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ENHANCING THE EASE OF DOING BUSINESS IN SURABAYA THROUGH ONE STOP SHOP (OSS) LICENSING SERVICE

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Abstract

This study aims to identify and analyze the implementation of OSS in Surabaya and its relation with the Ease of Doing Business indicators. The implementation of OSS in Surabaya is a way taken by the Government of Surabaya to enhance the ease of doing business. The licensing services in Surabaya are implemented using legal instruments, institutional arrangements, and operational mechanisms. Instruments of legal instruments are implemented through the Mayor of Surabaya Regulation No. 2 of 2016 on the Implementation of One Stop Service and its amendment regulation namely Mayor Regulation No. 22 of 2016. OSS implementation in Surabaya can improve the Ease of Doing Business that also has an impact on investment and economic growth in the region.

1. INTRODUCTION

Decentralization plays an important role in bureaucracy reform agenda in almost all countries in the world, especially developing countries. In Indonesia, decentralization began after President Suharto announced his resignation in May 1998. Decentralization in public services was considered capable of making public services easier and closer to the public. In the process of decentralization and democracy, one of its effects is the decentralization of authority in managing regional finances. It allows local governments to innovate on trade and investment. In order to become an investment destination area, local

governments must create a conducive climate for investments to be able to increase regional economic growth. Stern defines the investment climate as the policy and the organizational environment and behavior, both ongoing and expected, can affect returns and risks related to investment (Asian Development Bank, 2005).

The decentralization process brings dramatic impact on local politics, especially on matters relating to taxes and administrative processes. Regulations and procedures on licensing, registration, taxes and levies have been transferred largely to the local authorities. Steer (2006) from The Asia Foundation revealed three major

issues in the process of licensing services in Indonesia. First, the overlapping regulations between the central and local governments in terms of standard procedures and licensing costs are less clear. Secondly, the licenses issued add to the problem and did not solve the problem of market inefficiency. Third, most licenses in Indonesia are processed at the local level by involving different government offices and agencies with low coordination and capacity.

Based on Global Competitiveness Report, there are several factors that influence the ease of doing business in Indonesia. These factors have a role in terms of investment in Indonesia. The description of the report can be seen in Figure I below.

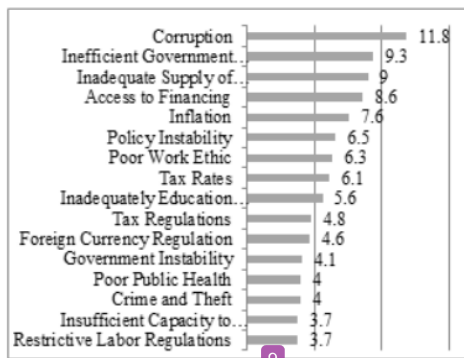


Figure 1 Problem in Doing Business in Indonesia. Source: (World Economic Forum, 2016)

This report is in line with Chalid (2005) mapped the barriers to investment in Indonesia into three main problems. It is caused by high economic costs, facilities and infrastructure. High economic costs are associated with uncertain economic, regulatory policies and economic stability. This is caused by the withdrawal of levies that are sometimes followed by threats and acts of violence and corruption committed by officials at the central and regional levels. High taxes are also a major obstacle and problem compared to tax administration and customs affairs. Infrastructure problems include physical infrastructure and land issues. The main

thing to complain about infrastructure is the availability of electricity and the existence of road construction. Availability of electricity is required by employers in the process of production and business activities. While the availability of highways affects the distribution of goods between regions. As the main production factor after capital, land ownership is an important role for the business world. Land ownership can be seen from the existence of land certificates. The problem is not all plots of land in Indonesia have been certified by the owner. This has the potential to ignite conflict in the form of disputes between the public and private or between communities and governments.

In fact, Indonesia is considered a safe country to invest among emerging market countries because it does not make investors worry (Taufik, 2016). Investment is an important thing for a country because it will open new jobs and become one way to improve infrastructure in the region. Licensing in Indonesia is generally considered still complicated and very expensive. The difficulty of licensing and bureaucracy is considered a major problem that affects the inhibition of industrial and economic growth in Indonesia.

The EODB survey in Indonesia was carried out in several pilot cities, one of which was the city of Surabaya. Surabaya is the second largest metropolitan city in Indonesia. The geographical location and adequate infrastructure support are the main advantages of Surabaya so it can grow rapidly become one of the largest business and trading center in eastern Indonesia. As a city with high economic growth, Surabaya has a very strong economic attraction. Investment flows from within and outside the country continue to increase and grow rapidly. Surabaya also became one of the main investment destinations in Indonesia. Surabaya Municipal Government continues to take various steps of reform in order to improve the business and investment climate. Licensing services continue to be improved in order to meet investor

expectations for ease in starting a business. The interaction between the government and business actors is also continuously improved so that it can synergize well in building the city of Surabaya.

