

Innovation of Local Government in Creating Conducive Investment Climate (Study in Lamongan Regency)

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ABSTRACT

Local government needs innovation to solve public problems, one of them is investment climate. The problems related to investment climate include no security and weak rule of law, lack of infrastructure, as well as long and complicated bureaucracy. Lamongan Regency is trying to create innovative programs to solve investment problems. Those innovations include Regional Regulation No. 2 of 2015 and Regent Decree number 23 of 2015, proactive service, fast service package, SMS Gateway, facilitation of land acquisition and gathering with investors. Through these various innovations, Lamongan government was awarded as East Java Investment Award 2015 from the Governor of East Java, with first honors for the category of investment performance.

INTISARI

Pemerintah daerah perlu melakukan inovasi untuk menyelesaikan masalah-masalah publik salah satunya terkait dengan iklim investasi di daerah. Masalah iklim investasi di daerah meliputi ketiadaan jaminan keamanan dan lemahnya penegakan hukum, kondisi infrastruktur yang tidak memadai serta sistem birokrasi yang rumit dan berbelit – belit. Pemerintah Kabupaten Lamongan berusaha menciptakan program-program inovatif didalam menyelesaikan permasalahan-permasalahan kegiatan investasi. Adapun inovasi-inovasi tersebut yaitu pembuatan Peraturan Daerah nomor 2 tahun 2015 dan Peraturan Bupati nomor 23 tahun 2015, pelayanan jemput bola, pelayanan paket cepat, SMS Gateway, fasilitasi pembebasan lahan dan gathering dengan para investor. Melalui berbagai inovasi tersebut pemerintah kabupaten Lamongan mendapatkan penghargaan Investment Award Jawa Timur Tahun 2015 dari Gubernur Jawa Timur, dengan predikat terbaik I untuk kategori kinerja investasi.

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1. Introduction

In general terms, innovation in governance is a creative idea of the which is successfully implemented to solve a pressing public problem (UNDESA, 2006:5). Various problems in the administration has pushed the public sector to create innovation. It is needed to solve

the issues and problems of public service more quick with qualified services.

In Indonesia, the condition and the development of innovation in the public sector is still not good compared with other countries in the world. Reports from the Global Innovation Index 2015 ranked

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Indonesia's innovation compared with the countries of Southeast Asia can be presented as follows:

Table 1 Global Innovation Index Rank in 2015

Southeast Asia	Innovation Rank
Singapore	7
Malaysia	32
Vietnam	52
Thailand	55
Philippines	83
Cambodia	91
Indonesia	97

Source: Edited by the authors of Global Innovation Index Report in 2015

Innovation capability and competitiveness in Indonesia is still low due to some reasons, according to Tri Widodo, Deputy of State Administration Innovation LAN RI explained that it cannot be denied that the willingness to innovate and the ability to innovate within the bureaucracy is still low (Suripto, 2015). One of the main actor of public service who are obliged to innovate is local government. The local government should be able to innovate, including in the issue of investment and the provision of licensing services. The large resource potential will able to provide various investment opportunities can not directly encourage the private sector to invest, issues of licensing services and the investment procedure become the obstacle in creating a friendly investment climate.

Ministry of Home Affairs stated that local government has not been able to provide security guarantees for investors both local and foreign investors to develop business. It is not supported by some aspect, such as rule of law and security, the condition of infrastructure, as well as the bureaucracy that is simple, fast and transparent. Challenges and problems are quite complex in creating a conducive investment climate, Lamongan government through *Badan Penanaman Modal dan Perijinan (BPMP)*/ Agency for Investment and Licensing tries to perform various innovations in dealing with problems. It shows positive results, Lamongan Regency in 2015 was awarded East Java Investment Award 2015 from the Governor of East Java, with first honors for the category of investment performance. Based on these descriptions, the authors are interested in explore deeper about the process of innovation in local government with case studies licensing services and investment. Problems of study:

- a) How is the innovation process carried out by the Local Government in Lamongan to create conducive investment climate ?;
- b) What is the output of innovation that has been done by the Local Government in Lamongan to create a conducive investment climate ?; and

- c) What are the supporting and inhibiting factors in innovation process carried out by the Local Government in Lamongan to create conducive investment climate?.

