

Transformation of Indonesia's Licensing System: A Juridical Analysis of Risk-Based Approach Implementation in Practice

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Abstract

Purpose: This study aims to analyze the legal basis, implementation, and challenges of Risk-Based Business Licensing (*Perizinan Berusaha Berbasis Risiko/PBBR*) as regulated in Government Regulation Number. 28 of 2025 in Indonesia.

Methodology/Approach: This study employs a normative empirical approach. Normatively, it examines the administrative law principles underlying PBBR, whereas empirically it analyzes its implementation through the Online Single Submission (OSS) system and its impact on public service efficiency.

Results/Findings: This study finds that PBBR represents a significant reform in Indonesian administrative law by applying the principles of proportionality, legal certainty, and public benefit. Empirically, its implementation has improved the efficiency of business licensing services, particularly through faster processing via the OSS system. However, several substantive and technical challenges remain, including inadequate digital infrastructure, overlapping regional and central regulations, and low legal literacy among micro and small business actors regarding risk classification and standard certification obligations.

Conclusions: This study concludes that PBBR improves efficiency and legal certainty but is constrained by infrastructure, regulatory overlap, and low MSME legal literacy. Further improvements are needed.

Limitations: This research is limited to regulatory analysis and selected empirical observations and does not include large-scale field surveys or quantitative measurement of business performance outcomes.

Contributions: This study contributes to the development of administrative law and public policy literature by providing an integrated analysis of risk-based licensing reform in Indonesia and offering practical recommendations for improving institutional capacity and regulatory harmonization.

Keywords: *Administrative Law Reform, Business Regulation in Indonesia, Legal Certainty, Online Single Submission, Risk-Based Business Licensing*

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1. Introduction

Prior to reform, the business licensing system in Indonesia was widely recognized as highly bureaucratic, slow, and prone to legal uncertainty for business actors ([Rokhman, Rokhman, & Kurniasih, 2024](#)). The regulatory framework required entrepreneurs to obtain numerous permits from

different institutions, each operating under its own procedures and administrative culture. This fragmentation created overlapping authorities and complicated compliance requirements, especially for Small and Medium-Sized Enterprises (SMEs). Consequently, business actors often faced lengthy waiting times, unclear standards, and inconsistent decisions, which discouraged domestic and foreign investments. This situation not only delayed economic activity but also weakened investor confidence in the credibility and predictability of Indonesia's legal system.

[Breen and Gillanders \(2024\)](#) highlight that the complexity of licensing regulations imposes high economic costs on businesses, including administrative fees, opportunity costs due to delays, and informal costs arising from corrupt practices. [Fredriksson \(2014\)](#) When procedures are opaque and discretionary, business actors may feel compelled to seek shortcuts through non-transparent means. In this sense, the pre-reform licensing system did not merely reflect administrative inefficiency but also created structural conditions that facilitated corruption and rent-seeking behavior. [Yusriadi \(2018\)](#) further argues that weak inter-agency coordination and the absence of digital integration in public services significantly contributed to inefficiency. Each institution maintained its own database and standards, making it difficult to verify information and synchronize decisions across sectors.

The implications of this fragmented system were also visible at the global level. Legal uncertainty in business licensing directly contributed to Indonesia's relatively low ranking in the Ease of Doing Business (EoDB) index prior to the implementation of the integrated OSS system. International investors consider not only market size and resources but also regulatory predictability and procedural simplicity ([Mayasari, 2025](#)). A licensing regime that is slow, inconsistent, and opaque signals high risk and discourages long-term investment. Therefore, reforming the licensing system became a strategic priority for the government to strengthen the rule of law and improve Indonesia's competitiveness in the global economy.

[Duri, Hidayat, and Sinaga \(2024\)](#) in response to these structural problems, the government introduced the Online Single Submission (OSS) system and later refined it through the Risk-Based Business Licensing framework (*Perizinan Berusaha Berbasis Risiko/PBBR*) under Government Regulation Number. 28 of 2025. This reform marked a paradigm shift from a permit-based to a risk-based approach. [Nurhayati, Giftian Fajri, Achmad Miftah, and Rohmad \(2025\)](#) instead of focusing solely on the type of business activity, licensing requirements are now determined by the level of risk posed to the environment, public health, and safety. Low-risk activities only require business identification numbers, while higher-risk activities are subject to additional permits and supervision. [Zahara, Kabullah, and Putera \(2023\)](#) this differentiation is intended to reduce unnecessary administrative burdens while maintaining effective state control over potentially harmful activities.

