Licensing Regulatory Harmonization: Improving the Investment in Aceh

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Abstract:
Discussion: Aceh is one of Indonesia’s provinces that have great economic potential. However, few investors invested in Aceh. Indonesia Vice President Jusuf Kalla had advocated the peace accord in Helsinki on August 15, 2005. The agreement has granted Aceh a special status. Because of its special autonomy, Aceh has several different policies and authority compared to the other provinces in Indonesia. Such authority is regulated on Act Number 11 the Year 2006 concerning Aceh Government. In terms of the economic and investment growth, Article 154 paragraph (1) states that as a national economic system, Aceh economy is open and unhindered in investment. Further, in Article 155 paragraph (3), Aceh Government and Regency/City Government must simplify their regulation to create a conducive business climate for the development of investment and other economic activities under the authority.

Research Method: The study uses juridical empirical research through a qualitative approach. The qualitative approach is a method of data analysis that results in descriptive analysis data in which the data are obtained from the respondents and can be in writing, oral or one's behaviour. The data are examined and studied as a unit. The respondents or informants provided the necessary data. This research refers to Act Number 1 the Year 1967 concerning Foreign Direct Investment (PMA) and Act Number 6 the Year 1968 concerning Domestic Direct Investment (PMDN).

Conclusion: Presently, it is difficult to invest in Aceh. Moreover, the regulations regarding the licensing authority between the Provincial Government and Regency/City Government (Qanun Number 6 the Year 2012 concerning Plantation) are overlapping. Article 12 paragraph (2) explains that for plantations business ranging from 25 hectares to 200 hectares and located on cross-Regency/City, will receive their license from the Governor under the recommendation of local Regent/Mayor. On the other hand, the criteria found in Online Single Submission (OSS) states that plantations business under 25 hectares must be registered on local Regency/City.

Key Word: Regulation, Licensing, Investment.

I. INTRODUCTION

According to the Great Dictionary of Indonesian Language (KBBI), investment is an investment of money or capital in a company or project for the purpose of receiving certain profit.¹ Investing in Indonesia requires the investors to have a license. The licence can be obtained from an Online Single Submission (OSS) application, as stipulated in the Government Regulation Number 24 the Year 2018 concerning Electronic Integrated Business Licensing Service.

Despite the US Trade Representative (USTR) removing Indonesia from its list of developing countries, Indonesia is still a developing country. The government’s role in luring the investors to invest in Indonesia is considered to be related to the criteria for developing countries. Domestic Direct Investment (PMDN) and Foreign Direct Investment (PMA) have greatly affected the development of Indonesia to promote public welfare, as stated in the fourth paragraph of Preamble to the 1945 Constitution. However, to reach such a goal, some obstacles must be faced to invest in Indonesia, which is the licensing problem. Licensing has been a root cause to invest in Indonesia and becomes the main problem for the investors. In reality, bureaucratic complicated rules and procedures, long delays, illegal fees and levies have made the investors think twice about investing in Aceh.

¹https://kbbi.web.id/investasi (accessed on January 2, 2020)
investing in Indonesia. These problems have turned the investment climate unhealthy and it continues to occur every year.

In Indonesia, two laws regulate investment, which is Act Number 1 the Year 1967 concerning Foreign Direct Investment (PMA Act) and Act Number 6 the Year 1968 concerning Domestic Direct Investment (PMDN Act). Both regulations create an impression that the government has been behaving discriminatively, as they give different treatment for the PMA and PMDN. Therefore, the Investment Coordinating Board (BKPM) had advised that the law on investment should be made into one, which will become the Investment Act. Moreover, from 1967 till now several policies in PMA are not explicitly regulated in the Act Number 1 the Year 1967 concerning Foreign Direct Investment but found in Government Regulation and Presidential Regulation. For example the Government Regulation Number 20 the Year 1994 concerning Ownership of Shares of Companies Established in the Framework of Foreign Investment. The existence of one law that covers everything about the investment may create uniformity of Government Regulation and Presidential Regulation. It is believed that the Omnibus Law is the answer to such a problem.

To increase the growth of investment, Indonesian President, JokoWidodo (Jokowi), stated that the implementation of Omnibus Law in Indonesia must begin with the amendment of the regulations on investment about the ease of business licencing to harmonize and avoid overlapping. Therefore, the harmonization of the law will bring benefits for the investors, public, and country.