2. Theory

2.1 Innovation in the Public Sector

Innovation becomes a term often used primarily related to a renewal, creative or discovery of new ways. The concept of innovation is generally understood in the context of behavior change. Innovation is usually closely related to environment which is characterized by dynamic and development. Innovation is defined as an idea or practice that is new or being adopted by other units. Rogers (1983:11) explains:

An innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption. It matters little, so far as human behavior is concerned, whether or not an idea is "objectively" new as measured by the lapse of time since its first use or discovery. The perceived newness of the idea for the individual determines his or her reaction to it. If the idea seems new to the individual, it is an innovation.

Successful innovation is innovation that can provide a solution or significant improvement in terms of efficiency, effectiveness and quality. Mulgan and Albury (2003:3) provide an explanation:

Successful innovation is the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in outcomes efficiency, effectiveness or quality.

The main focus in the public sector innovation is problem-solving and creativity of idea which will be implemented should be capable to solve public problems. An innovation may be incorporating new elements, or a combination of methods that already exist to make significant changes. United Nations Department of Economic and Social Affairs (UNDESA) (2006:5-6) provides a definition of innovation, namely:

In general terms, innovation in governance is a creative idea which is successfully implemented to solve a pressing public problem. It is the act of conceiving and implementing a new way of achieving a result and/or performing work. An innovation may involve the incorporation of new elements, a new combination of existing elements or a significant change or departure from the traditional way of doing things. It refers to new products, new policies and programs, new approaches, and new processes. Public sector management innovation may also be defined as the development of new policy designs and new standard operating procedures by public

organizations to address public policy problems. Thus, an innovation in public administration is an effective, creative and unique answer to new problems or a new answer to old problems. Furthermore, an innovation is not a closed and complete solution, but an open solution, transformed by those who adopt it.

The efforts to foster innovation is a complex process, requiring some stages ranging from the creating innovative ideas of how the idea evolved and accepted. The problem in fostering innovation does not necessarily come from bad idea, but some cases show that the implementation of innovation that is not well planned will fail. Governance Innovation of Institute of Public Administration Centre conducted research on how to foster innovation in the public sector. Suropto et al (2015:4) as an innovation research team at the Institute of Public Administration (LAN) describes the process of developing innovation in the public sector as follows:

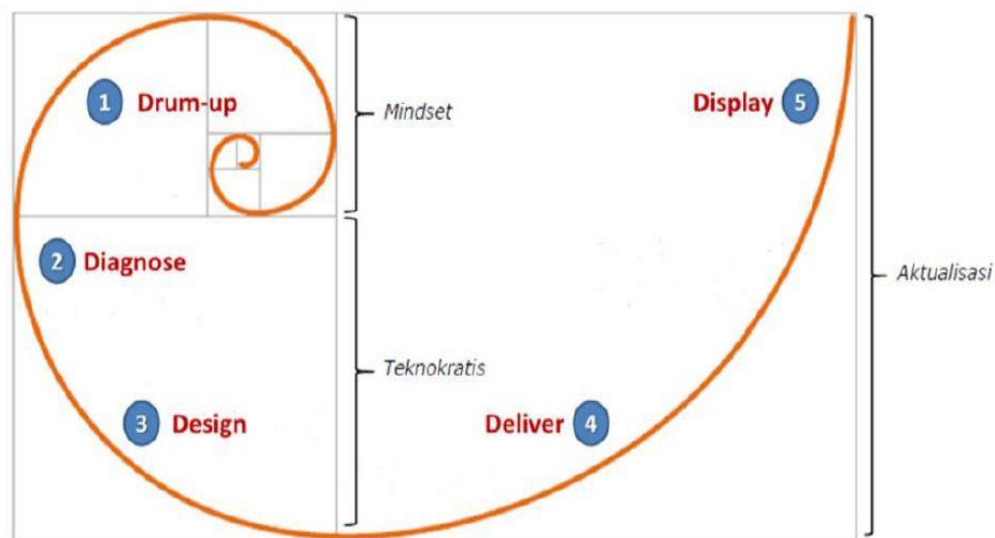


Figure 1 5D Innovation Model

The stages in the growing innovation in the public sector include Drum-up, Diagnose, Design, Deliver, and Display. Innovation in the public sector in principle contains attitude (soft) and technical dimension (hard). Attitude deal with how to inspire policy makers to innovate, while the technical dimension dealing with the acquisition of technical knowledge (managerial and substantive) needed by an innovation.

