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REGULATORY IMPACT ASSESSMENTS AND THE PRIVATE SECTOR IN INDONESIA

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INTRODUCTION

SENADA is a USAID funded private sector development project focused on working to improve the competitiveness of five important Indonesian value chains: footwear, textiles and garments, furniture, handicrafts, and auto parts. As some part of the inferior competitiveness of these Indonesian value chains, as compared with competitors like China and Vietnam, stems from increased costs and inefficiency due to government regulation, SENADA has a concern to assist its value chains in deregulation and in obtaining more business friendly regulation. SENADA is also interested in the long-term sustainability of reforms and believes the private sector can play a significant role in reform.

Economic reforms undertaken by the Indonesian government in recent years have been focused on macroeconomic policies and financial sector management. Steps toward regulatory reform have been more limited, meaning that firms in SENADA's priority industrial value chains (IVCs) still struggle with a range of regulations that are outdated, restrictive, and redundant.

SENADA's Business Enabling Environment (BEE) cross-cutting initiative undertakes a range of research and advocacy-based activities to address this situation. The BEE program focuses on the extent to which government policies, laws, regulations and procedures promote or inhibit business operations and influence — positively or negatively — the performance of markets, incentives to invest and / or trade, and the cost of doing business. The primary activity of SENADA's BEE program is the RegMAP initiative. The RegMAP as its name implies is a tool for mapping and reviewing regulations on a sectoral or value chain basis. In this case, the RegMAP was applied to five industry value chains (IVCs): footwear; garments; furniture; autoparts and home accessories (SENADA's focus IVCs). The RegMAP process involved developing an inventory of 1,000 regulations that affected these IVCs. To find the most problematic of these regulations, i.e., those requiring further study and possible reform, SENADA applied a series of "filters" to this inventory.

The RegMAP results may lead to the simplification or elimination of problematic regulations. A more enduring and fundamental impact, however, would be the institutionalization of regulatory review techniques and processes within Indonesian institutions, both private and public. In this way, Indonesian governments can become wiser regulators and better enablers of economic growth in eliminating unnecessary regulatory burdens; private sector associations can become more effective and more informed advocates for regulatory reform and Indonesia can enhance its international competitiveness.

The SENADA project will soon end. Its RegMAP institutionalization effort thus far has focussed on government, in particular the newly formed Directorate for Analysis of Law and Regulation (*Directorate Analisis Perundangan dan Peraturan*, DAPP) at BAPPENAS, the National Planning Agency. Since partnering with SENADA in mid-2008, this directorate has played an active and enthusiastic role in the implementation of the RegMAP process. Between February and July 2008, DAPP-BAPPENAS and SENADA will work together to disseminate the RegMAP results and to promote the use of RegMAP's regulatory mapping and review techniques to national and local government agencies, and to select private organizations such as business associations. DAPP-BAPPENAS will also host the RegMAP website which provides comprehensive information and analysis on the regulations reviewed (including texts of the regulations, filter reports, etc), now accessible at www.regmap.org.

In addition to working with government, SENADA has also initiated some limited activities to promote and institutionalize the use of regulatory review techniques within the private and non-government sector. To that end, SENADA working closely with the USAID funded, Academy for Education Development (AED) implemented Human and Institutional Capacity Development project, was able to assist in getting a group of its non-government and civil society partners (such as relevant business associations) to attend a week long training program on Regulatory Impact Assessment (RIA) with Jacobs and Associates (market leader on RIA and regulatory reform issues) in Washington DC in December 2008. In addition to three participants from Bappenas and another from SENADA, there were 19 other participants from media groups, NGOs, research groups as well as SENADA's key partner business associations (ASMINDO, the Indonesian Furniture Association and APINDO the Indonesian Employers Associations).

All participants attending the training were, prior to departure, given a half-day training on the RegMAP, focusing on its background, objectives, methodology and preliminary results. IN groups of two, the participants were given a task to choose one of the regulations in the RegMAP database and to develop a brief Regulatory Impact Assessment (RIA) of that regulation. They are then required to present the results of that RIA at one of the national or regional workshops scheduled in March/April 2009 for the dissemination of the RegMAP.

The results of the RIAs submitted by the group are contained in this report. SENADA did not dictate any strict guidelines as to how these RIAs are to be developed, instead leaving it up to the participants to apply what they have learned in Washington DC and to use their own format and approach to developing the RIAs. Notwithstanding some minimal formatting and editing from SENADA the RIAs (or perhaps better referred to as 'mini-RIAs') are presented in this report essentially as they were submitted to SENADA (i.e. on an 'as is' basis). Thirteen of these mini-RIAs are contained in this report. They include RIAs on both national and local level regulations and cover a broad range of topics including regulation of warehousing, employment and manpower, forestry products, exports and investment. As a prelude to the RIAs, is a chapter prepared by SENADA consultant Professor Gary Goodpaster on the potential role of the private sector in the regulatory review process and efforts to-date to institutionalize regulatory reform in Indonesia.

INDONESIAN PRIVATE SECTOR ASSOCIATIONS AND REGULATORY REFORM

1. REGULATION AND THE BUSINESS ENABLING ENVIRONMENT

Government regulation is often a source of reduced business competitiveness. This may be regulation that increases business costs and reduces business efficiency, that creates perverse incentives or authorizes anticompetitive behavior, or regulation that distorts the operations of markets. It can also be regulation that is vague and capable of multifarious official interpretations, depending on the whim or personal interest of the official. As countries around the world have tried to open, reform, and liberalize their economies, they have often focused on government regulation, sometimes an inheritance from an authoritarian or socialist past, as the source of economic and competitiveness ills. To improve their economic performance and competitiveness, these countries have deregulated and have instituted systems to conduct cost-benefit and similar analytic reviews of proposed regulations.

Economic globalization also makes deregulation important for countries participating in multilateral trade agreements, such as the WTO agreement, and in similar trade enhancing bilateral agreements. These agreements subject a participating country's industries and businesses to intense international competition, both in domestic and international markets. Deregulation, and better regulation when regulation is appropriate, in eliminating a major governmental cause of business inefficiencies and cost non-competitiveness, can help domestic businesses become internationally competitive.

1.1 REGULATION IN INDONESIA

Like the countries, that have undertaken regulatory reform, Indonesia has a large, and largely negative, regulatory legacy. Indonesia has a huge inventory of regulations, both national and local, accumulated from the long past and still accreting in the present. There are many regulatory authorities, and different authorities regulate the same matter in different, and sometimes duplicative, multiplicative, and conflicting ways. Many of these regulations are vague, unclear in objectives, or confer unbridled discretion on officials, and provide a basis for opportunistic, discriminatory, or abusive enforcement (as a way to extract rents, to intimidate, or hamper private sector activities). Many appear designed solely to raise funds. Even when not described as taxes, but as fees (charges), often — perhaps in most cases — there is no service provided.¹ As stated by The Asia Foundation, with respect to licensing regulations, “[l]ocal governments in Indonesia often use licenses to generate revenue without providing protection, control, or associated administration services, and often without fully analyzing the impact of a license on business behavior.”²

Although the total costs extracted from businesses by these regulations may be small, cumulatively they are costs that affect competitiveness if businesses in other countries do not experience similar impositions. More importantly, it is the business administrative time (and aggravation) required to deal with all these regulations and regulatory enforcers that detracts from business activity. Without regard to the money costs, this may make Indonesian businesses less competitive than their counterparts in competing countries. Aside from regulations which governments design to raise fees, however, there are also regulations that do impose more than nuisance costs on businesses, e.g., labor regulations, local hire regulations, employment quotas, and various anticompetitive regulations designed to favor particular local interests. For example, the governors of Sulawesi provinces banned the export of rattan to Java in the interests of developing a rattan furniture industry there. Such a ban violates a principle of free trade within the country; has a serious,

¹ Even where there is a putative “service” or public interest regulation, for example the case of weigh stations where trucks are weighed to insure there is no overloading; there is no weighing of trucks. Instead, the pretext of weighing becomes an occasion to stop trucks and charge a fee. This practice has the perverse effect of increasing truck overloading and highway damage since haulers overload in order to make up for the fees charged. *Trucking and Illegal Payments in Aceh* (World Bank, 2007); Ray, D., and Goodpaster, Gary, *Indonesian Decentralization*, in Damien Kingsbury & Harry Aveling, *Autonomy and Disintegration in Indonesia* (Routledge Curzon, London, 2003).

² *Making Sense of Business Licensing in Indonesia* 11 (The Asia Foundation, 2007).

negative impact on Java rattan furniture producers; and damages the international competitiveness of Java's rattan dependent industries. Similarly, the national government policy of an export quota on rattan, limiting the amount of exported rattan to far less than annual production, has had a serious negative impact on parties at the beginning of the rattan supply chain, the rattan growers and harvesters, who have little incentive to produce if they cannot sell.

Indonesian governmental decentralization has unveiled the size and scope of the regulatory problem. In granting greater autonomy to local governments, and transferring former central government functions to them, Indonesia has enhanced the authority of local governments to enact regulations. Since decentralization began, the regulatory activity of local house of representative (DPRD) and local administrations has become a focus of business concern. Because the central government does not fully fund local governments, many of the new local regulations impose taxes and fees of various kinds. These taxes range from tariffs on imports and exports from the locality, cargo hauling and loading and unloading levies, forced "contributions" from various kinds of production companies, to road and transport charges. In addition, local governments have added regulatory and quarantine inspection requirements. Some of these many levies and requirements interfere with free domestic trade, and many appear to lack any purpose other than raising money. In addition to local regulations imposed to raise funds, there are also a number of new regulations that aim at establishing local monopolies, call for local labor quotas, provide competitive advantages for local businesses, including government owned companies or competitive disadvantages on competitors, and so on.

Indonesian governments since the demise of the Suharto regime have undertaken some deregulation and have moved positively away from state domination of the economy in the direction of a more fully market-based economy. In addition, the rush to local regulation that attended decentralization has abated somewhat. The central government has also asserted some control over local regulatory activity by reviewing, and overturning, local enactments. Nonetheless, there remains a regulatory hangover, and a bureaucratic regulatory mindset, that together imposes unnecessary costs on business, create barriers to trade, and interfere with the operation of markets.

2. A BRIEF PRIMER ON DEREGULATION AND REGULATORY REVIEW

Countries undertaking deregulation and seeking to improve their regulatory environments do so through some form of regulatory review. The principal aim of regulatory review is to optimize policy for as many stakeholders as possible. Such review undertakes a policy analysis of government regulations and the policies they embody to provide relevant government decision-makers with the information necessary to evaluate the need for, and usefulness of, particular regulations. Where regulations do not serve legitimate purposes, or do not serve them well, are unnecessarily burdensome, distort markets, or contribute to a high cost economy, they are revoked or amended.

The information a regulatory review analysis provides should include a real understanding of the problem the regulation addresses, the legal and policy basis for government action, the expected economic costs and benefits of the regulation, alternatives ways of solving the problem, and any other factors that will affect the effectiveness of the regulation and minimize its negative impacts. Of particular concern are the costs that a regulation imposes on stakeholders, for some regulations cost more to implement than they produce in benefits. Regulations that have anticompetitive purposes or effects, for example, regulations restricting markets, conferring monopolies and monopolies, protecting local businesses or potential employees from competition, also warrant serious scrutiny.

The regulatory review process consists of a careful analysis of the economic and other effects of proposed regulations and calls for consultation with parties proposed regulations may affect. The analysis and consultation lead to a *Regulatory Impact Assessment* (RIA). This is a document that analyses what a regulation does to the economy and to competition and that discusses the best ways a government can achieve its regulatory aims.³ The RIA thus is a report that officials can use to assist them in deciding *whether* to regulate at all, and *how* best to regulate if it is necessary to do so.

³ Many countries, including the U.S., Canada, Australia, Ukraine, and the U.K. carry out this process, and even in countries that have not implemented it, recognize it to be the international best practice with respect to regulatory reform.

When a government adopts regulations, it does so because it seeks to solve some problem. There are usually many ways to solve problems, and the regulation chosen may or may not be the best way to solve a particular problem. Sometimes one discovers that the regulation isn't really doing the job intended and that the problem persists or even becomes worse. Governments then often try to correct the regulation, either by amending it or by enacting further regulations that address the newly arisen problems caused by the original regulation.

In addition, regulations often have unintended consequences. Governmental actions in one area may produce problems in other areas. For example, when the government subsidizes kerosene sales to the entire public, some people will buy kerosene and smuggle it internationally to countries where the price of kerosene is much higher because it is not subsidized. In this case, while the original government policy may have been to help the poor who rely on kerosene for light and fuel, the particular regulation does not exactly hit its target, which is the poor, and other people take advantage of a subsidy not meant for them.

Government ministries also often adopt regulations without regard to the regulations adopted by other ministries, with the result that there is an inconsistency between the regulations of different ministries. This would be the case, for example, where one government ministry, say Forestry, creates a national park where development is not allowed, while another ministry, say Mining, granted mining permits for national park areas. In this case, different government ministries are acting in contradictory ways, confuse parties attempting to obey government regulations, and interfere with one another's work and goals.

Finally, regulations often impose costs on various parties that the government doesn't really take into account at the time of regulation. For example, in Indonesia, in order to operate as a small business, entrepreneurs must obtain many different government permits and licenses. There are five main business licenses, sectoral and product and activity specific licenses as well, and there is a redundancy between a numbers of different licenses.⁴ Each permit and license imposes a number of costs: the paperwork and time costs involved in filling out the applications; the time lost in going to government offices to file papers; the fees imposed for each license or permit. There are also bribe costs as obtaining licenses requires interactions with government officials and gaining approvals.⁵ All such costs, in money, time, and lost opportunities increase the cost of doing business. In order to survive, businesses must charge more for their products and services to recoup these costs. This makes goods and services more expensive than they would otherwise be and contributes to a higher cost economy.

Regulatory impact assessments, which consider these and other matters, are rather simple in form, but, depending on the complexity and circumstances of particular regulations, can involve substantial analysis. Overall the aim is to analyze what a regulation actually does, in terms of achieving the government's goals, the benefits the regulation is likely to realize, the costs it imposes on business, the consumer, and the government, and its effects on competitiveness and competition.

2.1 RELATED REGULATORY PROBLEMS: VAGUENESS, DISCRETION AND BRIBERY

Regulations may require government agencies to take certain actions when citizens provide certain information and pay certain fees, e.g., to grant a license. However, where there is little oversight of government employees, they may act as though they had discretion whether or not to grant a request. In addition, where laws and regulations are vague, multiplicative, or inconsistent, government agents must of necessity interpret them. This need to interpret confers on them a power of discretion. That discretion allows them to grant, or to refuse to grant, what a citizen may request. In such circumstances, the power to refuse creates an opportunity to grant a request for a price. The government agent's control over something a citizen needs gives the agent the power to demand a payment to him, over and above any proper fees required. Similarly, officials can use agency power to issue regulations to extract rents.

A domestic business that produces a product for which there is import competition could ask the relevant Ministry to issue a regulation restricting imports of the competing product. Because the Ministry has so much discretion over such matters and because there is neither openness nor accountability in the issuance

⁴ Making Sense, *supra*, n. 2. at 9.

⁵ Kuncoro, Ari, Bribery in Indonesia: Some Evidence from Micro-Level Data, Bulletin of Indonesian Economic Studies, vol. 40, no. 3 (2004).

of ministerial regulations, this creates an opportunity for the relevant officials, if they are so inclined, to seek a payment in exchange of the requested regulation. For such reasons, a further aim of regulatory review is to increase the clarity of regulations, to greatly reduce unfettered official discretion, and to reduce the number of interactions with public officials that regulations may call for. All of these actions increase the consistency of regulation, reduce regulatory conflict, preclude or narrow interpretive creativity and abuse, and reduce occasions for bribes as well as reducing it takes to get government approvals.

2.2 REGULATORY IMPACT ANALYSIS COMPARED WITH POLICY ANALYSIS

Regulatory impact analysis is primarily a governmental discipline. It is certainly a kind of policy analysis, but one that seeks to consider policy choices from the point of view of all affected stakeholders. It is properly a governmental role to aggregate, consider, reconcile, and balance interests, and, ideally, to make policy choices that are in the best interests of society as a whole. When stakeholders other than the government undertake policy analysis, they usually undertake it only from their own point of view, and one can reasonably expect that their policy analysis and prescriptions would be tailored to their own interests and not necessarily take into account the interests of other stakeholders. We thus should distinguish between governmental regulatory impact analysis as a kind of policy analysis and stakeholder policy analysis that must be presumed to be much more self-interested.

In a well-ordered government policy competition and decision-making process, concerned stakeholders would promote their particular policy positions with supporting information, while the government would review all policy claims independently and on the basis of its own analysis. Stakeholder analyses would help inform the government, as stakeholders have knowledge that the government does not have, but would not control governmental policy dispositions. In this sense, stakeholder policy analysis serves the governmental consultative interest in the process of making good policy.

2.3 REGULATORY REVIEW IN INDONESIA

Regulatory impact analysis was introduced to the Indonesian national government, via the then Ministry of Industry and Trade by the 2002 ADB Deregulation and Competition Project. The Project produced a training manual and trained a cadre of Ministry officials in the methodology. The manual was translated into Bahasa Indonesia, and the manual, along with revised Indonesian iterations of it, remains in circulation for government use. Through this effort, the idea of regulatory review and regulatory impact analysis secured a small foothold in at least one ministry. Today, the research arm of the current Ministry of Trade, Litbang, uses this form of cost/benefit thinking in its policy analytic work. To date, it has conducted two substantial regulatory impact analyses, one on rattan and the other on cocoa. More importantly, it has adopted a cost-benefit mindset in its consideration of regulations.

Because of the transfer of government authority to localities through decentralization, and increased local regulation, The Asia Foundation, among others, took on the cause of regulatory review in Indonesia and has conducted 25 trainings in regulatory impact analysis for local governments. TAF also encouraged local governments to adopt the methodology as a part of their ordinary operations, and, where they were receptive, to assist them in institutionalizing the practice. To date, Pare Pare and Sragen are only localities that have fully embraced regulatory review, while institutionalization efforts have so far been less successful in other localities, although RIA efforts are ongoing. To further assist localities, TAF helped conduct regulatory impact analyses of two local business licensing regulations for each kabupaten participating in its trainings, and these analyses are available for use by the localities. GTZ has also conducted a number of regulatory impact analyses. TAF now plans to work with fewer localities and focus its efforts on institutionalization of the process.

While these are positive national and local developments in regulatory reform, Indonesian governments, for the most part, do little in the way of using regulatory review methodology to improve regulatory regimes. It is also fair assessment to say that, by and large, Indonesian ministries and other governmental agencies, national and local, have neither the interest, the human resources, nor the technical ability to carry out large-scale and systematic regulatory review. Regulatory review and evaluation are not parts of the ordinary working of Indonesian bureaucracies, and these bureaucracies, for the most part, do not take cost-

benefit considerations into account in decisions to regulate, nor do they give much consideration to the best form of regulation. Introducing regulatory review and evaluation to the many Indonesian administrative agencies and educating Indonesian civil servants to the skill levels required to do such analyses and evaluations well is a major reform that calls for long, sustained efforts.

