoring and evaluation)
Minister of Cooperatives and SMEs Regulation Number 12 year 2015 on General Guidelines on Accountancy of Real Sector Cooperatives	Guidelines on accountancy of real sector Cooperatives
Minister of Cooperatives and SMEs Regulation Number 25 year 2015 on Cooperatives Revitalisation	In conduction Cooperatives revitalisation, Government provide facilitation, advocacy, consultation, assistance, and monitoring and evaluation to the Cooperatives
Minister of Cooperatives and SMEs Regulation Number 20 year 2015 on Implementation of Cooperatives Accountability	Nurturing and control in relations with implementation of Cooperatives accountability (Cooperatives' Accountability Report to the Local Government)
Minister of Cooperatives and SMEs Regulation Number 16 year 2015 on Implementation of Savings and Loan Business and Islamic Financing (Syariah) by the Cooperatives	<ul style="list-style-type: none"> • Regent/Mayor issues KSPPS/USPPS business license for Cooperatives having membership areas in one (1) District/City; • Application to open branch office, sub branch office, and cash office is forwarded to the Regent/Mayor (requirements are determined by a Minister Regulation A Quo); • Tehnical assistance for savings and loan business and Islamic financing (syariah) is stipulated by the Regent/Mayor (for Cooperatives in a District/City); • Examination on KSPPS and USPPS health of the Cooperatives is conducted by the Regent/Mayor (for Cooperatives in a District/City).
Minister of Cooperatives and SMEs Regulation Number 15 year 2015 on Cooperatives' Savings and Loan Business	<ul style="list-style-type: none"> • Regent/Mayor issues KSP/USP business license (for Cooperatives in a District/City); • Technical assistance for savings and loan business is governed by the Regent/Mayor (for cooperatives in a District/City); • Examination on KSP and USP health of the Cooperatives is conducted by the Regent/ Mayor (for Cooperatives in a District/ City)

followed up. Although 7 cities have established OSS but licensing authority is not fully delegated. This situation occurs in Surabaya, Palembang, Pontianak, and Bandung wherein part of the licensing procedures still must be processed by applicant to sector SKPDs.

Bandung has policy innovation to enhance Micro and Small business Enterprises through industrial center program and processing

registrations of Micro Business Enterprises (TDUM) and Small Business Enterprises (TDUK). By issuance of Mayor Regulation on Second Amendment of Bandung Mayor Regulation Number 495 year 2015 on Standard Operating Procedure of Integrated Licensing Service, the local government stipulates TDUM and TDUK as a form of business legality for UMK. Registering of TDUK and TDUM is free of charge and applicant is only required to fill in a

Table 5.3 Delegative Regulations on Enhancement of PTSP Role in the Region

Regulation	Task Delegation to the Local Government	Time
Head of BKPM Regulation Number 15 year 2015 on Guidelines and Procedures for Licensing and Non-Licensing Matters of Capital Investment (cancel Head of BKPM Regulation Number 5 year 2013 as amended by Head of BKPM Regulation Number 12 year 2013)	<ul style="list-style-type: none"> District/City Local Government delegates authority in terms of tasks, rights, obligation, and responsibility on licensing and non-licensing matters including their signing to OSS office in the field of Capital Investment. Regent/Mayor hands over delegation of authority on licensing and non-licensing process on governmental matters which belong to District/City Local Government authority to the Head of BPMPTSP of the District/City. Makes guidelines on licensing and non-licensing for the Local Government (time limit issuance procedure, forms, and license exception) 	90 days
Head of BKPM Regulation Number 17 year 2015 on Guidelines and Procedures for Capital Investment Implementation Control (cancel Head of BKPM Regulation Number 3 year 2012)	Activities of nurturing, monitoring, and controlling of capital investment are conducted by BKPM, BPMPTSP of the Province, and BPMPTSP of the District/City, KPBPB Business Agency, or such Agency in line with its authority	90 days

form online at BTP2T Bandung City web. Such affirmative policy is only valid for resident having Indonesian Identity Card (KTP) of Bandung City.