2.2 Local Government

Muluk (2009:11), cited from Harold F. Alderfer explains that there are two general principles distinguish how the central government to allocate its power. First in the form of deconcentration is compiling the administrative unit. Second in the form of decentralization. Law No. 23 of 2014 explained that decentralization is the delivery of government affairs by

the central government to autonomous regions based on the principle of autonomy. Local government is the organizer of government affairs with the authority or autonomy to manage their own regions as a consequence of decentralization.

Chalid (2005:15-16) explains that local autonomy is a right, power and obligations of local government to organize and manage their own affairs in accordance with the legislation. Regional autonomy provides authority to local governments to increase local revenue through economic decentralization model. The existence of economic decentralization allows local governments to innovate through deregulation, so it will create more optimal role of private sector in improving the local economy.

2.3 Investment Climate

Harjono (2007:35) explains that along with the direction of the regional autonomy, the capital is

necessary as a tool that has a strategic role of capital investment. Law No. 25 of 2007 on Investment defines investment are all forms of investing activity by both domestic and foreign investors to do business in the territory of the Republic of Indonesia.

Conducive investment climate in the economy is a hope for the whole society, especially the investor and government. Asian Development Bank (ADB) (2005, p. 03), cited from Stern explained that the investment climate is all the policies, institutions, and both ongoing and expected environment in the future that could affect return rate and investment risk. More Asian Development Bank explains that there are three main factors in the investment climate, such as:

- a) Macroeconomic conditions that include macroeconomic stability, economic openness, market competition, social and political stability;

- b) Government and institution include clarity and effectiveness of regulation, taxation, legal system, financial sector, labor market flexibility and the existence of educated and skilled human resources; and
- c) Infrastructure that includes transportation, telecommunications, electricity, and water.

3. Research Method

In this research, researchers used explanatory research with qualitative approach. According Sinuff et al (2007:105) the purpose of qualitative research is to develop concepts that help to understand social phenomena in natural setting, with an emphasis on understanding, experience and the participants. The focus of this study are:

- a) The process of innovation undertaken by governments in Lamongan to create conducive investment climate by looking at Drum-up, Diagnose, Design, Deliver, Display stages; and
- b) Output of innovation that undertaken by governments in Lamongan to create conducive investment climate by looking at aspects of macroeconomic conditions, governmental and institutional, as well as infrastructures; and
- c) The supporting and inhibiting factors in the process of innovation undertaken by governments in Lamongan to create conducive investment climate.

This research was conducted in Lamongan district because it is able to create innovations in improving the investment, thus in 2015 was awarded the East Java Investment Award 2015 from the Governor of East Java, with first honors for the category of investment performance. The research conducted at the site of Licensing Board of Investment (BPMP) in Lamongan Regency.

4. Result And Discussion

4.1 Result

4.1.1 The Process of Innovation Undertaken by Governments in Lamongan to Create Conducive Investment Climate

a) Drum-up

Efforts of local government to increase awareness and willingness to innovate is done through several steps such as referrals from the regent to improve performance, also demands to BPMP to be able to innovate, especially in licensing services in accordance with the vision and mission. Regent of Lamongan Regency in 2010 directly creating innovative policy that helps investors when experiencing problems in land acquisition. Efforts to build awareness to innovate also carried out in internal BPMP, which the head of BPMP tried to complete the innovative ideas that are proposed

by all employee, and also provide a boost for all employees in BPMP able to create innovative programs or services.