Omnibus Law is a regulation that is made to simplify several regulations. The simplification can be done with either revoking or amending the present regulations. Licensing is still the cause of poor investment growth in Indonesia. Thus, the Omnibus Law must change the law of licensing. The regulation on licensing can be found in various laws, such as Act, Government Regulation, and Presidential Regulation. To ensure the simplification of the law, the related regulations must be harmonized and compiled to ensure that no overlapping occurs. The successful application of Omnibus Law may not only bring benefit to the investors but also the public and Indonesia.

Presently, it is deemed difficult to invest in Aceh. The overlapping regulations on licensing becomes the main obstacle for investors. The discord between the Provincial Government authority and the Regent/City authority has created legal uncertainty. Qanun Aceh Number 6 the Year 2012 concerning Plantation Article 12 paragraph (2) explains that plantation businesses ranging from 25 hectares to 200 hectares and located on cross-regent/city will receive the license from the Governor under the recommendation of the local's Regent/Mayor. On the other hand, under the Online Single Submission (OSS) system, plantation business under 25 hectares must be registered in local’s Regency/City.

Article 9 paragraph (3) of Act Number 23 the Year 2014 concerning Regional Government stipulates that concurrent government affairs, as stated on paragraph (1), is divided into three: Central Government, Provincial Government, and Regency/City Government. Further, Article 13 paragraph (3) explains that the Provincial authority includes: area of cross-Regency/City, utilization of cross-Regency/City, benefit/negative impact of cross-Regency/City. The utilization of resources is deemed more efficient under the authority of the Provincial Government. Paragraph (4) then states Regional authority includes: area of Regency/City, utilization of Regency/City, benefit/negative impact of Regency/City. Under the Regency/City Government, the use of resources may become more efficient.

Government Regulation Number 24 the Year 2018 concerning Electronic Integrated Business Service explains that the authority of government is separated into three: Central authority, Provincial authority, and Regency/City authority. Similarly the Regulation of Ministry of Agriculture Number 45 the Year 2019 concerning Electronic Integrated Business Licensing Service in the Agriculture Sector also divides the government authority into Central, Provincial, and Regency/City.

Despite its similarity, both regulations are overlapping. Government Regulation Number 24 the Year 2018 on Electronic Integrated Business Service stipulates the license for plantation plant business is under the authority of Provincial and Regency/City, as shown in the Table I below. However, the Article 146 paragraph (2) number 4 of the Regulation of Ministry of Agriculture Number 45 the Year 2019 concerning Electronic Integrated Business Licensing Service states that the license of plantation plant seed production business is under the authority of the Provincial Government. The Table I below shows in detail regarding the authority under the OSS system:

<table>
<thead>
<tr>
<th>No</th>
<th>Specific Activity</th>
<th>Activity’s Criteria</th>
<th>Authority</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Seed production for plantation plants</td>
<td>Plantation in 1 Regency/City</td>
<td>Regency/City</td>
</tr>
<tr>
<td>2</td>
<td>Seed production for</td>
<td>Plantation Cross-Regency/City</td>
<td>Province</td>
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II. MATERIAL AND METHODS

This study utilizes a juridical empirical research. The research is socio-legal research which is a method that approaches the law as its research object. In this case, the law is not only perceived as perspective and applied disciplines but also empirical or factual. The data are obtained from respondents or informants. The entirety of data is affected by the numbers of respondents or informants.3

III. RESULT

The regulatory overlap has become an obstacle for the implementation of licensing law in Indonesia, especially Aceh. The problem has stunted the growth of capital investment in Aceh. The discordance between the central and the regional regulations have been confusing for both the licensing office (One-Stop Integrated Service-PTSP) and the investors. The problem becomes complex when it also involves technical-agency (dinasteknis) and PTSP. For instance, the regulation created by technical-agency tends to contradict the BKPM's regulation.

Nowadays, the issue about the complexity to activate the Plantation Business Permit (IUP) especially for Palm Oil Plantation with Indonesian Standard of Industrial Classification (KBLI) 01262 (the code for Palm Oil). Because Presidential Instruction Number 8 the Year 2018 concerning Moratorium and Evaluation of Licensing for Palm Oil Plantations and Increasing Productivity of Palm Oil Plantations has locked the license activation feature in OSS. Further study shows that, in essence, the Presidential Instruction only postponed the new capital investment request for palm oil plantation. However, in practice, many existing companies wish to activate their prior license into OSS. There are also Palm Oil companies that do not involve in this Presidential instruction.