- **Regulatory Review and the Indonesian Private Sector.** While Indonesian governments have been slow to embrace and use regulatory impact analysis, the Indonesian private sector has been more active, at least in noticing and complaining about regulatory problems. The Indonesian Chamber of Commerce (Kadin) and its research arm on decentralization, KPPOD, have collected and examined local government regulations adversely affecting businesses and have published annual surveys regarding the business friendliness of localities in Indonesia. Most of the regulations compiled imposed taxes, fees, or increased business licensing requirements. These surveys have been useful for the information provided, for the pressure they put on local governments to improve their regulatory regimes, and for the competition for rankings they have created among local governments.

Notwithstanding this positive private sector deregulatory activity, deregulation work has just begun. Systematic regulatory review would benefit Indonesian business competitiveness.⁶ As Indonesian governments don't do this, however, and as Indonesian associations have thus far played a limited role in a systematic and ongoing review of regulations, what's to be done?

2.4 THE CONTEXT OF REGULATORY REFORM

As a matter of setting the context, it is well worth noting here that, less than ten years after the collapse of the Suharto regime Indonesia, as a state, continues in a process of major transformation. When Suharto lost power, significant structural arrangements of the Indonesian government changed, but others remained intact. For example, the DPR, or Parliament, became an independent, major political actor, there were genuine, democratic elections, the military's role in politics and government was greatly reduced, and there was a major decentralization of governmental authority. Nonetheless, many of the day to day operations of government in its bureaucracies and administrative agencies continued much as they had in the past. In these agencies of government, ideas of what governments do and how they go about their business did not change quickly – in large part because the civil service personnel that managed them did not change.

In these circumstances, where there are no powerful and effective root-and branch reformists driving change throughout the government, the regulatory agencies of day to day government have been slow to change. At best, one can say that they are in the process of learning new governmental roles, along Western model lines. In these roles, there is considerable focus on economic growth and development through the market, rather than through state direction and state choice of winners and losers. The state takes on a more neutral position as guarantor and enforcer of fair and efficient markets, and seeks to find paths to the common good or public interest among the forces competing over governmental regulatory policies.

In this situation, even if Indonesian governments and regulatory agencies, of their own initiative, do not yet conduct regulatory impact analyses, they are not necessarily set against reform. While some are certainly recalcitrant and resist learning and adopting the new roles, others are simply uncertain or confused or do not know how to occupy the new roles. Even where there is recognition and desire, there may not be capacity and resources to analyze regulatory regimes for the common good. This suggests that there are reforms that some Indonesian governments cannot or are not likely to initiate, yet nonetheless might adopt were some other party or parties to do the underlying analytic work for them, as well as lobbying effectively for change.

Thus, when presented with good data about the adverse consequences of particular regulations, and enough pressure, some Indonesian governments or agencies of government may respond positively. This may also

⁶ Ideally, Indonesian governments, at both national and local levels, should undertake a “regulatory guillotine”. This is a commitment to inventory and review all regulations, within a set, relatively short, period of time, and to abolish those that are duplicative, ineffective, too costly or burdensome, or that interfere with competition, and to revise all those retained to insure they meet their objectives in ways that provide the most benefit at the least cost. Given present Indonesian politics and the heavy legacy of Indonesia's bureaucratic past, this is most unlikely to happen for quite some time, except perhaps in some exceptional locality.

become increasingly likely over time for two reasons: increased governmental responsiveness arising from democratic politics; and competition between localities for business and economic development.

Where governments are unable or unwilling to *initiate* change and reform, the reform impetus, as well as the cases to be made for particular reforms, must come from another source. Given the marginal state of official regulatory reform in Indonesia, what institutions are there that can play this initiating role? The institutions that have the interest and capacity to undertake some form of critical review of regulatory policies and regulations as well as advocate reforms are donors and some NGOs, and they currently do some of this. Indonesian private sector business associations also have a substantial interest in regulatory policy and reform.

- **Donor Analysis.** Donor-conducted policy analysis might, to some degree, make up for the absence of governmentally conducted regulatory impact analyses and can certainly be a source for reform ideas. While the analysis would be done, however, there would be no Indonesian ownership. Even where reforms are promoted through conditionality, there is often a grudging embrace and less than full compliance. Without conditionality attached to loans, donor promoted reforms has difficulties in getting responsive hearings, and even less success in getting action. Donor-driven reform, without enduring enticements or incentives, is also not sustainable — although it is possible there is some associated learning that does carry over. Nor, where governments lack capacity and resources, and do not see their interests served, is there any likelihood that reform and reform processes will be taken over and institutionalized.

This is not to say that donor-conducted analyses and policy advocacy are not useful. They certainly are: they address some of Indonesia's analytic and policy-making resource gaps, and provide valuable information and ideas. Donors usually make them widely available and, where loans may be involved, design development loan packages around them. Nonetheless, such efforts are not likely to have the impact of Indonesian originated and owned policy analysis. Finally, it is necessary to note that, like all policy advocates, donors have agendas, often associated with making loans, but also deriving from development ideologies that as yet do not resonate in Indonesia. They are not neutral, nor are they perceived to be neutral in their policy prescriptions. Most pointedly, they are not Indonesian.

- **Domestic Research Institutions and NGOs.** Indonesia has a number of well-respected research and advocacy institutions, such as CSIS and SMERU, some University research institutions, and there are many NGOs, both domestic and foreign, operating in Indonesia. These institutions sometimes provide detailed policy analysis and more often take policy and advocacy positions. The research institutions, if not independently funded, sometimes do researches on contract, often on donor, government, or even private party hire. While these institutions can be an important source of policy analysis and advocacy, it is not at all clear, with some exceptions, how effective they are, what their access to government is, nor how they go about their advocacy work. Nonetheless, they are a source of policy ideas and critique and are players in the competition for policy.
- **Private Association Analysis.** The distinction between governmental regulatory impact analysis and stakeholder policy analysis and advocacy comes more sharply into play as one considers the role of the private sector in governmental policy-making. Simply put, we should not expect business associations to take responsibility for the overall public interest, as governments should do. Business associations should represent the interests of their members, and these may not always coincide with the public interest. Business associations, however, have a stake in regulations that affect their members, so they have an important role as significant stakeholders in regulatory review. They can play this role through policy advocacy and analysis.

Where the government fails to improve the regulatory regime, there is a greater need for the private sector to step in and to use competent policy and regulatory analysis and advocacy to prompt positive changes. It is in the interests of Indonesian business associations to undertake ongoing policy analysis and advocacy. As parties affected adversely by regulation, they are stakeholders in government policies and regulations. They are also best position to assess and uncover the costs and other competitive disadvantages the government's policies impose. As explained below, they also appear to be interested in these activities.

3. POLICY ADVOCACY AND ANALYSIS

3.1. ADVOCACY

What does “policy advocacy” mean? Obviously, advocacy of any particular policy can range from the slightest gesture of support to an orchestrated media campaign of promotion of a particular set of ideas, with all sorts of supporting analyses, documentation, endorsements and the like. For the purposes of this report, policy advocacy means persuasions, to change or adopt particular policies, directed at decision-makers who control policy making and to parties that can influence these decision-makers. Policy advocacy involves arguments in favor of a policy as well as arguments against the policy to be replaced, if there is one. It also involves countering arguments of those who would oppose the proposed policy.

Because policy advocacy is directed at decision-makers *and* those who influence them, the persuasions or arguments involved in the advocacy can be shaped to appeal to the interests of the target audience. A policy advocacy campaign would thus call for an analysis of whom it is essential, and useful, to persuade, how to reach them, and what arguments to use to persuade them. For any particular audience, this calls for an analysis of what the audience values, what its interests are, and how to shape policy proposals and arguments in ways that appeal to those values and interests. If this is not possible, then it is helpful to shape them in ways that do not threaten the values and interests of the target audience. There is even more that can be said. For present purposes, however, what is essential to understand is that policy advocacy, at least where governments are involved, calls for analysis, planning, and strategy, as well as skills in framing persuasive argument. Policy advocacy also presumes policy analysis.

3.2 ANALYSIS

Policy analysis can take many forms, and there can be different sorts of analyses that policy choices should generate. At heart, all forms of policy analysis seek to determine the likely impacts of a policy and policy alternatives on those affected by it, the stakeholders. This entails a stakeholder analysis (who will be affected); a means analysis (how will they be affected); a goals analysis (what will be achieved); an impacts analysis (in what ways and how much will stakeholders be affected) allied with some sort of cost-benefit or similar analysis, including an analysis of how costs and benefits are distributed among stakeholders who wins and loses). Ideally, a policy analysis would include similar analyses of policy options and the tradeoffs between them.⁷

These kinds of analyses, which may require some empirical research, provide justifications for policy choices and reasons for choosing one policy over another. From a policy advocacy point of view, these analyses provide the arguments and counterarguments that a policy advocate needs to make a persuasive case for his or her preferred policy. Were Indonesian private business associations to undertake these kinds of policy analysis and advocacy activities, they could significantly help to transform the business regulatory environment in Indonesia. Whether they can undertake these activities, and how SENADA might assist them in their efforts to do so is discussed below.

4 PRIVATE SECTOR ASSOCIATIONS

Businesses need to analyze governmental policies and regulations to determine exactly how they negatively impact business operations and competitiveness, and to effectively advocate policy and regulatory changes. The most promising private sector vehicles for undertaking such analyses and advocacy are private sector business associations. For SENADA, these are the associations that represent the interests of the parties involved in the five value chains. These are not solely value chain associations, e.g., API, the textiles association, or ASMINDO, the furniture association, but also associations with cross-cutting interests, e.g., the Importers and

⁷ Listing so many seemingly different kinds of analysis might cause a reader to think of analysis as a kind of contagious disease – leading to a fatal condition of analysis paralysis – or to conclude that analysis is a really complicated matter not suitable for Indonesian private associations. Frankly, despite the varying targets of analysis, these analytic efforts are not necessarily difficult: it is more a matter of systematic thinking about consequences of potential choices. Of course, a sophisticated cost-benefit analysis can be complicated and demanding. At this stage of development in Indonesia, however, instituting a cost-benefit mindset is more important than instituting a complicated and time-consuming methodology.

Exporters Association, and perhaps, to include the lower end of the value chain, SME associations or basic goods and supplier associations. In addition, given the large regulatory authority of local governments, and the heavy impact of local regulations on SMEs and on lower portions of national value chains, SENADA also has an interest on working on regulatory reform with regional and lower level associations.

4.1 TYPES OF ASSOCIATIONS

There are many types of associations in Indonesia: sectoral associations, such as API (textiles association), APRISINDO (footwear association), and ASMINDO (furniture association), and a whole host of product associations too numerous to mention; function associations such as APINDO (employers' association), IEI (importers and exporters association), ALI (logistics association), KADIN (chamber of commerce association), and others; and some of these associations have national and provincial or local chapters.

While SENADA has a particular interest in working with Indonesian private sector associations that represent their value chains, it is important to note that parties engaged in these value chains may participate in more than one association, e.g., in API and in APINDO, and that there are non-value chain associations whose work has impacts on the value chains, e.g., the Importers and Exporters Association. For these reasons, SENADA's work with associations should not be limited to value chain associations, but rather should focus on working with those associations, whatever they may be, that can make a significant contribution to value chain competitiveness.

4.2 PRIVATE ASSOCIATIONS AS PARTICIPANTS IN REGULATORY REFORM

If regulatory impact analysis were a standard government practice in Indonesia, national and local governments would consult with private sector actors when any proposed regulation affected them. For the most part, Indonesian governments, however, do not effectively consult with non-governmental stakeholders in government policies and regulations.⁸ As affected parties, private sector actors, and their representatives, such as associations, are usually strong supporters of deregulation. They are stakeholders in public policy and are parties best positioned to know the impacts of government policies and regulations on business and business competitiveness. If the Indonesian regulators do not effectively consult with businesses, as stakeholders, over regulatory matters, the associations could take the initiative and consult with the regulators.

Initial discussions with some Indonesian business associations connected to SENADA's value chains (such as API, ASMINDO, APRISINDO, and IEI) reveal that they are interested in developing their capacities to analyze policy and regulations and to advocate with the Indonesian national and local governments for policy and regulatory reform on issues affecting them. Some, like API, would also like to strengthen their ability to analyze trade issues and to participate more effectively in governmental policymaking regarding international trade.

While private sector associations, in different ways and to different degrees, want policy development and advocacy assistance, they evidence varied stages of development and effectiveness. None, with the exception of APINDO, appear to have staff dedicated solely to policy analysis and advocacy, and none appear to do disciplined, systematic policy analysis or advocacy (KADIN's KPPOD efforts aside). Where an association takes policy positions, it generally develops them through Board level discussions. As for policy advocacy, board members of some associations have good contacts in government and can arrange meetings with government officials to discuss policy. Thus, the policy reform effectiveness of some associations appears to depend primarily on personal relationships between board members and government officials to effect policy changes, rather than on quality analysis or well-organized advocacy programs. Most of the associations relevant to SENADA's value chains, however, do not operate on even this ad hoc, personalized level of effectiveness.

⁸ There appear to be some legal requirements regarding public consultation, particularly at the local level. Experience suggests, however, that it is the letter, rather than the spirit, of such laws that is followed. Consultation is seen as a formality, rather than as a means of securing better regulations.

Overall, it appears that the associations involved in SENADA's value chains are scattered along a policy development continuum from national associations able to take a position at least on some matters and to lobby the government regarding them, to those having no kind of policy engagement at all. For example, although it would like to, because of lack of resources and knowledge, the Bandung APRISINDO chapter doesn't even take policy positions, much less advocate for policy or regulatory changes. Instead, this chapter, which is composed of SMEs, appears to be primarily a networking entity focused on skills and human resources development. Overall, initial investigation suggests that Indonesian private sector associations, except perhaps one or two operating on the national level, are not playing as significant role in governmental policy development or in regulatory reform as they could.

- **Private Sector Policy Positioning and Decision Making.** In general, advocates for a policy or regulatory change should be able to demonstrate to government officials that existing or proposed policies or regulations damage sectoral or value chain competitiveness. The analysis required is not a simple matter of canvassing an association's board of directors regarding possible injury, but rather a cost-benefit analysis of the differential impacts of a policy or regulation on different subunits of the value chain as well as on the comparative competitiveness of the entire chain.

This is easiest to illustrate with the example of a ban on rattan exports. Depending on the size and kind, Indonesian rattan is either grown like a crop in gardens or harvested in forests. Small traders buy the rattan from growers and harvesters. Larger traders buy from the smaller to increase lot sizes, and sometimes do some cleaning, curing, and basic finishing work. A larger buyer will take these products, may do more finishing, grading, and sorting, and then sell them to local manufacturers who use rattan or to exporters. A ban on rattan exports injures the exporters, injures growers and harvesters who don't have an incentive to produce for a larger market, and benefits the local manufacturers who likely have a large and cheap supply of rattan. A ban, of course, also encourages smuggling.

In a case like this, a differential impacts analysis of the rattan export ban would show how the ban affected each segment of the production chain. It might show that while an export ban is in the short-term interest of local manufacturers who use rattan, it is neither in their long-term interest nor in the overall interest of the health and competitiveness of the value chain. This is so because of the disincentive to growers and harvesters and because of smuggling (in which case local manufacturers might lose any competitive advantage that a captive market in rattan gave them). Alternatively, the analysis might turn out otherwise. In any case, the analysis would show what the actual tradeoffs were and would permit an intelligent decision regarding which policy choices were the best, taking into consideration all the costs and benefits.

- **Additional Analysis.** Even differential value chain impact analysis is not enough, however, to fill the policy void, nor to provide the complete basis for effective policy advocacy. Indonesian circumstances dictate that an additional kind of policy analysis would be useful. This reflects the fact that a number of different government ministries or offices may have differing interests in the same policy that reform proponents are seeking to change. This means that policy or regulatory reform proponents should also analyze the differential government interests in a policy or regulation.

Changing government policy is often not a simple matter of lobbying a single ministry or government office with good data and arguments. At the national level, effecting changes in government policy often requires negotiations with several ministries, e.g., MOT, MOI, MK, MA; and sometimes a grand negotiation with several ministries or offices at the same time. Similar multi-party governmental interests exist at the local level. Proponents of a regulatory or policy change therefore need to analyze the impacts of proposed changes on the interests that the involved government offices represent. To effect change, they should conduct a differential interest's analysis and should tailor their policy or regulatory proposals in ways that satisfy, or neutralize, as many resisting governmental interests as possible.

- **Additional Value for Private Sector Policy Analysis.** Indonesia is a party to many bilateral and multilateral trade agreements, and will be negotiating many further such agreements. Well in advance of any trade treaty negotiations, the Indonesian government needs to work out its positions on a host

of issues, issues that affect Indonesia's industries and producers. As a part of its preparations for negotiation, the Indonesian government should confer with business sector representatives, and find out what these representatives believe to be in their interests and want. These are not simple matters, and of the many possible positions that Indonesia's trade negotiators might take, there are many permutations and combinations of tradeoffs. For any trade policy package, Indonesia's negotiators need to know what is in the best interests of Indonesia's industries and producers, what they can accept and can't accept, who will win and lose, how, and how much. This means, however, that Indonesia's industries and producers must confront the possible impacts of different trade regimes and rules and make decisions about what they believe are in their best interests. They cannot do this effectively without analyses of possible trade regimes, rules and the costs, benefits, and differential impacts of these structures on their sectors. Independently of any value that good policy analysis may have concerning Indonesian internal regulatory reform, it is essential that Indonesian private business associations develop professional level policy analysis abilities.

4.3 ALLIANCES

Private sector policy analysis and advocacy are important sources of pressure for regulatory reform, both overall regulatory reform and reform of particular policies and regulations. Private sector associations can increase this pressure by forming alliances or coalitions among associations, and between associations and civil society groups.

Parties generally do not form alliances or coalitions out of good will form, but rather because they need others to help them to secure gains they cannot secure alone. They must perceive a potential ally as having related, if not identical, interests and that joining with the ally enhances their strength. It must be in the interest of every member of an alliance or coalition that the group succeeds in achieving its aims, even though every party to the alliance need not share equally in the gains.

There is a further aspect of alliance or coalition formation that is important to note. Parties who form alliances often must reshape, or compromise, on some of their goals. This is because other parties in the alliance may have goals that are at least somewhat dissimilar, if not actually conflicting. An alliance must find an encompassing goal that all parties to it share, or it must focus on achieving aims that satisfy the different, yet compatible goals of other alliance members. In alliance formation, if the parties need each other to achieve their major goal, they must be willing to make tradeoffs to secure one another's loyalty to the effort. Each party will, of course, attempt to maximize its gains, but in dealing with other alliance members will discover what those gains can be under conditions of alliance. In its own way, this process is similar to governmental participatory policy making, where a government agency consults stakeholders to determine which policy choice best meets the interests of as many stakeholders as possible while also serving the government's aims.

What this means for regulatory policy reform is that the policy choices of a private sector alliance – and the more encompassing the alliance the better - will reflect the interests of more parties than the policy choice of a single private sector actor, even an association. It amounts to private sector stakeholder consultation and agreement.