b) Diagnose

Innovation program that was created by BPMP has gone through stages of diagnosis. Innovation ideas that emerged based on the problems that arise in licensing service issues as well as efforts to increase investment in Lamongan Regency. The problems associated with negative views of society become a basis of licensing services innovation and fast service packages. Problems faced by investors in the process of land acquisition push BPMP to make innovation in facilitation of land acquisition. The lack of media encounters between investors and local governments directly encourage BPMP to conduct gatherings with investors. The problems of renewing license which is always late led to create the idea of innovation in sms gateway program.

c) Design

The process design has passed every program innovations in the BPMP. Almost every program in the process of action plan has mapped out the actors involved in the implementation, the methods used to attain the objectives of program, where the implementation of the program as well as the budgets. Communication with all stakeholders become strong commitment made by the BPMP in realizing the innovation program.

d) Deliver

BPMP has various process deliver program of innovations. Most of the innovation program dissemination through leaflets as proactive service, fast package service, and SMS Gateway. Only one program innovation which tested ie SMS gateway, besides all the innovation program carried out directly without pilot project process. Nonetheless evaluation and monitoring remain intensively to ensure that the program complies with the innovation that has been planned. Improvement also conducted if the innovation program are not carried out as planned in gathering program with investors.

e) Display

The process of innovation on display stage implemented by BPMP through exhibitions as effective way to convey to world that Lamongan Regency has various innovation program to give easiness to invest. Through the exhibition BPMP can explains in detail for investors who will invest primarily for companies that are ready to product or operate with cumulative time required for investment licenses approximately only 50 working days. The ease and efficiency in administering licensing programs such investments because there is innovation in BPMP.

4.1.2 Output of Innovation That Undertaken by Governments in Lamongan to Create Conducive Investment Climate

a) Macroeconomic Conditions

Innovation undertaken by governments in Lamongan to create conducive investment climate by creating a Regional Regulation No. 2 of 2015 on capital investment and create Regent Decree number 23 of 2015 on the General Plan Investment in Lamongan years 2015-2025. Through both of these regulations applies to various problems in the investment activities especially to maintain macroeconomic stability, economic openness, and market competition.

The existence of two legal regulation can be used as the basis of the investor in making an investment in Lamongan district, legal certainty make investors more comfortable to invest. Also in the Regency General Plan Investment (RUPMK) are also described the systematic efforts of local government in creating a conducive investment climate.

b) Government and Institution

Lamongan local government has three innovations that are expected to provide ease and convenience of service both to the investors and public in running the business:

- The first innovation is proactive service, proactive service has been developed and implemented since 2012. The concept of proactive service innovation is an effort to provide convenient and efficient service. In addition the service tried to brought closer to the people. Through this service people can take care of some licensing such as IMB, SIUP and TDP in just one day.
- Second is fast package service, an innovative program created and implemented by BPMP since 2013. The concept of a fast package service is investor or community can take care of multiple documents simultaneously with the licensing requirements of fewer and faster service time.
- There are three packages that can be quickly selected by communities in administering licensing which are fast package (PACE) 1, fast package (PACE) 2, and fast package (PACE) 3. Third namely SMS Gateway, is one program innovations made by BPMP since 2013 and implemented in 2014. The concept of SMS Gateway is providing information to investors and the public that already have licensing documents to take care renewal validity period of one month before it expired.

c) Infrastructure

There are two programs innovation to support the development of infrastructure ie facilitating land acquisition program and gathering with investors. The concept of innovation in facilitating land acquisition conducted by local government to assist investors in

land acquisition, government facilities by requesting district and village heads as a representative of the government to bring together landowners with the investor. Head of sub district and village keep the land owners in order to not get a provocation from certain parties, especially intermediaries or brokers. The Government is also committed to guard and keep the investor with intermediary or land brokers. The second innovation program that is gathering with investors. The activities of the program include the gathering of non-formal meeting with the purpose of exchanging information and ideas between government and investors. During the process of gathering activities of local government will deliver regional potential, investment opportunities and a wide range of services as well as facilities provided for investors who will invest in Lamongan.

