



REGMAP: INSTITUTIONALIZING REGULATORY REFORM IN INDONESIA

SUMMARY REPORT

MARCH 2009

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MARCH 2009 — DAVID RAY AND EFRULWAN

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1. INTRODUCTION TO REGMAP

1.1 OVERVIEW OF THE REPORT

This report provides a summary of the methodology and preliminary findings of the SENADA Competitiveness Project's RegMAP initiative. It has been produced primarily for distribution at the national release of the RegMAP, held at BAPPENAS on March 11, 2009. The full RegMAP report, to be released in a few months, will provide a complete account of the RegMAP process and results, as well as detailed analysis of select regulations.

1.2 INTRODUCTION AND BACKGROUND

Since the monetary crisis of the late 1990s, Indonesia has enjoyed strong economic management, resulting in macroeconomic stability and much needed financial sector reform. There have also been important efforts toward microeconomic reform. These include an annual series of investment climate reform packages (including Presidential Instructions 3/2006, 6/2007 and 5/2008 which covered a broad range of reforms in taxes, customs, infrastructure, and investment services among others); the 2005 Law on Capital Investment and the corresponding reform of the investment negative list; the 2008 Law on Income Tax; and important and ongoing legislative reforms of the airport, railways and ports sectors.

Despite these reforms, there is evidence that Indonesia is becoming less competitive in terms of its business regulatory climate. This is reflected in the latest version (2009) of the International Finance Corporation's *Doing Business* report, which ranks 181 economies based on a variety of indicators that track the time and costs of complying with business regulations and procedures. In this report the IFC recorded 239 major reforms across 113 countries that it regarded as a "record-breaking number of reforms greater than any other year before." In this more competitive international environment, Indonesia's overall ranking slipped two positions, from 127 to 129, well below regional competitors such as China (83), Malaysia (20) and Vietnam (92).

Improving the country's regulatory environment for business was a key theme at a major joint-donor-funded national conference titled "Accelerating Economic Regulatory Reform: Indonesia and International Experience" held in May 2007 in Jakarta. At this conference, international speakers described the recent and successful regulatory reform efforts in Vietnam, Korea, China and elsewhere, further reinforcing the competitive pressures on Indonesia's business regulation regime. A key conclusion drawn in conference discussions was that an important first step toward comprehensive reform in the regulatory climate was to inventory and critically review business-related regulations.

In response to this call, the USAID-funded SENADA project developed and rolled out the RegMAP initiative. RegMAP 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; automotive components 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 primarily on government, in particular the newly formed Directorate for Analysis of Law and Regulation (*Direktorat Analisa Peraturan Perundang-undangan* or DAPP) at BAPPENAS, the National Development 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.¹ From March to July 2009, 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 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.

¹ Particularly filters two and three, as described in the text below.

2. OVERVIEW OF REGMAP METHODOLOGY

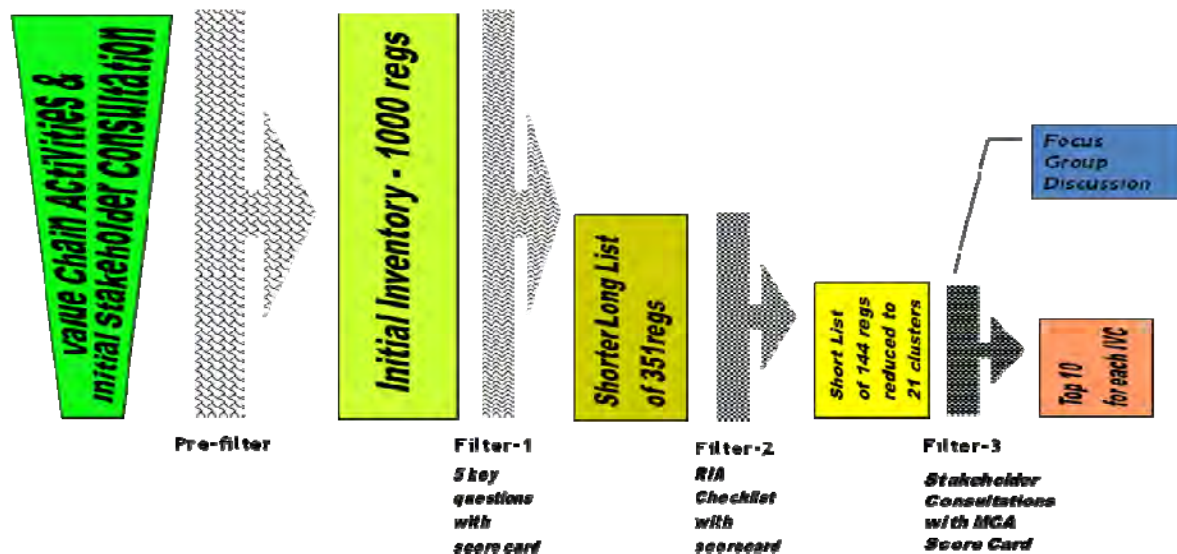
Regulatory impact analysis (RIA) analytical tools provide the intellectual foundation for RegMAP. RIAs are now common in the public policy landscape of many countries. While the process may vary somewhat from country to country, RIAs generally provide a detailed appraisal of the potential impacts of new or existing regulations. This is done to assess whether the regulation has appropriate objectives, whether it is likely to achieve them, and to determine whether its costs exceeds its benefits. A standard RIA also identifies all feasible alternatives to the proposed regulation and analyzes their respective merits as solutions to the identified regulatory problem. The RIA analytic process typically involves potentially affected parties in a consultative process in the development of regulatory solutions to problems.

Given that hundreds of regulations would be considered as part of the RegMAP process, it was not possible to undertake a full impact analysis of every regulation. Instead, key elements of the RIA process were adapted to develop regulatory filtering tools. These included:

- The application of RIA-based questions to the objectives, content and impact of a regulation.
- The use of various consultative tools (focus group discussions, enterprise and expert surveys) to assist in the identification and review of potentially problematic regulations.

Using such filters was a cost-effective means of reviewing a large number of regulations and identifying the most problematic among them in terms of adverse impact on businesses. This enabled greater resources to be devoted to fully analyzing this smaller set. The RegMAP filtering process is represented below in Graphic 1.

GRAPHIC 1— THE REGMAP FILTERING PROCESS



Initial consultations with business actors in SENADA’s industry value chains (garments, footwear, furniture, autoparts and home accessories), surfaced key regulatory concerns and provided the basis for the initial inventory of 1,000 regulations. Filter 1 comprised the application of five RIA-based questions to the initial inventory. Responses were quantified and ranked. Subsequently, a shorter list of approximately 350 potentially problematic regulations was sent to Filter 2. Filter 2 comprised a more detailed regulatory review based on 10 RIA-style questions, and use of this Filter reduced the list to

around 140 regulations. These were then subjected to Filter 3 analysis, which further reduced the set of regulations to 20 or so regulatory ‘clusters.’ The clusters grouped regulations having similar objectives, for example local regulations governing building and planning permits, national regulations on labor, etc. Consultations with business, as part of the Filter 3 process, then enabled the identification of the 10 most problematic clusters of regulations for each of SENADA’s industry value chains.

2.1 CONSULTATIONS

SENADA undertook consultations with business at both the beginning and end of the RegMAP process. The initial consultations helped better focus the RegMAP on policy issues of greatest concern to the businesses in the select IVCs. The final consultations ensured that the RegMAP results were valid, in particular that the business community thought that the regulations sent to the final filter were truly problematic and that there were no glaring omissions from the final short-list.

The initial consultations took the form of focus group discussions (FGDs) and expert surveys. There were 15 FGDs in four locations, with two to three FGDs per industry value chain. Representatives of producers and other value chain actors, as well as representatives of relevant business associations, attended each FGD. There were survey interviews with 14 experts in different places to capture additional key issues or problems. Most experts were from business associations and a few were independent consultants and business owners.

These initial consultations provided the first tangible results in the RegMAP process and took the form of a list of business complaints about the regulatory climate. Where possible, the RegMAP team tried to direct the focus of the consultations away from the usual complaints, such as licensing red-tape, and focus instead on issues that are less well known (but still burdensome for businesses) or specific to the industry value chain in question. There were a number of issues that surfaced in most if not all of the consultations. These included concerns regarding:

- The process of determining regional minimum wages (UMR).
- High costs of severance pay.
- The various bureaucratic hassles and costs involved with getting key planning permits, such as building permits (IMB) and nuisance/disturbance permits (HO).
- Having to pay user-fees and charges for the use of company-supplied electricity generation and distribution equipment.
- The long delays in receiving tax reimbursements.
- Irregularities in the implementation of local parking fees (in particular the imposition of fees for the use of parking facilities on business premises).
- The various fees and charges on domestic transport of cargo.
- Regulatory restrictions on the use of coal as an energy source.

Other issues raised in at least two of the FGDs included concerns about:

- High costs and uncertainties surrounding permits and levies for underground water drilling.
- The reclassification of local roads resulting in the imposition of higher road-use charges on trucks.
- Local regulations governing the disposal of toxic waste (in particular coal).
- Regulations governing inspections of fire-extinguishers.
- Local taxes for the ‘provision’ of business-supplied street lights.
- New electricity (*multiguna*) rates that impose higher charges upon new or expanded businesses, and reduce utilization of production capacity.

Other select issues raised in the FGDs are as summarized in the table below on an IVC basis.