According to [Handayani and Rizal \(2024\)](#), the implementation of OSS and PBBR represents a concrete form of administrative law reform aimed at streamlining authority and accelerating public services in the investment sector. By integrating licensing procedures into a single digital platform, the government seeks to eliminate overlapping competencies and create a more transparent, accountable, and user-friendly system. [Sari and Rahayu \(2025\)](#) explain that the risk-based approach enhances legal certainty because business actors can clearly identify the obligations they must fulfill based on objective criteria related to risk. This reduces arbitrary decision-making and promotes equal treatment before the law.

Moreover, [Kusnadi and Baihaqi \(2020\)](#) emphasize that PBBR strengthens the digitalization of licensing services and serves as an important instrument to improve Indonesia's Ease of Doing Business ranking at the global level. Digital platforms allow for real-time monitoring, standardized procedures, and better data management. In theory, this should minimize bureaucratic discretion and increase public trust in the legal system. From a governance perspective, OSS and PBBR also support the broader agenda of bureaucratic reform by promoting efficiency, transparency, and accountability in public administration.

However, despite these normative and structural improvements, significant implementation challenges remain. One of the main issues is the uneven capacity of regional governments and institutions to adopt and operate the OSS system effectively. [Utomo, Kurniawan, and Nugraha \(2025\)](#) note that limited

digital infrastructure in many regions and the low capacity of human resources to understand risk-based procedures hinder consistent implementation. In some areas, Internet access is unreliable, and local officials lack adequate training to apply the new framework correctly. This results in delays, errors in data entry, and inconsistent interpretations of licensing requirements.

[Susanto et al. \(2024\)](#) further stress that regulatory disharmony among institutions persists as a major obstacle. Although OSS is designed as an integrated system, different ministries and agencies still maintain sectoral regulations that are not fully aligned with the risk-based approach. This leads to confusion among both officials and business actors regarding applicable standards and procedures. [Leonardi and Tundjung \(2025\)](#) Without uniform interpretation of legal norms, the promise of simplification and legal certainty cannot be fully realized. Another critical issue is the supervision and enforcement of risk-based licensing, particularly in the MSME sector.

[Joseph, Mamonto, and Tarore \(2025\)](#) finds that weak supervision mechanisms and inconsistent law enforcement often result in selective compliance. Some business actors operate without fulfilling their risk-based obligations, while others face stricter scrutiny, creating perceptions of unfairness. This undermines the main objective of the reform, namely, to create a predictable, transparent, and fair business climate. In this context, the effectiveness of OSS and PBBR cannot be assessed solely based on their legal design. It must also be evaluated in terms of institutional capacity, inter-agency coordination, and the quality of supervision ([Damayanti, Jeddawi, Arsyad, & Sahyana, 2023](#)).

Licensing reform is not only a technical matter but also a reflection of the state's ability to implement the rule of law in practice. Without continuous improvement in infrastructure, human resources, and regulatory harmonization, the transformative potential of risk-based licensing may remain limited. Therefore, while OSS and PBBR represent a significant step forward in Indonesia's business licensing reform, their success depends on sustained commitment to institutional strengthening and legal coherence. The challenge ahead is to ensure that the normative ideals of simplicity, transparency, and legal certainty are translated into consistent and fair practices across all levels of government. Only then can licensing reform truly support sustainable investment and inclusive economic development in Indonesia.

2. Literature Review

Licensing has long been a central theme in administrative and business law because it represents the primary legal mechanism through which the state exercises control over economic activities ([Bismar et al., 2023](#)). Through licensing, the government seeks to ensure public order, protect societal interests, and promote fair competition, while facilitating economic growth. In Indonesia, this function has become increasingly prominent since the introduction of the Online Single Submission (OSS) system as part of a broader agenda of bureaucratic reform and digital governance. The OSS system is not merely a technical innovation but reflects a deeper transformation in the relationship between the state and business actors, shifting from a fragmented, paper-based bureaucracy toward a more integrated, risk-based, and technology-driven licensing regime.