Implementation of licensing services in Surabaya City also faces obstacles. The existence of One-Stop Integrated Service Unit (UPTSA) does not provide good service because it is difficult to meet the requirements so that many applicants use brokers' services. In addition, the scalpers are performed outside the office services by unscrupulous employees of One-Stop Integrated Service Unit (UPTSA) in Surabaya. There is an indication that the procedure was deliberately extended by some Municipal Government causing the applicant to surrender and choose an instant line.

Great investment opportunities should be supported by adequate public services. To attract and ensure the investor in making an investment in Surabaya, Surabaya government then issued a Mayor Regulation (Perwali) No. 2 of 2016 on the Implementation of One Stop Services (OSS). This Mayor Regulation aims to improve the licensing service held by Surabaya City Government to be more effective, efficient and transparent to the public including business actors in Surabaya City. This is expected to realize

the ease and legal certainty for the community in obtaining licensing services. In addition, city officials tried to realize the rights of the public and investors to get service in the field of licensing.

2. GOVERNMENT EFFORTS TO IMPROVE THE INVESTMENT CLIMATE

Regulatory simplification is one of the steps to achieve Indonesia's potential as an economic power at the regional and global level. One of the Indonesian government's supports in improving the investment climate is by issuing the Economic Policy Package. The Economic Policy Package was launched at the end of 2015 during the reign of President Joko Widodo. Until 2017, the government has issued about 15 packages of it. The Economic Policy Package was launched with the aim of (1) mobilizing the real sector of Indonesia; (2) enhancing the competitiveness of national industries to cope with the dynamics of the global economy; (3) developing cooperatives and small and medium enterprises; (4) facilitating the distribution and trade of inter-regional goods with supply chain efficiency; and (5) stimulating the tourism sector and improving the welfare of fishermen. The investment-related policies are described in Table 1 below.

Table 1 Indonesia's Investment-related Policy Package

No	Taken Policies	Economy Package
1	3 Legal certainty over land rights	I
2	Ease of doing business in the forestry sector	I
3	Ease of doing business in the Energy and Mineral Resources sectors	I
4	Development of SMEs and strengthening the economic function of cooperatives, by strengthening the legal basis	I
5	Strengthening the function of OSS in licensing and non-licensing services, by adjusting the nomenclature of business with sector laws, strengthen supervision, and investment facility services.	I
6	Horticulture business certainty, by giving the principle of grandfather clause.	I
7	Quick Investment Permit process in 3-hour	II

8	Acceleration maintenance, 25 days for tax allowance and 45 days for tax holiday	II
9	Simplification of land permit for investment activity	III
10	A more simple, fair, and projected minimum wage setting	IV
11	Incentives and investment incentives in Special Economic Zones (KEK), as an attractive region for investment and for economic growth in underdeveloped regions	VI
12	Certainty strives for the provision of water, by improving control through the strengthening of licensing in accordance with the mandate of the Constitutional Court	VI
13	Tax Incentives for Employees Industry Labor, in the form of tax relief of 50% of Article 21 tax rate charged	VII
14	Revised Presidential Regulation relating to Investment Negative List (DNI)	X
15	Improvements in Ease of Doing Business / EODB	IX

(Source: Kemenko Perekonomian RI, 715)

This policy represents the seriousness of President Joko Widodo and the entire cabinet to raise the Ease of Doing Business (EoDB) Indonesia ranking to the top 40. Doing Business (IFC-World Bank) regularly conducts the ranking to countries based on the ease of business establishment. In EODB assessment, the World Bank selected five pilot cities in Indonesia, namely Jakarta, Surabaya, Medan, Balikpapan and Makassar. The ranking process is based on several indicators: Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Getting Credit, Protecting Minority Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Resolving Insolvency. At Economy Ranking 2017, Indonesia is ranked 91 out of 190 countries around the world in the ease of business ranking. Indonesia conducted reforms related to 7 EODB indicators i.e. Starting a Business, Getting Electricity, Registering Property, Getting Credit, Paying Taxes, Trading Across Borders, and Enforcing Contracts.

A regulative instrument must be well integrated and consistent in order not to increase the complexity of the entire regulatory system. Such complexity will increase the uncertainty affecting business investment and increasing regulatory costs. The term One Stop Service (OSS) first

emerged in 2006 through the Minister of Home Affairs Regulation (Permendagri) No. 24 of 2006 on Guidelines for the Implementation of One Stop Services. The regulation itself is a follow up of Presidential Instruction No. 3 of 2006 on Policy Acceleration of Business Climate Improvement. OSS implementation regulated through Presidential Regulation No. 97 of 2014. After that, some local governments start to establish their own OSS agencies or offices. However, the central OSS itself was only inaugurated by President Joko Widodo on January 26, 2015. It is one of the actions taken by President Joko Widodo to support the Economic Policy Package. Reported by HukumOnline (2015), OSS becomes a central licensee, so investors do not have to pace to different institutions to take care of permits. The existence of OSS is essential to accelerate investment and stimulate economic growth.