- Private Sector Alliances in Indonesia. At present, we do not know how much alliance activity there is regarding regulatory reform in Indonesia. Certain "apex" associations, such as KADIN (Indonesian Chamber of Commerce) or APINDO (Employers' Association) represent many different kinds of businesses and may take on policy issue aggregation and clearinghouse functions. There do appear to be informal alliances created on an ad hoc basis and based primarily on existing relationships between persons in different associations. There does not appear to be any systematic attempt to mobilize alliances for analysis or advocacy purposes.

Given the narrow sectoral interests of many associations, and their level of development, it is unlikely that they much concern themselves with forming alliances or coalitions with other associations or organizations. In order to become interested in forming an alliance on a policy issue, an association

would have to understand not only how the policy they wished to change affected their own membership, but also how it might affect the membership or interests of other organizations. They would also have to consider how their preferred policy potentially affected these other entities. Since it appears that few private sector associations now do any significant policy analysis, it is even more unlikely that they concern themselves at all with the needs, interests, and concerns of others.

If there is little alliance activity among Indonesian private sector associations, this is a lost opportunity to effect regulatory change and to improve governmental policies in business friendly ways. Considering the role that alliances or coalitions might play in reform, however, suggests that an important way to strengthen the private sector role in policy-making and advocacy is to assist them in understanding the value of coalitions and enabling them to analyze the interests of possible allies. This activity, which primarily would involve training, would aim at increasing the ability of private sector associations to ally. It is an activity that can also be connected directly to policy advocacy training and policy advocacy itself because part of a campaign to change governmental policy would include the formation of alliances for change.

In addition, were SENADA to work with a number of different associations on policy issues, SENADA itself would be in a position to see where the interests of different associations aligned and it could demonstrate this to its clients. This is not to suggest that SENADA play the role of alliance broker, but simply rather that it show associations how to build their strength and effectiveness through alliances.

5. POTENTIAL PROBLEMS

Associations are self-interested actors; they act for the benefit of members, not necessarily in the public interest (e.g., protectionist policy). In the case of a developed country with many competing and able interest groups, this might not be a significant issue, for one could expect an intense competition over policy choices, with the government as final decider, and, hopefully, protector of the overall public interest. Presently, however, Indonesia does not have many of these effective countervailing forces. There is, therefore, some risk – although it is difficult to estimate how great – that enhancing the policy capacity of private sector associations will increase their ability to capture public policy formation in their own interests and at the expense of the public. This, of course, is not a problem unique to Indonesia. All countries experience it in one way or another, and the only effective check appears to be governmental transparency, accountability, openness to different voices, and countervailing civil society forces.

Another problem is that some national associations appear primarily to represent the interests of the producers at the end of the value chain, and the policy positions that associations take appear to reflect the interests of those controlling the association. Those interests, depending on the issue and the nature of the association, may or may not reflect the interests of all segments of the value chain or all the members of the association. One could hope that a proper policy analysis would educate association decision makers regarding the impacts of different policy choices on the value chain and convince them to consider them in making policy position choices. Still there is a risk that enhancing the policy capabilities of private sector associations, in some cases, simply benefits those who control the association. This is ultimately a question of internal association politics and the nature of the membership. In this regard, working with multiple associations that have different memberships and interests in parts of the value chain so that they could all weigh in on policy would mitigate this problem of narrow and unrepresentative policy advocacy.

These concerns do not arise for all private sector associations. For example, regional associations, even if affiliated with national associations, are more likely to represent SMEs than big players at the end of the value chain. For regional associations, local regulations are of greater concern than national policies, and it is most likely that the focus of regional association policy analysis would be to better the business enabling environment for all. In addition, some associations, like the Importers and Exporters Association, have cross-cutting sectoral interests that focus on benefiting all importers and exporters, regardless of size, and association capture, at least in ways adverse to most members, seems most unlikely. Similarly, APINDO, the employers' association has an encompassing interest that spans all sectors and employers.

5.1 DEALING WITH THE PROBLEMS

With private sector association policy analysis and advocacy in such a rudimentary state in Indonesia, the problems posed are speculations about some of the possible adverse consequences of enhancing the associations' policy and advocacy abilities. Providing such assistance to a number of associations having different sorts of interests in the value chains, and to both national and regional associations, mitigates the risks involved. This is simply because the greater the kind and number of interests represented, the more likely there will be healthy competition over policy. Further, as private associations form alliances to achieve policy goals, they must take the interests of allies into account and find policy positions acceptable to all alliance members.

Government regulatory bodies, because they may represent interests different than those of private associations, also provide a check. Given the record of many Indonesian government offices, one might consider this idea far-fetched, but some government offices represent sectoral and other interests, and, sometimes, in their own way, consider the overall public interest. There are other countervailing forces in the competition for policy as well: Indonesian research institutions, NGOs and civil society groups (increasingly organized and vocal), the media, and donors. Global competition and international trade agreements, sanctions, and remedies also create policy pressure – both on the Indonesian private sector and on Indonesian governments – towards competitiveness improvements and liberalized trade, and away from protectionist trade policies likely to favor the few.

Further, whether or not a given association might use enhanced policy analysis and advocacy abilities primarily for the benefit of its controlling members, or seek self-interested, e.g., protectionist, policy changes, depends greatly on the structure of the association. For example, some of the influential company members of API, the textiles association, operate throughout the value chain – importing material to make fabric, manufacturing and dyeing it, making fabric designs, and then exporting the textiles or using some of the fabric to make garments for export. In a case like this, such a company experiences all the differential value chain impacts of regulatory changes affecting textiles. As it represents the entire value chain, it isn't likely to support policies that injure, to company disadvantage, any part of the value chain.

Finally, some of the larger, and more effective, associations, such as APINDO, with the exception of labor law matters, have policy concerns that focus more on local governments than on the national government. The same appears to be true for regional or regional chapter, associations, which appear often to be composed of small and medium enterprise members, for whom the major regulatory complaint is the activity of local government. In such a case, there is no issue of national policy capture, and the focus of policy activity is most likely to be on reducing the local regulatory burden. In the case of API, another effective association, the greatest self-identified need is assistance in understanding international trade law and trade remedies. All the national associations whose members engage in international trade probably have this same need. They may have other needs as well, but an accurate assessment depends on further investigation.

This is not to say there is no public choice or policy capture problem that arises from enhancing private association policy abilities. It is rather to point out that every private sector association is different from others in structure, representation, operations, and interest aggregation of its members. What is needed is a thoughtful assessment of particular private sector associations, their needs, abilities, and potential positive impact on advancing regulatory reform in Indonesia. Based on such assessments, SENADA can decide what kinds of assistance it can provide to such associations that will most likely contribute to regulatory reform, a business enabling environment, and increased Indonesian business competitiveness.

6. CONCLUSIONS AND RECOMMENDATIONS

Indonesian private sector associations can play an important role in advancing regulatory reform in Indonesia. They represent the demand for a more business-friendly regulatory environment. If they analyzed the adverse impacts of regulation, rather than simply complain, and effectively advocated for regulatory reform, they could be a force for considerable improvement.

Most Indonesian private sector associations do not conduct cost-benefit or similar analyses of regulations, nor, with some exceptions, do they conduct advocacy campaigns. They are less effective forces for regulatory reform than they could be. Indonesian private sector associations show varying levels of development, application of state-of-the-art technology and resources. While different associations have different needs, all would benefit from training — tailored to the organization — on policy issues, policy analysis, and advocacy.

Some national private sector associations have identified the main reform issues, in particular, labor law and labor regulations, and energy policy and provision. These are cross-sectoral issues that affect most Indonesian businesses. A concerted effort to assist these associations in analyzing the adverse impacts of the current labor law regime and energy infrastructure issues, to devise satisfactory reforms and remedies, find allies, and organize an advocacy campaign could lead to major beneficial reforms.

National private sector associations that represent importing and exporting businesses that compete in the international market have training needs that focus on understanding international trade law and on preparing such associations to represent their members' interests in international trade negotiations. It is not clear how well Indonesian private sector associations understand, or concern themselves with issues of value chain competitiveness. Some training in this area might be useful for some associations.

SENADA should undertake discussions with interested private sector associations that involve, or affect, businesses in its five value chains. After assessing associational needs, interests, capabilities, and resources, SENADA can decide what policy, advocacy or other assistance could be provided to these associations that will enable them to become effective agents for regulatory reform, reform that creates a business-friendly regulatory environment and contributes to Indonesian business competitiveness.

REGULATORY IMPACT ASSESSMENTS (RIA)

IMPORT REGULATIONS ON USED CAPITAL GOODS

IDA BAGUS RAHMADI SUPANCANA AND SANNY ISKANDAR

1. OBJECTIVE OF THE REGULATION

The objective of the publication of Minister of Trade Regulation No. 49/M-DAG/PER/12/2007 is:

- This regulation is a continuation of the previous regulation, namely Minister of Trade Regulation No. 39/M-DAG/PER/12/2005. However, the aim of extending this regulation has not been clearly explained, whether it is because it was inadequately socialized, or to provide an opportunity to stakeholders to utilize the facility or for some other reason.
- In connection with the public interest that it seeks to accommodate, this regulation is to lessen the burden on business in obtaining capital goods at competitive prices.
- The intended impact of this regulation is to increase investment and industry activities as well as to enhance the market for capital goods.

2. FOCUS ON POLICY FOCUS OF THIS REGULATION

This regulation is designed to address a number of problems, including:

- To create a more conducive investment climate, create employment and improve the economy.
- The regulation is related to various other regulations of relevance, including:
 - Law No. 5/1984 on Industry.
 - Law No. 10/1995 on Customs, which was replaced by Law No. 17/2006;
 - Law No. 25/2007 on Capital Investment.
 - RI Government Regulation 17/1986 on Authority for Industry Development, Establishment and Regulation.
 - RI Government Regulation 13/1995 on Industrial Activities Permits;
 - KepPres No. 260/1967 on Tasks and Responsibilities of the Minister for Trade in the Area of Domestic Trade.
 - KepPres No. 187/M/2004 on the Formation of the United Indonesia Cabinet which has been replaced several times including, most recently, by KepPres No. 171/M/2005.
 - Presidential Regulation No. 9/2005 on the Position, Tasks, Functions and Formation of Organizations, and the Working Arrangements of the State Ministries as amended several times including, most recently, by Presidential Regulation No. 94/2006.
 - Presidential Regulation No. 10/2005 on Organizational Units and Duties of Echelon I officials in State Ministries as amended several times, most recently by Presidential Regulation No. 17/2007.
 - Minister for Finance Decree No. 291/KMK.05/1997 on Presidential Regulation No. 10/2005 on Bonded Zones as subsequently changed on several occasions, most recently by Minister for Finance Regulation No. 101/PMK.04/2005 on Bonded Zones;
 - Minister for Trade and Industry Decree No. 229/MPP/Kep/7/1997 on General Stipulation on Imports.
 - Minister for Trade Regulation No. 01/M-DAG/PER/3/2005 on the Organization and Working Arrangements of the Ministry of Trade as altered by Minister for Trade Regulation No. 34/M-DAG/PER/8/2007.
 - Minister for Trade Regulation No. 31/M-DAG/PER/7/2007 on Import Licenses.
 - Minister for Finance Regulation No. 124/PMK.04/2007 on Importers' Registration.

Nevertheless, it is hoped that this regulation will be more effective in its implementation because it involves the interests of various institutions/agencies in its practice. There is some concern that this regulation might not achieve the goal of providing facilities to stakeholders, especially industrial businesses due to its effective regulation period of only one year. The previous ministerial regulation in the same field is for a period of three years, which is still not enough time for effective implementation.

3. ALTERNATIVE(S) TO THIS REGULATION

There are several alternatives to this regulation that could be put in place to ensure that this program runs effectively by ignoring the regulatory aspect, including via programs that have to be fully supported by government:

- Reconditioning of existing factories.
- Supporting capital goods industries.
- Provision of investment incentives such as not charging import duties on new capital goods that are necessary to support industry.
- Provide fiscal stimulus.
- To apply certain incentives to pioneer industries.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

The impacts that could arise from this regulation can be either direct or indirect. The impact in this instance is a negative one.

- A negative impact that can be felt directly by business are high costs and uncertain times. There are various administrative conditions that each applicant must fulfill;
- The indirect negative impacts that could possibly occur as a consequence of this regulation are: (a) losses incurred by those engaged in the production, distribution and sales of new capital goods; and (b) a reduction in the competitiveness of existing businesses that use new capital goods.

For end customers there are concerns about the quality of products from production processes that use second-hand goods.

5. COMPLIANCE COST OF THIS REGULATION

In discussing compliance with the regulation, many businesspeople complain, in practice, about the high economic cost to fulfill the administrative conditions outlined in the regulation. The administrative conditions involve interacting with a number of agencies and bodies including surveyors, customs and excise offices, the Ministry of Industry, BKPM, and others, which potentially creates additional costs. This results in expensive used capital goods and it is detrimental to the ultimate objectives of the regulation itself.

6. COMPLIANCE AND ENFORCEMENT

Regarding compliance and enforcement of this regulation, there are some aspects that need also special attention, including:

- That this regulation applies two sanctions: revocation of the importer identification number (API) and criminal sanctions (Article 10). Law No. 10/2004 regarding the creation of rules and regulations states that the “the formulation of administrative, criminal and civil sanctions must be avoided in one article, and if it is possible there should be a separate chapter regarding sanctions. In the application of this regulation, it is not clear what violations will lead to criminal sanctions. For that reason, it is not effective to outline criminal sanctions in this regulation because all forms of criminal acts are already regulated separately in special regulations. Nevertheless, if these criminal sanctions remain in this regulation, then the violations also have to be clearly spelt out.
- The role of the government in educating stakeholders to this regulation is considered insufficient, given that the 3 year time period that was provided under the previous regulation did not fully benefit the business sector. Another factor is the complicated administrative conditions that need to be fulfilled by business applicants. If this is truly the case then this could also be the reason why the government did not fully and directly supervise business operators.

7. OVERALL QUALITY OF THE REGULATION

This regulation has the positive goals of improving the investment climate, creating employment and strengthening the economy. However other aspects that involve other stakeholders also need to be taken into consideration to avoid an unhealthy investment climate. On the other hand, the creation of an unnecessary chain of bureaucracy should be minimized because, in practice, the bureaucratic chain becomes the ultimate aim of the regulations themselves.

Criminal sanctions are unnecessary because they are not effective and generate fear in the businessmen who are supposed to benefit from the regulation. This ministerial regulation also does not directly provide legal certainty for businesses and the stakeholders, because none of the articles clearly state how the implementation is to be monitored to ensure that the regulation has been implemented effectively. Overall, overriding the basic objectives, this regulation is not effective in terms of quality, substance and implementation.

ABOUT THE AUTHOR

Professor Ida Bagus Rahmadi Supancana
Center for Regulatory Research (CRR)
Chairman / Founder

Sanny Iskandar
Association of Indonesian Employers (APINDO)
Vice Secretary General

USER CHARGES FOR MEASURING AND TESTING OF FOREST PRODUCTS

WAWAN SOBARI AND HARTANTO PRIJO PRATOMO

1. OBJECTIVE OF THE REGULATION

The East Java Provincial Regulation No. 3/2003 describes the user charges that apply to the measurement and testing of forestry products. The regulation was issued because of an explosion in illegal logging activities. This practice damages the environment and degrades the natural resources of the forest. It also causes economic losses for the state as a result of shortfalls in state income from the forestry sector. This provides the justification for the broad public interest to prevent acts that damage the environment through illegal logging practices, as well as preventing the distribution of their products. The expected impact is in regulating and facilitating the distribution of forest products that protects state interests in the forestry products sector as well as increasing the government's income from the costs imposed on the measurement and testing of forestry products.

2. POLICY FOCUS OF THIS REGULATION

The main problem to be addressed through this regulation was providing legal certainty to the ownership and control of forest products and to secure state revenue from those products. This condition needs an intervention to regulate legal processing procedures and to provide a guarantee of legal certainty over forestry products. Intervention through this regulation will have the impact of clear and legitimate legal enforcement of government actions in curbing illegal logging up to the point of transporting the products.

This regulation considers previous regulations governing the legality of forest products and processing procedures, and is able to provide legal certainty to the owner of forest products as well as add value in their utilization and processing. Because this regulation regulates the user charges that are levied for the measurement and testing of forest products, the three main umbrella regulations are Law No. 18/1997 on local taxes and user charges; Law No. 34/2000 amending Law No. 18/1997 on local taxes and user charges and Law No. 22/1999 on local government (which was revoked with the issuance of Law No. 32/2004 on local government); and Law No. 41/1999 on forestry.

The mechanisms that are used to overcome problems with the legal ownership and control of forest products and to secure state revenue from transported forest products by charging fees for measuring and testing are not appropriate. This regulation could better govern the obligations and procedures of the measurement and testing of forest products. It does not regulate the tariffs and the system for levying user charges for the monitoring, measuring, and testing of forest products.

3. ALTERNATIVE(S) TO THIS REGULATION

The problem of legal certainty over the ownership and control of forest products resulting from illegal logging should be resolved by regulation because it needs clarity in its enforcement. One way is by the testing of forestry products. However, this regulation only deals with levies for government services in measuring and testing forest products, and does not have a direct relationship with the effort to overcome the problems faced.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

This regulation creates new burdens in the form of both official and unofficial levies for each inspection, measurement and testing of forest products. Stakeholders feel that this regulation has the potential to increase the price of timber for furniture products. As a result, the manufacturing industry bears the burden due to the impact of the increased regulation of raw materials. Consumers, especially furniture consumers, are also indirectly affected by higher prices on furniture products.

The cost of this regulation and the implementation of double charges as provided for in Article 5 has created losses for the timber businesses that supply the raw materials. The costs incurred from the charge on testing and measurement of forest products is not actually that onerous. However, the informal cost potentially arises during the inspection and transportation of forest products. The timber business association (APSEK) in Pasuruan called this a bribe that results in high economic costs, high timber prices and scarce supplies of timber. For business, especially the SME sector, it creates difficulties in obtaining raw materials and has an impact on labor continuity. In Pasuruan, workers were forced to move to Kalimantan and Sulawesi to find jobs.

Chilman Suaidi, the Executive Secretary of ASMINDO East Java, added that specific articles in the regulation have created additional costs for businessmen, namely through the imposition of user charges for timber produced from state forests. Businesses also suffer losses due to the uncompetitive prices of Indonesian furniture. In addition, the absence of a regulatory authority on user charges levied in this regulation make it possible for unofficial levies to be imposed by corrupt bureaucrats.

5. COMPLIANCE COST OF THIS REGULATION

This regulation governs and defines the user charges for inspecting forest products but does not govern the detailed procedures that need to be completed to fulfill legal requirements and their transport. Nevertheless, the procedures defined in the regulation for inspecting forest products are quite easy. As stated in Article 3, the inspection of forest products is conducted at the timber collection area (TPK), warehouse, and/or collection point for forest products. Furthermore, the inspection of forestry products during transport is conducted on site. During the preliminary consultation for this pilot study, Chilman Suaidi from ASMINDO stated that this regulation does not create an administrative burden in the inspection of the legal documents for forestry products. The payment of user fees for the inspection, measurement and testing of forest products as stated in Article 6 is not justified by the administrative obligations because these stipulations have to be re-imposed in a governor's regulation.