Based on the issue, it is strongly suggested that the subject responsible for OSS to interpret the Presidential Instruction Number 8 the Year 2018 wisely, so that upon building the OSS system, does not hinder the investors to activate their prior license into OSS, especially the KBLI 01262. Until this day, many companies' licensing processes are stopped because of the error in interpreting the Presidential Instruction Number 8 the Year 2018.

Following up the above issue, the Capital Investment and One-Stop Service (DPMPTSP)—the licensing agency—and Aceh Plantation Agency (technical agency) has put the effort to address the Head of Investment Coordination Board (BKPM). The agency advised the Investment Coordination Board to provide access for the licensing agency to activate the prior Palm Oil Plantation Permit. This activation will ensure that the productivity of existing palm oil companies remains undisturbed.

The supporting ground for activating the KBLI 01262, in particular, is Article 51 of the Government Regulation Number 104 the Year 2015 concerning the Procedure for Changing the Status and Functions of Forest Areas, which excluded4:

The plantation business that received the license from the regional government under the present regulation of provincial or regency/city spatial plans according to the recent forest area map, the locations are:
1. The area of Convertible Production Forest (HPK), processed through the release of forestry land; or
2. The area of Permanent Production Forest and Limited Production Forest, processed through exchanging the forestry land,

For a maximum period of one year upon the validity of this Government Regulation, may request the release of forestry land or the exchange of forestry land to the Minister.

The permit for plantation business received from the provincial or regency/city government is based on present spatial plans, according to the latest forest map is a forest with the functions of protection and/or conservation, which is allowed to extend its business for one cycle of the primary plant.

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Source : Online Single Submission2

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2 https://oss.go.id/portal/
4 http://www.fordamof.org/files/PP_104_2015_tata_cara_perubahan_peruntukan_dan_fungsi_kawasan_hutan
In conclusion, not all Palm Oil Plantation Permits can be activated, as there are exceptions for certain areas. Besides the Presidential Instruction Number 8 the Year 2018 concerning concerning Moratorium and Evaluation of Licensing for Palm Oil Plantations and Increasing Productivity of Palm Oil Plantations, the moratorium on new palm oil plantation permits may also refer to the Presidential Instruction Number 5 the Year 2019 on the Termination of Granting of New Permits and Improving Management of Primary Natural Forests and Peatlands. The implementer of this instruction must refer to the Decision of the Ministry of Environment and Forestry Number SK.551/MENLHK-PKTL/IPSDL/PLA.1/2/2020 on the Indicative Map of New Permit Moratorium (PIPPIB) on Primary Natural Forest and Peatland Year 2020 period I.

Previously, several countries have shown that the implementation of omnibus law has succeeded in creating new regulations that support the investment climate. The investors will be free from complex regulation; for example, countries such as Turkey, USA, and other developed countries. Before Indonesia, in South-East Asia, several countries have applied the Omnibus Law. Philippine implements the omnibus law with a similar context (on the investment sector) to Indonesia, which is the Omnibus Investment Code. In other words, the Philippine defines its Omnibus Law as sequences of regulations that provide comprehensive incentive, whether fiscal or non-fiscal, to accomplish national development. Vietnam, who is also part of a South-East Asian Country, has been implementing omnibus law. This regulation has amended, supplemented, and revoked several articles from the Value-Added Tax Act, the Excise Tax Act, and the Tax Administration Act.

According to the research from Center for Indonesian Taxation Analysis (CITA), Omnibus Law have three benefits, which are: 5

**First**, the Omnibus Law has allowed the government and the representative to amend several laws at once. It saves them from revising the law individually. In essence, one new regulation amended multiple laws simultaneously.

**Second**. The Omnibus Law scheme may become more efficient and effective as long as it is preceded by identification and comprehensive mapping of the issue; because Omnibus Law combines various regulations— with different substances—into one prominent regulation.

**Third**. Omnibus Law acts as a legal umbrella. This is Indonesia’s first try implementing Omnibus Law. Thus, it is prudent that the government stay calm and review the urgency comprehensively; to ensure that the policies are right on target.

Another point that must be regarded for the government is that Omnibus Law should not change the principle and basic idea—which can result in substantial implications. Transparent and credible processes are necessary. To ensure its completion, every element must be included for the Omnibus Law to encompass all legal subjects—not limited for certain parties.

Secretary to Coordinating Economic Minister, Susiwijono, stated at least there are three benefits of Omnibus Law, which are:

1. Removing regulatory overlaps;
2. increasing the efficiency of amending or revoking the regulations;
3. removing the sectoral ego which is found in some laws.