TABLE 1 — INDUSTRY VALUE CHAIN SPECIFIC ISSUES RAISED AT FGDs

FURNITURE
The relative ease with which an ETPIK (Registered Wood Industry Export License) can be obtained (i.e., purchased) means that it is an ineffective tool against trade in illegal wood.
High costs and delays in importing samples lead to loss in orders.
GARMENTS
Imported garment machinery is taxed as luxury goods.
Delays and high costs associated with the import of used machinery.
The complicated process of verifying garment imports to address smuggling hampers legitimate importing activities.
High costs are associated with labor regulations governing overtime, menstrual leave and compulsory education and training contribution fees (IWPL).
Local content provisions make production difficult due to limited availability, higher prices and unpredictable delivery times of local inputs.
AUTOPARTS
Fuel specifications do not correspond to motor vehicle emission standard specifications.
Recent import duty and VAT reduction measures are not effective and tend to only be to the advantage of large first-tier firms.
Indonesian safety standards do not refer to UN-ECE standards, thus restricting exports.
High taxes on vehicles restrict the domestic demand for autoparts.
FOOTWEAR
The local AMDAL (environmental impact) process unnecessarily hampers growth in the leather tanning business.
Delays in issuance of key forms at customs make it difficult to obtain bills of lading (B/L).
Complicated and often unnecessary quarantine procedures coupled with a lack of quarantine facilities restrict the import of leather.
HOME ACCESSORIES
Quarantine procedures restrict shipments of raw materials and finished products.
Difficulties in importing samples made of porcelain restrict the ability to respond to orders.
Internationally certified electric cables are only available through importing, but this is costly and difficult to arrange.

As it was not feasible to cover all types of regulations impacting the five industry value chains, an important objective of these early consultations was to identify and establish the thematic categories of regulations for the initial inventory. The consultations resulted in the identification of the following 10 thematic categories:

- Access to raw materials
- Energy
- Labor and safety issues
- Taxes
- Local licenses and levies
- Export activities
- Import activities
- Domestic trade
- Transport and logistics
- Environmental concerns

2.2 COLLECTION OF REGULATIONS AND DATABASE CONSTRUCTION

Using these thematic categories, SENADA collected 1,000 regulations comprising 386 local government regulations and 614 national government regulations. This followed an initial intent to aim

for a 60-40 national-local mix in the initial inventory. Researchers were also encouraged to find regulations specific to the value chains, e.g., regulations relevant only to furniture producers, etc.² The initial inventory comprised 16 types of regulations, as listed in Table 2 below. The largest categories of regulations were district/city local regulations (268), ministerial decrees (184), ministerial regulations (177), and government regulations (96).

TABLE 2— TYPES OF REGULATIONS IN THE INITIAL INVENTORY

	TYPE OF REGULATIONS	NUMBER OF REGULATIONS
National	Laws (Undang-Undang)	34
	Government Regulations (Peraturan Pemerintah)	96
	Presidential Regulations (Perpres)	11
	Presidential Decrees (Kepres)	28
	Presidential Instructions (Inpres)	5
	Ministerial Regulations (Permen)	177
	Ministerial Decrees (Kepmen)	184
	Joint Ministerial Decrees (SKB Menteri)	6
	Ministerial Circulars (SE Menteri)	2
	Directorate General Regulations (Perdirjen)	35
	Directorate General Decrees (Kepdirjen)	35
	Joint Directorate General Decrees (SKB Dirjen)	1
SUBTOTAL - NATIONAL		614
Provincial And Local	Provincial Regulations (Perda Provinsi)	61
	District/City or Municipality/Regency Regulations (Perda Kabupaten/Kota)	268
	Governor Regulations (Pergub)	36
	Regent/Mayor Regulations (Perbup/Walikota)	21
SUBTOTAL - PROVINCIAL AND LOCAL		386
TOTAL		1,000

The 386 local regulations were drawn from the main geographic areas where the businesses in the select value chains are domiciled, as described in Table 3 (e.g., footwear and garments in Bandung, home accessories in Yogyakarta, furniture in Jepara, etc.). Most local regulations were collected at the district/city level (268), since in the era of local autonomy this level of government has been given more authority to regulate businesses.

SENADA coded each regulation using a variety of attributes to enable the construction of a searchable database. These attributes included type of regulation, geographic jurisdiction, industry impacted, and thematic category. This database along with other information and analysis can now be accessed at www.regmap.org.

² Note that the initial inventory of 1,000 regulations did not cover all regulations having a material impact upon businesses in the five IVCs. Nor can it be claimed that the initial inventory included within it all the regulations having the greatest adverse impact. Instead, the initial inventory comprised a sample of regulations chosen because they were within one of the above-mentioned thematic categories.

TABLE 3 — REGIONS AND SENADA’S INDUSTRY VALUE CHAIN CONCENTRATION

VALUE CHAINS	JABODETABEK REGION	WEST JAVA REGION	CENTRAL JAVA & YOGYA REGION	EAST JAVA REGION
Footwear (3 regions, 10 areas)	Jakarta Bekasi District Bekasi City Tangerang City	Bandung District Bandung City Garut		Sidoarjo District Mojokerto District Mojokerto City
Autoparts (2 regions, 7 areas)	Bogor District Bekasi District Bekasi City Tangerang City	Bandung District Bandung City Cimahi City		
Garments (3 regions, 10 areas)	Jakarta Bekasi District Bekasi City Tangerang City	Bandung District Bandung City Cimahi City	Pekalongan District Semarang District Yogya City	
Furniture (2 regions, 8 areas)			Jepara District Klaten District Yogya City Sukoharjo District	Pasuruan City Pasuruan District Surabaya City Gresik District
Home Accessories (2 regions, 4 areas)			Klaten District Bantul District	Malang District Bojonegoro District
	3 IVCs	3 IVCs	3 IVCs	3 IVCs

3. REGMAP FILTERING PROCESS

3.1 REGMAP – FILTER 1

The first filter, which comprised five RIA-based statements covering legality, redundancy, regulatory objectives, economic impacts and stakeholder concerns, was applied to the initial inventory of 1,000 regulations. Table 4 describes each of these statements and gives a brief supporting rationale. Also included in the table is the weight applied to each statement (as used when calculating scores for each regulation) as well as the rationale for differential weighting.

TABLE 4 – FILTER 1 STATEMENTS, WEIGHTS AND SUPPORTING RATIONALE

STATEMENT	WEIGHT	RATIONALE
1. The regulation does not refer to necessary related laws.	15%	This was to establish legality. If the regulation in question did not take into consideration existing laws that may relate to the policy problem it was intended to address, then there was a greater chance of overlap, duplication and possibly conflict with other regulations. If this was proven to be the case then it was more likely to pose unnecessary burdens on businesses. On its own, however, the statement does not represent a definitive indication that the regulation is causing injury to businesses, only that there is an increased risk, hence it was given a slightly lower weight.
2. There is evidence that the regulation exists in law, but is not being implemented.	5%	This was to capture redundancy. It offered the possibility of 'quick wins' should the analysis uncover redundant regulations that should be easy to rescind/reform. The statement on its own does not enable the reviewer to prioritize those regulations that cause the most harm to businesses, so it has been given a relatively small weight.
3. The regulation does not clearly explain the objective it is intended to achieve.	20%	This was designed to establish the clarity of regulatory objectives. If the regulation did not have a well defined and articulated objective statement then it was highly unlikely that the regulation would be effectively targeted towards the problem it was intended to address, or achieve its purpose in an efficient manner. This statement has a slightly higher weight than the first two because a poorly defined objective carries a higher risk of regulatory burden.
4. This regulation could have a negative impact upon enterprises in SENADA's value chain.	35%	This was an effort to gauge overall regulatory impact. It was not intended to lead to any detailed analysis, only an indication of the potential of the regulation to cause harm to business activities within the select IVCs. Responses to this statement served as a signal that this regulation should be further investigated through application of Filters 2 and 3, and stakeholder consultation. As this statement directly explores the economic and financial costs of a regulation, it was given the highest weight.
5. There is evidence that stakeholders see this as a priority for reform.	25%	This was included to gauge stakeholder concerns. This first filter served as a 'net' to catch those regulations that have the most potential to cause harm to business activities within SENADA's value chains. For this reason it was important that regulations regarded by business as problematic were advanced to the next stage for more in-depth analysis. This consideration was tempered by the fact that business views are driven by self-interest and should be considered alongside other evidence. Hence this statement was given a lower weight than the previous statement, but higher than the first three.

The application of Filter 1 was largely a subjective exercise, drawing upon the knowledge and opinions of the desk reviewers. Two important steps were taken, however, to maximize accuracy and consistency of these reviews:

- 1. Supporting Questions and Guidelines.** Each of the statements listed above were accompanied by two to eight supporting questions/criteria that the reviewers were required to address in writing. There were also supporting guidelines (as contained in the full RegMAP report). These supporting questions and guidelines helped to ensure a more structured and disciplined approach to the review process. For example, as part of a decision as to whether or not they agreed with the statement that “The regulation does not clearly explain the objective it is intended to achieve,” the reviewers were required to justify their position by providing information as to: (a) intended objective of the regulation; (b) regulation’s description of the policy problem and (c) whether stakeholders understand the objective of the regulation. The reviewers were also asked to provide brief summaries as to what they believed was missing, or why they believed the regulation was not supported by an adequate justification.
- 2. Multiple Reviews.** Two desk reviewers and a supervisor reviewed each regulation. This team-based approach helped build consistency and consensus in the analytical process and allowed team members to question each other’s assumptions. The supervisor’s role was to synthesize his/her review with that of the desk reviewers to arrive at a final set of comments and scores. This approach was particularly useful when there were notable differences in the reviewers’ opinions and scoring. Use of multiple reviewers meant that each regulation had to be reviewed three times. The complete application of Filter 1 required producing 3,000 reports, and this was a time- and resource-consuming exercise.

Use of a standardized scoring system also helped to promote accuracy and consistency in the reviews. Each review statement was given one of three scores:

- A ‘100%’ score was awarded when the researcher believed the regulation satisfied the majority of the criteria supporting the statement (i.e., more than half of the criteria, for example two out of three criteria in statements 1 and 3, and 5 out of eight criteria in statement 4).
- A ‘50%’ score was awarded when the researcher believed the regulation satisfied only some of the criteria supporting the statement (i.e., half or less of the criteria). In this case the researcher ‘partly agrees’ with the statement. This recognizes that there will be instances where the researcher believes there is some evidence to support the statement, but it is not strong enough to entirely agree.
- A ‘0% score’ was awarded when the researcher believed the regulation does not satisfy any of the criteria supporting the statement.