OSS enhancement using electronic system and package licensing can not reduce number of procedure and time in Ease of Business indicator.

Some regions using electronic system in processing license application, such as Surabaya with its Surabaya Single Window (SSW), Bandung with its GAMPIL Application, or Jakarta, Denpasar (specifically for prolongation) and Pontianak. However, although registration is electronically, licensing process is still lengthy. IMB licensing in Bandung, for example, has not been able to cut such procedures in sector agencies. Similar condition occurs in Surabaya: applicant who does not have *mobile apps*⁴⁾ shall use SSW system which in practice there are only four kinds of license which are delegated to OSS

(SIUP, TDP, IUI, and TDI)⁵⁾. Even these kinds of license still have to be taken manually at Urban Village Office or OSS. While in Jakarta, SIUP and TDP are processed online, but applicant still has to come to OSS in Urban Village Office to get and process activation of licensing account.

Excellent practice of OSS enhancement can be seen at Pontianak's experience.

As mentioned in Chapter IV, this capital city of West Kalimantan Province has shorter procedures and duration compared to those of other 6 cities. Such ease of business occurs due to simplification of licensing made in the past: in year 2011 the Local Government deregulated 29 permit kinds to be only 17 kinds. In addition to reducing number of permits (deregulation), BP2T Pontianak also conducts licensing service in parallel way or package (debureaucratization).

4. *Mobile Apps* application is applied for SIUP, TDP, IUI, and TDI licensing which can be processed in one day and can be printed by applicant.

5. Mayor Regulation Number 22 year 2016 on Amendment of Mayor Regulation Number 2 year 2016 on Implementation of One Stop Service

Table 5.4 Local Government's Program and Policy conform with Package I Target

City	Follow Up	Status
Bandung	Programs for SMEs and Cooperatives: <ul style="list-style-type: none"> Potential industry center development Program Creative economy and technopolis development Program 	Legalised 2015
	OSS Enhancement Program: <ul style="list-style-type: none"> Launching of GAMPIL application Regulation reform for ease of SMEs business in Bandung City through issuance of TDUM and TDUK 	24 February 2016
	Regulation: Mayor of Bandung City Regulation on the Second Amendment of Mayor of Bandung Regulation Number 495 year 2015 on Standard Operating Procedure of Integrated Licensing Service.	
Denpasar	Programs for SMEs and Cooperatives: <ul style="list-style-type: none"> Development of Information system on Cooperatives development planning Socialization on Cooperatives understanding principles Nurturing, supervision, and appreciation to Cooperatives having good achievement Number of cooperatives business cooperation network development Assessment of business health of the Cooperatives 	June 2015
	OSS Enhancement Program: <ul style="list-style-type: none"> Mobile service for SIUP and TDP licensing Package system of licensing service Government's Integrated service at Graha Sewaka Dharma Building Provision of online license registration for prolongation Regulation: <ul style="list-style-type: none"> Mayor Regulation No. 45 year 2012 on Implementation of mobile licensing service Mayor Regulation No. 16 year 2010 on Implementation of Licensing Service Simplification within Denpasar City Local Government 	14 February 2012 4 June 2010
Pontianak	Regulation for SMEs and Cooperatives Enhancement: <ul style="list-style-type: none"> Decision of the Head of Industry, Trade, Cooperatives and SMEs (Perindagkop) Agency of Pontianak City Number 18 year 2016 on Team of Accelerated Recommendation of TDI, IUI, TDG, and API at Perindagkop Agency of Pontianak City; Decision of the Prindagkop and SMEs of Pontianak City Number 19 year 2016 on Formation of a Committee, Resource Person, Special Speaker, Practitioner, and Moderator for activity of Motivation of Cooperatives RAT implementation Motivation for Pontianak City 	10 March 2016 22 March 2016
	Regulation for OSS Enhancement: <ul style="list-style-type: none"> Mayor of Pontianak City Regulation Number 54 year 2015 on Standard Operating Procedure at the Integrated Licensing Service Agency Mayor of Pontianak City Regulation Number 621/Bp2t/year 2015 on Decision of Activities/Business having some licensing process to be conducted simultaneously as a form of ease of licensing service in Pontianak City 	2 December 2016 6 October 2016