6. COMPLIANCE AND ENFORCEMENT

This regulation specifies the parties who are responsible for implementation, namely the governor, but does not mention the level of government that has the authority to implement it. More detailed implementation will be regulated through other regulations that will be determined by the governor. It is, therefore, not possible to measure the impact that arises from the application of the government authority that manages this regulation. Nevertheless, the fulfillment of this regulation is not particularly difficult because the inspection of forestry products is undertaken at the TPK or warehouse and/or the receiving point for forestry products.

In relation to the sanctions applied, these are not in proportion. The criminal sanctions specify a jail term of no more than 6 months and/or fines of no more than Rp.5 million which are set out in Article 8, in comparison with the problem of illegal logging which provides the backdrop for the problem, sanctions for which are considered to be too light.

The outcome of the preliminary consultation shows there has been no assistance from the government for business in fulfilling their obligations under the regulation. Nevertheless, the Government of East Java has made it easier to access documents on this regulation via their official website (www.jatim.go.id). In addition, it can be easily obtained from the provincial forestry office.

7. OVERALL QUALITY OF THE REGULATION

In general, the quality of this regulation is poor in taking account of the differences between the benefits and costs of implementing it. The primary benefit of this regulation is the additional regional revenue it will generate for local governments. From the social perspective, the consistent application of this regulation can avoid potential conflicts resulting from disputes about illegal timber as well as the legal order in the community. From the environment perspective, the regulation can at least reduce illegal logging activity that damages the environment.

On the other hand, the costs that arise in the implementation of this regulation in the form of double charging fees provided for in Article 5 has the potential to create losses for the businesses that supply timber for the furniture and home accessories industries. The costs that have to be expended in user charges for the testing and measurement of forestry products that are outlined in Article 5 are quite low, however, the informal cost that arises during the inspection of forest products is much higher. These informal fees are also a problem during the transportation of forest products.

In the timber craft industry (APSEK) Pasuruan is known for corruption that comes at a high economic cost. This has an impact on the high price of timber and the shortage of wood, as was expressed in the preliminary consultations. Business, especially SMEs, have difficulty in obtaining raw materials for their business activities which also impacts on their ability to continue employing workers. In Pasuruan, in fact, many workers have already moved to Kalimantan and Sulawesi to seek work. From an environment perspective, the regulation indirectly encourages illegal logging because the costs that arise from the legalization of timber are quite high.

ABOUT THE AUTHORS

Wawan Sobari
The Jawa Pos Institute of Pro Otonomi (JPIP)
Researcher

Hartanto Prijo Pratomo
P. Pratomo and Associates
Architect & Interior Planner

THE REGULATION OF DOMESTIC AND FOREIGN CAPITAL INVESTMENT

AGUS SUDRAJAT AND IWAN ADI NUGROHO

1. OBJECTIVE OF THE REGULATION

Government Regulation No. 25/2000 pertains to Government and Provincial Authority as Autonomous Regions. The regional administration has authority in the area of domestic and foreign investment, and needs to assist investors to obtain guarantees of legal certainty to invest in Gresik Regency.

2. POLICY FOCUS OF THIS REGULATION

Basically, there are no articles in this regulation that specify its aims and objectives. By and large, however, it can be concluded that the purpose of this regulation is to provide legal certainty for investors who want to invest their capital in this region. Until now, the government has been of the opinion that investors, both foreign and domestic, face legal uncertainty when investing in Gresik Regency.

3. ALTERNATIVE(S) TO THIS REGULATION

Not available.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

- Investors and businesses were directly affected after this regulation was enacted.
- The community and the Indonesian government itself were indirectly affected by the enactment of this regulation.
- This regulation was prepared without the support of in-depth methodology and research, which resulted in poor, inadequately drafted language that may lead to slowed investment growth rather than increased growth at the local level.
- The principal permit is significantly time consuming and could also discourage potential investors in the region.
- Articles 10, 11, and 12 of the regulation specify that every business (national and foreign) should partner with small enterprises. Those businesses that contribute to environmental damage must participate in community development efforts. Of those, businesses that already have community development programs should allocate 5 percent of exploration costs, while companies using or making B3 pollutants shall be charged a maximum of 5 percent of a year's added value of production activities. In both cases, the 5 percent should be submitted to the local treasury.
- If this is made compulsory for companies, it could give rise to new problems if the money that is set aside has to be managed by local governments that will manage those funds poorly or not in accordance with their intended purpose. In our view, companies do not actually need to be regulated to set aside these funds for community development purposes, provided that their activities are in line with the local grand design (road map) and the city plan and is consistent with the aspirations and interests of the local community.
- Periodic compulsory reporting requirements for investors, including reports on small enterprise development, are too burdensome because they must report on 2 matters, namely implementation results and consolidated financial reports. Investors view the requirement to report on the small enterprises that are part of their supply chains as particularly problematic.
- Article 2 of the regulation requires businesses to fulfill 11 conditions to get a permit, placing enterprises in a difficult position as it is not easy to fulfill all 11 conditions. Fulfilling all conditions is not cheap and is also time-consuming, especially in cases where there is no single window service (OSS). If those requirements are not met, companies won't receive a permit which can have a negative impact on productivity and local economic growth. In the end, this regulation will negatively impact on community welfare and economic growth in the region.

5. COMPLIANCE COST OF THIS REGULATION

GROUP	BENEFIT	+/-	COST	+/-
Government	The government has accurate data about the number and scale of national and foreign direct investment operating in the regency.	Positive	High infrastructure cost to support the regulation.	Negative
PMDN and PMA (national and foreign direct investment)	The position and existence of PMDN and PMA are increasingly clear, hence they can operate smoothly once given legal assurance. Improved productivity.	Positive Not applicable	Instead of promoting investment, deregulation and de-bureaucratization is slowing it down.	Negative
Society	Improved social welfare	Negative		Negative
Environment	Well conserved	Positive	High reforestation and conservation cost; exploration and exploitation continue without control.	Negative

6. COMPLIANCE AND ENFORCEMENT

Not available.

7. OVERALL QUALITY OF THE REGULATION

In general, this regulation has many loopholes and substantially disadvantages many people. Therefore, we would like to recommend a revision of the regulation, supported by a more comprehensive academic investigation. In the meantime, the current regulation should be suspended so investment activity can continue unimpeded.

ABOUT THE AUTHOR

Agus Sudrajat
National Development Planning Agency (BAPPENAS)
Deputy Director for Supervision and Accountability

Iwan Adi Nugraha
Suara Surabaya Media
Manager

BUILDING PERMIT FEES

AGUS SUDRAJAT AND IWAN ADI NUGROHO

1. OBJECTIVE OF THE REGULATION

Local Regulation No. 17/1999 is intended to authorize local government to regulate building permits and city planning in Bekasi Regency, effective 5 May 1999. The regulation is expected to generate local income from permit fees as well as provide legal certainty for property ownership, and provide social benefits to the Bekasi community.

2. POLICY FOCUS OF THIS REGULATION

This regulation establishes the cost components for each administrative task related to building so it will also create a high social cost. The regulation is not business-friendly, given the layers of administrative requirements, which will require significant time and cost outlays. Furthermore, the regulation does not clearly articulate the authority of the regent in determining fee exemptions or reductions which is very risky. The government is of the opinion that there is a need to review the regulation to provide greater legal certainty over building.

3. ALTERNATIVE(S) TO THIS REGULATION

Not available.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

- This regulation directly impacts both businesses and individuals;
- Local government will be indirectly impacted.
- The numerous cost components generated from the implementation of this regulation will result in increased costs that will be reflected in the selling prices for business that may lead to delayed investment (Section 5 Article 7);
- The regulation also impacts on individuals in terms of increased costs and diminished community purchasing power (Section 5 Article 7).
- Complications caused by this regulation will certainly result in longer processing times (Section 5 Article 7);
- If abuses arise, the greatest losses will be experienced by businesses, as it will lead to unfair competition and delayed investment (Section 12 Article 17).
- As a consequence of high prices and delayed investments, this regulation will not provide greater work opportunities for the community;
- The additional regional income could be used for additional infrastructure in the Bekasi area.
- This regulation gives rise to operational and implementation costs.

5. COMPLIANCE COSTS OF THIS REGULATION

GROUP	BENEFIT	+/-	COST	+/-
Government	Increased local cash and better city landscape	Positive	Higher infrastructure costs to implement the regulation	Negative
Business/Economy	Legal certainty in production/operation	Positive	High cost components, time wasting	Negative
Society	Employment opportunities	Negative	Reduced community purchasing power and higher prices	Negative
Environment	Environmental damage and pollution are restrained because of the changes in land use regulation	Positive	Insignificant cost increase for environment control/operation	Positive

6. COMPLIANCE AND ENFORCEMENT

Not available.

7. OVERALL QUALITY OF THE REGULATION

The regulation has significant negative impacts, especially in terms of complicated processes and tariff structures, in addition to unclear authority of the local authorities. This is counter-productive to local development.

ABOUT THE AUTHOR

Agus Sudrajat
National Development Planning Agency (BAPPENAS)
Deputy Director for Supervision and Accountability

Iwan Adi Nugraha
Suara Surabaya Media
Manager

ADMINISTRATION OF LOCAL INVESTMENT

ISTI RAAFALDINI MIRZANTI

1. OBJECTIVE OF THE REGULATION

Regulation No. 26/2002 pertaining to the Administration of Regional Investment in Bandung is generic in nature given its regulatory scope on domestic trade in Bandung municipality and regency. This regulation was legalized and enacted on 20 November 2002. Capital investment is a partnership of funds, knowledge, technology, human resources and management.

Domestic capital investment (PMIDN) is the direct or indirect use of the wealth of the Indonesian people including the rights and property owned by the state or entrepreneurs, both domestic and foreign based in Indonesia to undertake business in accordance with Article 2 of Law No. 1/1967 on Foreign Investment. The understanding of foreign investment in this law covers direct foreign investment that is used to operate a business in Indonesia with a risk borne directly by the investor.

What is meant by foreign capital in this law is:

- Foreign payment instruments that are clearly not part of the foreign exchange reserves of Indonesia.
- Tools for business, including innovations owned by foreigners and materials that are brought from abroad.
- Some of the profits of companies operating under this law are permitted to be transferred but also need to be used to fund these companies in Indonesia.

2. POLICY FOCUS OF THIS REGULATION

The aim of this regulation is to regulate both regional and foreign capital investment for the public interest in Bandung. The primary issue that this regulation was meant to address is the perception that there are inconsistencies in the current regional and foreign investment procedures in the field. Before this regulation was enacted, Law No. 11/1970 dealt with foreign capital investment while Law No. 12/1970 dealt with domestic investment. Considering Bandung's status as an autonomous region, it is necessary to manage both foreign and domestic investment in the form of a regional regulation.

Laws No. 11 and 12/1970 are substantially in line with the goals set and provide latitude and flexibility for investors in terms of costs, taxes, and compensation for losses. These should encourage investors to conduct business in order to improve the region's competitiveness and economic climate.

Law No. 26/2002, on the other hand, constrains investment, as reflected in the many complicated processes that investors must complete for necessary permits. This will be an additional cost for investors and may deter investment in the region. In addition to the costs and time required to obtain permits, there is a lack of a standard fee structure for each permit, which discourages investors.

3. ALTERNATIVE(S) TO THIS REGULATION

This regulation was promulgated because of inconsistencies in the procedures governing regional and foreign capital investment while the aim of the regulation is to regulate these investment procedures in the interests of the City of Bandung. In my opinion, the background and objectives of the regulation run in parallel but to resolve these issues there is no need for one regional regulation. What is needed is a one-step procedure that investors can follow to conduct a business, with all regulations put into a Standard Operating Procedure (SOP). Law No. 25/2007 provides grounds for optimism about capital investment because it encourages a more conducive economic climate and promotes investor confidence in the government through a more efficient bureaucracy, and is more appropriate to implement.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

Investors will be directly and significantly impacted by this regulation, in that compliance with the regulation requires them to expend considerable funds and time to obtain permits, and there are many permits required. The time they take in managing this permit regime also increases their operating costs. Investors might, then, think twice about establishing their business in Bandung city/regency. Should this happen, there will be a number of indirect negative impacts:

- Non-conducive economic climate for business operators;
- Weakening economic competitiveness, especially in the areas where this regulation is applied.
- Slowed investment due to the uncertainty of permits and procedures.
- Limited new employment opportunities.
- Lack of standard fee structure for each permit may lead to corruption (perceived or real) due to varying interpretations of the fee regulations which could lead to different investors paying significantly different amounts.

5. COMPLIANCE COST OF THIS REGULATION

There are several administrative issues that will be a burden for stakeholders in complying with this regulation, namely the numerous permit requirements that must be fulfilled which also means there will be significant costs for these companies. The permits listed below are subject to the provisions of the regulation:

- Investment Permit. Permit required to receive a capital investment agreement;
- Extension Permit. Permit required for an enterprise to operate a commercial production activity to increase goods and services production in addition to previously approved activities.
- Permanent Business License (IUT). A permit an enterprise must have for the commercial production of goods and services to execute an investment agreement obtained by the company;
- Change of Business Status Permit. A permit that should be obtained by a company that is planning to change its status from PMDN or non-PMDN / PMA to a PMA, or from a PMA to a PMDN as the result of a change in shareholder composition;
- Change of Business Permit. A permit that must be obtained if a company is planning to change its business type.
- Merger Permit. A permit for merging two or more companies established under PMDN and / or PMA, or with non-PMDN/PMA that are already operational and one of which has a Business Permit that will merge all business activities while the company that merges is liquidated.

Each of the above-mentioned permits is subject to an unspecified fee. This is a risk for investors as they face legal uncertainty, high costs for permits with unclear standards with the consequence of a loss of confidence in the city or regional administration. In addition to the costs, is the time that investors must waste in obtaining these permits with the potential cost for employees and transport. The implementation of the regulation and its consequences may trigger a negative perception of city / local government performance because Regulation No. 26/2002 adds a heavy burden to investors without specifying any benefit. In addition, investor confidence in the government will decline, it will be difficult to create an efficient bureaucracy and, more worryingly, this regulation could foster corruption because there are no standard fees for business permits. Instead of improving the economic climate, this regulation could diminish the motivation of business to invest.

6. COMPLIANCE AND ENFORCEMENT

In terms of compliance, the most important consideration for investors would be the incentive they are likely to receive from the regulation. This regulation does not detail the incentive: Article 18 paragraph (2) specifies that incentives will be determined by the Mayor. This will certainly not encourage investor compliance with the provision because incentives or other benefits that might be obtained by complying with this regulation are unknown. By contrast, Laws No. 11 and 12/1970 specify in detail the tax deduction, loss compensation and other benefits investors will enjoy from compliance.

6. OVERALL QUALITY OF THE REGULATION

By and large this regulation will not be effective. A standard operating procedure instead of a regional regulation would be adequate for technical purposes. The implementation of this regulation will have negative impacts, including weakened local competitiveness, diminished investor trust in local government, corruption, slowed capital investment, inefficient bureaucracy, legal uncertainty, and ultimately, slowed economic growth.

ABOUT THE AUTHOR

Isti Raafaldini Mirzanti
School of Business and Management,
Bandung Institute of Technology (ITB)
Lecturer

CHARGES FOR SOLID WASTE MANAGEMENT

BONDAN SATRIAWAN

1. OBJECTIVE OF THE REGULATION

The Bandung District Regulation No. 27/2001 regulates the permit charges for managing solid waste. With this regulation, the government wants to be able to control, monitor and regulate the handling of, and trade in, solid waste created as the result of increased industrial activity in Bandung Municipality. Included in this oversight is the sale of solid waste to third parties for further economic use.

The desired objectives of this regulation are environmental protection from the negative effects of solid waste as well as encouragement of further economic use (e.g., recycling of solid waste by businesses). The main mechanism that is used by the government is imposition of a service fee on businesses for a license for solid waste handling and a service fee for the procurement of solid waste to be used in upstream economic activities such as recycling. Of the total user fees collected, 50 percent will be used to improve environmental quality in the region.

2. POLICY FOCUS OF THIS REGULATION

This regulation serves a valid public interest which provides the justification for the government's decision to issue this regulation. One issue of public interest is the government's desire to protect the environment from the impact of solid waste. Through this regulation, the government wants to monitor, supervise and regulate business in the processing of solid wastes that they produce, including activities associated with the economic benefits of waste.

However, the mechanism that is used to solve the problem, namely a user charge for the processing or procurement of waste, tends to be counter-productive to the stated objectives of the regulation. This is because the imposition of a user charge on businesses who want to handle their solid waste responsibly or to recycle solid waste for an economic return will discourage them from doing so or will weaken the interest and initiative of business to process their solid waste or to recycle it for a financial return.

The regulation has the stated objective of protecting the environment from the negative effects of solid waste pollution and encouraging recycling. However, it does not use concrete and measurable terms to evaluate its success in achieving its desired objectives. For instance, it does not outline how to measure a reduction in pollution as a result of the application of the regulation or a clear indicator that could show that there has been an environmental benefit (as a positive outcome of the introduction of this regulation).

3. ALTERNATIVE(S) TO THIS REGULATION

OPTION	IMPACT ON BUSINESS	IMPACT ON GOVERNMENT	IMPACT ON THE ACHIEVEMENT OF THE DESIRED OBJECTIVES
1. Status Quo (no regulation at all)	None	The government will be considered ignorant and lacking in responsibility for environmental issues and the quality of life of its people.	Failing to achieve the desired objectives, so pollution worsens or there is a reduction in the quality of life of the local community.
2. The regulation suggested	Additional cost to business	1. Additional cost to government to implement and enforce regulation. 2. Additional revenue to government from the user charges for licenses to handle and sell solid waste for commercial purposes.	Failure to reach the objectives of the regulation due to the potential discouraging effect on businesses through the user charge for handling solid waste properly.

OPTION	IMPACT ON BUSINESS	IMPACT ON GOVERNMENT	IMPACT ON THE ACHIEVEMENT OF THE DESIRED OBJECTIVES
3. Incentive regulation: tax reduction for business who are able to process their solid waste responsibly, and also for those who are able to utilize waste for a commercial benefit such as recycling.	Potential additional profit from tax reductions and possible increased revenue from recycling or other economic uses of solid waste	<ol style="list-style-type: none"> 1. Loss of returns from user fees. 2. No additional cost or a significantly lower cost to comply with regulation compared to the proposed regulation 3. Constituent satisfaction for creating a better environment and quality of life, as well as a positive business environment in order to improve the chances of being re-elected. 	Positive achievement of the desired objectives. In most cases, incentive regulations successfully achieve the desired objectives, especially when dealing with environmental issues such as carbon trading.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

PARTIES	BENEFITS
Businesses	Ranging from losses (because business incurs additional costs) to no benefit (for businesses that choose to do nothing with their solid waste).
Citizens	Likely improvement in the quality of the environment, sanitation and garbage handling systems (because 50 percent of the user fees collected will be allocated in that sector. Losses for the community as a consequence of fewer business opportunities or because fewer businesses will be willing to deal responsibly with solid waste due to increased costs.
Government	Likely increase in return to government because 45 percent of user fees collected are allocated to government, creating losses for the government because the introduction and implementation of this regulation has a high cost. In addition, the loss for the government will be worsened if there is a strong discouragement effect, resulting in a failure to reach the stated objectives of the regulation. This will require government to incur greater costs to repair environmental damage due to the reduced numbers of businesses involved in managing solid waste responsibility.