[Wulandari, Patawari, Esa, and Mery \(2022\)](#) emphasize that the licensing system functions as a legal instrument to ensure public order and economic justice. In classical administrative law theory, licensing is viewed as a preventive tool; it allows the state to assess whether an activity is compatible with public interests, such as safety, environmental protection, and social welfare, before it is carried out. [Mirozul, Wati, and Meliala \(2025\)](#) in the context of business law, licensing also serves to create a level playing field by ensuring that all business actors comply with minimum standards. Without an effective licensing system, markets may become distorted by unfair practices, unsafe products, or environmental degradation. Thus, licensing is not only about control but also about guaranteeing legal certainty and fairness in economic relations.

[Yusriadi \(2018\)](#) analyzed bureaucratic reform in digital licensing and found that digital transformation can significantly reduce transaction costs for both the state and business actors. Traditional licensing

systems often involve long queues, repeated submission of documents, and face-to-face interactions, creating opportunities for inefficiency and corruption. In contrast, digital platforms, such as OSS, allow for standardized procedures, electronic document submission, and automated verification. These innovations reduce time and financial costs, increase transparency, and improve traceability. However, [Yusriadi \(2018\)](#) also notes that digitalization introduces new administrative challenges, such as data security, system reliability, and the need for continuous capacity building among civil servants.

From a legal perspective, [Rizki \(2025\)](#) highlights the importance of the principle of legal certainty in maintaining consistency between national and regional licensing policies. In a decentralized system such as that in Indonesia, where local governments have significant authority, the harmonization of norms is crucial. Legal certainty requires that the rules be clear, predictable, and consistently applied. When regional regulations diverge from national policies or interpret OSS norms differently, business actors face confusion and risk. This undermines trust in the legal system and weakens the investment climate. Therefore, licensing reform must address not only procedural efficiency but also normative coherence.

At the international level, [Baldwin, Cave, and Lodge \(2011\)](#) argue that effective regulatory and licensing reforms must balance control, transparency, and accountability. Excessive regulation can stifle innovation and investment, whereas insufficient regulation can endanger public interests. The challenge is to design licensing regimes that are proportionate to risk and responsive to changing economic realities. The [OECD \(2020\)](#) similarly emphasizes that good governance in licensing requires a clear allocation of authority, transparent procedures, and mechanisms for accountability and review. These international standards provide an important analytical framework for assessing Indonesia's OSS reform, particularly in relation to regulatory harmonization, digital capacity, and administrative justice.

More recent studies reinforce this understanding by focusing on the practical dynamics of OSS implementation. [Kusnadi and Baihaqi \(2020\)](#) examined the integration of the OSS system with regional regulations and found that uneven implementation at the local level continues to hinder investment efficiency. Although OSS is designed as a centralized digital platform, its effectiveness depends heavily on local governments' willingness and ability to align their regulations and administrative practices with national standards. In regions with limited infrastructure or institutional capacity, OSS is often treated as a formal requirement rather than a substantive reform, resulting in parallel systems that negate the benefits of integration.

[Badawi and Wedhatami \(2025\)](#) discusses the importance of legal harmonization to reduce overlapping authority between central and regional governments in business licensing. Overlapping competencies lead to duplication of permits, conflicting decisions, and prolonged procedures. From the perspective of administrative law, such overlaps violate the principles of efficiency and good governance. Harmonization requires not only revising regulations but also rethinking institutional roles and coordination mechanisms. Without clear lines of authority, even the most sophisticated digital systems cannot function effectively. ([Arafat & Fahmida, 2025](#)) investigate digital governance and administrative justice, showing that technological adaptation requires strong institutional commitment to data integrity and ethical standards.

OSS relies on accurate, reliable, and up-to-date data. If data is incomplete, manipulated, or inconsistently maintained, the system cannot deliver legal certainty. Moreover, digital systems must be designed to protect personal and commercial data from misuse. Administrative justice in the digital era means ensuring that decisions made through automated or semi-automated systems remain accountable, explainable, and subject to review. [Siahaan \(2025\)](#) asserts that OSS reform must be accompanied by improved legal literacy among state officials to ensure uniform interpretation of licensing norms. Technology alone cannot replace human judgment.