Based on the various innovations that have been made to create a conducive investment climate, as for the development of the investment realization in Lamongan Regency since 2010 until the second quarter of 2016, namely:

Tabel 1 The Investment Realization in Lamongan Regency (2010 – 2016)

Year	Foreign Investment	Domestic Investment	Total Investment
2010	-	15	Rp 36.055.098.000
2011	-	12	Rp 48.940.084.000
2012	1	13	Rp 37.829.257.000
2013	2	22	Rp 140.587.208.500
2014	1	32	Rp 135.089.767.482
2015	4	51	Rp 2.301.246.661.500
2016 Q. II	-	8	Rp 81.437.895.000

Source: BPMP, 2016

The supporting and inhibiting factors in the process of innovation undertaken by governments in Lamongan to create conducive investment climate.

Innovation in the public sector can be implemented is influenced by several factors, some supporting factors that can encourage innovation are:

- First is leadership, by discussion related the issues of innovative ideas implementation;
- The second is educated and trained human resource, the knowledge of employees will determine the success of innovation implementation;
- Third is the development teams and partnerships, innovation will be success through the support of the various stakeholders; and
- Fourth is orientation on measurable performance, innovation performance must be measured in order to determine its success.

Inhibiting factor of innovation include:

- Short-termism budget, an innovation requires planning and long-term budget to run optimally;

- The over-reliance on high performers, the work pressure is too high will also make public servant cannot implement the ideas; and
- Risk aversion, the fear of fails or does not perform as planned will hinder the process of innovation in the public sector.

4.2 Discussion

4.2.1 The process of Innovation Undertaken by Governments in Lamongan to Create Conducive Investment Climate

a) Drum-up

Suripto et al (2015:5) explains that the level of willingness and motivation to innovate on any person and or organsiasi very different. Thus, drum up is needed to build collective awareness to innovate. To build a collective awareness, the role of top management is very strategic because of its formal authority.

Lamongan is already has awareness of top leader to innovate, although awareness is not optimal yet. The method used by the Regent also did not show a strong boost in encouraging the apparatus to innovate. Regent generally only provide direction for improving performance, not emphasizing directly to all apparatus to innovate. Nevertheless the commitment of heads of BPMP in encouraging apparatus to innovate is good. The strategic role of head of the BPMP by providing assistance and solutions when apparatus have constraints in innovation.

b) Diagnose

Suripto et al (2015:8) described the stages of diagnosis is defined as a process to facilitate prospective innovators to bring their innovative ideas. At this stage of diagnosis, there are two ways ie based on problem-based and non-problem bases. The process of innovation undertaken in BPMP is using problem-based method. Innovative ideas emerged as an attempt to find solutions for problems appearing on society. The results of innovations are capable to create more effective and efficient services.

c) Design

Suripto et al (2015:11) explains that the design phase is how to put innovative ideas into action plan. In planning innovation needs action plan. There is no standard format for writing action plan. Stage design basically has been implemented properly in BPMP, but the process is not accounted in detail and documented. In design phase, each program has its own way of innovation in preparing action plan, even every innovation program has different team planners. It is indirectly shows that the process of drafting an action plan that already contained activity steps that must be done, the actors involved, the output of each step, the method used, the time and place of execution, as well as the budget.

d) Deliver

Suripto (2015:14) explains deliver or implementation phase of innovation is a phase that has a long enough time. The number of activities and the execution time of each activity contributes to the implementation period of an innovation. Deliver phase has started with the implementation of the launching or launching the implementation of innovations. In addition to the launch of innovation, deliver this in the future, also needs to monitor the implementation of each step/ activity. Implementation Lamongan deliver phase does not begin with the implementation of the launching, however, only be implemented using the pamphlet as a socialization and communication to inform the various parties. Nevertheless the process of monitoring and evaluation continue to be made in the implementation of innovation, all innovation program that has been running but is not in accordance with the plans that have been made then with improvements for the purpose of program innovation can be achieved.

e) Display

Suripto et al (2015:17) explains that display is one form of accountability to the public. It is intended as a platform to show off, blow your own trumpet, the announcement to the outside world that innovation has been developed and implemented. Event displays can be done in various activities such as fairs, festivals, and seminar. Display phase performed by local government in Lamongan through national exhibition. It is seen as effective way to convey to the world that Lamongan Regency has various innovative programs to provide easy investments. Through the exhibition is also able to elicit a positive response from visitors, especially companies which are interested to invest in Lamongan. The other ways not been used yet by the BPMP like festival or seminar to convey to the outside.

