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# Determinants of Investment Implementation Barriers In South Sulawesi Province

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**ABSTRACT**

This research aims to study and analyse the determinant factors that become obstacles in the implementation of investment in South Sulawesi Province. The research method used is descriptive qualitative research supported by several data such as observation data, interviews and policy documents. The results showed that the determinant factors that become obstacles in the implementation of investment in South Sulawesi Province are; (1) The number of Actors involved, both at the central and provincial and district/city levels, making communication in decision-making more complicated, (2) The inherent complexity of investment, which includes financing, procurement of machinery, procurement of raw materials and land acquisition, (3) The level of decision-making that is too long at the trilateral level and at the interchem level, both in the granting of principle licences, recommendations from relevant technical departments, licences to grant fiscal and non-fiscal facilities, both at the central, provincial and regency/municipal levels, (4) Time and leadership changes, changes in leadership (President, Minister, Governor and Regent/Mayor) resulting in policy changes and legal uncertainty.

**Keywords:** Policy Implementation; Investment; PMA; PMDN

## INTRODUCTION

Funds to finance development, can be extracted from the source of its own ability and sources of funds from abroad (Blessing & Mullins, 2020; Cao et al., 2022; K. Li et al., 2022; Pérez-Elizundia et al., 2023; Watterson et al., 2023; Wen et al., 2022). One of the necessary steps in this regard is the existence of government policies that ensure the continuity of investors in this case foreign investment (PMA) and domestic investment (PMDN) (Akisik, 2020; Ausloos et al., 2019; Dhrifi, 2020; Thompson, 2015; Udemba, 2019).

PMA and PMDN began since the enactment of Law No. 1 of 1967 concerning PMA and Law No. 6 of 1968 concerning PMDN then underwent changes and additions with the existence of Law No. 11 of 1970 concerning PMA and Law No. 12 of 1970 concerning PMDN. Then it changed with the enactment of Law No. 25/2007 on Capital Investment, where in this law there is no longer a difference between PMA and PMDN in the provision of treatment and facilities.

Law No. 25/2007 on Investment was enacted because Indonesia is a member of the WTO. One of the things related to GATT - WTO is about trade and investment called Trade Investment Measure (TRIMs). In the TRIMs, it is determined that each signatory country of the TRIMs agreement should not distinguish between domestic capital and foreign capital. This means that the investment laws of each WTO member country should not distinguish between FDI and PMDN, both in the treatment and provision of facilities.

In order to achieve this growth rate, investment, both from the government and the private sector, is required in the amount of 239.1 trillion over five years. Of the total investment plan, Rp 107.6 trillion or 45 per cent is planned to be implemented by the government while the remaining Rp 131.5 trillion or 55 per cent is expected to come from the private sector. To achieve this growth rate, it is necessary to implement the Investment Control Policy. In this case, the government has issued the Head of BKPM Regulation of the Republic of Indonesia Number 12 of 2013 concerning Guidelines and Procedures for Licensing and Non-Licensing of Investment and Head of BKPM Regulation of the Republic of Indonesia Number 3 of 2013 concerning Guidelines and Procedures for Investment Control. (Source: DPMPTSP Prov. Sul-Sel).

Investment in South Sulawesi Province, from year to year, has experienced considerable development. This can be seen that from 2020 to 2023 there was a very high increase of 76.154 per cent (in 2020 it was Rp. 128,490.5 billion and in 2023 it was Rp. 538,832.6 billion). Based on the results of the implementation of the investment control policy, it shows that the amount realised does not match the amount stipulated in the principle permit. To just give an illustration of unrealised investment according to the data obtained at the South Sulawesi Province Investment and One-Stop Integrated Services (DMTSP) Office, are: in 2020-2023, the number of unrealised PMA is 58.73 per cent, in 2010, the number of unrealised PMDN is 96.87 per cent, in 2020-2023, the number of unrealised PMDN is 58.10 per cent and the number of unrealised PMDN is 30.05 per cent.

The situation of the amount of unrealised investment is so large from the amount of investment set, this means that overall investment activities are only carried out a quarter of the investment set. The result will not only slow down the achievement of the targets set in the second phase of the RPJM but also have an unfavourable influence on the overall development. The purpose of this research is to study and analyse the determinant factors that become obstacles in the implementation of investment in South Sulawesi Province.

## METHOD

### Approach and Type of Research

The research location is at the DPMPTSP office of South Sulawesi Province. In this study, the authors used a type of qualitative research with a case study approach.