Civil servants must understand not only how to operate the OSS platform but also the legal principles underlying risk-based licensing. Without sufficient legal knowledge, officials may apply rules mechanically or inconsistently, undermining fairness and predictability. Legal literacy is therefore a

key component of sustainable reform. The [WorldBank \(2024\)](#) reports that Indonesia's digital licensing reforms have improved ease-of-doing-business indicators, particularly in terms of starting a business and obtaining basic permits. However, the report also notes persistent challenges related to compliance and system interoperability. Different ministries and agencies still use separate databases and technical standards, making full integration difficult. This technological fragmentation mirrors the regulatory fragmentation that reform seeks to overcome.

From a broader theoretical perspective, licensing reform in Indonesia reflects the evolution of administrative law toward what is often called "responsive" or "risk-based" regulation. Rather than applying uniform controls to all activities, the state differentiates requirements based on the level of risk posed. Low-risk activities are facilitated, whereas high-risk activities are subject to stricter scrutiny. This approach aligns with international best practices and supports economic efficiency. However, its success depends on accurate risk assessments, reliable data, and consistent enforcement.

In the Indonesian context, the shift to OSS and risk-based licensing also has implications for administrative justice. Administrative justice refers to the fairness, transparency, and accountability of administrative decision-making. A digital system can enhance justice by standardizing procedures and reducing discretion. At the same time, it can create new risks if decisions become opaque or inaccessible for review. Therefore, licensing reform must be accompanied by effective grievance mechanisms, judicial oversight, and public participation.

Another important dimension is the impact of licensing reforms on Micro, Small, and Medium Enterprises (MSMEs). MSMEs are the backbone of Indonesia's economy but are often the most affected by complex regulations. The OSS aims to simplify procedures for MSMEs by reducing permit requirements for low-risk activities. However, studies have shown that many MSMEs still struggle to navigate digital platforms due to limited technological literacy. This raises questions about inclusiveness and equity in licensing reforms.

Furthermore, licensing reform intersects with broader issues of decentralization and regional autonomy. Indonesia's constitutional framework grants significant authority to local governments, including in economic regulation. The OSS seeks to recentralize certain aspects of licensing through a unified digital platform. This creates tension between efficiency and autonomy. Resolving this tension requires clear legal frameworks and cooperative governance models. In summary, the literature shows that licensing is not merely a technical administrative process but a core element of the legal and economic order. In Indonesia, OSS represents a significant step toward modernizing the licensing system in line with global standards. However, its success depends on more than technology. It requires legal harmonization, institutional capacity, digital literacy, data integrity, and a strong commitment to administrative justice.

Therefore, this study builds on the insights of [Baldwin et al. \(2011\)](#) the OECD, and more recent scholars to argue that licensing reform in Indonesia must be understood as an integrated process of legal, institutional, and technological transformation. The challenge is to ensure that OSS not only simplifies procedures but also strengthens the rule of law, protects public interests, and promotes inclusive and sustainable economic development. Only by addressing these dimensions together can licensing reform fulfill its promise as a cornerstone of good governance and economic justice in Indonesia.

3. Methodology

This study employs a normative juridical and empirical juridical approach to provide a comprehensive understanding of the effectiveness of the business licensing system in Indonesia. The normative-juridical approach is used to examine the legal norms governing the licensing system, particularly the principles and doctrines of state administrative law that form the basis for the implementation of business licensing in Indonesia. Through this approach, the research focuses on analyzing legal instruments, such as Law Number. 11 of 2020 on Job Creation and Government Regulation Number. 28 of 2025 on Risk-Based Licensing, which classify business activities into four risk categories: low,

lower-medium, upper-medium, and high-risk. This regulatory framework aims to enhance the effectiveness and efficiency of the business licensing process in Indonesia.