City	Follow Up	Status
Surabaya	Programs for SMEs and Cooperatives: <ul style="list-style-type: none"> Program of SMEs' empowerment which is synergic within three agencies, namely BAPPENAS, SMEs and Cooperatives Agency, and Industry and Trade Agency. Regulations: Planned Local Regulation on Micro business empowerment and Local Government Regulation on Cooperatives.	2010
	OSS Enhancement Program: Innovation on licensing service using mobile apps.	April 2016
Jakarta	Programs for SMEs and Cooperatives: <ul style="list-style-type: none"> Helping establishment of association/institution for informal vendor; Provision of space for informal sector at office and trade zones. Make effective the regulation on provision of space for informal economic sector at office and trade zones, and provide loan for revolving funds. 	2011
	OSS Enhancement Program: Program of one service gate for licensing. For licensing package without land, maximum time to complete licensing is 3-10 working days; for licensing package with total land area less than 5,000 m ² maximum time to complete licensing is 25 working days, and for licensing package of total land area 5,000 m ² or more maximum time to complete licensing is 38 working days.	10 February 2016
Regulation: <ul style="list-style-type: none"> Governor Regulation Number 28 year 2016 on Simplification of Licensing and non-Licensing Requirements 		

5.2.3 ECONOMIC POLICY PACKAGE IV

The purpose of Economic Policy Package IV is to grant that the State presents to develop people's economy by determining such target of increasing worker's welfare. Through this policy it is expected that it could create fair wage system, simple, and projectable. Implementation of the Policy Package is issuance of Government Regulation Number 78 year 2015. This Regulation contains delegative rules to District/ City Local Government so as to implement new formulation of minimum wage. However for certain regions that have not yet met appropriate standard of living (KHL), Governor is obliged to adjust provincial minimum wage to be the same with appropriate standard of living amount, in stages for maximum 4 (four) years since the Government Regulation put into effect. In relations with implementation of other regulation regarding Policy Package IV, there are some regulations which give guidelines for the

regions in implementing their authorities. Such regulations consist of guidelines for supervision and nurturing, and impose sanction as shown the following table.

Follow ups on Government Regulation Number 78 year 2015 have been undertaken by Local Government at the seven cities.

Local Government of the seven cities of study areas have implemented the Government Regulation and socialize at bipartite forum (Local Government, Business Actors, and Worker Association) at the City level. In this bipartite forum, the City Government has given direction to the Board of Wages to use the new formula for calculating wage, for which the calculation result then be conveyed to Provincial Government for issuance of Letter of Decree on City Minimum Wage (UMK). Following is the follow up action undertaken by the Local Government, wherein the Governor

Regulation	Task Delegation to the Local Government
Government Regulation Number 78 year 2015	Head of District/Mayor gives recommendation on District/City Minimum Wage amount to the Governor using certain formula. *) Formula used to calculate minimum wage is current year wage added by current year wage times sum of inflation and economic growth. The formula of Minimum Wage (UM) is as follows. $UM_n = UM_t + [UM_t \times (\% \text{ Inflation}_t + \% \Delta \text{ GDP}_t)]$

Regulation	Task Delegation to the Local Government
Minister of Manpower Regulation Number 6 year 2016 on Allowance for Religious Festivity (THR) for Worker/Labor working in a Company	Make guidelines on Local Government (Manpower Agency) supervision upon Company in the region
Minister of Manpower Regulation Number 21 year 2016 on Appropriate Standard of Living	Guidelines for District/City and Provincial Local Government and the Board of Wages in determining minimum wage
Minister of Manpower Regulation Number 7 year 2016 on Money of Service for Hotel and Restaurant Businesses	Guidelines for Local Government in conducting supervision and nurturing of business activities
Minister of Manpower Regulation Number 20 year 2016 on the Procedure for Imposition of Administrative Sanction	Regent/Mayor has the right to impose administrative sanction. (Official having authority to issue sanction is the official having authority to issue license)