### Data Source

The data sources in this research are government, entrepreneurs and banks. Informants representing the government are the Chairman of BKPM of the Republic of Indonesia, Head of DPMPTSP of South Sulawesi Province, Secretary, Head of Dalwas Division and Head of Dalwas Section. Informants from entrepreneurs are the Chairman of the South Sulawesi Provincial Chamber of Commerce and Industry and four investors (2 PMA and 2 PMDN). Then the informants from banks were the head of the Bank Indonesia Region, Director of Bank Mandiri Region X Sulawesi and Director of Bank BNI Region 07 Sulawesi.

**Focus and Focus Description**

The research focus is (1) how to control the implementation of investment, (2) what are the determinant factors that hinder the implementation of investment that has been determined and (3) how to control the model of investment implementation. The description of the focus is (1) the control of investment implementation is a process of activities to ensure that activities are carried out as planned and the process of correcting any deviations that include monitoring, coaching and supervision, (2) determinant factors that hinder the implementation of predetermined capital investment are determinants that hinder so as to cause the non-realisation of investment in accordance with the stipulated. These include; (a) the number of players (actors) involved, (b) the complexity inherent in the project itself, (c) the level of decision making is too long and (d) time and leadership changes. (3) The investment control model is an implementation model for controlling the PMA principle permit issued by BKPM of the Republic of Indonesia and the PMDN principle permit issued by DPMPTSP of South Sulawesi Province, consisting of (a) anticipatory, (b) monitoring, (c) coaching and (d) supervision and (e) collective.

**Instruments and Data Collection and Validation Techniques**

The researcher is the main instrument by using data collection tools, interviews with interview guides, documentation and FGDs. Data validity checks follow the criteria of Nasutian (1992) and Moleong (1993), namely (1) degree of trustworthiness, (2) transferability, (3) dependability and (4) certainty.

**Data Analysis**

Data analysis was based on (Miles et al., 2014) namely (1) data collection, (2) data reduction, (3) data Condensation and (4) verification and conclusion drawing.

## RESULT AND DISCUSSION

**Result**

**1. Actors Involved**

In the implementation of investment in South Sulawesi Province, it must make licences issued by the on line single submission (OSS) Agency on behalf of the minister/head of a non-ministerial government agency for business activities that fall under the authority of the central government. Then the head of the One-Stop Integrated Investment and Licensing Agency (DPMPTSP) and the head of the district/municipal DPMPTSP on behalf of the regent/mayor for business activities that fall under the authority of the district/municipal government.

The central government's authority is the implementation of investment whose scope is cross-province, including non-renewable natural resources, industry, related to the function of unifying and connecting between regions or across provinces, related to the national defence and security industry, FDI related to agreements made by the government with other governments and investment that becomes government affairs based on the law. The authority of the provincial government is investment whose scope is across districts/cities, investment where the central government delegates/delegates authority to the governor and industries classified as large industries, except for the type of industry that is the authority of the central government.

Furthermore, the authority of the regency/city government is investment whose scope is in the regency/city, which is delegated to the regency/city government and industry classified as medium industry and small industry whose industrial location is in the regency/city. The next permit that must be available for investment is the principle permit. The principle licence is a licence granted to an investment company in a business field that can obtain fiscal facilities and in the implementation of investment requires fiscal facilities.

The rules of the principle permit are regulated in Law No. 2/2007 on Capital Investment, Law No. 32/2000 on Local Government and Government Regulation No. 38/2007 on the division of government affairs between the government, local and provincial governments and district or city governments.

The function of the principle licence is as a document stating that a business or investment is legally carried out in that location. This business and investment recognition letter is legal in the eyes of the law so that business people can get their rights.

**2. Complexities Attached to Investment Projects**

**a. Source of Financing**

Investment financing is based on the Regulation of the Head of BKPM of the Republic of Indonesia Number 12 of 2013 concerning Guidelines and Procedures for Licensing and Non-Licensing of Investment, then for PMDN the minimum investment value is Rp. 500 million while PMA is an investment value greater than Rp. 10 billion. This means that to carry out investment financing requires large capital and also investment is a long-term investment that has a high risk.

**b. Procurement of Machinery**

Procurement of machinery for investment is a government facility, in accordance with the Regulation of the Head of BKPM of the Republic of Indonesia Number 12 of 2013 on Guidelines and Procedures for Licensing and Non-Licensing of Investment. This is because investors who will carry out investment bring in machinery from abroad and the government provides import duties on imported machinery. Plant and machinery are the largest component of capital investment (including plant construction, installation costs, transport costs, spare parts and others).

**c. Raw Material Procurement**

Raw and auxiliary materials are a major component of capital investment. The raw and auxiliary materials of the investment are imported from abroad. Therefore, the government provides import duty facilities on imported goods and raw materials, this is in accordance with the Regulation of the Head of BKPM of the Republic of Indonesia Number 12 of 2013 concerning Guidelines and Procedures for Licensing and Non-Licensing of Investment.