5. COMPLIANCE COST OF THIS REGULATION

Costs to Businesses. If the proposed regulation is imposed, there will be additional costs for businesses, including: (a) the user fee for getting the license to handle their solid waste responsibly or for buying the solid waste for further economic use; and, (b) any costs for allocating business resources to deal with the license and its consequences such as transaction costs to obtain a permit to process this waste.

Costs to government. If the proposed regulation is implemented, the government (of Kabupaten Bandung) will face costs including: (a) human resource costs to issue licenses, investigate possible non-compliance, training and education of employees to properly implement the regulation, and possibly for expert consultants; and (b) infrastructure costs such as the need for office space, computers, and equipment or materials needed to ensure the regulation can functions effectively.

6. COMPLIANCE AND ENFORCEMENT

Not available.

7. OVERALL QUALITY OF THE REGULATION

The proposed regulation should be revoked or rejected based for the following reasons.

- The proposed regulation has no clear and measurable indicators to evaluate the success or failure to achieve the regulation's desired objectives.
- There are other viable alternatives that could work better at achieving the desired objectives with significantly lower costs and lower risks both for businesses and government.
- The proposed regulation creates additional costs to businesses and discourages them from handling their solid waste responsibly, making it more difficult for government to achieve the desired objectives of the regulation.
- The proposed regulation is also costly for government to apply. Even though the proposed regulation has the potential to increase revenue for the government, the net revenue that could be obtained from imposing the regulation cannot yet be estimated with any certainty.
- The above reasons show that the proposed regulation negatively impacts businesses, and it is difficult to clearly conclude that society/citizens and government will benefit from this regulation. On the contrary, there is a high possibility of a negative impact on the community and the government.
- In short, the proposed regulation is high cost, high risk.

The best alternative to the proposed regulation is the option of an incentive regulation such as tax cuts for business that are able to process their solid waste responsibly. This is worth considering because this type of regulation is business friendly, low-cost both for businesses and government and, most importantly, has an incentive mechanism capable of achieving the desired objectives. Regulations of this type are known as low-cost low-risk regulations.

ABOUT THE AUTHOR

Bondan Satriawan
Regional Economic Development Institute (REDI)
Researcher

LOCAL LABOR REGULATION

SULAMITA AGATHA CLARA EVA

1. OBJECTIVE OF THE REGULATION

DKI Jakarta Regulation No. 6/2004 on Manpower. was enacted to address the issues of legal protection for workers and improvement of workers' quality of life. Its objective is to provide positive incentives for workers, including:

- Creation of a conducive working environment so workers can be productive.
- Improving the competence and skills of workers to improve their quality of life.
- Creation of new employment opportunities and to reduce unemployment.

2. POLICY FOCUS OF THIS REGULATION

This regulation provides for social security outside working hours and employment relationships (Articles 63 – 65). This provision was previously covered in another regional regulation of Jakarta (DKI Jakarta Regulation No. 7/1989 on Provision of Workers' Welfare in the Special Capital City Region of Jakarta, and was known as Insurance Outside Working Hours and Employment Relationships (“AKDHK”). DKI Jakarta Regulation No. 6/2004 supersedes DKI Jakarta Regulation No. 7/1989. The objective of both regulations is to protect workers and improve their welfare. By means of this regulation, the Government of DKI Jakarta made it obligatory for companies based in Jakarta to include their employees in this program.

It is ironic that the regulation which should provide protection to the weak turns out to be harmful to them. This regulation and its corresponding enacting regulation DKI Jakarta Governor's Regulation No. 82/2006, known as Pergub DKI 82/2006, (Operating Guidelines for the Work-related Accident Security Program Outside Working Hours – JKDK) actually hurt workers. This is because the regional government is compelling companies to include their employees in the JKDK program with a specific insurance company. Companies which already include their employees in a JKDK program provided by other insurance companies must also include their employees in the JKDK program managed by the insurance company appointed by the government, even if their insurance programs provide better benefits. This obligation negatively impacts workers by putting them at risk of receiving fewer benefits under the JKDK Program.

The JKDK provisions in DKI Jakarta Regulation No. 6/2004 and Pergub DKI 82/2006 are groundless because such a mandatory insurance should be stipulated in a law instead of a regional or governor's regulation. This is articulated in Article 1 Paragraph (3) of Law No. 2/1992 pertaining to Insurance Business, “...social insurance programs implemented for providing basic security for public welfare must be based on a Law...”

3. ALTERNATIVE(S) TO THIS REGULATION

- Maintaining the *status quo*.
- Enacting the regulation with revisions of the articles and stipulated in the form of a law.
- Prioritizing supervision over companies in Jakarta without exception, to ensure they are registering their employees with the Employees' Social Security Program (*Jamsostek*) as regulated in Law No. 3/1992 that provides worker's compensation, Death Benefits, Old-age Security and Health Insurance.
- Imposing stricter sanctions on companies failing to register their employees with the Jamsostek Program pursuant to Law No. 3/1992.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

Not available.

5. COMPLIANCE COST OF THIS REGULATION

The costs to the business sector of this regulation include: (a) having the potential to induce corruption and collusion; (b) increased bureaucracy; (c) user fees (permits and licenses); (d) difficulties in obtaining permits, authorization from or registration with the Manpower Office due to the requirement of evidence of participation in JKDK; (e) increased human resources costs; and (f) loss of investment opportunities in the region.

For government, the costs will include (a) costs in choosing an insurance company; (b) supervisory fees (for example in employing extra monitoring staff; (c) the cost of staff development and training; (d) potential problems of corruption and collusion; (e) increased cost of law enforcement to prevent violations; and (f) loss of investment opportunities in the region.

6. COMPLIANCE AND ENFORCEMENT

Not available.

7. OVERALL QUALITY OF THE REGULATION

In general, most of the contents of DKI Jakarta Regulation No. 6/2004 are a repetition of the contents of Law No. 13/2003 on Manpower. Some of the articles which are similar are apparently contradictory. Those include:

- Article 14 Paragraph (2) of Law No. 13/2003 vs. Article 7 Paragraph (3) of Regional Regulation of DKI No. 6/2004.
 - *Article 14 Paragraph (2) of Law No. 13/2003*: “Private employment training agencies must obtain a permit or be registered with the government agency in charge of manpower affairs in regencies/municipalities.”
 - *Article 7 Paragraph (3) of DKI Jakarta Regulation No. 6/2004*: “Employment training institutions must obtain a written permit from the Governor.”
- Article 35 Paragraph (1) of Law No. 13/2003 vs. Article 15 Paragraph (1) of DKI Jakarta Regulation No. 6/2004.
 - *Article 35 Paragraph (1) of Law No. 13/2003*: “Employers requiring workers may independently recruit the required workers or use the services of a labor placement agency.”
 - *Article 15 Paragraph (1) of DKI Jakarta Regulation No. 6/2004*: “Every company must report any job vacancy to the Workforce and Transmigration Office.”
- Article 108 Paragraph (1) of Law No. 13/2003 vs. Article 40 Paragraph (1) of DKI Jakarta Regulation No. 6/2004.
 - *Article 108 Paragraph (1) of Law No. 13/2003*: “Employers employing at least 10 (ten) workers/labors must have a company regulation which shall be valid upon ratification by the Minister or the appointed official.”
 - *Article 40 Paragraph (1) of DKI Jakarta Regulation No. 6/2004*: “Employers employing at least 10 (ten) workers/labors must have a company regulation which shall be valid upon ratification by the Governor.”

Based on the legal principle that higher regulations supersede lower regulations, the contents of DKI Jakarta Regulation No. 6/2004 that are contradictory to Law No. 13/2003 are invalid and do not have any binding force.

In addition to the repetitive contents of this regulation, Regulation No. 6/2004 fails to achieve its objectives. On the contrary, workers' quality of life is, in fact, reduced under this regulation so they are not able to provide a maximum contribution to workplace productivity and their quality of life won't be improved because of the reduced benefits they receive which impose a new burden on workers. Another equally important issue is that this regulation will not create new jobs. In fact, workers are under termination threat because employers face increased costs to comply with the regulation. This may increase, instead of decrease, the unemployment rate in Jakarta.

ABOUT THE AUTHOR

Sulamita Agatha Clara Eva
Asosiasi Pengusaha Indonesia (APINDO)/
PT Astra International Tbk..
Industrial Relation Analyst

LIQUID WASTE DISPOSAL PERMITS

NASDION AGOES

1. OBJECTIVE OF THE REGULATION

Bandung Regency Regulation No. 5/2001 pertains to Liquid Waste Disposal Permits. The main issues are:

- Water sources in Bandung Regency are an essential need for the people and damage to these water sources would negatively affect the community's quality of life.
- There is an awareness that these sources need to be protected by a regulation designed to properly preserve those water sources and ensure consistently in the supply of water.
- If this regulation is not put into effect, water sources may be damaged by land mismanagement.
- Mismanagement can result in pollution from industrial and household waste.

Hence, the objective of this regulation is to protect water sources from being depleted and/or polluted so that they can continue to be utilized sustainably in the broad community interest (Article 1).

2. POLICY FOCUS OF THIS REGULATION

This regulation does not cover all the problems that need to be addressed before a liquid waste disposal permit is issued, including:

- The regulation only addresses the disposal of liquid waste into water sources. It does not regulate the disposal of solid waste into water sources that could affect the water quality by organic and chemical pollution (Article 3, Paragraph 1).
- The regulation only addresses the disposal of liquid waste by private industry; government liquid waste disposal activities are not affected by this regulation. This creates the impression that the government is allowed to dispose of liquid waste without an obligation to comply with quality standard regulations (Article 3, Paragraph 2).
- The sources of liquid waste are not only business entities. Another major source of potential liquid waste pollution is the large number of households along the river banks that have no quality standard control system for liquid waste being disposed into river;
- This regulation does not include provisions addressing land use although improper land use may be harmful to the water catchment ecosystem.
- This regulation is intended to preserve water sources and prevent pollution, but its contents are more concerned with the procedures for obtaining permits than procedures for protecting water sources (Article 2 (1) and Article 2 (2)).
- This regulation is addressed to the general public, but it contains procedures and operational guidelines for the regional government's internal officers (title of Chapter IV). If the regulation is intended for the public, the wording should have been: "procedures and requirements for liquid waste management."

3. ALTERNATIVE(S) TO THIS REGULATION

A better alternative would be a regulation prohibiting water resource pollution so all activities that have an environmental impact will be covered by regulation. The regulation should describe specific prohibitions and recommendations to prevent pollution, establish quality standards, alternative designated disposal sites (TPA) or incineration sites, and a garbage collection and transportation system to the TPA. The alternative regulation should apply to all types of waste, including liquid, solid, and gas.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

- The implementation of this regulation has not been optimal because the targets are business groups such as hospitals, hotels, and liquid waste management companies so these groups are treated differently to the

government entities and households whose waste also causes pollution to water resources, but whose activities are not covered by the scope of this regulation.

- The aim of the regulation is to alleviate environmental pollution through water sources, however it does not consider alternative activities that should be undertaken to prevent pollution. For example, prohibiting littering in and around rivers, building septic tanks, and building public toilets above rivers.
- There is no clear authority with regard to investigation, since Article 22 (2.h) provides that investigation may only cease after obtaining instruction from the Indonesian National Police. This weakens the authority of Public Order Units in performing their duties. The Indonesian National Police and regional governments will take responsibility for coordination, but investigation decisions are the responsibility of regional governments.

5. COMPLIANCE COST OF THIS REGULATION

Regional Government Costs

- The regulation needs to be properly disseminated on a regular basis through mass media (radio, newspapers), advocates in districts, sub-districts, neighborhood wards, neighborhood blocks, and schools. It needs to be conducted continuously because cleanliness is an issue of culture and habit.
- Monitoring needs to be included in the regulation with respect to indicators and reporting in order to observe the results and for the implementation team to publish this for the benefit of the public;
- The cost cannot be presented yet, but preserving the environment needs to be prioritized, so it cannot be treated as a source of regional own-source revenues (PAD).

Investor/Shareholder Costs

- The standard water parameter will require entrepreneurs to own or utilize sophisticated equipment to comply with the regulation. The higher the water quality standard, the more expensive the equipment and system will be.
- For solid or liquid waste requiring incineration, transportation and incineration costs will be included in the production costs.
- Permit fees, however, are low and affordable, considering that the validity period is five years (assuming there are no violations).
- There are no incentives in the regulation for investors to comply with the regulation. There should be tax and user fee incentives or the permits should be provided at no cost.

6. COMPLIANCE AND ENFORCEMENT

- With respect to the implementation of this regulation, an investigation team has been established (Article 7) but, as yet, there is no monitoring team. To enable counter-checking, the investigation team's duties and responsibilities should not overlap those of the monitoring team.
- In terms of user fees (Article 16), aside from permit fees, there is a also liquid waste user fee (Article 17(2)) of Rp.25/m³, which is too low. For example, washing a car needs $\pm \frac{1}{2}$ m³ at a cost of Rp.12.5. One hundred motor vehicles produces Rp.1,250 per day or Rp.37,500 per month. Is this cost consistent with the government's monitoring efforts? Compare the user fee of Rp.12.5 with the cost of washing a car of Rp.8,000.

7. OVERALL QUALITY OF THE REGULATION

- This regulation has not yet been able to protect water resources as desired because the source of pollution is not only liquid waste but also chemical and solid wastes.
- This regulation also does not provide incentives for companies achieving a much better standard than the fixed water standard.
- A cost-benefit analysis cannot be presented yet because it requires considerable amount of time and data.

- It can generally be said that the regional government must have the courage to bear the risk when it has to make a choice between environmental preservation and economic growth/employment as has occurred in China.

Recommendations

- Overall, the regulation provides guidelines and requirements for regional governments to prepare licensing procedures (Article 7), the wording of which should be modified to avoid misinterpretation.
- The validity period of the permit is 5 years, but Article 11(1) provides for mandatory re-registration using a different procedure. This process can be simplified because the Monitoring Team will have monitored the company's liquid waste disposal continuously from the time when the permit was first granted.
- There is redundancy in Article 12 and Article 14 which both regulate the revocation of permits;
- Article 1(3) would be more appropriately included in Article 16, which concerns user fees, because Article 1 contains the purpose and objectives of the regulation.
- Article 18 provides that re-registration shall cost 25% of the tariff. This should be rescinded as an incentive for investors to comply with the regulation.

ABOUT THE AUTHOR

Nasdion Agoes
Association of Indonesian Industrial Ports
Secretary General

EMPLOYMENT ADMINISTRATION

NOVI ANGGRIANI AND RIRIH K PERMATASARI

1. OBJECTIVE OF THE REGULATION

Regional Regulation of Bandung Municipality No. 18/2002 pertains to Employment Administration in Bandung Municipality. The regulation does not clearly describe its objectives, instead stating only that employment administration shall be the authority of the regional government. Based on our analysis, however, the objectives of the regulation are:

- To reduce the level of unemployment by generating work opportunities.
- To minimize the exploitation of workers and risky working conditions (reducing negative externalities/enhance the protection of worker).
- To improve workers' welfare (health, safety, working hours).
- To involve or increase the involvement of companies in providing training and enhancing worker productivity.
- To increase regional revenues (various articles in the regulation mention the need for companies to apply for permits).

2. POLICY FOCUS OF THIS REGULATION

Based on our analysis, there are a number of problems to be addressed by this regulation:

- The high unemployment rate; an imbalance between supply and demand in the job market with a greater supply than demand; the mismatch between the skills of graduates and the demands of the job market. BPS data indicates that the open unemployment rate in Bandung Municipality from 2000 to 2003 increased rather significantly, from 9.4 percent in 2000 to 14.58 percent in 2003.
- Further, many employees work in jobs incompatible with their skills, which may lead to exploitation of workers and inefficiency (Article 2).
- Another issue addressed relates to unclear employment contracts which can lead to unfair terminations (Article 14).
- A poor quality of life and worker welfare (health, safety, working hours, worker's compensation — Article 20 — and negative externalities — Article 29; for example, companies failing to seriously consider the impacts of the use of chemical substances on workers).
- Low productivity of workers and lack of company involvement in providing training for workers.

3. ALTERNATIVE(S) TO THIS REGULATION

- Status quo (enacting this Regional Regulation as it is).
- Creating a Labor Intensive Program (opening new employment opportunities to absorb labor).
- Imposing fines for bad employment practices by employers or workers.
- Enforcing existing employment regulations.
- Allowing industries to manage their own manpower needs, including the number of required workers, work qualifications, types of training required/developed, recruitment systems instead of requiring them to rely on the regional government to manage their manpower needs.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

TABLE 1— COSTS AND BENEFITS TO BUSINESS

POLICY ALTERNATIVE	COSTS TO BUSINESS	BENEFITS TO BUSINESS
Status Quo	<ul style="list-style-type: none"> • Bureaucratic difficulties. • High administration costs. • High recruitment costs (including permits to employ Foreign Immigrant Workers/TKWNAP). • It is time consuming to handle administration with Internship Centers (BLK) and the local government. • Costs of improving workers' quality of life (such as costs for risk of being exposed to hazardous chemical substances). 	<ul style="list-style-type: none"> • None
Labor-Intensive Program	<ul style="list-style-type: none"> • Neutral 	<ul style="list-style-type: none"> • Neutral (may improve investment climate if the labor-intensive program is aimed to develop infrastructure).
Fines for Bad Practices	<ul style="list-style-type: none"> • High cost of compliance. • High bribery cost (if a company violates any rules and does not wish to be considered a violator). • Bureaucracy 	<ul style="list-style-type: none"> • None
Enforce Existing Regulation	<ul style="list-style-type: none"> • Neutral 	<ul style="list-style-type: none"> • Lower cost of compliance to existing regulations (assuming that the existing regulation is not too onerous for business)
Authority for Industries	<ul style="list-style-type: none"> • High costs for good workers, including hiring trainers (for example management trainees) and preparing training facilities (buildings, training materials, operational costs). 	<ul style="list-style-type: none"> • May obtain workers who meet the requirements through open recruitment. • Having the choice and opportunity to determine the desired criteria and design the appropriate types of training. • Having the 'bargaining power' with their workers (for employment contracts with potential workers/employees). • Lower administration costs, no need to go to the Regional Government. • More efficient and effective system of employee recruitment

TABLE 2— COSTS AND BENEFITS TO GOVERNMENT

POLICY ALTERNATIVE	COSTS TO GOVERNMENT	BENEFITS TO GOVERNMENT
Status Quo	<ul style="list-style-type: none"> • High cost for employing people to work at the Internship Centers, Manpower Service Offices, employment administration experts; including the costs for training, trainers and collecting data. • Article 12: the local government needs to allocate a budget for internships and training for mobile work. 	<ul style="list-style-type: none"> • Increase in revenues (obtained from various authorizations, permit applications). • Availability of more accurate and updated data, since everything is under control and centralized in the regional government (monitoring and supervision of labor/work that can be done more productively).