The government must implement the omnibus law, as the existing number of regulations have become plenty. In practice, often one regulation overlaps the other; it limits access to public service and obstructs the ongoing business. Thus, it renders the program—on the acceleration of development and improving the public’s welfare—difficult to achieve.

Indonesia Centre of Law and Policy Studies (PSHK) said that from 2014 to October 2018, the government had issued 8,945 regulations. The regulations consisted of 107 Acts, 765 Presidential Regulations, 7,621 Ministry Regulations, and 452 Government Regulations. 6 Despite its positive review, Omnibus Law also receive critics from various experts, especially Indonesian legal experts; among others are:

1. Prof. Maria Farida Indrati voiced her argument for the creation of the Draft of Omnibus Law. She believed that it is better to delay the development of Omnibus Law to avoid any potential issues. 7 Further, she explains that Omnibus Law is commonly practised in countries with the common law system. Thus, if the omnibus law is implemented, it will raise a new issue in legal drafting, which may lead to legal uncertainty. Previously, Prof. Maria was a former Justice of Constitutional Court. After several years, this is the first time she heard about Omnibus Law. She argued that to increase investment growth, one should not yield their asset

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6 https://www.online-pajak.com/omnibus-law (accessed on February, 20 2020)

and provide the opportunity for foreign investors to possess the asset effortlessly. For Prof. Maria tracing years of regulations are not an easy feat, because one regulation may differ in substance and authority with another regulation. She explains that to formulate an efficient and effective Omnibus Law, the regulators must review the whole regulation and not only adopt a certain portion of the regulation. As an individual who is familiar with Indonesian regulations, she is concerned that the government and the representative will not be on the same pages.

2. Prof Jimly Asshidiqie advised that the creation of Omnibus Law must be extensive, whole, and integrated to realize the legal structure and regulations system based on Pancasila and Constitution 1945. Because often, between regulations, whether vertical or horizontal, contain similar substances and overlaps. In the end, the disharmony caused the implementation to be inadequate. Prof. Jimly also stated that the main point of Omnibus Law should not be limited to licensing and ease of business. For instance, some regulations related to Act Number 7 the Year 2017 concerning General Election; Act Number 10 the Year 2016 on the Election of Governor, Regent, and Mayor which transforms into Regional Election Act. He believed that these regulations either directly or indirectly related to several other regulation such as Act Number 2 the Year 2011 on Political Parties; Act Number 10 the Year 2011 on Constitutional Court; Act Number 5 the Year 1986 on State Administrative Court; Act Number 16 the Year 2017 on Mass Organization; and Act Number 23 the Year 2014 on Regional Government. These regulations are related to each other and can be combined through the Omnibus Law. The regulations can be codified administratively to become one General Election Law. Prof. Jimly was the former Chief Justice of Constitutional Court that advocated the Draft of the Relocation of Capital City (ibukota) from DKI Jakarta to Penajam Paser Kalimantan Timur (Kaltim), which can be considered as the pilot of the omnibus law rather than the Draft of Job Creation Act dan the Draft of Taxation Act. Because, the process involved several laws; for instance, the laws that explicitly mentioned “ibukotanegara” should be reviewed and whether the relocation to Penajam Paser is needed or not.

Further, according to Prof. Jimly Asshidiqie, there are at least 30 regulations that rule various state organizations or commissions which contain the phrase “ibukotanegara”. If the phrases are not amended, he believed that all of the offices, Human Resource Department, and others must also be relocated to Penajam.

IV. DISCUSSION

Investment is a capital investment for one or more owned assets and generally in a long period with the purpose to obtain profit in the future. 8 Foreign and domestic investment are one of the grounds for economic growth. However, in practice, compared to the other provinces, Aceh has low investment growth. The investors believed that the legal uncertainty became a great risk for investing in Aceh. The uncertainty stemmed from the existence of overlapping regulations. For instance, the Acehnese PlantationQanun contradicts the central regulation. Qanun Aceh Number 6 the Year 2012 concerning Plantation Article 12 paragraph (2) explains that plantation businesses ranging from 25 hectares to 200 hectares and located on cross-regent/city will receive the license from the Governor under the recommendation of the local’s Regent/Mayor. On the other hand, in other regulation, under the Online Single Submission (OSS), plantation business under 25 hectares must be registered in local’s Regency/City.