There are regulations which have not been issued concerning implementation of investment policy package in the region:

- 1. Minister of Manpower Regulation on Minimum Wage (Policy Package IV)**
The regulation draft is still being discussed with relevant Ministries/Institutions including National Board of Wages;
- 2. Minister of Manpower Regulation on Structure of Wage Scales (Policy Package IV)**
This regulations are in the process of signing by related minister.

subsequently issued Decision and Regulation, and letter of recommendation of City Government for 2017. However, for Pontianak City for 2017 UMK it is still in preparation stage. While concerning 2017 UMK calculation in Manado City, the Manpower Agency will use formulation stipulated in the Government Regulation Number 78 year 2015 and it is still being in discussion process.

Local Government at seven cities have not yet followed up Minister of Manpower Regulations Number 6/2016, Number 21/2016, Number 7/2016, and Number 20/2016 in the forms of regulation/decision/program. Finding results in the regions show that the

Local Government of the seven cities do not fully aware of these prevailing regulations therefore they seemingly still examine them. In addition, such ministerial regulations are more likely guidelines so that the Local Government perceive them as guidance regulations which later will be followed up using their authority.

In relations with the region's policy (regulation or program) which is in conformity with the purpose of Policy Package IV, Local Government has policies to support increasing of worker's welfare in its own region based on the regional planning documents (RPJMD and RKPD). In this context, the region's innovation of such policies consist of the following:

Region	Policy Package Follow Up
Jakarta	Governor of DKI Jakarta Regulation No. 227 year 2016 Provincial Minimum Wage is amounting to IDR 3,355,750
Surabaya	Governor of East Jawa Regulation No. 121 year 2016 City Minimum Wage is amounting to IDR 3,296,212
Bandung	Governor of West Java Decision No. 561 year 2016 City Minimum Wage is amounting to IDR sebesar Rp. 2,843,662,-
Palembang	Governor of South Sumatera Decision No. 693 year 2016 City Minimum Wage is amounting to IDR 2,484,000
Denpasar	Manpower Agency Letter of Recommendation (1 November 2016) City Minimum Wage is amounting to IDR 2,173,000
Manado	Still in discussion process
Pontianak	Governor of West Kalimantan Decision No. 862 Tahun 2015 City Minimum Wage is amounting to IDR 1,815,000 (2016)

Region	Region's Innovation in line with the Policy Package Target
Surabaya	Regulation Local Regulation No. 6 year 2011 on Conduct of Child Protection
Bandung	Program 1. Program of free shuttle bus facility for labor 2. Program of cheap basic needs for labor 3. Program of flats for labor 4. Application of BIMMA (Bandung Integrated Manpower Application) which is a backbone innovation of Bandung City Government in manpower field. By this application Manpower Agency of Bandung City connects job seekers in Bandung City with job market and training institution.
Manado	Program 1. Program for increasing worker's competence by establishing Center of Manpower Training; 2. Provision of infrastructure and means for worker recruitment process 3. Socialization to make use of local worker as long as the competence is required by the company

5.2.4. ECONOMIC POLICY PACKAGE XII

Indonesia's rank of Ease of Doing Business which is in the position of 106 of 189 countries worldwide has been the background in issuance of Economic Policy Package XII. EoDB measurement is used to examine regulations and procedures to be followed when one wishes to do business in Indonesia. Business target of such measurement is small and medium scales businesses. From ten measurement indicators there are three indicators that become the local government's focus to be followed up in the region.