POLICY ALTERNATIVE	COSTS TO GOVERNMENT	BENEFITS TO GOVERNMENT
	<ul style="list-style-type: none"> • Cost of staff training • Law enforcement cost. • Supervision cost. 	
Labor-intensive Program	<ul style="list-style-type: none"> • High cost of creating programs (cost of establishing company, permits – if needed, salaries for workers/staff). • Program supervision and monitoring cost. 	<ul style="list-style-type: none"> • Decrease in the unemployment rate • Being able to promote regional investment climate (may increase investment) • Increase in revenues (workers' income taxes paid by the regional government).
Fines for Bad Practices	<ul style="list-style-type: none"> • Enforcement costs, including personnel and training. • Administration costs (to procure required forms, receipts). 	<ul style="list-style-type: none"> • Increase in revenues for the regional government. • Conducive working environment. • Law enforcement (the region is promoted because the law is enforced; many companies are compliant with regulations).
Enforce Existing Regulation	<ul style="list-style-type: none"> • Neutral. 	<ul style="list-style-type: none"> • No need for a special/additional budget to create new regulations.
Authority for Industries	<ul style="list-style-type: none"> • Loss of opportunity to increase revenues from industries (from fees to recruit workers from Internship Centers/BLK). • Unavailability of valid employment data because industries directly recruit their own workers (the number of workers and the number and type of vacancies). • Extra cost of survey in order to obtain data from industries. 	<ul style="list-style-type: none"> • Lower cost to hire staff for monitoring and supervision. • Lower cost to run Internship Centers. • Saves time (the regional government can be more focused on other programs such as investment promotions). • The regional government does not have to prepare a budget for certification (Article 13).

TABLE 3 — COSTS AND BENEFITS TO WORKERS

POLICY ALTERNATIVE	COSTS TO WORKERS	BENEFITS TO WORKERS
Status Quo	<ul style="list-style-type: none"> • Neutral 	<ul style="list-style-type: none"> • Minimize exploitation of workers. • Clear employment contract. • Clear protection.
Labor-intensive Program	<ul style="list-style-type: none"> • Neutral 	<ul style="list-style-type: none"> • More employment opportunities. • More choices to match occupations with skills. • Obtaining salary.
Fines for Bad Practices	<ul style="list-style-type: none"> • Costs to be paid for violating the employment contract. 	<ul style="list-style-type: none"> • Low risk of being exploited (protected by regulations). • Legal guarantee increases the opportunity to improve their quality of life.
Enforce Existing Regulation	<ul style="list-style-type: none"> • Neutral. 	<ul style="list-style-type: none"> • Neutral.
Authority for Industries	<ul style="list-style-type: none"> • Uncertainty with regard to workers' welfare and security. • Extra cost to improve one's capacity in order to have a better bargaining position when dealing with companies. 	<ul style="list-style-type: none"> • Having the freedom to choose the company to work for (workers are free to apply). • Having the opportunity to improve one's quality of life because the company will have more money to build the business. • The opportunity to bargain with the company for salary based on the worker's capacity.

5. COMPLIANCE COST OF THIS REGULATION

Not available.

6. COMPLIANCE AND ENFORCEMENT

Considering that there are so many issues covered by this regulation, including vacancy reporting, permit applications and complicated administration procedures, it is difficult to enforce this regulation at the regional level. This regulation results in high costs for companies to recruit workers from BLK (for handling permit applications for foreign immigrant workers/TKWNAP, mandatory employee training programs, mandatory authorization of company regulations through the control of the government, etc). The regional government itself must spend a great deal of money to hire BLK workers, fund internships, conduct staff training, enforce the law, and supervise the program (see Table 2 above). Current law enforcement has not been satisfactory, and may encourage bribery and corruption. Finally, the regulation has not been well promoted and publicized by the government to employers.

6. OVERALL QUALITY OF THE REGULATION

This regulation is inconsistent with its objectives and it is too rigid in its enforcement. Policy makers seem to have failed to consider the potential impacts and economic costs of issuing this regulation. It is clear that the regional government wishes to exercise control over employment problems in Bandung Municipality. On one hand it wants to protect workers and provide more employment opportunities, however, by issuing this regulation, the regional government in fact hampers the creation of a conducive employment climate because companies have to manage a variety of permits and other matters to conduct their business.

The preliminary objectives of this regulation to improve the quality of workers' lives, protect workers' rights and increase employment opportunities will not be achieved because the real benefits of this regulation will be enjoyed by the regional government itself, rather than the workers. This type of regulation will affect the competitive edge of industry. Non-competitive industries will become even more non-competitive and have difficulties expanding while new businesses may be reluctant to invest in the region because this regulation adds a layer of bureaucracy and costs without clear benefits to them. This will minimize new employment opportunities. The government still has a role to play in supervising and protecting the rights of workers, however, it also needs to continue providing the opportunity for industry to best regulate their own needs (issues relating to labor such as PKB and training should be delegated directly to industry).

ABOUT THE AUTHORS

Novi Anggriani
Center for Local Government Innovation (CLGI)
Researcher

Ririh Kusuma Permatasari
National Secretariat for Export and Investment Enhancement (PEPI)
Economist

EXPORT PROVISIONS FOR FORESTRY INDUSTRIAL PRODUCTS

RIDZAL ZUBAIDI AND MEINARA IMAN DWIHARTANTO

1. OBJECTIVE OF THE REGULATION

Minister of Trade and Industry Decree No: 647/MPP/KEP/10/2003 pertains to Export Provisions for Forest Industrial Products. The policy goal of the regulation is to control and supervise wood-based industry commerce.

2. POLICY FOCUS OF THIS REGULATION

There is no article specifying the objective of this policy. Each article of the regulation is designed only to regulate the administration of timber resources. There are two targets that are unwritten but were able to be identified:

- Fulfilling the needs of industry for forestry raw materials.
- Reducing the level of damage to Indonesia's forests.

3. ALTERNATIVE(S) TO THIS REGULATION

Not available.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

The direct and indirect impacts of this regulation are mainly related to a lack of administrative clarity. Policy makers succeeded in identifying problems that arose but failed to provide the best solutions. Articles 1 and 2 create the possibility of a high cost impact, the same articles also create the opportunity for abuses by government officials in charge of certification and the procedure for certification is complicated and time consuming. There are no clear targets nor does the regulation outline methods to measure the expected outcomes.

5. COMPLIANCE COST OF THIS REGULATION

Several problems then arise. Companies will experience high costs to comply because they must incur extra costs to obtain ETPIK, BRIK membership and an annual fee. The total cost is estimated below:

Table 1: Cost of Compliance with Regulation

FEE	COST
Fee for ETPIK and BRIK process: Rp 1,000,000 x 100,000	Rp.100 billion
Internal report administration cost: Rp 1,000,000 x 100,000	Rp.100 billion
Third party audit/survey – est.	Rp.25 billion
Socialization cost	Rp.25 billion
BRIK establishment cost	Rp.50 billion

- Problems with this regulation include raw material identification and a lack of standard criteria for raw materials that should have an ETPIK.
- Industry that uses imported wood material will fall into the ETPIK holder category. Meanwhile, there is no relationship between the use of imported wood and the destruction of Indonesia's forests.
- Industries that use substituted materials due to furniture labeling requirements also must obtain ETPIK.

- Furniture made of combined plastic-metal-wood material has been mistakenly identified and therefore is required to have ETPIK.
- Administrative confusion, certain HS numbers (e.g., HS No 9403.xx.xxx) have been treated alike by field authorities in requiring an ETPIK.
- The ETPIK is only applied to exporters. The next question is, what about industries using forest products for the domestic market? If the goal is to revitalize the wood industry, then local industry must be involved.

6. COMPLIANCE AND ENFORCEMENT

Not available.

7. OVERALL QUALITY OF THE REGULATION

This regulation was enacted to create a more competitive wood-based industry without causing further deforestation. At the time the regulation was made, the wood-based industry was facing a crisis in supplies of raw materials. Indonesia has drawn the world's attention because of the explosion in illegal logging practices and uncontrolled deforestation. The government was pressured by industry to provide raw materials for wood-based manufacturers.

This regulation is obviously mistargeted given that forest destruction is caused by forestry management, not by users of forest products. Instability in the supply of timber started with the inability of forest managers to provide adequate supplies to the wood-based industry. The Ministry of Industry and Trade should have encouraged industry to use wood substitutes or imported woods. The restriction specified in this regulation has brought an end to industry creativity, in furniture for example. From the applicant's perspective, the decree has compounded the problem since it creates extra cost, time and resources. What is worse is that business will be impeded and eventually this will kill competition.

ABOUT THE AUTHOR

Ridzal Zubaidi

Asosiasi Industri Permebelan dan Kerajinan Indonesia (ASMINDO) - Solo

Ketua

Meinara Iman Dwihartanto

Suara Surabaya Media

News Manager

LOCAL REGULATIONS ON LABOR

SAPTO TANOYO POEDJANARTO

1. OBJECTIVE OF THE REGULATION

DKI Jakarta Regulation Number 6/2004 pertains to labor issues.⁹ In the business world what is meant by a worker or laborer is a person who works for wages or other forms of payment. The work provider is an individual, entrepreneur, legal entity or other body that employs labor by paying wages or other forms of payment. To regulate the relationship between workers (laborers) and work providers, the Government of Indonesia has enacted a series of labor laws. The purpose of the law on labor is to:

- Empower and enable workers.
- Create an even distribution of employment opportunities; ensure an adequate supply of skilled labor able to meet the demands of national and regional development.
- Protect workers in their pursuit of prosperity.
- Promote the welfare of laborers and their families.

To provide welfare protection for workers and their families, the government established a social security program. This social security program is a public program mandated by law where contributions and investments are not income, but rather a debt owed by the implementing institution that has to be returned to the participant. It can be called a compulsory public program because the social security system is one welfare-state program that provides only a minimum standard benefit, which is different to what is offered by commercial insurers.

The regulation recognizes that workers have a very important role and place in regional development as the agents and objective of development, so there is a need to develop labor in order to improve the quality of labor and the role of labor in regional development. The government of the Province of Jakarta claims that the labor regulation in DKI Jakarta needs to be re-examined in connection with the development of labor to ensure it is consistent with the most recent laws; that there is a need for a labor regulation that is holistic and comprehensive and that covers the following issues:

- The development of human resources.
- Improving the productivity and competitiveness of labor.
- Means of broadening employment opportunities.
- Labor placement services, and development an industrial relations system as well as the protection of labor.
- Improving the dignity, status and self-esteem of labor.
- Fulfilling the basic rights and protections of labor and workers.
- At the same time providing conducive conditions for the development of business.

There is, therefore, a need for the regulation of labor issues through a government regulation. In practice, the regional law has sought to accommodate the Regional Autonomy Law No. 22/1999, which was

⁹ Law No. 3 of 1992 on Employee Social Security. Law No. 2 of 1992 on Insurance Business. Law No. 13 of 2003 on Labor. Law No. 32 of 2004 on Regional Government. Law No. 40 of 2004 on National Social Security System. Government Decree No. 14 of 1993. Minister of Manpower and Transmigration Decree No. PER-24/MEN/VI/2006 on Guidelines on Jamsostek Program Management For Workers Outside Employment Relation. Tangerang Municipal Law No. 3 of 2004 on Security Against Accident Outside Work Hour For Company Workers/Laborers. Jakarta Gubernatorial Decree No. 82 of 2006 on Guidelines of Implementation for Insurance Program Against Personal Injury and Work-related Fatality Outside Working Hour. ILO, Regulation on Household Workers, Existing Laws, International Standard and Best Practices, International Labor Organization, June 2006. B. Marojahan Suryanto Sinurat, Masalah Asuransi Kecelakaan Di Luar Jam Kerja Dan Hubungan Kerja Di Propinsi Daerah Khusus Ibukota Jakarta, DPN APINDO, 2005. Sigit Setiawan, Analisis Potensi Dan Kelembagaan PT (Persero) JAMSOSTEK Sebagai Instrumen Fiskal Pemerintah, www.fiskal.depkeu.go.id/webbktf/kajian%5CSigit%20-%20ringkasanjamsostek.doc. Anugerah Perkasa, Payung Mahal Sang Buruh, [Http://Anugerahperkasa-77.Blogspot.Com/2007/03/Payung-Mahal-Sang-Buruh.Html](http://Anugerahperkasa-77.Blogspot.Com/2007/03/Payung-Mahal-Sang-Buruh.Html). Anugerah Perkasa, Asuransi JKDK Kian Diminati. Kamis, 01/11/2007 [Http://Web.Bisnis.Com/Edisi-Cetak/Edisi-Harian/Keuangan/1id28591.Html](http://Web.Bisnis.Com/Edisi-Cetak/Edisi-Harian/Keuangan/1id28591.Html). Djony Edward, DKI Syaratkan Kepesertaan Jamsostek Untuk Pengurusan Izin, [Http://Web.Bisnis.Com/Keuangan/Asuransi/1id40008.Html](http://Web.Bisnis.Com/Keuangan/Asuransi/1id40008.Html). Kominfo-Newsroom, Perusahaan Peserta Asuransi JKDK Di Jaktim Minim, June 28, 2007 [Http://www.Depkominformo.Go.Id/2007/06/28/Perusahaan-Peserta-Asuransi-Jkdk-Di-Jaktim-Minim/](http://www.Depkominformo.Go.Id/2007/06/28/Perusahaan-Peserta-Asuransi-Jkdk-Di-Jaktim-Minim/).

revised into Law No. 32/2004. That law stipulates that in exercising their autonomy, regional governments must establish a social security system. Therefore, one enacting regulation is the DKI Jakarta Gubernatorial Decree No. 82/2006 on Guidelines on the Implementation of Insurance Program Against Personal Injury and Accidents Outside the Employment Relationship, or AKDHK.

2. POLICY FOCUS OF THIS REGULATION

The AKDHK Program is compulsory for companies operating in the capital. However, many companies have already independently provided their employees with similar insurance, with the result that many businesses are reluctant to comply with the law. The central committee of the Indonesian Business Owners' Association (APINDO) has firmly stated that the AKDHK Program and its related gubernatorial decree are not legally valid, because recent legal developments require that such programs be regulated by state law rather than regional law. Regardless of the legitimacy of this AKDHK regulation, according to Regulation No. 6/2004, breaches of AKDHK are no longer criminal offences, unlike Regional Law No. 7 of 1989 on Regulations Governing the Welfare of Workers Employed by Companies in DKI Jakarta which it replaces. Moreover, this law no longer requires companies to join the AKDHK program. This law does have a specific clause on social security. Article 63 paragraph (1) stipulates that "Every worker/laborer and their family is entitled to social security". Furthermore, paragraph (2) specifies that "The employee social security program stipulated in paragraph (1) includes both work-related and nonwork-related social security".

The article defines social security outside an employment relationship as security against risks faced by workers in the informal sector, such as housemaids. This is further emphasized by Article 64 paragraph (3) which states that "Social security outside an employment context constitutes social security for workers in the informal sector". Article 64 paragraph (2) stipulates that social security within an employment relation includes (a) fixed-term coverage against work-related accident and death; (b) fixed-term coverage against work-related accident and death in addition to health maintenance; and (c) outside working hours, coverage against accident and death. No further detail is available on social security within an employment relationship, especially in relation to coverage outside working hours.

This definition is different to the AKDHK program as defined by the previous law (Article 9 of the Governor's Decree No. 2/1990 on Implementation Guidelines for Work and Nonwork-related Workers' Accidents) which only covered insurance against accidents. On the other hand, Regional Law No. 6/2004 covers accidents and death. AKDHK is insurance to cover incidents outside working hours and outside the employment relationship, while Regional Law No. 6/2004 emphasizes that that social security outside an employment relationship is provided only for workers in the informal sectors. It can be concluded the substance of AKDHK is at variance with the social security system stipulated by the new regional law.

3. ALTERNATIVE(S) TO THIS REGULATION

Based on the above analysis, it is necessary to provide alternative clauses to accommodate companies that have independently implemented AKDHK, namely a clause that exempts a company from the obligation to implement AKDHK if it has already engaged a commercial insurance company to provide for its employees' AKDHK. An example can be seen in Ministerial Decree No. 2/2004 on Social Security Scheme For Expatriates. Expatriates are exempted from signing up with Jamsostek if they have signed up for similar programs in their home countries and this has to be evidenced with a copy of their insurance policy.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

As an impact of the regional labor law, companies in Jakarta are reluctant to sign up with the AKDHK program. Out of 25,000 Jakarta-based companies, at the end of 2007 only 5,816 had signed up for the program.

TABLE 1— NUMBER OF COMPANIES IMPLEMENTING AKDHK

	NUMBER OF EMPLOYEES	NUMBER OF COMPANIES	% FROM TOTAL NUMBER OF COMPANIES (ESTIMATED TOTAL 25,000 UNITS)
2005	327,757	3,332	13.33 %
2006	452,505	4,555	18.22 %
2007	531,595	5,816	23.26 %

Because only 23.26 percent of companies are registered with the AKDHK program, most employees in Jakarta do not enjoy insurance benefits, are not covered by AKDHK, and are not provided with the basic rights and protections due a worker. Consequently, the goal of human resources development and improvement of productivity and competitiveness has not been accomplished. The impact of Law No. 6/2004 and the Governor's Decree No. 82/2006 these are merely a ruse to add another source of locally generated revenue through employee social security schemes arranged by a seemingly monopolistic insurance company.¹⁰

5. COMPLIANCE COST OF THIS REGULATION

Chairman of the APINDO central committee Sofjan Wanandi said in his note of objection that the AKDHK program goes against a higher law, Law No. 2/1992 on Insurance Business. Sofjan quoted Article 1, paragraph 3 and said that company liabilities have soared since the program was made mandatory. Some companies already provide programs similar to AKDHK as a fringe benefit. If these companies are required to provide both, the cost burden will be quite high.

APINDO General Secretary Djimanto called AKDHK extortion. He believes the government regulators have misinterpreted AKDHK which is targeted at workers in the informal sector who do not have employers, such as pedicab drivers and meatball vendors. Nevertheless this law is enforced on corporate employees as a condition for obtaining a permit from the Manpower and Transmigration Office. Djimanto insisted that implementation of AKDHK should refer to Minister of Manpower and Transmigration Decree No. PER-24/MEN/VI/2006 on Guidelines on Jamsostek Program Management For Workers in the Informal Sector.

6. COMPLIANCE AND ENFORCEMENT

Employee social security is provided in accordance with applicable laws by Jamsostek for formal-sector workers, by AKDHK for workers outside of an employment relationship, and social security programs for workers in the informal sector. The three programs are carried out by different organizers. Program organizers face a number of problems stemming from their dependence on regulators, especially for law enforcement and benefit improvement. In the implementation of social security in many countries, the implementing body self-regulates so they have direct access to employers. So the function of 'referee' and regulator in the management of Jamsostek should be returned to the relevant technical department, namely the Ministry of Labor.

In reality, what happens in the field shows there is noncompliance by companies with the requirements of the Labor Laws, such as reporting the number of employees and wages that are not paid in accordance with the law, making it difficult for the monitoring agency because the authority to take action is held by the Ministry of Labor.