The individual scores were then aggregated, using the weights as described above. At one end of the scale a score of 100% indicated that the research team believed that the regulation was, without any doubt, causing harm to enterprises within the focus IVCs. At the other end of the scale a score of 0% indicated that the research team believed the regulation posed absolutely no risk to enterprises. Put simply, the higher the score, the higher the risk of regulatory burden.

Scoring the regulations this way allowed SENADA to rank them and identify the most problematic ones. The original plan was for Filter 1 to reduce the initial inventory of 1,000 regulations to around 350. The closest discrete cut off was at the 45% mark, which meant that 351 regulations were sent to Filter 2 for further analysis. Of these 351 regulations, 163 (46%) were from the national government and 188 (54%) from local governments, 310 (88%) were generic to all IVCs and only 41 (12%) were IVC-specific.

A crucial ingredient for a successful RegMAP is variation in review scores. Without sufficient variation across scores, it will be difficult to differentiate regulations and hence to develop rankings and shortlists. In this regard the RegMAP Filter 1 had mixed results. Summary data from first-filter reviews suggest

that some statements worked better than others. As can be seen in Table 5, responses to filter statement 2, and to a lesser extent statement 3, did not generate much variation.

TABLE 5 — SUMMARY RESULTS FROM FILTER 1

FILTER STATEMENT	AVERAGE SCORE (%)	# OF 0% SCORES	# OF 50% SCORES	# OF 100% SCORES
1. The regulation does not refer to necessary related laws.	24.1%	528	461	11
2. There is evidence that the regulation exists in law, but is not being implemented.	1.4%	975	23	2
3. The regulation does not clearly explain the objective it is intended to achieve.	8.0%	858	123	19
4. There is evidence that the regulation had a negative impact upon enterprises in the focus value chains.	62.1%	162	432	406
5. There is evidence that stakeholders see this as a priority for reform.	35.2%	468	360	172

In statement 2, 975 out of 1,000 scores were 0%, meaning that 97.5% of final reviews disagreed with the statement that “there is evidence that regulation exists in law, but is not being implemented.” The inclusion of this statement was an effort to capture redundant regulations. However, the supporting criteria that ask whether the government has delayed enforcing the regulation due to opposition from stakeholders, or whether there has been a delay of longer than 12 months to introduce supporting implementing regulations, did not provide a sufficient range of responses for the reviewers. For example if a regulation is redundant, it may simply be the case that it had been forgotten, and not updated or rescinded.

Another reason for the 0 scores could be that, due to a selection bias in its initial construction, there were very few redundant regulations in the initial inventory. That is, reviewers tended to choose well known regulations, and those regulations whose impact upon businesses are more likely to be known than redundant regulations. Finally, it may also be the case that reviewers had insufficient knowledge to respond positively to the supporting questions, leaving them in the default position of disagreeing with the statement.

The lack of variation in responses to statements 2 and 3 meant that they had little influence on the final scoring and ranking of the regulations. This was amplified by the use of weights, which gave greater emphasis to responses to statements 1, 4 and 5. Another important finding relates to the average scores found in Table 4. Recalling the meaning of 0%, 50% and 100% as explained above, it is interesting to note the average score of 62.1% for statement 4. This can be interpreted as indicating that there is an element of concern about most regulations in the initial inventory in terms of their overall impact upon IVC businesses.

3.2 REGMAP — FILTER 2

The objective of Filter 2 was to establish a short-list of the top 30 problematic or burdensome regulations within each of the IVCs, or around 150 regulations in total. This objective was to be met by applying the principles of regulatory impact assessment (RIA) to assess the quality of each regulation included on the list coming out of Filter 1.

The quality of regulation was defined in terms of:

- Whether the objective of the regulation is clearly defined and well justified.
- Whether the regulation is proportionate to the policy problem being addressed.
- Whether the regulation is targeted to the policy problem to be addressed and achieves the policy objective with the minimum burden on those affected.
- Whether the net benefits of the regulation outweigh the net costs.

These five dimensions of regulatory quality were explored in Filter 2 through the use of 10 questions (that is, statements requiring a ‘yes’ or ‘no’ response). These questions and their underlying rationale are contained in Table 6 below.

TABLE 6— FILTER 2 QUESTIONS AND SUPPORTING RATIONALE

QUESTION	RATIONALE
OBJECTIVES OF INTERVENTION	
1. The regulation clearly explains the main objective it is intended to achieve.	These three questions were designed to test whether the regulation is proportionate to the policy problem it addresses and justified on public interest grounds. It was emphasized that there should be no other justification for a regulation other than the definition of public interest provided in this methodology.
2. The regulation is justified in the public interest.	
3. The regulation is proportionate to the policy problem it is intended to address.	
ALTERNATIVES TO REGULATION	
4. The problem to be addressed could not have been dealt with through any alternatives to regulation.	Consideration of policy options, including alternatives to regulation, further supports an assessment of whether government’s response to the policy problem is proportionate.
TARGETING	
5. The regulation minimizes the risk of unintended consequences.	Investigating whether the regulation minimizes unintended consequences demonstrates whether the regulation is sufficiently targeted to the policy problem. This also enables an assessment to be made as to whether consultation has been carried out in support of introducing the regulation. Unintended consequences can only be reduced when policy makers question their assumptions through consultation with stakeholders.
COMMUNICATION	
6. The regulation is written in plain, easy-to-understand language.	These two questions reflect the fact that if businesses and affected stakeholders are unable to understand or access the regulation, compliance rates will be reduced. This will also create the possibility of rent-seeking on the part of government officials.
7. The regulation is easily accessible to all stakeholders.	
COMPLIANCE	
8. How the regulation will be enforced, and by whom, is clear.	Two questions were considered crucial to determine whether the regulation is likely to be effective. If there is limited understanding of how and by whom the regulation will be enforced, then compliance will be affected. Understanding who is responsible for enforcement reduced the prospects of rent seeking.
9. There is evidence that the costs and practicalities of enforcement have been thought through.	
IMPACTS ON ENTERPRISES WITHIN SENADA’S VALUE CHAINS	
10. In qualitative terms, there is evidence that the benefits of the regulation outweigh its costs.	A qualitative assessment of the net costs and benefits of the economic, social and environmental impacts of the regulation helped ensure that the focus of the assessment was on the quality of regulatory outcomes.

As with Filter 1, supporting guidelines and criteria, against which reviewers were required to provide written responses, accompanied the questions. These will be outlined in the final RegMAP report. The same team-based approach, with the supervisor providing the final assessment and scores after first consulting with the reviewers, was also used to complete the reviews.

Initially, SENADA designed Filter 2 to reduce the short-list to around 30 regulations per IVC. This was based on an assumption that the regulations impacting each IVC would be different – that is, specific to certain IVCs. As discussed above, an important finding of the Filter 1 results was that there were very few regulations specific to only one or two value chains. Rather, most regulations considered as part of the RegMAP process were actually relevant to most, if not all, IVCs. As a result, SENADA decided not to treat the results of Filter 2 as a series of smaller short-lists specific to each IVC, but to continue to group the regulations into one list.

Unlike Filter 1, all Filter 2 statements had the same weight – that is, each of the 10 statements comprised 10% of the final score for the regulation. Another important difference from Filter 1 was that reviewers were asked to respond to positive, as opposed to negative, statements. This mattered little in terms of the implementation of the methodology, except that the scoring across the two filters was in opposite directions. A low score in Filter 2 (high score in Filter 1) suggested that the regulation was problematic, and vice versa.

TABLE 7 — SUMMARY OF FILTER 2 RESULTS

STATEMENT	AVERAGE SCORE (%)	NUMBER AGREE	NUMBER DISAGREE
1. The regulation explains the main objective it is intended to achieve.	87%	307	44
2. The regulation is justified in the public interest.	73%	257	94
3. The regulation is proportionate to the policy problem it is intended to address.	44%	154	197
4. The problem to be addressed could not have been dealt with through any alternatives to regulation.	79%	279	72
5. The regulation minimizes the risk of unintended consequences.	32%	111	240
6. The regulation is written in plain, easy-to-understand language.	79%	276	75
7. The regulation is easily accessible to all stakeholders.	93%	327	24
8. How the regulation will be enforced, and by whom, is clear.	73%	255	96
9. There is evidence that the costs and practicalities of enforcement have been thought through.	36%	125	226
10. In qualitative terms, there is evidence that the benefits of the regulation outweigh its costs.	48%	167	184

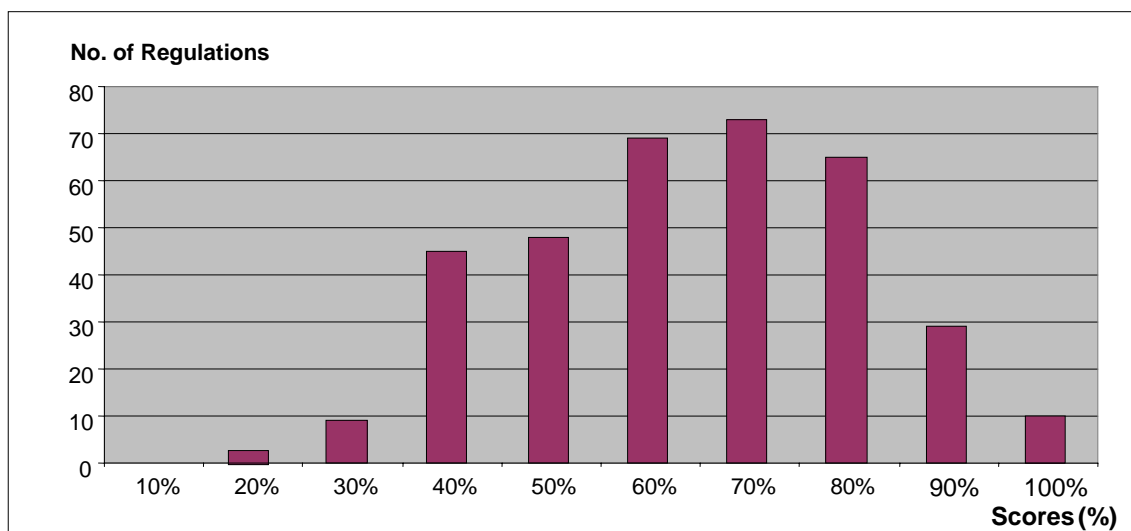
Table 7 provides summary data about the responses to each of the statements in Filter 2. The story emerging from Filter 2 is that the reviewers thought that most regulations clearly explained the main objectives they were intended to achieve and that those objectives could not be achieved through some kind of non-regulatory means. Also on the positive side, most regulations were considered to be written in plain, easy-to-understand language and were easily accessible to stakeholders.

