

Policy Brief

Good Regulatory Practice in Indonesia

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Key Messages:

- Prior to the implementation of the Indonesian Investment Coordinating Board (BKPM) Online Single Submission (OSS) system, acquiring a business license in Indonesia was a complex and convoluted process.
- The OSS system serves as a centralised platform for businesses to register and acquire licenses and permits, in line with the implementation of Good Regulatory Practices (GRP). The OSS system includes supervision mechanisms to ensure compliance with regulations and level playing field for business actors.
- Most businesses in Indonesia are micro, small, and medium-sized enterprises (MSMEs); hence, it is crucial to empower those segments through simplified licensing processes. Indonesia's digital economy is experiencing significant growth, with projections indicating substantial increases in gross merchandise value (GMV). MSMEs will be the future driver of e-commerce growth in Indonesia.
- The implementation of the OSS system in Indonesia has positively impacted the country's regulatory quality and has improved the perception of the government's competence in drafting and enforcing regulations that support the growth of the private sector.

This policy brief discusses the implementation and impact of the Online Single Submission (OSS) system in Indonesia, developed under the auspices of the Indonesian Investment Coordinating Board or Ministry of Investment (BKPM), which has streamlined the business licensing process and improved regulatory quality. The OSS system serves as a centralised platform for businesses to register and acquire licenses, particularly benefiting micro, small, and medium-sized enterprises (MSMEs). The digital economy in Indonesia, especially the e-commerce sector, is experiencing significant growth, with projections indicating substantial increases in gross merchandise value (GMV). The OSS system has positively impacted Indonesia's regulatory quality and improved the perception of the government's competence in supporting the private sector's growth. This policy brief recommends enhancing the implementation of the OSS system, promoting public participation, facilitating interagency coordination, and conducting regular monitoring and evaluation to assess the impact of Good Regulatory Practices (GRP) as implemented within OSS system on e-commerce sector.

Introduction

The acquisition of a business license was a convoluted procedure prior to the Online Single Submission (OSS) system's implementation. Investors were required to procure an assortment of licenses and permits to commence operations within the country. The scheme has regrettably presented investors with complex challenges and obstacles when establishing business ventures in Indonesia.

The Indonesian case study on the implementation of Good Regulatory Practices (GRP) in the field of business licensing highlights the importance of Government policies regarding open market accessibility. To further streamline Indonesia's business licensing requirements, the Law No. 11/2020 on Job Creation Law (also known as the Indonesian Omnibus Law) has mandated the implementation of a better business licensing system. In 2021, an updated OSS system with a risk-based approach (RBA) was introduced. The government must issue business licenses and permits according to RBA. The government categorises new enterprises into four groups: i) low-risk; ii) medium-low risk; iii) medium-high risk, and iv) high-risk.

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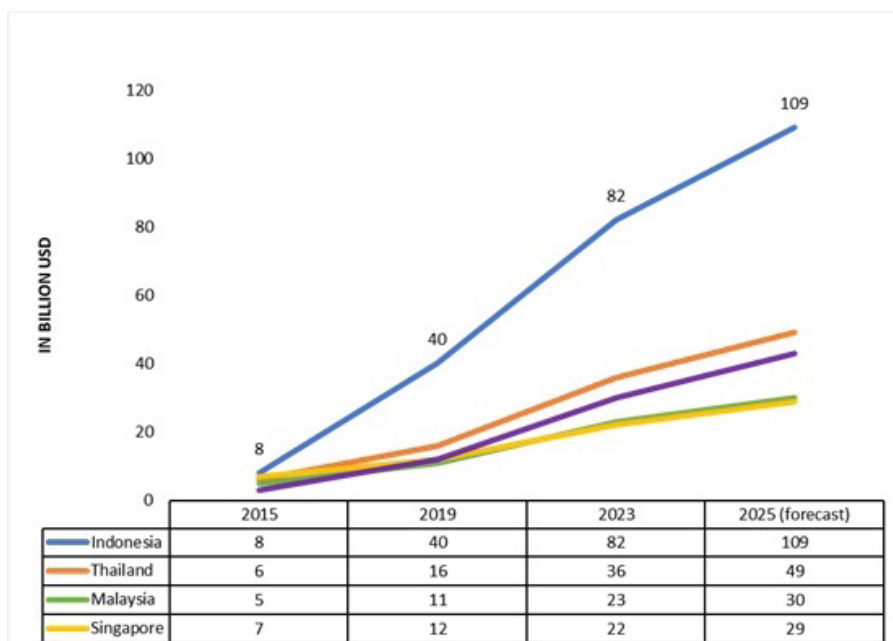
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OSS is an essential tool that ensures businesses comply with Indonesian regulations. It serves as a comprehensive platform that enables businesses to register and obtain licenses and permits to legally operate. By centralising the regulatory process, the OSS simplifies compliance procedures. It serves to level the playing field for all and fosters an environment of business that is fair and transparent.