**d. Land Acquisition**

Some investors in South Sulawesi Province require large areas of land. Facilities from the government in terms of land/land are right of use for 70 years (45 years + 25 years), business use rights for 95 years (60 years + 35 years) and building use rights for 80 years (50 years + 30 years). This facility is expected to attract investors to come to Indonesia.

**3.The Decision-Making Process is Too Long**

At the central level, decision-making for granting principle licences and facilities for PMA is no later than 3 days, if all administrative requirements are met. Likewise, the principle permit for PMDN by DPMPTSP of South Sulawesi province. This is in accordance with the Regulation of the Head of BKPM of the Republic of Indonesia Number 12 of 2013 concerning Guidelines and Procedures for Licensing and Non-Licensing. Based on the research, it shows that the average principle permit issued is 3 weeks, if all administrative requirements are complete. Then for recommendations from the ministry in accordance with the business field, it takes one month to 2 months. Furthermore, a business licence in accordance with the business field through the ministry, takes 42 working days. The total time required at the central level is 145 days.

At the provincial, district/city level, nuisance permits, environmental impact assessments and other permits take 67 working days, not including any missing documents. So for investors, it is too long, tedious and long-winded.

**4.Other factors, timing and leadership changes**

Because the processing of permits and facilities and investment planning from planning to implementation takes a long time, it can lead to changes in leadership. Changes in leadership can result in changes in policy, changes in policy mean changes in law. This means that legal changes mean legal uncertainty, which can have an influence on the implementation of investment.

## Discussion

The study presented focuses on the intricacies of investment implementation in South Sulawesi Province, Indonesia, delineating the roles of various governmental actors, the complexities associated with investment projects, and the protracted nature of the decision-making process. This discussion integrates these findings with relevant research published in the last five years in international journals to provide a comparative and contextual understanding.

The involvement of multiple actors in the investment process, including central, provincial, and district/municipal governments, is highlighted as a crucial factor in the implementation framework. This multi-layered governance structure is consistent with global trends, where decentralization and local autonomy are increasingly recognized for their potential to tailor investment strategies to local contexts (Alfada, 2019; Fadzil & Nyoto, 2011; Nasution, 2014; Siburian, 2022). Research from the last five years underscores the significance of intergovernmental coordination and the challenges it poses, echoing the complexities identified in South Sulawesi.

The complexities attached to investment projects, such as financing, machinery procurement, raw material acquisition, and land acquisition, reflect broader trends in the investment landscape. For instance, the emphasis on substantial capital requirements aligns with global observations that investments are becoming more capital-intensive, necessitating robust financial strategies (Adekoya et al., 2021; Rus, 2012; Treffgarne, 2019; Wu et al., 2022). Moreover, the focus on machinery and raw material procurement resonates with international concerns about supply chain resilience, particularly in the post-pandemic context, highlighting the strategic importance of securing supply chains for investment sustainability (Ginder et al., 2009; Mierzwa, 2019; Yuan et al., 2023).

The prolonged decision-making process in South Sulawesi, with significant delays at various government levels, mirrors a global challenge in investment facilitation. Research indicates that streamlined and efficient administrative processes are critical for attracting and retaining investors, with bureaucratic inefficiencies identified as significant deterrents to investment inflows (Hamid et al., 2022; Y. Li & Wang, 2016). The findings from South Sulawesi

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contribute to this discourse, suggesting that reducing administrative delays could enhance investment attractiveness.

The study's emphasis on the impacts of timing and leadership changes on investment processes is particularly pertinent in light of global discussions on political stability and investment climate. Research underscores that political stability is a key determinant of investment attractiveness, with leadership changes often heralding shifts in policy and legal frameworks that can affect investor confidence (Morar, 2015; Park & Sohn, 2021; Wang & Qiu, 2023).

## CONCLUSION

Determinant factors that hinder the implementation of investment are the number of actors involved such as agencies/ institutions/ ministries involved at the central, provincial and district/city levels, the complexity inherent in investment projects, which includes bank financing, procurement of machinery, procurement of raw materials and land acquisition, too long and tiered levels of decision-making from the central, provincial and district/city levels and the timing and changes and design of investment. Thus Law Number 25 of 2007 on Investment, Regulation of the Head of BKPM of the Republic of Indonesia Number 12 of 2013 on Guidelines and Procedures for Licensing and Non-Licensing of Investment and Regulation of the Head of BKPM of the Republic of Indonesia Number 3 of 2013 on Guidelines and Procedures for Controlling the Implementation of Investment, apparently cannot increase investment in Indonesia, especially in South Sulawesi Province.

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