On the negative side, there were concerns regarding whether the regulations reviewed were proportionate to the policy problem they were designed to address (i.e., over-regulation). While most reviewers thought that it was usually clear how a regulation would be enforced and who would do it, they nevertheless felt that the costs and practicalities had not been properly thought through (suggesting high enforcement costs and compliance problems). The statement attracting least agreement was that “the regulation minimizes the risk of unintended consequences.” In most cases

this reflected reviewer concerns that the implementation of the regulation could generate opportunities for rent-seeking. These three concerns, as noted above, in part explain why just over half of the regulations’ costs were considered to exceed benefits.

The histogram in Figure 1 shows that the Filter 2 results provide a relatively symmetrical uni-modal (i.e., single-peaked) normal distribution – suggesting a desirable degree of variation in the final scores. There were two regulations with the lowest score of 20% (i.e., those regarded as the most problematic) and 10 regulations with the maximum score of 100% (i.e., regulations considered the least problematic). The majority of scores were in the 40% to 80% range, with the average score for the 351 short-listed regulations being 64%. To provide approximately 150 regulations for Filter 3 analysis, the nearest cutoff was at the 60% mark. 144 (41%) of the short-listed regulations had scores of 60% or less and were sent to the next filter.

GRAPHIC 2 — HISTOGRAM OF FILTER 2 SCORES



3.3 REGMAP — FILTER 3

Due to the prevalence of generic regulations and the lack of IVC-specific regulations in the Filter 1 and 2 results, SENADA decided to reengineer Filter 3. Initially, the plan was that the top 30 most problematic regulations for each IVC identified in Filter 2 would then provide the focus for the in-depth stakeholder consultations forming the basis of Filter 3. Stakeholders were to be consulted by way of small FGDs in order to reduce this short-list of 30 regulations down to the final top 10 most problematic regulations. However, with a short-list of 144 mainly generic regulations, this approach was not possible.

As with results from the Filter 1, there were large ‘clusters’ of regulations addressing similar issues, particularly at the local level. For example within the 144 regulations on the Filter 2 short-list there were 20 local regulations on business start-up (mainly business registration, trading licenses and investment licensing), 12 local regulations on liquid waste management, 8 local regulations on disturbance-planning permits (*Isjin Gangguan*), 9 local regulations on building permits, 16 local regulations on labor and employment (covering a broad range of employment-related charges such as overtime, training, social security and the use of foreign labor) and 7 local regulations on street-lighting taxes. Although there were a smaller numbers of national regulations, clusters were noticeable there too. For example, the short-list included 5 national regulations on environmental management, 3 national regulations on labor and social insurance and 3 national regulations on electricity supply.

To reduce the Filter 2 list down to a more manageable set of approximately 20–25 regulations for the Filter 3 consultations, the short-listed regulations were grouped together into various regulatory clusters, as described in the table below. At the end of this process 20 regulatory clusters were identified, including 6 clusters of local regulations (covering 83 regulations in total) and 7 clusters of national regulations (covering 28 regulations in total). The remaining 7 clusters comprised IVC-specific regulations (covering 33 regulations in total). Annex 1 provides a short summary of the variety of regulatory problems found in each of these clusters. Highlights from this table include:

- Local user charges that impose extra costs on the employment of women and foreigners.
- Local unloading-loading fees and local road-use dispensation permits that effectively function as taxes on internal trade.
- Local inspection fees and charges that act as disincentives to install and maintain facilities for worker health and safety (e.g. fire extinguishers).
- Provincial regulations that complicate the use of own-electricity generators.
- Local regulations that disincentivize recycling by taxing the buyers and sellers of industrial waste.
- Local regulations that impose mandatory community development contributions upon new investors.
- Redundant national regulations and procedures on the export of legal wood products, the functions of which have now been assumed by international wood certification schemes.
- National regulations on severance requirements that generate high effective costs of employment.
- National verification requirements for textile and garment imports that place considerable (and some say unjustifiable) burden upon SME garment producers and users of textiles from other sectors.

The Filter 3 consultations comprised 10 FGDs. Each of the five value chains had an FGD attended by representatives of local and national government and another attended by representatives of value chain businesses. Approximately 16–20 regulations were discussed in each FGD, including a discussion of the seven clusters of local regulations and eight clusters of national regulations. In addition, each FGD considered the regulations specific to the IVC in question. The furniture FGDs, for example, covered 15 generic regulations and an additional three regulations specific to the IVC.

At the FGD, after discussing the key issues pertaining to each of the regulatory clusters, participants were asked to complete a simple exercise in multi-criteria analysis (MCA)³ ranking the regulations on a 5-point Likert scale. The criteria focused on the likely economic impact of regulatory reform, as well as the political and institutional feasibility of achieving that reform. The logic of carrying out the analysis was that the most impactful reform was not necessarily the most feasible politically or institutionally. There might be an important reform that could generate widespread competitiveness benefits, yet be infeasible due to current political realities (such as reform of the national regulation governing labor). Likewise there could be reforms that might be easy to push through politically, but at best generate marginal impact for the IVCs. MCA allows balancing this trade-off between impact and feasibility to make calculated decisions as to how best to focus follow-on advocacy work.

Final scores for each IVC were synthesized from the private sector and government FGDs. It was assumed that private sector players would be more aware of the likely economic impact of a regulatory reform, so the economic impact scores were weighted 75%–25% in favor of private sector responses. Likewise, it was assumed that government officers would be better placed to judge how politically and institutionally difficult a particular regulatory reform would be. For this reason the political and institutional feasibility scores were weighted 75%–25% in favor of the government officer responses. The results of this ranking exercise are contained in Tables 6 below. In each the case the ‘Top 10’ list com-

³ MCA is a useful tool to allow respondents to make evaluations or provide perceptions based upon multiple and sometimes conflicting criteria.

prises the ten highest scoring clusters of regulations with regards to the perceived potential economic impact if reformed. Those top ten regulations were then re-ranked to determine which of these reforms, in the opinion of the FGD participants, were the most feasible, politically and institutionally.

TABLE 8 — TOP TEN REGULATIONS (BY IVC)

REGULATION	ECONOMIC IMPACT		POLITICAL FEASIBILITY	
	SCORE	RANK	SCORE	RANK
<u>FOOTWEAR</u>				
Local Labor And Social Security Regulations	4.57	1	3.63	5
National Regulations On Labor And Manpower	4.38	2	3.65	3
Footwear Specific (1) - Regulations On The Import Of Leather	4.26	3	3.57	7
National Regulations On Electricity	4.22	4	3.64	4
National Regulations On Import And Customs Inspections	4.22	5	3.42	8
National Regulations On Exports And VAT Restitution	3.98	6	3.68	1
National Regulations Governing Local Government Taxes And Charges	3.92	7	3.66	2
National Regulations On Import Duties And Luxury Taxes	3.90	8	3.40	10
Local Regulations On Electricity And Street-Lighting Taxes	3.82	9	3.42	9
National Regulations On The Environment	3.81	10	3.61	6
<u>AUTOPARTS</u>				
National Regulations On Import Duties And Luxury Tax	4.25	1	9	3.44
National Regulations On Local Government Taxes And Charges	4.20	2	7	3.56
National Regulations On Export (VAT Restitution)	4.06	3	4	3.62
National Regulations On Electricity	4.03	4	6	3.59
Local Regulations On Business Startup And Investment	3.98	5	2	3.69
Autopart Specific (1) - National Regulations On Taxes And Import Duties	3.95	6	10	3.42
National Regulations On The Environment	3.91	7	5	3.61
National Regulations On Import And Customs Inspections	3.90	8	12	3.37
Local Labor And Social Security Regulations	3.83	9	3	3.67
National Regulations On Labor And Manpower	3.83	10	8	3.51
<u>FURNITURE</u>				
Local Regulations On Business Startup And Investment	4.49	1	4.17	2
Local Planning Regulations (Building, Nuisance And Land Conversion)	4.24	2	4.24	1
National Regulations On Electricity	4.17	3	3.67	6
National Regulations On Local Government Taxes And Charges	4.16	4	3.68	5
Furniture Specific (1) - Local Regulations On The Extraction And Transport Of Timber	4.14	5	3.73	4
National Regulations On Labor And Manpower	3.87	6	3.54	9
Local Regulations On Electricity And Street-Lighting Taxes	3.84	7	3.92	3
National Regulations On Export	3.84	8	3.56	8
Furniture And Home Accessories Specific (1) - National Regulations On Wood Exports	3.80	9	3.57	7
Furniture And Home Accessories Specific (2) - National Regulations On Wood Legality	3.77	10	3.52	10
<u>HOME ACCESSORIES</u>				
National Regulations On Electricity	3.93	1	3.73	7
Local Regulations On Business Startup And Investment	3.89	2	4.25	2