¹⁰ AKDHK is managed by Bumida (Bumi Putera Muda) which is a public insurance company that was established in 1967 and is a subsidiary of Asuransi Jiwa Bersama Bumiputera 1912 (the Bumiputera Mutual Life Insurance Company). According to data from the Labor and Transmigration Agency of DKI Jakarta, this company has been a partner with the regional government in the AKDHK program since 1993. The five companies that are managing the program are Takaful Umum, Asuransi Ramayana, Tugu Mandiri, Astra Buana and Bangun Askrida.

Nevertheless, employee participation in employee social security programs has been heartening: in national terms, 25 percent of financial members are from Jakarta. Yet, on the whole, a significant number of employees in Jakarta have not signed up with Jamsostek. There are currently 7.9 million workers whose employers are paying their contributions. In comparison with the number of formal workers in Jakarta, many workers are still not protected by these programs, as is their right. The amount that must be paid for contract and noncontract workers is 0.24 percent of their wages while for workers whose wages are not specified in a contract, the contribution level is 0.12 percent of the value of the contract.

6. OVERALL QUALITY OF THE REGULATION

In general, a judicial review on all labor regulations is necessary since the the pros and cons in implementation of AKDHK stems from the lack of synchronization of state and regional labor laws, in particular Regional Law No. 6/2004 which has caused considerable confusion since it copied many of the stipulations of Labor Law No. 13/2003 on Labor. Efforts to provide a more conducive environment for the development of business needs to be accommodated through improving, in stages, the existing regulation, by taking account of recommendations that have been made by all associated stakeholders.

For example, in 2004, a new law on social security (Law No. 40/2004 on a National Social Security System) was enacted. This law outlined a series of actions to be take during the following five years including, inter alia, the framework for opening healthy competition between the agencies implementing social security.

ABOUT THE AUTHOR

Sapto Tanoyo Poedjanarto
Indonesian Furniture Association (ASMINDO) – Demak
Advocacy Section

LEVIES FOR THE EXAMINATION, ASSESSMENT AND EVALUATION OF FOREST PRODUCTS

ERLYN YULY ASTUTI AND NUR SYARIFAH

1. OBJECTIVE OF THE REGULATION

East Java Provincial Regulation No. 3/2003 pertains to Levies for Examination, Assessment and Evaluation of Forest Products. The purpose of the regulation is to:

- Provide legal certainty on the ownership and control of forest products and their distribution process.
- Create order and facilitate services in the distribution of forest products in order to protect the rights of the state pertaining to forest products.
- Reduce illegal logging;
- Protect the environment (forest) from destruction caused by irresponsible exploitation and to maintain it as a water basin.
- Become a source of revenue for East Java Province.

The revenue referred to in this regulation is related to the issuance of SKSHH (Certificate of Validity of Forest Products) which is a state document that serves as proof of the legality of distribution and control and / or ownership of forest products. The process of examination, assessment and evaluation of forest products is underway, especially for timber produced by Perum Perhutani.

This regulation was initially opposed by the Jepara Furniture Traders Association (HPKJ) and the Mass Coalition for Timber Auction Participants, especially at Unit II East Java Province, because they considered it to be unnecessary and designed simply to serve as a revenue source for the regional government. The controversy stemmed from the government's failure to launch an adequate awareness campaign.

2. POLICY FOCUS FROM THIS REGULATION

This regulation is a response to illegal logging, environmental degradation, and improper use of forest products.

3. ALTERNATIVE(S) TO THIS REGULATION

The following are alternative regulations that could be implemented.

- Status Quo, PP (Government Regulation No. 34/2002 pertaining to Forest Management and the Forest Area Management and Exploitation Plan).
- Reassign the task of examining, assessing and evaluating forest products to the Forestry Agency, by improving staff performance (through refreshment and retraining) and providing administrative materials (examination result form, SKSHH form, etc) in a faster and more accurate way (as timber business people have previously complained about bureaucratic slowness in providing such documents).
- Synchronize regulations between regional governments so that they agree on the issues to be regulated, especially those related to the distribution of forest products between regions.
- Implement a voluntary program by requiring distributors to contribute five saplings for xm3 volume of forest products distributed.
- Draft implementing regulation at regional level for Forestry Minister Regulation No. P55/Menhut-II/2006 which is a form of deregulation on management of forest products.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

The direct and indirect impacts of the regulation can be observed from:

- **The Furniture Industry.** Forest products covered by the regulation include timber, processed timber and rattan harvested from state-managed forests. Forest products constitute the primary raw materials used in Indonesia's furniture industry. Compliance with this regulation will have a number of impacts on the furniture industry:
 - Time consuming.
 - High costs of distribution. This is not a major problem for producers because the levies imposed do not constitute a large percentage of their revenue, even though the requirement to pay levies often serves as a source of complaints.
 - The regulation also encourages furniture industry producers to use alternative raw materials, such as rubber wood or palm wood. Today, few furniture industry players use alternative raw materials because these materials need special treatment and not all businessmen understand this.
 - User fees are also imposed on the distribution of forest products between regions. The problem that then arises is that existing inter-regional regulations are often not in line with each other and often create distribution problems in addition to the SKSHH. That is what happened in East Java Province when Gorontalo Province became the biggest rattan distributor in East Java. Different perceptions on the processed or original rattan criteria, illegal or legal rattan criteria, and whether a SKSHH was required for transporting forest products between regions has resulted in rattan being transported from Gorontalo to East Java being intercepted and detained. A difference in perceptions has disrupted the delivery process from Gorontalo Province and stopped rattan production in Gorontalo. As is well-known, the furniture industry has a long chain-link in economic activity especially in absorbing labor.

- **Indonesian furniture exports.**
 - Indonesia is one of the world's largest furniture exporters. In 2006, Indonesia was the seventh biggest producer after China, Canada, Mexico, Italy, Vietnam, Malaysia and Taiwan.
 - The higher cost of distribution affects the total cost of production (with a percentage increase that varies between distributors), prices of furniture products, and the competitiveness of Indonesian products in the global market. Regional regulations and regional taxes are one of 5 major issues confronting the furniture industry in Indonesia that are to blame for the industry's lack of competitiveness. Regional regulations are still considered unfavorable to the furniture industry.

- **Revenue for East Java Province.**
 - The furniture industry in East Java contributes about 50 percent of industry revenue nationwide while Central Java contributes around 35 percent. The two provinces have average export growth per year of 4 percent.
 - The provincial government of East Java will get revenue from levies for assessments and evaluations based on this regulation.

- **Rattan and raw material availability.**
 - One of the objectives of this regulation is to streamline forest product distribution into and out of East Java Province. In fact, since 2005, the availability of timber in Indonesia has fallen resulting in 60 of 100 plywood enterprises going out of business. In addition, the production levels of some companies have dropped by 50 percent.
 - Rattan products have experienced similar problems. East Java's rattan furniture hubs — Gresik and Sidoarjo — need 4,500 tons of raw materials per month, which are supplied from Sulawesi and East Kalimantan. Due to a lack of rattan, some 1,500 rattan furniture producers have closed and the production level has dropped to 30 percent.

- This means that the regulation is not achieving all of its goals. This shows that the efficient distribution of forest products does not correlate with the imposition of levies by the regional government. A comprehensive study should be conducted to identify the factors related to forest product distribution so that a more focused regulation can be formulated.

- **Environment (forest).**

- One of the objectives of this regulation is to protect the forest, which functions as a water catchment basin, minimizing floods and landslides. Illegal logging is a threat to Indonesian forest sustainability in general.
- However, the reality is that anyone who has paid the inspection fee will pass the test and receive the SKSHH. This creates the possibility of irresponsible harvesting of forest products, which in turn makes damage to the forest eco-system more likely.

5. COMPLIANCE COST OF THIS REGULATION

There are three stakeholders that will be affected by the regulation: government, industry, and the community. The government will need to pay for training for new staff so that they will be able to carry out inspections, testing, and evaluation of forest products. The number of available officers required to implement this regulation up to 2005 as well as the forest product are shown in Table 1.

TABLE 1: GROWTH OF FOREST PRODUCT EVALUATION / TESTING OFFICERS WITH NO PHH / PPHH QUALIFICATION IN EAST JAVA

No	POSITION	YEAR		
		2003	2004	2005
1	P2SKSHH	208	172	182
2	P3KB	4	0	14
3	P2SKSHH + P3KB	36	1	13
4	Inspection Assistant in Harbor	16	0	24
5	P2LHP	16	0	9
6	P2SKSHH + P2LHP + Inspection Assistant in Harbor	16	0	3
Total		296	173	245

Note: P3KB: Checking Officer for Unseen Log Revenues
P2LHP: A government official authorized to inspect unprocessed logs and validate associated documentation
P2SKSHH: A government official authorized to issue SKSHH permits.

The cost that will be incurred by the Government of East Java is:

$$\text{Cost per year} = (\text{the number of trained staff members} \times \text{training cost per day} \times \text{number of days}) + \text{instructor costs.}$$

Training costs per day include meals, accommodation, training materials, and transportation allowances. Administrative supplies include test/evaluation/inspection blanks, SKSHH blanks, user fee receipt blanks, violation sanction blanks, etc. The government should also hire more security and monitoring officers to police the distribution sites both intra- and inter-regionally at the Log Collection Places (TPK), warehouses, and forest product collection places. The regulation will also lead to increased law enforcement costs.

- **Industry Which Uses Forest Product Raw Material**

- The REDI (2008) study indicates that officers determine the amount of user fees on the basis of information from distributors which is later individually reexamined. This leads to a high incidence of opportunities for the payment of bribes to facilitate the inspection process.
- Furthermore, the inspection process will be time consuming, in particular if the distributor has a high number of forest products of various types (logs, processed wood, and/or rattan) from the state-owned forest.
- Another problem for industry is that the imposition of user fees increases distribution costs, as do illegal levies demanded during the course of forest product distribution. The percentage of increased distribution costs varies depending on the scale of the business and the distribution path.

- **Community**

- The possibility of deforestation increases because all businesses that pay the user fee and receive an SKSHH can distribute forest products.
- The risk to the community comes from the increased incidence of natural disasters such as floods and landslides.

6. COMPLIANCE AND ENFORCEMENT

The government benefits from legal certainty and revenue. Industry benefits from being encouraged to innovate by using non-wood raw materials as explained above in the discussion on direct and indirect impacts. The various problems faced in the implementation of this regulation has encouraged entrepreneurs to pressure the regional government to build a timber terminal to guarantee the availability of raw materials. There is, as yet, no benefit to the community.

7. OVERALL QUALITY OF THE REGULATION

Based on the explanation above we recommend that this regulation be revoked because the incurred cost is much higher than the benefit itself. This regulation may hinder the competitiveness of forest-based products in East Java.

ABOUT THE AUTHORS

Erlyn Yuly Astuti
Regional Economic Development Institute (REDI)
Researcher

Nur Syarifah
National Development Planning Agency (Bappenas)
Legal Bureau

ROAD DISPENSATION PERMITS

ANANTA DEWANDHONO AND DIDIK PRIHADI SUMBODO

1. OBJECTIVE OF THE REGULATION

Regional Regulation of Klaten Regency No. 4/1992 pertains to Road Dispensation Permits. The local government of Klaten Regency sees the need to control and regulate roads in Klaten Regency and to increase the regency's income. The regulation assumes that there will be increased road use by motorized vehicles, accelerating damage to the regency's roads and disturbing public amenity. User fees collected from issuing a dispensation permit according to vehicle weight can be used for road maintenance and repair as well as to reduce disturbances caused by traffic. In practice, however, the dispensation permits accompanying user fees do not guarantee orderly traffic, a decrease in road usage, or a reduction in road damage. The total funds collected from the user fees according to this dispensation permit may not be sufficient to maintain and repair roads, especially after accounting for the government's costs in collecting the funds.

2. POLICY FOCUS OF THIS REGULATION

The local government of Klaten Regency wants to increase community services and foresees an increase of road usage by heavy vehicles. The regulation assumes that controlling and regulating the regency's roads is a form of public service and that increased road use should be curtailed to prevent road damage and maintain public peace. An analysis has found that strict, unbiased law enforcement is needed to ensure that (a) vehicles do not outweigh the permitted total weight for the road class used; and (b) to help maintain public peace, vehicles are prevented from using certain roads. If any vehicle outweighs the permitted total weight of the road, the vehicle must either reduce its load (and reload it again on the second trip) or take an alternate route.

3. ALTERNATIVE(S) TO THIS REGULATION

Roads constitute public infrastructure, allowing mobility for economic and social activities. With good infrastructure, the public can increase their social and economic activities, which will, in due course, increase economic growth in the regency. Providing road infrastructure as a public good is the responsibility of the local government and funded by the local government's income. The regional income is gathered from various sources, often indirect in nature, i.e., from the public's productivity that results in added value for the commercial sector or individual members of society. The policy choices are:

- Maintain the user fee in accordance with the dispensation permit (status quo).
- Revoke the regulation with no replacement regulation.
- Strict enforcement of the regulation of permitted total weight and forbidden routes, and banning vehicles exceeding the permitted total weight from using any of the district's roads.
- Strictly applying the allowable total weight and restricted roads, so the regency can build and maintain a better class of road to be used by heavy vehicles and apply a charge like a toll for all passing vehicles.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

- Policy choice (a): This regulation will result in a general decrease in public mobility. Increased operational costs for industry for road dispensation permits, management handling fees, costs to more easily obtain services and opportunity costs, i.e., lost time for management handling and loss of production time. This regulation will lead to increased commercial transportation costs, which in turn lead to increases in end prices of products, which can result in decreased sales and lack of industry competitiveness. As the growth of economic activities slows, the regency's income and commercial expansion and work opportunities may also be negatively affected.
- Policy Choice (b): Will likely result in an increase in the number of vehicles outweighing the permitted total weight limits on roads and commercial traffic on forbidden roads. Roads are damaged more quickly and the public peace is disturbed. This option would also likely result in reduced public and

commercial mobility because of damaged roads, and the public might be uncomfortable living in the area thus resulting in stagnant economic growth.

- Policy Choice (c): Regency roads will not be damaged as quickly, and the public will have a better lifestyle in the area. However, if regency roads do not accommodate the commercial needs of the transportation industry (heavy trucks), then the regency's economy may grow slowly, as will regency income.
- Policy Choice (d): Roads will not be damaged as quickly, and there will be greater public amenity in the area. An accurate city plan, building heavier-weight class roads and maintaining concentrated commercial areas with special roads, applying a user fee as a "toll" on these heavier-weight classed roads will increase commercial mobility and regional economic growth, and also will be a source of revenue for the regency.

5. COMPLIANCE COST OF THIS REGULATION

- Policy Choice (a): Under this regulation, collecting income directly from road users (charges, as opposed to the toll system) will be a moral hazard for field officials, and is likely to increase the incidence of bribery-taking. The regulation will also lead to increases in the regency's administrative costs, requiring additional office space, supplies, and employees, wages and training costs. The regency will also incur costs related to providing field officers, checking officers and investigation officers for violators. There will also be a socialization cost in disseminating information and increasing public awareness, as well as procurement costs and operational costs for inspection posts on every street corner.
- Policy Choice (b): With no rules to be enforced, direct costs to the regency will be minimum. Indirect costs that may surface include costs required to handle public complaints about disturbances to the public peace and providing public assistance programs because of poor economic growth in the region.
- Policy Choice (c): Costs would include those for traffic police for supervision and investigation, education fees and making and maintaining traffic signs.
- Policy Choice (d): Costs would include city planning costs that should already be the responsibility of the regency as well as the cost of preparing and building special high weight-class roads and an integrated commercial area. However, these costs could be offset by the revenue from the toll fees and the user fees applied on the special roads and/or by increased revenue from healthy industrial growth.

6. COMPLIANCE AND ENFORCEMENT.

The probable outcomes of these options are:

- Policy Choice (a): Low compliance although with high enforcement requirements.
- Policy Choice (b): High compliance and low enforcement because there is no regulation but the government's stated objective of increased public peace and economic growth would not be achieved.
- Policy Choice (c): High compliance that would also require high enforcement efforts.
- Policy Choice (d): High compliance with low enforcement efforts, with the additional benefit that it has the highest likelihood of increasing economic growth and regional income.

For business Policy choice (d) is much clearer and provides legal certainty for the public and the commercial sector.

7. OVERALL QUALITY OF THE REGULATION

The basic issue is not defined clearly enough, so the regulation as it stands is seen as simply a means to increase regional income, rather than as a way to improve regional economic growth or quality of life. Further, the regulation is counter-productive, in that it results in high costs for industry, slows industrial growth, and reduces employment opportunities. It should be reconsidered, and either revoked or, if the region does, in fact, need it (i.e., if public peace is seriously disturbed by the frequency of vehicles and many vehicles using the roads outweigh the permitted total weight of the route), then this regulation should be replaced by a regulation that is in line with choice (d) above.

ABOUT THE AUTHORS

Didik Prihadi Sumbodo
Indonesia Employers Association (APINDO)
Vice Secretary general

Ananta Dewandhono
Indonesia Logistic Association (ALI)
Founder / Advisor

ARRANGEMENT AND ESTABLISHMENT OF WAREHOUSES

RATNAWATI MUYANTO AND HARIATNI NOVITASARI

1. OBJECTIVE OF THE REGULATION

This section presents the outcome of the Regulatory Impact Statement on Minister of Trade Regulation No. 16/M-DAG/PER/3/2006 pertaining to Arrangement and Establishment of Warehouses. Several important matters arising from this regulation are as follows:

- The warehouse classification is based on its size (small: 36-2,500 m²; medium: 2,500-10,000 m²; large >10,000 m²). This classification will determine the cost of the Warehouse Registration Certificate (TDG). The cost for a small, medium and large warehouse is Rp.100,000, Rp.200,000 and Rp.300,000 respectively.
- The TDG is valid for five years and must be extended 3 months before it expires.
- There is compulsory administrative reporting on goods entering and leaving from every warehouse owner to the local government (Article 7, paragraph 1).
- The warehouse owner has to submit a report on goods entering and leaving if the number of goods stored in a small warehouse exceeds 50 percent of the warehouse capacity, more than 40 percent of the capacity of a medium-sized warehouse and more than 30 percent of a large warehouse. This report has to be submitted to the head of the relevant agency in the region on the 15th of each month. This means that if the volume of goods stored is below the mandated standard, reporting is not obligatory and an SKPB is not required.
- Individuals and companies (producers, exporters, importers, distributors, wholesalers, retailers, agents and shops) are permitted to keep goods for a period of up to 3 months in their normal condition (Article 9, paragraph 1).
- However, there are defined conditions (that need relatively long storage and selling periods) that legitimize the storage of goods for more than 3 months (Article 9, paragraph 2). To comply (Article 9, paragraph 2), warehouse owners are required to have a Goods Storage Certificate or SKPB (Surat Keterangan Penyimpanan Barang) that is issued by the Regent/Mayor through the Agency head (Article 9, paragraph 3). Without an SKPB, warehousing activities are considered to be hoarding (Article 9, paragraph 4).
- There are considerations that need to be taken into account in making a judgment about stockpiling, namely an appropriate regime to be followed by the relevant companies in order to keep their stock in a normal condition, the type and nature of the goods associated with the storage and selling time; the supply system followed by the company, the speed of the distribution system and the operation of the market and regional conditions.
- Authority to inspect SKPB documents for suspected hoarding is held by the local district or city agency who can investigate owners, managers and/or warehouse tenants (Article 10). Violators can be hit with an administrative sanction in the form of a written warning from the TDG Regulator (Article 11, paragraph 1). If the owner, manager or warehouse tenant does not heed the written warning, the TDG can be revoked by the official who issued it. However, the TDG holder can lodge an objection to the revocation of the TDG. In any case, the TDG holder can re-apply for a TDG after a period of one year.
- There are exemptions to this regulation for warehouses controlled by port authorities, bonded zones, and warehouses that are associated with industrial activities. The warehouses that are the target of this regulation are, therefore, those in the general marketplace such as, for example, those holding rice stockpiles, in other words those engaged in the general retail trade that are owned by middlemen rather than producers.