The Emergence of the e-Commerce Industry in Indonesia

Indonesia is experiencing significant growth in the digital economy and has positioned itself as the front-runner in the digital economy market amongst ASEAN countries, primarily due to the exponential growth of the e-commerce industry (Kramadibrata, 2021). The GMV of Indonesia's digital economy is estimated to reach US\$109 billion by 2025 (Google et al., 2023).

Figure 1: Digital Economy Market in ASEAN



Source: Modified by author based on Google et al., 2023.

The COVID-19 pandemic accelerated the expansion of Indonesia's digital economy, resulting in a notable 61% increase in revenue from the e-commerce market in 2021 (Chew, 2021). The e-commerce market is primarily driven by domestic markets, particularly in the second- and third-tier cities of Indonesia. The growth trajectory is expected to exceed pre-pandemic levels due to the significant disparity between retail and online shopping, with retail continuing to be the dominant sector.

There is an increasing trend in second- and third-tier cities where offline retailers are shifting to online platforms. As a result, customers living in these cities are spending more money digitally. The digital economy in second- and third-tier cities in Indonesia is projected to expand by approximately fivefold by 2025 (Balakrishnan, 2021). One primary factor is the successful deployment of Indonesia's Satria-1 satellite in June 2023, aimed at enhancing internet accessibility in rural regions. The introduction of Starlink service in May 2024 shall also play an important role to boost internet connectivity.

Most business entities in Indonesia are MSMEs, constituting around 99% of total businesses and 61% of the nation's gross domestic product (GDP) (Firdaus, 2024). The adoption of e-commerce by MSMEs has been lethargic (Ramli, 2020). Therefore, it is imperative to

empower this segment to augment its value generation, as it will have a substantial and wide-ranging impact on the economy. A viable strategy to achieve this goal is by reducing bureaucratic barriers through the implementation of OSS, which will accelerate the growth of MSMEs. Obtaining a business license provides MSMEs with advantages such as increased access to funding and the ability to expand their market through e-commerce.

Online Single Submission (OSS) as an Example of Good Regulatory Practice

The Indonesian Investment Coordinating Board (BKPM) has made substantial progress in attracting foreign direct investment (FDI) by implementing its OSS system. BKPM, which was founded in 1967, has undergone multiple transformations, transitioning from an autonomous board to a ministry. The National Single Window for Investment was implemented in 2001 in offline mode. In 2007, Law No. 25/2007 on Investment was enacted to further promote FDI. In 2009, the National Single Window for Investment was launched on the BKPM website, thus available online.

The OSS system, first implemented in 2018, is a comprehensive online service portal that operates under the authority of BKPM. It is designed to accommodate the

registration of almost every license and authorisation a business may need to operate in Indonesia. When applying for a business license, the OSS system requests information and data such as articles of association, board members, shareholding structure, KBLI (Indonesia Standard Industrial Classification) number(s), details of business activities, tax identification number, location of business, status of land on which the business is carried out, manpower, and work capital. This information is used to verify the business entity.

In 2021, the revamped OSS system uses a risk-validation process based on the scale of business and the KBLI number. All FDI companies are automatically considered as big-scale enterprises, and the scale of risk is determined based on the KBLI. Meanwhile, most MSMEs would be considered as low-risk businesses.

The OSS system is integrated with ministries and agencies in Indonesia and most institutions' information systems, making it easier for business entities to obtain licenses and certification, such as national product standardisation (Standar Nasional Indonesia or SNI) and halal certificate. Halal certification holds significant importance in Indonesia, especially due to the country's predominantly Muslim population. GRP implementation in the OSS system leads to better business facilitation that benefits businesses, including the e-commerce sector.

OSS Impact in Indonesia

According to BKPM data, a total of seven million Business Identification Numbers (NIB) have been issued through the OSS system in 2023. The NIB issued consists of 6,887,479 micro-enterprises, 187,402 small enterprises, 23,350 medium enterprises, and 47,874 large enterprises. Currently, OSS generates an average of 15,000 to 50,000 NIBs per day (Indonesian Ministry of