REGULATION	ECONOMIC IMPACT		POLITICAL FEASIBILITY	
	SCORE	RANK	SCORE	RANK
HOME ACCESSORIES (continued)				
Furniture And Home Accessories Specific (1) - National Regulations On Wood Exports	3.79	3	3.74	6
Furniture And Home Accessories Specific (2) - National Regulations On Wood Legality	3.77	4	3.77	5
Local Labor And Social Security Regulations	3.67	5	3.55	10
Local Planning Regulations (Building, Nuisance And Land Conversion)	3.67	6	4.27	1
Local Electricity And Street-Lighting Taxes	3.63	7	3.95	3
National Regulations On Import And Customs Inspections	3.54	8	3.68	9
Local Regulation On Underground Water Drilling And Waste Management	3.48	9	3.93	4
National Regulations Governing Local Government Taxes And Charges	3.27	10	3.71	8
GARMENTS				
Local Labor And Social Security Regulations	4.02	1	3.63	1
National Regulations On Labor and Manpower	3.81	2	3.43	4
National Regulations On Local Government Taxes And Charges	3.77	3	3.41	6
Local Regulations On Business Startup And Investment	3.65	4	3.14	9
Local Transport And Logistics	3.42	5	3.32	7
National Regulations On Electricity	3.37	6	3.50	3
Local Planning Regulations (Building, Nuisance And Land Conversion)	3.36	7	2.64	10
Garment Specific (1) - National Regulations On Verification / Licensing Of Textile Imports	3.32	8	3.51	2
National Regulations On Import And Customs Inspections	3.01	9	3.42	5
National Regulations On Import Duties And Luxury Tax	2.94	10	3.28	8

The analysis is at best indicative, and essentially summarizes the opinions of those attending the FGDs. Nevertheless some interesting findings can be drawn from these tables. The reform with the highest ranking across all the IVCs was that of national regulations governing electricity pricing and access. This is most probably driven by concerns that recent changes to the electricity pricing regime effectively constrain new expansions of capacity. Such reforms were viewed by the FGD participants as being easier to achieve, politically and institutionally, than most of the others. Other reforms recording consistently higher economic impact scores across the IVCs were local startup and investment regulations, national regulations governing local government taxes and charges, as well as local and national regulations on manpower. In addition to the national regulations on electricity, the FGD participants regarded national environmental regulations and local startup regulations as the most feasible reforms to pursue.

Some interesting observations can also be made at the sectoral level. For example both the footwear and garment FGDs ranked local and national regulations on labor and manpower as 1 and 2 respectively. This is not surprising given the negative impact that the current labor regulatory regime is having upon labor-intensive industries. Both of these types of labor regulations were also seen to be relatively feasible. The garments FGDs were particularly positive about the prospects of reforming local labor regulations.

4. COMMON PROBLEMS FOUND IN REGULATIONS

In undertaking and monitoring the regulatory reviews associated with the RegMAP process, the RegMAP team uncovered many reoccurring problems that were generic to a broad cross-section of regulations in the database.

A selection of key problems is summarized briefly as below:

1. Unnecessarily Long and Complex Licensing / Permit Processes.

An important underlying principal of good economic governance is that regulation and associated implementation procedures should be the minimum necessary to achieve the desired regulatory objectives (better known as the Principle of Minimum Effective Regulation). However, a finding associated with almost all regulations reviewed governing permits and licensing procedures is that there is considerable complexity, overlap and redundancy in these processes, leading to high compliance costs. For example, local regulations governing the establishment of new manufacturing plants (*Izin Usaha Industri*, IUI) require complex application procedures and a long list of documents including other permits and approvals such as building permits (IMB), nuisance permits (HO) and environmental impact assessments (AMDAL or UKL/UPL), all of which have similar and/or overlapping application requirements. This is indicative of typical startup problems for new businesses in Indonesia (see Box 1).

Box 1 — STARTUPS AND DOING BUSINESS IN INDONESIA

As highlighted in the yearly 'Doing Business' surveys by the IFC, Indonesia has a relatively poor regulatory climate for business startup. This is reflected in data measuring the regulatory and procedural difficulties faced by a medium-sized domestic firm to incorporate and register. Indonesia has shown some improvement in reducing the days required for startup, from 105 in 2008 to 76 in 2009. However even this compares poorly with Malaysia (9 days), Thailand (8 days) and even Laos (8 days). Monetary cost of startup is another area where Indonesia is less competitive. Doing Business records the estimated costs of establishments and registration as being equivalent to around 78% of average income per capita, compared to 5% for Thailand and 15% for Malaysia. In 2009 Indonesia's overall ranking for ease of startup fell from 167 to 171, suggesting it is one of the worst countries in which to start a business in the global economy.

- ### 2. Frequent and Unnecessary Permit Renewals.
- Governments at all levels in Indonesia – particularly the local level – tend to impose unnecessarily short duration periods on business-related licenses and permits. This is a practice that has little justification on public interest grounds, but nevertheless significantly raises regulatory compliance costs for businesses, as renewal often means re-application. Key examples include district-level cargo loading/unloading permits (*Izin Bongkar Muat*) that effectively function as domestic trade taxes and must be renewed every six months (e.g. Bekasi Regency 11/1993, Tangerang Municipality 4/2001) as well as building permits (*Izin Mendirikan Bangunan*) for existing and unmodified buildings that must be renewed every 3–5 years (e.g. Bojonegoro Regency 9/2005, Pekalongan Municipality 19/2000).
- ### 3. Stated Objectives Inconsistent with Regulation Contents.
- This is a particularly serious problem found in regulations that supposedly address a public interest concern (such as ensuring safe building standards, appropriate waste disposal, etc.). In many cases regulations focus primarily on the calculation and payment of fees, and give little if no attention to how the underlying public interest is to be protected. Key examples include every building and nuisance permit reviewed by the RegMAP team as well as a number of local regulations governing waste disposal (e.g. Mojokerto Regency 4/2007, Bekasi Municipality 7/2007).

4. **Overregulation.** Contrary to the above-mentioned Principle of Minimum Effective Regulation, governments at all levels in Indonesia often regulate when no regulation is actually required, and such intervention tends to create additional and unnecessary regulatory burdens for business. Cluster 18 in Annex 1, for example, describes new regulatory and institutional arrangements governing the licensing and accreditation of legal wood exporters (ETPIK), which is widely regarded by the industry as yet another layer of unnecessary costs and bureaucracy. This is because these new arrangements tend not to be acknowledged by buyers, who prefer internationally recognized certifications such as that provided by the Forest Stewardship Council (FSC). This is due in part to the ease with which the ETPIK can be ‘purchased’ from freight forwarders. Another example of over-regulation generating unnecessary regulatory burden is in the taxing of recycling activities at the local level, where some governments impose fees upon buyers and sellers of industrial waste, with the supposed objective of promoting better environmental outcomes (e.g. Bandung Municipality 27/2001).
5. **Too Much Discretion Given to Officials.** This is particularly a problem at the local level, where the Municipal/Regency head (Mayor/Regent) often has the authority, upon his or her discretion, to provide partial or full exemptions for certain fees and charges. This is typically done on a case-by-case basis with no reference to any supporting guidelines or criteria. Exercising this right can lead at best to inconsistent and irregular treatment of certain applicants and at worst can provide opportunities for rent-seeking and illicit payments. Examples can be found in every building permit reviewed as part of the RegMAP process.⁴
6. **Regulated Monopolies.** Some regulations compel private companies to use facilities provided by the government or State-Owned Enterprises (SOEs) that could otherwise be provided by the private sector. Examples include local government-provided training, internship and job-placement facilities (Bandung Municipality 2/2002); local government social insurance mechanisms (DKI Jakarta 6/2004); and Trade Ministerial Regulation 793/M/M-Dag/Kep/11/2008, which provides two SOEs with the sole right to undertake verification activities for textile and garment imports (at a relatively high cost to be borne by the importer).

⁴ Language found in these local building permit regulations is typically as follows (from Jepara Regency 4/1999 regarding Building Permits, Paragraph 21): ‘The Regent can reduce or provide exemptions on the amount of charges to be paid.’ (*Bupati Kepala Daerah dapat memberikan pengurangan, keringanan dan pembebasan retribusi daerah*). ‘The procedures for applying these reductions and exemptions will be further clarified by the Regent.’ (*Tata cara pemberian keringanan dan pembebasan retribusi daerah diatur lebih lanjut oleh Bupati Kepala Daerah*).

5. CHALLENGES AND LESSONS LEARNED

Given the breadth of the issues and the large number of reviews required, the RegMAP was an ambitious and challenging program to carry out with limited time and resources. The full RegMAP report will provide a more complete discussion of the implementation challenges and key lessons learned. Nevertheless a number of key points are worth summarizing here. The first challenge was in creating the initial inventory of 1000 regulations. No claim can be made that this initial inventory captured every regulation having a negative impact upon the focus IVCs. Undoubtedly some fell through the cracks. However, using consultations with business to identify the key issues of concern provided the basis for collecting relevant regulations. This step imposed structure and discipline upon the inventory process, and minimized the possibility of missing important regulations.

Just as some issues or problems may have been overlooked, some issues raised by business representatives could be not matched with current (or even recently rescinded) regulations.⁵ This could be because of the way the regulation was interpreted or implemented, or perhaps because the matter was regulated through a poorly circulated internal departmental document (such as a letter or memo from a Director General or Bupati) that was outside of RegMAP screening. Misunderstandings or miscommunications on the part of the business representatives might also explain this mismatch.

A second implementation challenge involves the resources and time required to complete the RegMAP process. The original design contemplated a six month effort. However, after the pilot and initial work, it was clear that more time and resources were needed to ensure consistency and accuracy in the reviews. Quality control systems were created to ensure that a regulation would be reviewed by not just one reviewer, but a team of three reviewers including a supervisor who was required to synthesize and harmonize the results of the other reviews.

In the case of Filter 1 this meant the production of no less than 3000 reports covering 1000 regulations, an effort that required considerable time and resources. In addition, prior to using the filter review processes, it was essential to develop review guidelines and to provide associated training for the reviewers in order to further promote accuracy and consistency in the review process. These and other quality control measures took more time and resources than originally anticipated. In the end, it took 18 months to complete the RegMAP process.