4.2.2 Output of Innovation That Undertaken by Governments in Lamongan to Create Conducive Investment Climate

a) Macroeconomic Conditions

Asian Development Bank (ADB)(2005:03) describes the macro-economic conditions in creating a conducive investment climate include macroeconomic stability, economic openness, market competition, and social and political stability. Lamongan local governments have made efforts to maintain the stability of the macro-economic conditions in order to be able to create a conducive investment climate. those efforts have been made in the legal product such as Local Regulation No. 2 of 2015 on capital investment and number Regent Decree number 23 of 2015 on the General Plan Investment in Lamongan years 2015-2025. Through both of these regulations thoroughly regulated aspects related to macro-economic conditions such as the issue of economic openness, market competition, as

well as social and political stability. The existence of regional regulations and the decree has become one of the innovations in Lamongan Regency as an effort to create a conducive investment climate.

b) Governance and Institutional

Asian Development Bank (ADB) (2005:03) describes the government and institutional conditions include clarity and effectiveness of regulation, taxation, legal system, financial sector, labor market flexibility and the existence of an educated and skilled workforce. Legality issues related to government and institutional aspects in Lamongan Regency has been regulated under the Provincial Regulation on investment and the decree on RUPMK. However, Lamongan government also conduct some innovation program which is expected to provide ease and convenience of service both to investors and public in running business. As these innovations are proactive service, fast package services and SMS Gateway. Although all of the innovations that have been made are not specifically related to the issue of government and institution but the innovations were made based on the problems that have occurred in terms of licensing services.

c) Infrastructure

Asian Development Bank (ADB) (2005:3) describes infrastructure includes transportation, telecommunications, electricity, and water. Although Lamongan government cannot directly meet the needs of investors infrastructure, but local governments have an innovative way ie through the gathering with investors. In the execution of the event, local government agencies bring together the investors with state-owned company and agencies at the central government who has the authority in infrastructure development. These ways will be able to meet the needs of supporting infrastructure investments and in the long term will be able to create a conducive investment climate. Therefore it can be concluded that the output of innovation facilitation of land acquisition and gathering with investors is to develop and introduce the supporting infrastructure investment.

4.2.3 The Supporting and Inhibiting Factors in The Process of Innovation Undertaken by Governments in Lamongan to Create Conducive Investment Climate

Muluk (2008:49) explains that innovation in public sector is not a condition that can be successfully executed with limited willingness or happen by itself. It takes the critical factors to ensure the success of innovation, which are leadership, educated and trained human resources, organizational culture, team development and partnerships, as well as orientation on measurable performance.

The factors that support innovation in Lamongan are leadership, educated and trained human resources,

team development and partnerships, as well as orientation on measurable performance. Mulgan and Albury (2003:31) explained some inhibiting factors in innovation process such as pressures and burdens, Short-termism, Skills, Incentives, Organisational arrangements, Over-reliance on high performers, dealing with failure, and risk aversion. The factors that hamper innovation in Lamongan are Short-termism, Over-reliance on high performers and risk aversion.

5. Conclusion

The process of innovation undertaken by governments Lamongan to create a conducive investment climate conducted through the stages Drum-up, Diagnose, Design, Deliver, and Display. Output of innovation that has been done by the government Lamongan in creating a conducive investment climate by making innovations include creating Regional Regulation No. 2 of 2015 and the Regent Decree number 23 of 2015, proactive service, Fast Service Package, SMS Gateway, facilitating acquisition land and gathering with investors. Factors that support in the process of innovation include leadership, educated and trained human resources, team development and partnerships, as well as orientation on measurable performance. While inhibiting factor are short-termism, over-reliance on high performers, and risk aversion.

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