Meanwhile, the empirical–juridical approach is applied to explore the factual conditions regarding the implementation of the Online Single Submission (OSS) system as an instrument of digitalized public services. Primary data were obtained through interviews with officials from the Investment and One-Stop Integrated Service Office of East Java Province in 2025, as well as direct observations of the OSS portal. Secondary data were used to complement the analysis, including statutory regulations and literature by [Simanjuntak \(2018\)](#), which provides comparative perspectives on international and national practices.

Data analysis was conducted using a qualitative-descriptive method by interpreting applicable legal norms and comparing them with actual practices in the field. This process aims to identify the extent to which the implementation of the OSS system complies with existing legal provisions and to reveal gaps between the law in the books and law in action. This combined approach is expected to provide a holistic picture of the effectiveness of risk-based licensing policies in Indonesia.

4. Results and Discussions

4.1 Implementation of the Risk-Based Licensing System

Observations at the Investment and One-Stop Integrated Service Office of Surabaya City indicate that the implementation of the Online Single Submission (OSS) system based on the Risk-Based Approach (RBA) still faces significant technical and administrative challenges. One of the main problems lies in data synchronization between central and regional governments, in which digital integration systems among institutions frequently experience delays in updating information. This situation results in discrepancies between national and local licensing databases, causing confusion among business actors in fulfilling licensing requirements according to their risk classification. This condition demonstrates that the principles of integration and intergovernmental coordination, as mandated by modern administrative law, have not yet been fully realized in the implementation of OSS-RBA.

In addition to technical issues, regulatory literacy among Micro, Small, and Medium-sized Enterprises (MSMEs) remains a serious concern. Based on data from the Investment and One-Stop Integrated Service Office, approximately 38% of micro-business actors still believe that possession of a business identification number (*Nomor Induk Berusaha/NIB*) is sufficient to operate legally, without completing the standard certification required for medium- and high-risk business activities. This lack of understanding reflects weak policy dissemination and insufficient assistance from local governments in helping MSMEs comprehend risk classifications as regulated in Government Regulation Number. 28 of 2025 on Risk-Based Licensing. Consequently, many MSMEs unintentionally violate administrative provisions due to limited awareness of the distinction between low-risk licensing and permits that require further technical verification.

Nevertheless, on the positive side, the implementation of OSS with a risk-based approach has produced tangible improvements in public service efficiency. The average time for issuing business licenses in Indonesia has been significantly reduced from approximately 14 days to only three working days after the introduction of the latest version of OSS. This achievement confirms that an integrated digital system is capable of accelerating bureaucratic processes and minimizing manual licensing practices that often generate additional costs and procedural irregularities.

However, the effectiveness of OSS-RBA has not been evenly distributed across all regions in Indonesia. Disparities in information technology capacity, limitations in human resources, and unequal infrastructure among regions remain major obstacles to the comprehensive implementation of this system. Therefore, although the risk-based OSS framework has advanced efficiency and transparency, further strengthening of digital governance, enhancement of regional administrative capacity, and

massive outreach to MSMEs are required to realize the principles of legal certainty, public benefit, and justice optimally within the national licensing system.

4.2 Analysis of the Legal Basis and Procedures

Government Regulation Number. Government Regulation Number 28 of 2025 introduces a comprehensive risk-based framework for business licensing in Indonesia by classifying business activities into four categories: low-risk, lower-medium-risk, upper-medium-risk, and high-risk. This classification forms a central pillar of the risk-based licensing system, *Perizinan Berusaha Berbasis Risiko*, and is designed to enhance the effectiveness and efficiency of the national licensing process. Instead of applying uniform regulatory requirements to all types of businesses, the regulation aligns the level of administrative control with the potential impact of business activities on public safety, environmental sustainability, and broader societal interests.

In doing so, the government seeks to create a licensing regime that is proportionate, predictable, and supportive of sustainable economic development. For low-risk business activities, the regulatory burden is intentionally minimized. Business actors are only required to obtain a business identification number (*Nomor Induk Berusaha/NIB*), which serves as the basic legal authorization to operate. This approach reflects the government's intention to encourage entrepreneurship, particularly among micro and small enterprises, by removing unnecessary administrative barriers ([Nadhifa, Haliah, & Nirwana, 2024](#)). The NIB functions not only as a licensing instrument but also as an integrated identity for business actors within the OSS system, linking taxation, social security, and other regulatory obligations in a single digital profile. In the lower-medium and upper-medium risk categories, the licensing requirements become more substantive.