To save time, Filter 3 was substantially simplified. Initially, Filter 3 was to include an enterprise survey of 240 firms, a survey of 24 IVC 'experts', 24 focus group discussions, and the production of 150 'Regulatory Impact Statements' (RIS) of short-listed regulations. As simplified, Filter 3 ultimately comprised 10 FGDs where clusters of regulations were highlighted and prioritized. However, even with this truncated method, the RegMAP took a long time to implement. An important lesson from this experience is that the process needs to be further simplified so that it can be done in less time, with fewer resources.

A third implementation problem concerns the limited technical capacity of the researchers undertaking RegMAP reviews. Many of the regulations reviewed were relatively short (a few pages) and simple to understand. In such a case, the reviewer can quickly make an assessment of the quality of the regulation. In other cases, the regulation was much longer (in some cases over 100 pages) and the issue covered was of a highly technical nature requiring specialist knowledge to understand, for example customs and quarantine procedures, or VAT restitution and other tax

⁵ Examples include business complaints that local transport regulations were being used to impose charges upon businesses to use their own parking facilities as well as a national ban on the import of porcelain raw materials. In this and other cases the RegMAP could not locate the offending regulations.

administration issues. In such cases, a generalist researcher will struggle in assessing regulatory quality. The upshot of this was that the RegMAP process tended to give greater emphasis to local regulations, for the simple reason that local regulations are much easier to understand.

The fourth and final problem noted here relates to protectionist sentiment. The RegMAP process is driven mostly by the opinions of the researchers and the representatives of businesses participating in the consultations. In many cases these opinions did not differentiate between regulatory burdens (e.g. related to the costs of regulatory compliance) and those burdens caused by increased competition associated with free and open markets (i.e. through lowering import tariffs on competitor products, reducing export constraints upon key inputs such as wood, rattan, leather etc.). Addressing this failure to distinguish between regulatory and competitive problems required considerable oversight and monitoring by SENADA at all stages of the RegMAP process. Even during the Filter 3 process, whole clusters (or regulations) had to be removed as their inclusion was driven solely by protectionist sentiment.

The implementation challenges discussed above give rise to two important lessons learned for subsequent applications of the RegMAP process. First, the process needs to be simplified so that it can be completed in less time and with fewer resources. Reducing the number of filters from three to two would shorten the process. Likewise the number of regulations to which the RegMAP is applied should be limited to a few hundred. Any more than this number would present major logistical and management challenges for the implementer.

Second, it would be advisable not to have a team of generalist researchers covering a broad range of issues. Narrowing the focus of RegMAP to select issues or themes (such as customs and quarantine) and recruiting reviewers with stronger knowledge and experience in these matters, and also greater personal investment in the effective regulation of these matters, would produce enhanced results. For this reason, the RegMAP may work well when implemented on a government departmental basis, where there should be personnel able to competently review regulations in that department's particular area of interest (e.g. trade, transport, customs etc.), or indeed the full stock of departmental regulations. The RegMAP would also work well at the provincial level to review the existing stock of lower level government regulations.

6. ANNEX

6.1 ANNEX 1 — CLUSTERS OF REGULATIONS AND SELECT PROBLEMS

LOCAL GENERIC REGULATIONS

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
1	<p>LOCAL LABOR & SOCIAL SECURITY</p> <p>16 local regulations covering a broad range of labor issues including minimum wages, training, employment of foreigners, job placement and internship programs, industrial relations, overtime and standard working hours as well as severance requirements</p>	<p>Many local labor regulations go beyond the already restrictive and burdensome requirements of the national labor regulations, to impose further charges and restrictions upon labor-intensive industries. These typically raise costs and provide further disincentives to employing staff. Examples include:</p> <ul style="list-style-type: none"> • Special permits (and associated user-charges) on the employment of women at night while providing little or no extra services such as required night transport and security services (e.g. Tangerang Regency 20/2002). • Burdensome local charges and reporting requirements imposed upon firms employing foreigners that are in addition to national requirements. (e.g. Bekasi Regency 19/2001). • Mandatory requirements (including fees and charges) for the use of local government supplied job placement, internship and worker training services (e.g. Bandung Municipality 18/2002, Mojokerto Regency 2/2007). • Fees and charges for inspections relating to workplace safety and health including inspections of electricity systems, elevators, water heaters, security systems, plumbing, fire extinguishers etc. (e.g. Surabaya Municipality 9/2005). • User charges, stipulated benefits (such as minimum calories provided) and reporting requirements for the use of overtime labor (e.g. Jepara Regency 15/2001). • Mandatory subscription to government accident insurance programs (for non-workplace accidents) that provide service and coverage inferior to that of private sector insurers (e.g. DKI Jakarta 6/2004).
2	<p>LOCAL TRANSPORT AND LOGISTICS</p> <p>7 local regulations covering road use permits (dispensation), warehousing, cargo loading and unloading, weigh-bridges and parking</p>	<p>Despite recent reform efforts, many local regulations continue to impose taxes, user charges and other regulatory distortions on the movement of goods domestically that work to increase overall business costs and hence undermine competitiveness. Key examples include:</p> <ul style="list-style-type: none"> ▪ Region-specific license fees for the unloading/loading (<i>bongkar muat</i>) of trucks act as an effective tax on entry to that particular district/city (e.g. Tangerang Regency 4/2001, Bekasi Regency 11/1993). ▪ Additional per-truck registration and license fees for the use of delivery fleets, in addition to standard fleet and transport business licenses (e.g. Garut Regency 15/2005). ▪ Implementation of local regulations on weighing stations, results in these stations effectively taxing overweight trucks without providing the required services to reduce road damage (e.g. Banten Province 17/2004). ▪ Implementation of road dispensation licenses is such that they are broadly applied to most roads and most cargo carrying vehicles, and therefore represent another tax on domestic trade. Official fees are typically small and therefore often represent a net cost for local governments, but their imposition nevertheless provides ample opportunity for the collection of informal fees, hence raising business costs (DIY Province of Yogyakarta 1/2002). ▪ Many local regulations (mirroring national regulations) make the process of apply for warehousing permits unnecessarily complex and burdensome. Other provisions appear to be designed to help distort market supplies of certain commodities (Bantul Regency 15/2003, Malang Regency 19/2003).
3	<p>ELECTRICITY AND STREET LIGHTING TAXES</p> <p>9 local regulations covering the regulation on owner-supplied generators and transmission equipment, as well as street lighting taxes</p>	<ul style="list-style-type: none"> ▪ Many local administrations impose licenses and charges on the use by businesses of their own electricity generators. These licenses involve extensive paperwork including the written agreement of neighbors and the approval of village heads, and hence can become an expensive process. In West Java, 3 different types of permits are required for use of non-PLN (i.e. own-generated) electricity (e.g. Province of West Java 4/2003). ▪ PLN and non-PLN user are subject to street-lighting taxes at the same rate (10%) for business activities. For non-PLN users, the rate for non-business activities is 5% compared to 8% of PLN-users (Malang Regency 9/2002 chapter 6). However the basis for calculating charges for non-PLN is unclear (typically based on capacity estimations) and provides further avenues for negotiation and possible illicit payments (e.g. Surabaya Municipality 8/2003).

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
4	<p>UNDERGROUND WATER DRILLING AND WASTE MANAGEMENT</p> <p>12 local regulations covering use of underground water, as well as solid and liquid waste management and the requirements for environmental impact assessments</p>	<ul style="list-style-type: none"> ▪ Waste from one business is often an input for another. This is a desirable outcome for both environmental and economic reasons. However, some local governments are taxing both buyers and sellers of waste (via user charges), hence generating disincentives for recycling (e.g. Bandung Regency 27/2001). ▪ Lack of clear criteria or technical definitions on underground water causes considerable confusion and hence regulatory burden for businesses (e.g. Semarang Regency 9/2009). ▪ Regulations on the control of waste dumping (liquid and waste) focus mainly on user charges and payments, but give little attention to environmental protection issues (Mojokerto Regency 4/2007). ▪ Annual registration/renewal (in some areas every 6 months) for waste dumping licenses is costly and time-consuming for businesses (e.g. Bekasi Municipality 7/2007).
5	<p>BUSINESS STARTUP AND INVESTMENT</p> <p>20 regulations covering business registration, trade licenses, industry (production) licenses and investment</p>	<ul style="list-style-type: none"> ▪ In addition to sector-specific licenses, local governments continue to require a host of unnecessary and/or often overlapping generic licenses for business startup, such as industry licenses (e.g. TDI and IUI), trade licenses (SIUP) and certificates of business registration (TDP). In each case it is difficult to determine the public interest that these regulations are designed to address. ▪ Lack of uniformity in startup licensing makes it more difficult to do business across sub-national boundaries. ▪ All production and trade licenses are valid for a limited time (usually 3–5 years), imposing unnecessary renewal procedures upon businesses who have not changed their primary activities (e.g. Bekasi Municipality 17/2001, Bekasi Regency 13/2002). ▪ Local regulations on investment typically complicate the investment approval process, and often impose requirements upon investors no longer required by the new Investment Law (e.g. Gresik Regency 5/2003, Bandung Regency 26/2002). ▪ Some local regulations on investment place onerous conditions on new investors (both local and foreign). For example the Gresik Regency (5/2003) regulates forced partnerships with local SMEs (in the supply of raw materials and other inputs) as well as mandatory community development programs requiring a 5% contribution of total exploration costs for mining and other resource based firms or 5% of annual value added for certain 'polluting' (B3) firms.
6	<p>LOCAL PLANNING REGULATIONS</p> <p>19 regulations covering Nuisance Permits (HO), Building Permits (IMB) and Land Allocation Permits (IPPT)</p>	<ul style="list-style-type: none"> ▪ There is uncertainty as to the order in which these permits need to be obtained, also as to whether the issuance of one permit simplifies the issuance of a later permit. Also it is unclear why so many planning permits are required. In particular it is unclear why local governments require the 3 permits (HO, IMB and IPPT) for non-environmental impacts of standard commercial or low-impact industrial projects (e.g. Tangerang Regency 10/2006, Bogor Regency 11/2006). ▪ Law 28/2002 on buildings addresses a wide range of public-interest-related issues on building standards (e.g. construction standards, health, safety, access etc.), however all implementing local regulations on IMB tend to only address the calculation and payment of fees, with little or no reference to technical standards (Sukoharjo Regency 17/2003). ▪ IMB and HO permits typically require neighbor consent, unnecessarily raising costs and potentially undermining the interests of the broader community (e.g. Bandung Regency 27/2002). ▪ Planning fees are typically not imposed on a cost-recovery basis (i.e. time and resources required for government processing of applications) and there is usually no justification provided as to the determination of the base rate, upon which a complex formula is then applied. Moreover planning fees are extremely high by international standards (e.g. Yogyakarta Mayoral Decree 115/2004). ▪ IPPT is a charge for providing information regarding the planning parameters applicable to a plot of land or region/suburb etc. This information should be freely and easily available through means such as the local government website (e.g. Bekasi Municipality 74/1999). ▪ In contrast to the original purpose (to regulate the location of polluting industries), HO permits are now typically imposed by local governments on all industries, excluding small business (e.g. Cimahi Municipality 6/2004). ▪ HO permits are often redundant as zoning and/or environment impact assessments (AMDAL or UPL/UKL) have been implemented. Moreover duplicate HO permits are often required by businesses located in industry estates and shopping malls.