Based on the three indicators, ease of business that becomes scope of this study (Starting a business, Getting Construction Permits, and Registering land and building rights) the Central Government has issued four ministerial regulations and one circular letter from various related sectors. At least there are three regulations to be followed up by the Central Government one of them also stipulates time limit of the follow up, i.e. within one year of the latest. Table 5.5 identifies regulation stipulation that shall be followed up by local regulation.

Table 5.5
Delegative Regulation Stipulation on Ease of Business Indicator in the Region

Regulation	Region's Delegative Regulation
Minister of Trade's Regulation Number 14/MDAG/PER/3/2016 on Amendment of Minister of Trade's Regulation Number 77/MDAG/PER/12/2013 on Issuance of SIUP TDP simultaneously for Trading Company	Publishing SIUP and TDP simultaneously within 2 days (PTSP Region)
Minister of Public Works and Public Housing (PUPR) Regulation Number 05.PRT/M/2016 on IMB and IMB Retribution Cost Index. This Regulation still requires AMDAL and UKL/UPL (Cancellation of Minister of Public Works Regulation Number 24/PRT/M/2007)	<ul style="list-style-type: none"> • Make Local Regulation on IMB, revise existing Local Regulation (1 year the latest) • Authority delegation to the DKI Jakarta Provincial Government and District/City Government other than DKI Jakarta to conduct service on IMB-Building licensing • Permission given to District/City Government or DKI Jakarta Provincial Government to delegate its authority on IMB licensing for 1-floor, simple building to the Sub District Office • Guidelines on IMB and KRK issuance (requirements, time, and costs)
Minister of PUPR Circular Letter Number 10/SE/M/2016 on IMB issuance and SLF Building for Micro, Small, and Medium scales Enterprises Warehouse Building of 1,300 m2 total area using prototype Design	Guidelines to Governor and Regent/Mayor on application process and issuance of IMB and building SLF for SMEs warehouse building of 1,300 m2 total area.
Minister of Trade's Regulation Number 16/MDAG/PER/3/2016 on Amendment of Minister of Trade's Regulation Minister 90/M-DAG/PER/12/2014 on Warehouse Arrangement and Guidance	Guidelines for Governor of DKI Jakarta and Regent/Mayor on issuance of TDG and SLF simultaneously
Minister of Home Affairs Regulation Number 22 year 2016 on the Amendment of Minister of Home Affairs Regulation Number 27 year 2009 on Guidelines of Nuisance Licensing in the Region	<ul style="list-style-type: none"> • Cancel criteria of disturbance on the environment in nuisance licensing; • Upstream business activities of petroleum and natural gas are exempted from the nuisance licensing • People has the rights to have access to information and to participation

Jakarta and Surabaya are faster in implementing Policy Package XII. Both regions are representation of ease of doing business in Indonesia measurement, and become part of the government target to improve EoDB rank to be in position of 40. To achieve it, response on Economic Policy Package XII shall be followed up quicker

and implemented. In DKI Jakarta governor instruction is made specifically in order to expedite achievement of business ease (Governor of DKI Jakarta Instruction Number 42 year 2016).

Only Pontianak and Surabaya have made adjustment on SIUP and TDP licensing

services based on Ministry of Trade Regulation Number 14/MDAG/PER/3/2016 while the other five regions have not made follow up on it. Ministry of Trade Regulation Number 14/MDAG/PER/3/2016 mandated the region to issue SIUP and TDP simultaneously in 2 days. From implementation findings in the field we found Surabaya City and Pontianak City have much better practices by issuing both licenses in 1 day. SIUP and TDP licensing in Surabaya can be conducted simultaneously within one day through mobile apps even be printed by the applicant himself. Such services launched in May 2016 is an innovation of BPPTPM of Surabaya City in increasing licensing service. In Pontianak, SIUP, TDP and HO licensing service are conducted as one package at OSS. While other regions need 5 days in average for issuance of SIUP and TDP. This is because electronic system for licensing is not optimum, and also SOP stipulations for licensing service have not been changed to conform to Minister of Trade Regulation Number 14 year 2016. In addition, in DKI Jakarta there are two methods of SIUP and TDP licensing. SIUP and TDP can be done in package at OSS Office at Administration City (Head of BPTSP of DKI Jakarta Decision Number 31 year 2016), or be processed separately in Sub District to obtain SIUP.