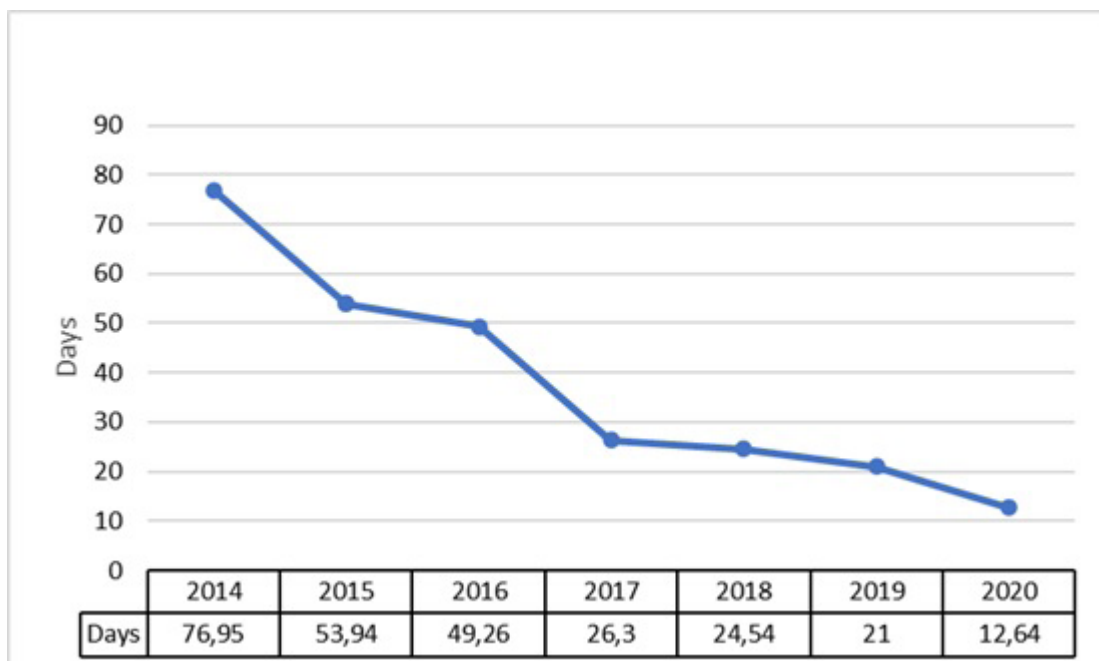
Investment, 2023).

The implementation of OSS RBA reduces licensing obstacles that hinder the growth of MSMEs. Previously, small businesses were required to follow similar procedures as large business entities when obtaining business licenses. OSS simplifies the licensing process for businesses, including MSMEs, by integrating all the processes into a single online platform, resulting in reduced bureaucracy and processing time.

The NIB obtained through OSS can be used to assess the legality of MSMEs' products. Those who meet the requirements can also obtain an SNI and a halal certificate. SNI plays a crucial role in guaranteeing the excellence, security, and appropriateness of products in both local and regional (ASEAN) markets. SNI certification is also in accordance with the ASEAN Consultative Committee on Standards and Quality (ACCSQ) framework, which was established to promote regional trade liberalisation. Supervision is an essential component of the OSS system. The goal is to ensure that business actors fulfill their obligations in accordance with enacted regulations. The Government can conduct both routine and incidental monitoring. Failure to comply with the regulations may result in administrative fines or the cancellation of business licenses.

The effectiveness of legal and regulatory frameworks plays a crucial role in determining productivity and efficiency. OSS implementation has contributed to enhancing Indonesia's position in the Swiss-based International Institute for Management Development (IMD) world competitiveness ranking by creating a more productive and streamlined bureaucracy – Indonesia climbed from 44th to 34th position in 2023. (International Institute for Management Development, 2024) Another measure is that in 2022, Indonesia's regulatory quality

Figure 2: Time to Start a Business in Indonesia (2014–2020)



Source: Doing Business Archive, 2021.

percentile rank was 59.43%, up from 52.38% in 2018 (Trading Economics, undated). Indonesia's ranking in the World Bank's Ease of Doing Business (EODB) index also improved, from 120th in 2013 to 73rd in 2020, indicating a more favourable regulatory environment for starting a business and doing business.

Policy Recommendations

1. Enhance Implementation of the OSS system: the Indonesian Government should further improve the OSS system as it reflects GRP; then guaranteeing its efficacy in streamlining the process of acquiring approvals and clearances. Consistent updates and enhancements should be implemented to address the concerns of businesses and foster transparency. In parallel, this effort needs attention on human resources development.
2. Promote Public Participation: Measures should be taken to increase public participation in the process of drafting the legal framework, including for the e-commerce industry. This can be accomplished by enhancing communication between the government and relevant stakeholders, including academia and associations.
3. Facilitate Interagency Coordination: It is essential to foster collaboration between BKPM and the Ministry of Trade to ensure GRP implementation of regulations and policies in the e-commerce sector. Regular coordination meetings and consultations with industry associations, such as the Indonesian e-Commerce Association (idEA), can promote a favourable business environment. Universities could play a role by providing a forum, as their presence is deemed less political.
4. Conduct regular monitoring and evaluation to assess the impact of GRP and the OSS system on the e-commerce sector. This will make it easier to identify areas for improvement and ensure the efficacy of these initiatives in promoting the expansion of e-commerce in Indonesia while providing more incentives to MSMEs

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