Business actors must obtain a standard certificate that is verified by the competent authority. This certificate confirms that the business complies with applicable technical, environmental, and safety standards. The distinction between lower-medium and upper-medium risk reflects the varying degrees of potential impact associated with different activities. For example, businesses that involve limited environmental impact or moderate public health considerations may fall into the lower-medium category, whereas those with more complex operational processes may be classified as upper-medium risk. Through this tiered approach, the regulation ensures that oversight is targeted and proportional, rather than excessive or arbitrary.

For high-risk business activities, the regulation requires the issuance of a full business license accompanied by in-depth technical verification. These activities typically involve significant potential risks to society, public safety, or the environment, such as large-scale industrial operations, hazardous materials handling, and major infrastructure projects. The licensing process for this category includes detailed assessments, inspections, and compliance reviews to ensure that all legal and technical requirements are met before operations begin. This reflects the state's constitutional duty to protect the public interest while allowing economic activity to proceed under strict safeguards. All licensing processes under Government Regulation No. 28 of 2025 are carried out through the Online Single Submission (OSS) system, which is centrally managed by the national government.

At the same time, supervision and operational guidance are delegated to regional governments in line with the principle of functional decentralization. This institutional arrangement creates a balance between central coordination and local implementation. The central government ensures standardization, legal certainty, and data integration, whereas local governments provide contextual oversight, field supervision, and direct support to business actors. This policy framework is consistent with the principles of Law No. 11 of 2020 on Job Creation, which emphasizes bureaucratic simplification, regulatory coherence, and investment acceleration. Government Regulation No. 28 of 2025 thus serves as a key legal instrument in Indonesia's broader agenda of administrative and economic reform. By linking the ease of doing business with the protection of public interests, the regulation strengthens the government's commitment to risk-based governance, legal certainty, and sustainable development.

4.3 The Function of Licensing from an Administrative Law Perspective

From the perspective of administrative law, licensing functions as a juridical instrument through which the state controls and directs social and economic behavior in accordance with the public interest. Licensing is not merely a technical administrative requirement but a legal mechanism that reflects the government's authority to regulate activities that may affect public order, safety, and welfare. According to [Radja \(2025\)](#), a license constitutes an individual, concrete, and final administrative decision that grants legal authorization to a person or legal entity to engage in an activity that, in principle, is prohibited without prior permission. This definition emphasizes the preventive character of licensing: before an activity may be carried out, the state must first assess its potential risks and impacts.

Therefore, a license confers rights upon its holder and imposes legal obligations. Business actors who receive a license are required to comply with all applicable laws, technical standards, environmental requirements, and ethical norms governing their activities. In this sense, licensing creates a reciprocal legal relationship between the state and licensee. The state provides legal certainty and protection, while the licensee accepts responsibility for operating in a manner that does not harm public interests. This dual function reflects the core principle of administrative law that public authority must be exercised to achieve social order and justice.

[Asmara \(2025\)](#) further emphasizes that licensing represents a form of government intervention in social and economic life to safeguard public safety, security, and environmental sustainability. In the context of modern business regulation, this intervention is increasingly shaped by principles of good governance, such as transparency, proportionality, and accountability. Permits issued through the Online Single Submission (OSS) system play a crucial role in implementing these principles by simplifying procedures while strengthening risk-based supervision mechanisms, as regulated under Government Regulation Number. 28 of 2025. As [Kusnadi and Baihaqi \(2020\)](#) argue, OSS is designed to integrate public benefit, legal certainty, and administrative accountability into a single digital licensing framework.

However, in practice, the function of licensing as an instrument of social control and legal accountability has not yet been fully optimized. Many stakeholders perceive licensing merely as an administrative formality, focused on document completion rather than substantive compliance. Supervision in the field is often weak, and follow-up enforcement is inconsistent. This reveals a gap between legal norms and their actual implementation. To bridge this gap, stronger evaluation systems, greater transparency, and enhanced institutional capacity are required. Only with effective supervision and consistent enforcement can licensing truly function as a regulatory mechanism and as a means of protecting the public interest in a modern administrative state.