Manado, Pontianak, Palembang, Bandung, and Denpasar have not followed up Minister of Home Affairs Regulation Number 22/2016 on the Amendment of Minister of Home Affairs Regulation Number 27/2009. The five

regions still require nuisance license for SMEs business and there have not been any change on existing regulation so as to cancel criteria environmental disturbance, exemption of upstream activities of petroleum and natural gas, and transparency of information access and participation access. However in its practice in the region we found out that there are some innovations which have gone beyond the stipulation, i.e. DKI Jakarta and Surabaya. Both regions are no longer require nuisance license in starting a business. Through Surabaya Mayor Instruction Number 3 year 2016 which stipulates termination of nuisance licensing service, it is indirectly cancel HO licensing in Surabaya City. Moreover, in *Prolegda* of the Local Regulation Number 4 year 2010 on Nuisance Permit and Local Regulation Number 8 year 2010 on Nuisance Licensing Retribution will be revised, so that implementation of nuisance licensing will be totally canceled. While, in DKI Jakarta HO is not a requirement in processing SIUP, TDP, and TDG in ease of business indicator but there has not been any regulation which cancel stipulations on HO. Having such condition of HO regulation and licensing service being still exist and can be accessed by applicant, obviously from legal aspect point of view it will cause uncertainty. While in Manado City stipulation in the Policy Package has not been followed up since the local government still makes review on the regulation, taking into consideration that nuisance licensing has a component of retribution which becomes one of revenue components to increase the region's income.

Based on the analysis result of the Minister of Home Affairs Regulation Number 27 year 2009 on Guidelines of Nuisance License we found that there are three points of deregulation, i.e.: cancel criteria of environment disturbance at nuisance license, exempt nuisance license for such upstream activities of petroleum and natural gas, and provide information access and participation access. This deregulation process has an impact on kinds of service and nuisance license stipulation but this stipulation has no significant impact on the target of Policy Package XII (ease of business for SMEs for EoDB survey). It could happen since exemption of nuisance license from SMEs business activities has been accommodated in former regulation while the five regions have not implemented it until now. By issuance of Minister of Home Affairs Regulation Number 22 year 2016 it will not cause significant impact on ease of business aspect in the region in reducing procedures of starting a business. Moreover, considering DKI Jakarta and Surabaya no longer require nuisance license.

Only Jakarta has made follow ups of Minister of Trade Regulation Number 16 year 2016 on the Amendment of Minister of Trade Regulation Number 90 year 2014 on Warehouse Arrangement and Guidance. The regulation stipulates issuance of TDG (Warehouse Registration) that can be conducted as package with SLF (SLF/ Functionally Suitable Certificate). Based on Getting Construction Permit Indicator, only

Jakarta requires SLF and at the same time put its procedure in one package with TDG for licensing. While in other six cities there are also stipulations to process SLF and TDG but both licenses can not be processed simultaneously. The reason of no follow ups on Minister of Trade Regulation Number 16 year 2016 until now is because building regulation and its implementation regulation in the region have not yet been issued.

Table 5.6 Follow ups on Delegative Regulation Stipulation on Ease of Business Indicator in the Region

City	Regulation as Follow up Result
DKI Jakarta	<ol style="list-style-type: none"> 1. Governor of DKI Jakarta Instruction No. 42 year 2016 on Acceleration of Ease of Doing Business (EoDB) Achievement in DKI Jakarta Province 2. Decision of Head of DKI Jakarta One Gate Integrated Service Agency No. 31 year 2016 on Achievement of Ease of Doing Business (EoDB) Target on Licensing and non-Licensing Services at BPTSP of DKI Jakarta Province.
Surabaya	<ol style="list-style-type: none"> 1. Surabaya Mayor Regulation No. 6 year 2016 on Amendment of Surabaya Mayor Regulation No. 1 year 2015 on Kinds of Business and/or Activities Which Shall be Completed with UKL/UPL. 2. Surabaya Mayor Instruction No. 3 year 2016 on Termination of Nuisance Licensing service in Surabaya City.