These problems are addressed by President Jokowi in which he advocated the creation of Omnibus Law. He believed that the harmonization of licensing regulation offered by the Omnibus Law may simplify the regulation. There are two doctrines which are commonly used in addressing legal hierarchy. First, the legal maxim which states lex specialis derogat legi generali. This maxim expresses that a specialized law overrides a general regulation. Second, lex superior derogat legi inferiori, which means that the law in the higher hierarchy prevails over the law below.

The application of both doctrines is often ignored. Presently, new legal products often match the current trend. Therefore, most of the time, the amendments are made either partial or whole. A partial amendment is for the articles that have been ‘outdated’. In return, the complete amendment means that new regulation will be issued to follow the latest trend.

In the process of licensing seedling business, the application of the doctrine lex specialis derogat legi generali is overlooked. As the Regulation of Ministry of Agriculture Number 45 the Year 2019 concerning Electronic Integrated Business Licensing Service divided the authority in the agriculture sector into three: the Central authority, the Provincial authority, and the Regency/City authority. Although in practice, the applicable law is Government Regulation Number 24 the Year 2018 concerning Electronic Integrated Business Service, which explains that the production of seeds on the plantation ranged from 25 hectares to 200 hectares in the same regency must be handled by Provincial authority.

Article 63 of Act Number 13 the Year 2010 concerning Horticulture explains that the seeds entry must be limited when the seeds can not be produced domestically or the domestic demands are insufficient. Further, the potential investors must go through a complicated process to obtain the permit. This regulation then is revised via the Draft of Job Creation of the Omnibus Law, which smooths the process of seeds entry and exit. Consequently, the Omnibus Law revokes several laws that overlap and contradict with the process of capital investment. The existence of Omnibus Law should reduce the complexity of licensing and create a better investment climate so that Indonesia, especially Aceh, may become a popular destination for investment.

Despite its positive acceptance, Omnibus Law must be created with caution. Prof. Maria stated that the Omnibus Law commonly used by countries that adopt a common system. Prof. Maria also added that the regulations for Omnibus Law must be thoroughly studied. Regulators must not partially interpret the related-regulation. The creation of Omnibus Law requires tracing of the existing laws. All of the related-laws, in this case, the law pertaining to investment, are compiled, amended, and revoked to achieve an effective and efficient Omnibus Law.

Prof. Jimly also addresses the similar issue, which is the importance of studying the law as a whole. The development of Omnibus Law must involve other related law, in this case law concerning investment. It is preferred for the related law to be compiled into one major law to avoid any overlapping.

V. CONCLUSION

The main challenge that the investors face to invest in Aceh is the existence of various regulations concerning the licensing, whether in regional level or central level. To harmonize such regulations requires time, to ensure that there is no difference in perception that can lead to the failed application of the law. In order to synchronize perception, requires a container that can be the meeting point from the various regulations and thoughts. Therefore, the government creates a container that can become a mediator for the diverse regulation and perceptions, which is known as the Omnibus Law.

Several points may be used as the substance or ease in the application of Omnibus Law, in particular:
1. Simplification of business licensing;
2. investment requirements;
3. employment;
4. flexibility and protection for micro, small and medium enterprises (UMKM);
5. facilitate the government’s projects and economic zones.

With the advantages above, hopefully, it will rouse the investors' need to invest in Indonesia, especially Aceh. As the efficiency of Omnibus Law may decrease the transaction cost that generally hinders investment. Transaction cost can be reduced through the Omnibus Law scheme, which is included in the category of bargaining cost and contract cost. Furthermore, the Omnibus Law is believed to minimize institutional corruption in the manufacturing sector. Due to the decrease of transaction cost on business and investment permits.

The Omnibus Law also provides the incentive for tax reduction and tax exemption, such as tax holiday; super deduction for vocation; research and development; companies’ invested in the labour-intensive industry; reduce the income tax (PPH) for Special Economic Zone (KEK); and regional tax exemption.

It is expected that the Omnibus Law becomes a major breakthrough for Indonesia, in terms of the law, tax revenue, economic growth, and Indonesia’s development, especially Aceh. The management of regulations implicitly affects the investors’ interest to make a capital investment in Aceh. The management will ensure that there is no overlapping in regulations and harmonize the law.

It is hoped that the existence of Omnibus Law becomes a regulation that eases the performance of the investors’, the government’s (licensing), and related-parties’ (technical-agency) obligations and duties to develop a good licensing system and increase Aceh’s economic growth. Further, it also can transform Aceh into a province worthy of investment.

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