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
6	LOCAL PLANNING REGULATIONS (CONTINUED)	<ul style="list-style-type: none"> The standard 3–5 year validity on planning permits results in unnecessary, costly and time-consuming renewal processes for businesses that have no major changes in their business activities (Tangerang Municipality 13/2007). Most planning regulations including HO and IMB allow for full or partial exemption of user-charge fees at the discretion of the Regent/mayor on a case by case basis, thus allowing opportunities for inconsistent and irregular regulatory treatment (Tangerang Regency 10/2001).

NATIONAL GENERIC REGULATIONS

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
7	ELECTRICITY 3 national regulations (Government Regulations and Presidential Decrees) governing multi and progressive tariffs for electricity and the generation of non-PLN electricity	<ul style="list-style-type: none"> Tight regulations and complex procedures regarding the legal generation of non-PLN electricity constrains new investment in electricity generation and potentially the development of other electricity sources. Of particular concern is the mandatory requirement to meet certain levels of supply in their designated operational areas, when there is uncertainty about the supply of coal. Another concern relates to requirements to get approval from the Minister, Governor or District/City Head (depending upon the extent of the network) for new networks and unit sales prices, further disincentivizing new investment (Government Regulations 10/1989 and 26/2006 regarding the Supply and Exploitation of Electricity). Although it is not formally a regulation, there is nevertheless considerable concern about PLN's new industrial pricing arrangements, such as 'multiguna,' that impose significantly higher rates upon new installations/expansions; and the 'Daya Max' that imposes fines upon firms if during the 5–10 pm period they use more than 50% of their monthly average usage (thus increasing the production costs of night shifts).
8	LABOR AND SOCIAL SECURITY 3 national regulations (including a Law, Government Regulations and a Ministerial Decree) covering a broad range of employment and manpower-related issues such as minimum wage, severance pay, working hours and social security	<ul style="list-style-type: none"> Regulations governing the staff termination process (<i>pemutusan hubungan kerja</i>), and the total amount of severance pay (<i>pesangon</i>) involve a broad range of stakeholders and generate considerable costs for the company concerned (for example Manpower Ministerial Decrees 111/2001, 78/2001 and 150/2000). The Manpower Law (13/2003) provides for one of the highest severance pay requirements in the Asia region. High severance pay translates into an effective tax on employment, thus incentivizing the use of contract and other less formal/tenured means of employment (generating longer term concerns about human resource development in labor intensive manufacturing). Current regulations governing terminations provide relatively generous severance pay benefits to workers being terminated for reasons such as poor behavior, bad work performance, criminal activity etc. in comparison to workers with good work records who leave voluntarily. This creates a 'moral hazard' problem in that it reduces the incentive to leave employment on good terms (see Manpower Ministerial Decrees noted above). The requirement to provide <i>Jamsostek</i> (social security) facilities such health, accident, old age and health insurance for workers employed for less than 3 months complicates and increases the cost of short-term employment necessary, for example, to meet large and/or seasonal spikes in orders (Manpower Ministerial Decree 150/1999).
9	ENVIRONMENT 5 regulations (mainly Government Regulations and Ministerial Decrees) governing AMDAL (environmental assessment impact reports), a toxic processing unit and vibrations from business activity	<ul style="list-style-type: none"> A State Minister for the Environment Decree (49/1996) governing the level of allowable industrial vibrations generates considerable confusion and uncertainty for affected producers and appears to be widely ignored or implemented poorly. Lack of clarity regarding reporting requirements coupled with the overly complex standards regarding vibration levels and thresholds likely leads affected firms to find more informal means of compliance with this regulation. The three monthly reporting requirements seem unrealistic given that there is no mention of compliance and enforcement measures (such as sanctions for non-compliance). Moreover the regulation would likely overlap with the local government imposed HO or nuisance permit requirements. State Minister for the Environment decrees (111/2003 and 142/2003) regarding the disposal of liquid waste into rivers and other water sources provides little protection for the environment while increasing business costs. There are obvious social and environmental concerns as to whether there should be any dumping of liquid waste into rivers (and other water sources) in Indonesia. If this is allowed, then concerns focus on the ability of governments to properly regulate this activity. These decrees call for complex reporting and testing requirements necessary to get a permit from the local government to dispose of liquid waste which most firms won't have the capacity or facilities to undertake.

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
10	<p>LOCAL TAXES AND CHARGES</p> <p>2 regulations (a Law and a Government Regulation) governing the types of allowable local taxes and charges and the review process at the national level</p>	<p>Most concerns focus on the key umbrella law governing the use of local taxes and charges (Law 34/2000 updating Law 18/1997):</p> <ul style="list-style-type: none"> • Lack of clarity regarding the types of allowable local taxes and user charges makes it too easy for local governments to issue new regulations on local taxes and charges that create significant regulatory burdens for business. There is particular concern about article 4 of paragraph 2 of Law 34, which provides very general and not sufficiently detailed guidelines on what constitutes appropriate local taxes. Misuse of user charges by local governments (such that they act as effective taxes) is a particularly widespread problem that needs stricter controls and guidelines at the national level. Lack of effective governance over local taxes and charges results in the proliferation of new imposts at the local level. • Limited facilities and resources are available at the national level to undertake effective reviews of local regulations, and this is compounded by the limited time (one month) available for review once a regulation is submitted. As a result many distorting and high cost local regulations remain active and continue to be implemented.
11	<p>TARIFF AND NON-TARIFF IMPORT BARRIERS</p> <p>8 regulations (Government and Ministerial Regulations) covering import duties, luxury taxes and Non-Tariff Barriers</p>	<ul style="list-style-type: none"> ▪ Import duties and luxury taxes combine to seriously raise import costs for key inputs such as accessories and samples, particularly for the footwear and furniture industries. Autopart producers complain that the high luxury taxes on imported vehicles translate into less flow on demand for replacement autoparts in the after-market (e.g. Government Regulation 55/2004). ▪ Lower import tariffs for finished goods than that of raw/intermediate goods generate disincentives to produce domestically. Autopart producers note that this is the case with some motor vehicles that can be imported at 0 percent, much lower than the tariffs imposed upon parts and materials. This matter is of particular concern to second and third tier autoparts producers (Finance Ministerial Regulation 132/PMK.010/2005). ▪ Import procedures and tariffs/luxury taxes on sample goods generate high costs, and applications for waivers create significant delays undermining producer capacity to respond to buyer enquiries and orders. This is particularly the case for smaller producers and those in the furniture sector. Recent decentralization of the import duty waiver approval process has simplified the process to an extent (it is no longer necessary to travel to Jakarta to get approval). However there is as yet no waiver facility available for luxury taxes, which tend to be imposed at a higher rate than import duties (Finance Ministerial Decree 140/1997 and Finance Ministerial Regulation 140/2007). ▪ Trade Ministerial Decree (79/MPP/KEP/11/2002 and 610/MPP/KEP/10/2004) bans and/or tightly regulates the import of used machinery. Given the urgent need to allow local manufacturers access to lower cost machinery, these Decrees were replaced by a 2007 Decree (49/M-DAG/PER/12/2007) and then a 2008 Decree (57/M-DAG/PER/12/2008) which to an extent liberalizes the import of used machinery. In the 2007 Decree, 28 out of 39 tariff codes for machinery used for production in the textile and apparel industry are included in the positive list (i.e. can be imported), as are almost all tariff codes covering machinery for the footwear and furniture industry. However such imports must be licensed by the Ministry of Trade and expensive verifications completed in the country of origin. Moreover the gains made by the 2007 and 2008 Decrees are not secure as the regulation is subject to an annual review and the Ministry of Industry is publically supporting a shorter positive list on the grounds that used machinery is less efficient and produces lower quality goods, and also to support the development of local capital goods industries (see Jakarta Post, "Government may ban imports of used machinery" November 26, 2008).
12	<p>IMPORT / EXPORT PROCESSES AND CUSTOMS INSPECTION</p> <p>2 regulations (a Ministerial Decree and a Director General Decree) covering import licensing and procedures.</p>	<ul style="list-style-type: none"> ▪ Regulations on imports tend to be vaguely worded and lack detailed information on specific procedures, leaving the particular regulation's provisions open to multiple interpretations on the part of implementing customs officers in the field. This typically leads to higher costs (both formal and informal) for importers (e.g. Minister of Industry and Trade Decree 229/MPP/KEP/7/1997). ▪ Current regulations require that an importer has a number of documents and licenses, including the <i>Angka Pengenal Impor of API</i> (Import ID), <i>Nomor Pengenal Impor Khusus or NPIK</i> (Special import ID for select commodities, including footwear/textiles/garments) and the <i>Registrasi Surat Pabean</i> (Letter of Customs Registration) among others, depending upon the commodity being imported (see cluster 20 below on import procedures and licenses for textiles). Importers complain that obtaining these IDs and documents involves high informal costs, usually around Rp 12–15 million for a 5-year duration.