5.3. SUPPORTING AND INHIBITING FACTORS

In following up investment policy package in the region, there are some determining factors, supporting and inhibiting policy implementation. Some of the factors among others are politics, technical and administrative human resources, decentralisation and participation, information system, and conformity of purpose agenda and actor.

Socialization of Policy Package Information in the regions is conducted using various different ways. The difference in conveying the information has caused various knowledge of the Local Government on the policy change and response given. Basically, Central Government has conducted socialization of policy package information to some regions through dissemination, i.e. in Surabaya, Palembang, Balikpapan, and Mataram (period of August 2016). Moreover, socialization at an earlier time related to Policy Package XII as an effort to

increase EoDB rank in 2017 has been carried out by the Central Government to the Heads of the regions. Such situation has resulted in strong commitment at the level of Local Government Head in particular in Surabaya and Jakarta as to make follow up actions immediately on ease of business deregulation policy.

While socialization in other regions is conducted by Central Ministries or Provincial Local Government and still carried out partially to certain SKPDs. Socialization is conducted in relations with Provincial Government programs or Ministries programs wherein socialization material regarding policy package is inserted. The difference in information dissemination system has caused limitedness of the presented materials during socialization, therefore knowledge and response of the Local Government on policy packages are still limited.

Decentralisation function and Local Government participation on investment policy package do not perform. At seven cities,

Provincial government function in carrying out nurturing and supervising City Local Government is not run in maximum way. In fact, Provincial government shall conduct nurturing (socialization to the regions in relations with the policy package) and implementation supervision. In addition, formation of investment policy in the region does not involve region's participation, therefore follow ups on the policy package is different between regulation in the Central and policy in the region. Furthermore, the absent of participation process has omitted "sense of belonging" of the local government on the investment policy, therefore the region only makes some adjustment of the region's program to the national program and not making follow ups on the policy directly.

Quality of the Local Government's human resources in technical as well as administrative fields is inadequately innovative to make follow ups on the policy package. In relations with this situation, findings in six cities show some employees of the SKPDs in the region (in particular *Bappeda* and technical SKPDs) have made some efforts to obtain information concerning the policy packages that have been issued, among others through website of the ministries and media (printed and electronic). But such knowledge is limited only for each SKPD's own tasks and function and not comprehensively. Only Manado does not make such efforts therefore the Local Government's knowledge about policy package has not been obtained yet. In addition, availability of a legal division in each of Local Government is expected to be able to accommodate information regarding regulation reform at national level; but such condition does not happen at the seven cities. Understanding of the legal division on the policy package regulation is inadequate and the division just passively waits for information from each SKPD and Head of the Local Government.

From political aspect, commitment of the Head of the Region has an important role in making follow ups on investment policy package. The Heads of the Local Government of Jakarta and of Surabaya have strong commitment on implementation of the policy package; although implemented in different

ways but commitment of the Head of the Region has moved investment reform spirit in working upon achieving the aim as well as regulation of the investment policy package. While at other regions the Head of the Region still keeps his commitment to the regional planning document and has not been able to move SKPDs to take any efforts to improve investment climate.

The difference in purpose between the Central Government and the Local Government has become the main obstacle upon the region's immediate response on the policy package.

By issuing regulations on investment policy package it is expected that the region be able to take follow up actions. But conditions at the seven regions are still focused on following up regional planning documents (RPJMD and RKPD), which consist of enhancement of SMEs and Cooperatives and OSS (Policy Package I), increasing employee's welfare (Policy Package IV), and Deregulation of Business Ease (Policy Package XII). Only Jakarta and Surabaya have had agenda for deregulation of ease of business for SMEs based on direction from the Head of the Region. Even Jakarta Provincial Government has issued Governor Instruction Number 42 year 2016 on Acceleration of Ease of Doing Business Achievement for the DKI Jakarta Province. While regarding the new formula for wage calculation (Policy Package VI) it can be carried out immediately since it is a yearly policy, therefore the Local Government has had attention to the transformation being happening on the wage policy.