Compliance and Sanctions

- This regulation does not regulate the legitimate stock base so keeping goods in stock is not categorized as hoarding.
- Written sanctions (warnings) and the withdrawal of the TDG for violating the regulation is still considered minor if the main aim is to protect the public interest by, for example, guaranteeing the availability of goods in the market. This condition is rather disturbing

- Article 14 addresses the issue of criminal sanctions for breaches of Articles 3 (1) and 9 (3) in accordance with the valid laws. The higher law (Law No. 11/1965), does not set out any criminal sanctions. This law (Article 5) only mentions that “breaches of the stipulations of or in this law are economic crimes”. It doesn’t specify what constitutes an economic crime. This article is very ambiguous and has the potential for large-scale corruption.
- For that reason, it can be concluded that the regulation cannot consistently ensure the public interest but can also disadvantage business owners.

The government claims that the aim of this regulation is to protect the flow of goods to consumers. The regulation of warehouses can prevent the hoarding of stock that could create shortages in the marketplace. Ideally, this regulation will take account of the public interest to ensure there are available supplies of basic and other necessities in the market. If warehouse stockpiles are not regulated, hoarding could occur and disadvantage the community. However, the objective is actually to generate local revenues (Pendapatan Asli Daerah/PAD), both from the management of the (TDG) or from the SKPB. Generating income from the management of the TDG permit system is also an aim of this regulation although this is not explicitly mentioned.

2. POLICY FOCUS OF THIS REGULATION

There are a number of reasons why this regulation was enacted:

- There is a problem with the hoarding of goods that causes shortages in the market and price increases that are deemed to have a negative impact on consumers’ welfare. Cases of hoarding usually occur with basic necessities such as rice, sugar and cooking oil. The government usually intervenes in the market for these types of goods to protect the stability of prices. The central government has determined the need for a regulation to regulate the management and flow of these goods to meet the needs of domestic consumers.
- There is a high level of social unrest and low level of security in warehousing locations.
- There is a benefit for warehouses in keeping illegal goods that have been smuggled in. Smuggled goods are those goods that have not passed inspection by Customs and Excise officials with the aim of avoiding taxes and charges or because they are included in a list of prohibited items such as endangered animals or illegally harvested logs or rattan which are banned from export.
- Protecting the interest of consumers by ensuring that commodities are kept in a good condition. The warehouse regulation also covers technical specifications including fire safety equipment, waste disposal, water, and electricity that are used to ensure the quality of stored commodities. Several warehousing companies often ignore technical issues for the sake of saving on costs.
- As the technical agent for over-riding laws. One of the reasons for enacting this regulation is the existence of a higher law. One of these is Law No. 11/1965 on changes to Law No. 2/1960 on Warehousing. Thematically this regulation is quite relevant however, from the perspective of the passage of time, Law No. 11/1965 is no longer relevant. Prevailing conditions at the time the original law was passed are different to those that applied at the time this regulation was enacted.

3. ALTERNATIVE(S) TO THIS REGULATION

Problem: hoarding of basic goods is considered to be the cause of price increases in the market. Several critical questions arise about the reason for enacting this regulation to resolve the problem of hoarding:

- Is it indeed the case that hoarding is the main cause of price rises in the market? Or is it the case that high prices are the result of the law of supply and demand as predicted by basic economic theory? Increased demand could be the outcome of higher need resulting from population growth, for example. Comparing population growth with growth in warehouse stockpiles could determine whether it is true that increased stock is the result of higher demand or not. In addition, the limited definition of hoarding according to the capacity of the warehouse is ambiguous given that increased warehouse capacity is a cost for business. A business person will choose to maximize the use of existing warehouse capacity rather

than adding new capacity. Although this action violates the law, this can often occur easily in practice because field inspectors are bribed.

- To what extent should goods be stockpiled in warehouses to control low prices in the market? The effectiveness of the policy intervention should be examined with the extent of the problem that needs to be resolved.
- Are price rises in the markets a problem that needs the intervention of government whose solutions include ending stockpiling in warehouses?
- If the hoarding of goods in warehouses is the reason for price increases in the market, then the types of goods that will be kept in warehouses will not be products that have certain use-by dates such as foodstuffs. The types of goods that will be hoarded will be those with long use-by dates but that also need to take into consideration elasticity in demand in the market. Businesspeople have almost certainly made estimates of the optimal level of stock needed to achieve a maximum profit return.

On the basis of these questions, several alternative policies could be considered to address the problem of unstable prices in the market and hoarding of goods:

- **No Policy Intervention.** This alternative would be a tacit agreement that goods hoarding is a normal daily practice by businessmen. While the main goal is price stability, the fact is that goods hoarding may not be the cause of supply and price fluctuations. Of course, hoarding activity can be interpreted as part of the means by which business earns a profit; however, being sneaky is not a crime.
- **Improving the Quality of the Policy.** Targeting the existing policy through two main steps: regulating the allotment of the warehouse area and increasing coordination with other technical institutions. Ideally area allocation has already been regulated by the RTRW (Area System Planning) in specific regencies / cities. So the regulation on TDG is not relevant if it has this objective and is technically deficient. Warehouse regulation is a technical management issue which is the responsibility of the District Technical Institution (Area System Planning/PU/Bappeda/Living Area). Whereas this TDG regulation wants to regulate the quantity of goods stored in warehouses to prevent goods hoarding and price instability in the market. The regulation on land allocation and supervision in the field on compliance with the RTRW and building code on warehouses needs serious attention. In many cases there is no coordination among technical institutions, with the result that inspection of foodstuff warehouses are usually undertaken by two or more offices. The solution for this problem is coordination.
- **Incentive Policy.** An appropriate incentive policy is to give tax discounts to compliant TDG-holding warehouse owners. Currently, canceling the certificate is the punishment for warehouse owners who violate regulations. However those same owners can simply reapply for the certificate. Under an incentive policy alternative, in addition to an administrative penalty, businessmen who violate the regulation will be penalized with a bigger tax. But those who obey the regulation (so they are able to guarantee the availability of goods in the marketplace) will be rewarded in the form of a tax discount. Another incentive policy could be encouraging goods owners to not hoard commodities through elimination of transport fees to allow smooth goods distribution from the warehouse to the consumer.
- **Supervision and management only for certain type of goods.** This would be accomplished using the TDG on those goods most susceptible to stockpiling and on commodities classes for which hoarding is most likely to influence price stability in the market.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

Determination of the stakeholders is based on the estimated impact of the TDG regulation on the various parties, including:

- Warehouse owners.
- District government.
- Consumers of the products found in the relevant warehouse.
- Warehouse tenants.

Estimates of the cost-benefit impact are related to the relationship between stakeholders. However, it has not been possible to determine the extent of the real relationship between the various parties. We are only

able to provide a qualitative estimate of the relationship between the parties. There are some assumptions used to measure the impact as follows:

- Big, medium, or small impact.
- Coefficient approach to measure if the impact is profit (+) or loss (-).

**TABLE 1—ESTIMATION OF THE COST-BENEFIT
IMPACT ON POLICY ALTERNATIVE A**

STAKEHOLDER	ADVANTAGE/LOSS	COEFFICIENT APPROACH	ESTIMATE OF SIZE	TOTAL IMPACT
Warehouse Owner	Business Certainty	(+)	Small	(+) Small
	Profit	(+)	Big	(+) Big
	Possibility of bribes collected by officials during inspection. Bribes might be collected on TDG and SKPB application process. There is no certain cost to obtain the SKPB. Also related to the application procedure of those two documents.	(-)	Big	(-) Big
Impact on warehouse owner				(+) Small
District Government	District Income (PAD)	(-)	Medium	(-) Medium
	Goods distribution control	Neutral	Neutral	Neutral
	Cost for administration, inspection, supervision	(+)	Small	(+) Small
Impact on District Government				(-) Small
Consumer	Price stabilization	Neutral	Neutral	Neutral
	A safe goods supply	(+)	Small	(+) Small
Impact on Product Consumer				(+) Small
Warehouse Tenant	Business Formality	Neutral	Neutral	Neutral
	Goods safety (from sealing action)	(+)	Medium	(+) Medium
Impact on the Warehouse Tenant				(+) Medium

**TABLE 2— ESTIMATION OF THE COST-BENEFIT
IMPACT ON ALTERNATIVE POLICY B**

STAKEHOLDER	ADVANTAGE/LOSS	COEFFICIENT APPROACH	ESTIMATE OF SIZE	TOTAL IMPACT
Warehouse Owner	Business Certainty	(+)	Small	(+) Small
	Profit (Warehouse administration cost)	(+)	Big	(+) Big
	Possibility of bribes collected by officials during inspection. Bribes might be collected on TDG and SKPB application process. There is no fixed cost to obtain the SKPB. Also related to the application procedure of those two documents.	(-)	Big	(-) Big
Impact on warehouse owner				(+) Small
District Government (Pemda)	District Income (PAD)	(-)	Medium	(-) Medium
	Goods distribution control	Neutral	Neutral	Neutral
	Cost for administration, inspection, supervision	(-)	Big	(-) Big

STAKEHOLDER	ADVANTAGE/LOSS	COEFFICIENT APPROACH	ESTIMATE OF SIZE	TOTAL IMPACT
Impact on District Government				Neutral
Consumer	Price stabilization	(-)	Medium	(-) Medium
	A safe goods supply	(+)	Small	(+) Small
Impact on product consumer				(-) Small
Warehouse Tenant	Business formality	Neutral	Neutral	Neutral
Impact on the warehouse tenant				Neutral

**TABLE 3 – ESTIMATION OF THE COST-BENEFIT
IMPACT ON ALTERNATIVE POLICY C**

STAKEHOLDER	ADVANTAGE/LOSS	COEFFICIENT APPROACH	ESTIMATE OF SIZE	TOTAL IMPACT
Warehouse Owner	Lower cost due to lower tax expense	(+)	Medium	Medium (+)
	Tax penalty (for hoarder)	(-)	Small	Small (-)
Impact on warehouse owner				(+) Small
District Government	District Income (PAD)	(+)	Medium	Medium (+)
	Administrative costs to implement TDG	(-)	Small	Small (-)
	Costs for administration staff to improve coordination	(-)	Big	Big (-)
Impact on District Government				(-) Small
Consumer	Stable Prices	(+)	Small	Small (+)
	Guaranteed supply of goods	(+)	Small	Small (+)
Impact on consumer				(+) Small
Warehouse Tenant	Lower cost due to lower tax expense	(+)	Small	Small (+)
Impact on the warehouse tenant				(+) Small

**TABLE 4: ESTIMATION OF THE COST-BENEFIT
IMPACT ON ALTERNATIVE POLICY D**

STAKEHOLDER	ADVANTAGE/LOSS	COEFFICIENT APPROACH	ESTIMATE OF SIZE	TOTAL IMPACT
Warehouse Owner	Business Certainty	(+)	Small	(+) Small
	Profit	(+)	Small	(+) Small
	Possibility of bribes collected by officials during inspection. Bribes might be collected on TDG and SKPB application process. There is no fixed cost to obtain the SKPB. Also related to the application procedure of those two documents.	(-)	Big	(-) Big
Impact on warehouse owner				Neutral
District Government	District Income (PAD)	(+)	Small	(+) Small
	Goods distribution control	(+)	Small	(+) Small

STAKEHOLDER	ADVANTAGE/LOSS	COEFFICIENT APPROACH	ESTIMATE OF SIZE	TOTAL IMPACT
	Cost for administration, inspection, supervision	(-)	Medium	(-) Medium
Impact on District Government				(-) Small
Consumer	Stable Prices	(+)	Small	(+) Small
	A safe goods supply	(+)	Small	(+) Small
Impact on product consumer				(+) Big
Warehouse Tenant	Business Formality	Neutral	Neutral	Neutral
Impact to the warehouse tenant				Neutral

TABLE 5 — COMPARISON OF ALTERNATIVE POLICIES

ALTERNATIVE POLICY	WAREHOUSE OWNER	DISTRICT GOVERNMENT	PRODUCT CONSUMER	WAREHOUSE TENANT	TOTAL IMPACT
A	(+) Small	Neutral	(+) Small	(+) Medium	(+) Medium and (+) Small
B	(+) Small	Neutral	(-) Small	Neutral	Neutral
C	(+) Small	(-) Small	(+) Small	(+) Small	(+) Small and (+) Small
D	Neutral	(-) Small	(+) Big	Neutral	(-) Medium

Based on the comparisons of the alternative policies in Table 5, the biggest advantage is policy (a), which calls for no regulation of warehouses. The second choice is using the TDG on those goods that are susceptible to stockpiling and that are most likely to distort prices in the market. Selecting the most appropriate types of goods to regulate to prevent the hoarding of certain products would require more information

5. OVERALL QUALITY OF THE REGULATION

On the basis of a cost-benefit analysis of this regulation, we recommend not intervening by means of a TDG regulation to solve hoarding problems in warehouses. There are two main reasons for this. First, there is no causal relationship between the reasons to issue this regulation and the regulation itself. Second, there are policy alternatives to the TDG regulation that will have a smaller impact.

6. COMPLIANCE AND ENFORCEMENT

Not available.

7. OVERALL QUALITY OF THE REGULATION

Not available.

ABOUT THE AUTHOR

Ratnawati Muyanto
Regional Autonomy Watch (KPPOD).
Researcher

Hariatni Novitasari
Jawa Pos Institute of Pro Otonomy (JPIP)
Researcher

DUTY-FREE IMPORTS OF AUTOMOBILE COMPONENTS AND AUTO PARTS FOR EXPORT-ORIENTED AUTOMOBILE MANUFACTURERS

BUDIMAN SOEDARSONO AND SULTON MAWARDI

1. OBJECTIVE OF THE REGULATION

On 25 August 2006, The Ministry of Finance released the Ministry of Finance Regulation (PMK) No. 79/PMK.010/2006 regarding Duty-Free Imports of Automobile Components and Auto Parts for Export-Oriented Automobile Manufacturing. This regulation is valid for a 12 month period commencing on 26 August 2006. The Indonesian government felt there was a need to provide these incentives because of weakening, domestic automobile sales resulting from the increased price of gasoline in 2005. Slow growth in this particular industry sector since Q1 in 2005, is predicted to continue until the 2006 semester. The signs will include sustainable sales of cars, trucks, motorcycles and electronic parts, that showed a significant fall in Q1-2006 compared to the same period in the previous year.

GAIKINDO predicted that automobile sales (all kinds) in the domestic market in 2006 was only around 450-500,000 units, considerably lower than 2005 sales which reached 530,000 units. For motorcycles, sales growth in 2006 was only 5% to 7%, far below sales growth for 2005 which was as high as 17%. Estimates suggest that this fall in sales continued during the first two months of 2006. In February 2006, for example, sales of motorcycles and automobiles fell 8.2% and 41.5% respectively.

2. POLICY FOCUS OF THIS REGULATION

Generally, the objective of this regulation is to encourage investment in the export-oriented motor vehicle industry. However, given the economic condition in 2005 and 2006 which was not conducive for the automobile components industry, this policy can be viewed as the government's means of maintaining the performance of the auto parts industry sector over the short term. This is deemed necessary, so the auto parts industry will not have to experience too much idle capacity. The government has tried to compensate for the fall in domestic sales of automobiles by increasing exports. This objective seems to be more dominant because the regulation is only valid for 12 months. If the government was really trying to encourage investment in the export-oriented auto industry, it would mandate a longer period of duty-free imports.

Prior to the implementation of the policy, there were at least two problems that needed further study. Firstly, the domestic automobile components industry is not yet able to compete in the international market and/or is not ready to fulfill the needs of the auto industry. Secondly, the dependence of the automotive industry on imported raw materials and components is still high, as a result of the poor capabilities in the design and engineering area of the domestic components industry. On the other hand, if the government retains the policy of duty-free automotive components, the local components industry will be hard-hit.

3. ALTERNATIVE(S) TO THIS REGULATION

As a means of helping the domestic automotive industry in the short term, the government policy in the PMK, with a limited time span, is right on target. Nevertheless, to develop the national automotive industry, what is needed is the development of the design and technology engineering or, at least those automotive components with a high comparative advantage. At the same time, Indonesia has to move away from assembling activities to engineering as the basis for automotive production.

4. DIRECT AND INDIRECT IMPACTS OF THE REGULATION

POLICY	IMPACT	ALTERNATIVE	STAKEHOLDER COST AND BENEFIT
Allowing duty-free imports of automobile components and auto parts for export-oriented automobile manufactures	<ol style="list-style-type: none"> 1. The growth of automotive industry. 2. The increase in competitiveness of automotive products. 3. The increase of automobile exports. 4. The increase of work opportunities in the automotive engineering field. 	Ministry of Finance Regulation No. 62 / PMK.010 / 2005 on Duty-free imports of automobile components and auto parts for export-oriented automobile manufactures.	<p>COUNTRY:</p> <ol style="list-style-type: none"> 1. The increase of foreign exchange from the automotive industry sector. 2. The increase of work opportunities on the automotive industry. 3. Indonesia is only considered as assembler. 4. Shutting down opportunities of innovation to local component industry. 5. Steel industry stays on raw material level, not generating added values. 6. The unavailability of work opportunities on the component industry.
			<p>COMPONENT INDUSTRY:</p> <ol style="list-style-type: none"> 1. No financial benefits, whatsoever. 2. Zero impact from the growth of the automotive industry.
			<p>INVESTMENT INTEREST:</p> <ol style="list-style-type: none"> 1. Decreasing investment interest on component industry, while the automotive industry is restricted. 2. No work opportunities for the public/civilians.

5. COMPLIANCE COST OF THIS REGULATION

Not available.

6. COMPLIANCE AND ENFORCEMENT

Not available.

7. OVERALL QUALITY OF THE REGULATION

Not available.

ABOUT THE AUTHOR

Budiman Soedarsono
National Development Planning Agency (Bappenas)
Deputy Director for the Analysis of National Regulations

M. Sulton Mawardi
The SMERU Research Institute
Researcher

SENADA – Indonesia Competitiveness Program

BRI II Tower, 8th Fl, Suite 805
Jl. Jendral Sudirman No. 44 – 46
Jakarta 10210
www.senada.or.id