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
13	EXPORT AND VAT RESTITUTION	<ul style="list-style-type: none"> Second tier producers who import materials and then sell to first tier producers for subsequent export cannot apply for VAT restitution. To remain competitive, lower tiered producers cannot pass on the VAT costs to first-tier firms as these firms can use the duty-drawback scheme to import VAT free (assuming the good is later exported). This is particularly a problem for second- and third-tier producers in the autoparts industry, as first tier producers (known as ATPM) can source their inputs from competitors in other countries effectively VAT free.

NATIONAL AUTOPARTS SPECIFIC REGULATIONS

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
14	AUTOPARTS-1 4 regulations (Ministerial Regulations and Decrees as well as Director General Decrees) covering taxes as well as import duties and luxury taxes specific to Autoparts	<ul style="list-style-type: none"> Exemptions on the luxury taxes on imports of automobiles is provided for both commercial and non-commercial reasons. However the mechanism to secure the exemption is burdensome and time-consuming, requiring 12 types of licenses and supporting documents, and most importantly the approval of the Director General of Tax (Director General of Tax Decree 586/2001). A Tax Director General decree (32/PJ/1995) adds an additional 0.45% to the cost on the sales of domestic automobile products. Import duty exemptions on autoparts tend to only advantage the first-tier producers. Most smaller (second and third) tier producers do not have the access or the capacity to import for themselves due to the complexity of requirements (Minister of Finance Regulation 34/2007). A Finance Minister Decree (195/KMK/0.10/2006) allows PT Astra to import completely built up (CBU) motor vehicles with preferential import duties. Autopart producers complain that this preferential treatment incentivizes PT Astra to produce less domestically (and import more CBU), leading to less demand for locally produced autoparts.
15	AUTOPARTS-2 2 regulations (Ministerial and Director General Decree) on emission standards	<ul style="list-style-type: none"> Regulations governing emission threshold limits are considered to be unrealistic given a) the lack of supporting facilities and infrastructure available for testing locally and the associated red tape, and b) the limited supply of fuel that meets necessary reference standards (Euro-2). This suggests that for the time being, compliance with these regulations will be low. (State Environment Minister Decree 141/MENLH/2003; Land Transport Director General Decree SK/1544/AJ.402/DRJD/2006).

NATIONAL FOOTWEAR SPECIFIC REGULATIONS

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
16	FOOTWEAR-1 6 regulations (Government and Ministerial Regulations and Ministerial Circulars) governing the procedures and requirements for importing leather	<p>Constrained supply of leather is a major factor undermining the competitiveness of the Indonesian footwear industry. In this regard regulatory problems focus on the regulations and procedures governing the import of leather.</p> <ul style="list-style-type: none"> Due to conflicting provisions in a key regulation governing quarantine for cattle, there appears to be some confusion as to whether all forms of raw/semi-processed leather must be quarantined at the port of entry in Indonesia (Presidential Decree 46/1997). Importers complain that they have to endure an unnecessary, long and burdensome process to import leather from countries that have been declared free of the FMD virus. According to the above-mentioned Presidential Decree, all imports of leather in various conditions (such as raw, wet pickled, wet blue, crust etc.) must be accompanied by certificates of origin, a certificate of health from the exporting country, letter of credit, packing list, invoice and bill of lading. All documents are to be checked by Customs officials, and in the case of raw and wet pickled, jointly by Customs and Quarantine officials. In practice it takes considerable time and expense to meet these requirements. Most importantly, the providing a certificate of health is a particular problem as they are no longer issued by many countries (where they are no longer considered necessary).

NATIONAL GARMENT SPECIFIC REGULATIONS

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
17	<p>GARMENTS</p> <p>3 regulations (Ministerial Regulations and Director General Decrees) governing the procedures and requirements for the import of textiles</p>	<p>To address the problem of illegal textile and garment imports, various measures have been implemented since 2003 that make it considerably harder and more expensive to import textiles. At the same time there is as yet little evidence that these strict measures have reduced the inflow of smuggled textiles and textile products.</p> <ul style="list-style-type: none"> Such measures include forbidding the importation of textiles by parties not acknowledged by the government as genuine textile producers (known as <i>IP-Tekstil</i>) and banning the sale of imported textiles into secondary markets. In this way textiles can only be imported by producers for their own use. Beyond concerns regarding the overall effectiveness of this policy as a weapon against smuggling there are a range of other concerns including a) the complex requirements (including considerable paperwork and numerous signatures of senior officials) necessary to apply for a <i>IP-Tekstil</i> 'acknowledgement'; b) the limited period of validity for the <i>IP-Tekstil</i>, which requires renewal every 12 months; and most importantly c) the constrained ability of small producers and producers from other sectors to access imported textiles. Previously regulated by Trade Ministerial Regulation 19/M-DAG/PER/9/2005, the restriction was re-regulated in 2008 by Trade Ministerial Regulation 15/M-DAG/PER/5/2008, with 7 of the 84 tariff codes for textiles being exempted from this restriction. Parallel to these restrictions are strict import verification requirements for inspections at the country of origin. Producers complain that these inspections impose high costs (of around US\$500–700) upon the importer and that even with these verification requirements there are still illegal textiles being imported into the country, due to a) the difficulties of verifying information about textiles (such as company address, brands, types etc) compared to other products (also requiring verification) such as food and electronic products where information is marked on the packaging; and b) implementation problems regarding the use of informal invoices that do not reference the importer's tax number (NPWP). Other worries focus on anti-competitive concerns relating to the government's nomination of two state-owned firms to have the sole right to perform these verifications. There are complaints from textile importers regarding the transparency and consistency of treatment by the surveyor companies during the verification process. (International Trade Director General decision 13/DAGLU/KP/V/2003, and Trade Ministerial Regulation 15/M-DAG/PER/5/2008)

NATIONAL FURNITURE & HOME ACCESSORIES SPECIFIC REGULATIONS

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
18	<p>FURNITURE & HOME ACCESSORIES – 1</p> <p>8 regulations (Ministerial and Director General Decrees) covering restrictions and licensing of wood-product exports</p>	<p>Many regulations governing wood and wood products are designed to protect the country's forest by preventing illegal logging practices, which remain widespread in Indonesia. Due mainly to implementation problems, such regulations have been ineffective because they don't specifically address deforestation while they impose significant costs and supply bottlenecks on wood-related industries. Key problems are as discussed below and also in the following cluster summary.</p> <ul style="list-style-type: none"> ETPIK (<i>Eksporir Terdaftar Produk Industri Kehutanan</i>) is a licensing and reporting system for exporters of legal wood products (sawmill, plywood and furniture products) administered by BRIK (<i>Badan Revitalisasi Industri Kehutanan</i>), a private agency. There is little evidence that the ETPIK/BRIK system has assisted in the effort to reduce the export of illegal wood. Industry groups see ETPIK as yet another license requiring time, effort and money and the required interactions with BRIK (endorsements, approvals, reporting monitoring etc.) as another layer of bureaucracy to deal with. This is further compounded by industry reports that ETPIK can be 'purchased' when necessary from freight forwarders and that foreign buyers do not recognize ETPIK as a guarantee of legality and instead require local producers to have internationally recognized certifications such as that provided by the Forest Stewardship Council (FSC), among others.

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
19	FURNITURE & HOME ACCESSORIES – 2 5 Regulations (Ministerial Decrees) covering licensing procedures for the transport and trade of forest products	<ul style="list-style-type: none"> ▪ SKSHH (<i>Surat Keterangan Sahnya Hasil Hutan</i>) is a government-issued statement of legality enabling the transport/trade of cut timber as required by Ministry of Forestry Decree 126/KPTS-II/2003. It has been plagued by implementations problems, resulting in long delays due mainly to limited government resources to service applications coupled with complex procedures and documentation requirements. The SKSHH is only valid for 25 days providing insufficient time for many companies to both cut the wood and transport it to its intended destination. Also the SKSHH is ambiguous in that it does not differentiate between the treatment of wood felled in national forests and that coming from plantations under private management. ▪ Decree N0 P.55/Menhut-II/2006 simplifies these controls over wood legality by moving to a system of self-regulation and through the use of invoices known as FAKB/FAKO. However this is only applicable to 3 types of wood (rubber, <i>sengon</i> and coconut), hence the licensing simplification is limited. Also many smaller producers remain unaware of this new licensing system.

LOCAL FURNITURE SPECIFIC REGULATIONS

NO	CLUSTER	SELECTION OF KEY PROBLEMS/ISSUES
20	FURNITURE 5 Local Regulations on the extraction, transport and trade of timber	<p>In addition to the burden imposed upon wood product producers by the national regulations described above in clusters 18 and 19, local governments also place extra regulatory burden upon the extraction, transport and trade in timber.</p> <ul style="list-style-type: none"> ▪ Charges for permits to fell timber (<i>izin tebang</i>) on private and/or public land (Pekalongan Regency 5/2002, Pasuruan Regency 22/2003). The common requirement to get approval from village or regional heads tends to generate higher costs and delays. ▪ Mandatory additional license known as the <i>Surat Angkut Kayu Milik</i> (SAKM) necessary for transporting logs within the district of Pasuruan (Pasuruan Regency 22/2003). ▪ Mandatory additional approval from the local Forestry office (<i>Dinas Kehutanan</i>) prior to transporting logs (Province of East Java Decree 2/2003). ▪ Regulated monopoly for local government-owned wood auction houses with set commission fees for local government (Province of Jogjakarta 10/1996, Province of Central Java 17/2002).

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