From the legal aspect, issuance of investment policy package regulation has problems. Implementation of the regulation on OSS function enhancement policy, i.e. Head of the BKPM Regulation Number 15 year 2015 stipulates kinds of permits which are not specific (causing multi interpretation), and issuance of Minister of PUPR Circular Letter Number 10 year 2016 has no conformity on the changed object with the target stipulated in the Policy Package XII. While from the legal aspect, concerning regulation conformity with that of the higher as well as with the same level there are no conflicting substance, and has been in line with the purpose and direction of the investment policy package I, IV, and XII. ■

CONCLUSION AND RECOMMENDATION

6.1. CONCLUSION

A reform on ease of business is part of the government strategy to build competitiveness, attract investment and conduct substance of the public sector reform itself. In such big targets, performance target, at the same time measurement of reform achievement is made: increased Indonesia's EoDB rank from year to year to the upper position. To this point, at least according to the result of this evaluation study, we still have to go through a long way although there have been some good signs resulted.

- ✓ **Starting a Business:** in this indicator it is noted that there are 10 procedures and duration of 17 days. Costs that shall be spent to process establishment of as Ltd (PT) until it is operational legally is amounting to IDR 6,979,000. Such achievement is certainly still far from the government's target, i.e. 7 procedures and 10 working days.
- ✓ **Dealing with Construction Permit:** warehouse building construction permit at 7 regions is considerably speedy if compared to the government's target. Averaged procedures needed are 12 procedures with 41 days duration. However, from costs aspect, it is still relatively high, i.e. amounting to IDR 89,018,075
- ✓ **Registering Land and Building:** if compared to the above described 2 indicators, registering property has the least number of procedures (5 procedures). However, service in registering rights is still lengthy (37 days) – is still far beyond the government's target (5 days). Costs required to register until the certificate can be used as collateral, as a proof that transfer of property rights has been legally completed, is averaged at IDR 183,095,012.

The national targets have not fully achieved because Local Government's policy response is slowly, in particular in terms of significant change on Regulations and standards of licensing service. Regulations and SOP still contain costs that are excessive and has become a burden on the process of the three

EoDB indicators. This findings are also generally found at Local Government's policy response and follow ups on other packages evaluated in this study.

6.2. GENERAL RECOMMENDATION

After policy packages issued, the main challenge is implementation coordination, inter ministries/ institutions in Central and mostly with Local Government. Based on evaluation result some general recommendations are presented; they should be taken into consideration to support effectiveness of policy package implementation and broaden scope of the reform:

1. Kinds of work that are the most elementary but unfortunately are not given much attention, are socialization (transfer of knowledge and building commitment) and local government's capacity improvement; they have to go back to the main transformation strategy, while making a plan to issue other following packages. Here, it is including making a special approach to the Head of the Region and coordination with the Ministry of Home Affairs as the responsible Central agency in undertaking general nurturing upon the local government's conduct.
2. A reform's extension—from Jakarta and Surabaya to other main business cities and finally reaching all the regions, from three focused EoDB indicators to many other policy packages—must be part of transformation road to the future. Political commitment and transformation design in the region shall be accommodated in a national grand design which is systematic, measurable, and warranted in its implementation effectiveness.
3. Periodic monitoring and evaluation by the Central Government itself has to be conducted. In addition to observe achievement and to measure performance of the region, it is also to grant accuracy of intervention on advance policy transform and enhancement of technocratic capacity in the region. Evaluation which is based on

Conclusion and Recommendation

evidence, i.e. based on governance practices and real business conditions experienced by business actors, becomes a proper selection of working method. ■



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