3. OSS Implementation in Surabaya

OSS implementation in Surabaya is done by several policy instruments. As Taufik (2005) points out, policy instruments involve three aspects: legal tools, institutional arrangements, and operational mechanisms. In the implementation of OSS in Surabaya, these three instruments are used to achieve policy objectives. The goal is to create excellent

licensing services, a more conducive investment climate and encourage ease of doing business in the city of Surabaya.

3.1. Legal tools

According to KPPOD (2015), in the stage of simplification of permits can be done by preparing a legal basis. Vedung, Bemelmans-Videc, and Rist (1998: 10) analogize the regulatory instrument as a stick. It is steps taken by the government to influence society by formulating rules and directives that mandate the recipient to act according to what is ordered and directed. Most of the regulations are administrative measures that are made to facilitate legislation and are managed by government or independent government agencies. In this research, legal instruments are implemented through the Mayor of Surabaya Regulation No. 2 of 2016 on the Implementation of One Stop Service and its amendment regulation namely Mayor Regulation No. 22 of 2016. The policy of licensing services at the regional level is administrative and its provisions are regulated in the regulations at the top level. Thus the Surabaya Mayor Regulation No. 22 of 2016 governing the OSS contains all sorts of relevant information and is consistent with the higher regulation.

3.2. Institutional arrangements

Spelt and Berge (1993) states, in general, the permit contains some substance, one of which is the authority of the institution. In a permit, it is usually stated who or which agency gives and sign for the permission. In OSS licensing in Surabaya, this is done by appointment and delegation of authority. The authority that used to be in each regional apparatus organization or technical unit is then transferred to the Head of the One Stop Service Integrated Service and Services Department (Dinas Penanaman Modal dan PTSP/DPM-PTSP).

To implement the licensing service policy in Surabaya, institutional arrangement becomes one of the chosen

instruments applied. Institutional arrangements relating to the order of the institution or organization involved. Licensing Services Policy in Surabaya, according to Mayor Regulation No. 22 of 2016 be implemented through OSS. Prior to the existence of OSS, licensing in Surabaya was done manually. The applicant still has to pace from one department to another. After that, there is an improvement to centralize the licensing service in an Integrated Service Unit (UPTSA). UPTSA facilitate the applicant because they just simply submit a request through it then file will be sent to the relevant technical departments automatically. UPTSA then experienced improvements with the launch of an online licensing system called Surabaya Single Window (SSW). Files that used to be sent using courier is changing. A file is processed by sharing data digitally. This can be directly accessed by all related technical agencies simultaneously. The strong commitment of the Surabaya City Government to continue to provide prime licensing services receives various inputs and recommendations to keep improving its services. Until recently, licensing services are implemented through OSS supported by the SSW system.

3.3. Operational mechanisms

Sutedi (2015) argues that the core of licensing process deregulation is in the licensing procedures. The issuance of Surabaya Mayor Regulation No. 2 and Mayor Regulation No. 22 of 2016 regarding the Implementation of OSS in Surabaya is a commitment of Surabaya City Government to simplify the permits arrangement. OSS is a form of business efficiency on obtaining permits by accelerating in time, ease of terms and procedures, and proportional costs. The entire licensing procedure through OSS in Surabaya City has been clearly described both in the Surabaya Mayor Regulation No. 2 of 2016 and No. 22 of 2016.

The delegation of authority of OSS to DPM-PTSP makes the applicant who

will apply for permission through OSS only related to it. Implementation of OSS in Surabaya is regulated in Mayor Regulation No. 2 of 2016 and conducted using Surabaya Single Window (SSW) system. OSS is done online through SSW become one of the efforts to minimize physical contact between public servants and applicants. It is to minimize the discharge of fees that are not the official retribution or done under applicable regulations.

With the use of SSW system in the licensing process through OSS, then the operational procedures of OSS in Surabaya already have established system. Therefore, seen from the instrument of policy, the operational mechanism of OSS implementation in Surabaya is a simple, clear, non-involuntary licensing process, minimizing physical contact between the serving and serving parties, and having standard operational procedures.

10 4. CONCLUSION

Based on the above discussion it can be concluded that the implementation of OSS in Surabaya is a way taken by the

Government of Surabaya to enhance the ease of doing business. The licensing services in Surabaya are implemented using legal instruments, institutional arrangements, and operational mechanisms. Instruments of legal instruments are implemented through the Mayor of Surabaya Regulation No. 2 of 2016 on the Implementation of One Stop Service and its amendment regulation namely Mayor Regulation No. 22 of 2016. Licensing services policy in Surabaya, according to Mayor Regulation No. 22 of 2016 is implemented through OSS. Recently, licensing services are implemented through OSS supported by the SSW system. The delegation of authority of OSS to DPM-PTSP makes the applicant who will apply for permission through OSS only related to DPM-PTSP only. Implementation of OSS in Surabaya conducted using SSW to minimize physical contact between public servants and applicants so as to minimize the discharge of fees that are not subject to official retribution or withdrawal under applicable regulation.

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