4.4 Practical Challenges in Implementation

The implementation of Risk-Based Business Licensing (*Perizinan Berusaha Berbasis Risiko/PBBR*) as regulated under Government Regulation Number. 28 of 2025 continues to face complex challenges from legal, administrative, and information technology perspectives. Although this policy is designed to establish efficient and transparent licensing governance through a risk-based regulatory approach, its application has not yet been fully aligned with the fundamental principles of state administrative law. One of the primary issues concerns legal conflicts between central and regional regulations, as several local governments still apply the old tiered licensing regime rather than the risk-based system mandated by Government Regulation Number. 28 of 2025. This situation creates legal dualism and regulatory uncertainty for business actors due to differing interpretations of licensing authority at the regional level. Such conditions directly undermine the effectiveness of the PBBR system, which requires strong policy harmonization across levels of government ([Badawi & Wedhatami, 2025](#)).

In addition to regulatory conflicts, challenges also arise from maladministration within the digitalized licensing system through Online Single Submission (OSS) ([Putri, Syamsu, & Triono, 2024](#)). In practice, delays in data entry, lack of system synchronization among agencies, and weak administrative verification of supporting documents are frequently observed. Consequently, some business licenses

are approved automatically through a positive fictitious mechanism without substantive verification of technical and environmental aspects as required ([Alim, 2024](#)). This phenomenon indicates the continuing weakness of administrative control functions and poses a risk of violating the precautionary principle, which is a key doctrine in modern administrative law.

Furthermore, implementation challenges are evident at the field supervision stage, particularly for business activities classified as upper-medium and high-risk. According to [Siahaan \(2025\)](#), supervision remains ineffective because of limited human resources, insufficient technical competence of supervisory officials, and weak inter-agency coordination, especially among the Investment and One-Stop Integrated Service Office, the Ministry of Environment and Forestry, and relevant technical agencies. Empirical findings from the Investment and One-Stop Integrated Service Office show that approximately 30% of licenses issued automatically through OSS lack complete environmental and spatial planning documentation, potentially generating negative impacts on business sustainability, spatial governance, and environmental protection.

These conditions demonstrate that the implementation of PBBR still requires strengthening of institutional capacity through human resource training, improved digital system integration, and the development of adaptive supervision mechanisms tailored to the level of business risk. In addition, regulatory harmonization between central and regional governments must be urgently pursued to prevent overlapping authority. Only through such measures can the primary objectives of PBBR, namely, efficiency, accountability, and legal certainty in the national licensing system, be achieved consistently and sustainably.

4.5 Analysis of Legal Principles and Theory

The application of administrative law principles within the risk-based business licensing (*Perizinan Berusaha Berbasis Risiko/PBBR*) system represents a form of public policy modernization that emphasizes a balance between the ease of doing business and the protection of the public interest. Through this new paradigm, the government seeks to establish licensing governance that is more efficient, transparent, and accountable, without disregarding the fundamental principles of administrative law that ensure justice and legal certainty for both society and business actors. One of the most prominent principles in the implementation of PBBR is proportionality, which ensures that every licensing requirement is adjusted to the level of risk posed by a business activity. This concept aligns with the theory of risk-based regulation proposed by [Baldwin et al. \(2011\)](#), which holds that effective regulation must balance the degree of risk with the government's supervisory capacity.

Through a risk-based approach, low-risk business actors can obtain permits through simplified procedures, whereas high-risk activities remain subject to strict supervision and the fulfillment of more complex environmental and safety standards. This approach is expected to promote administrative efficiency while avoiding over-regulation, which has long been a major obstacle to Indonesia's investment climate. Transparency is realized through the implementation of the Online Single Submission (OSS) system, which provides public access to licensing processes and application statuses. This system is a key instrument for enhancing transparency, participation, and accountability in licensing administration. Through OSS, the public and business actors can monitor the progress of permit applications online. However, in practice, technical problems persist, such as delays in data updates and a lack of synchronization among agencies. According to [Kusnadi and Baihaqi \(2020\)](#), weak inter-agency data integration often hampers the effectiveness of OSS, meaning that the principle of transparency has not yet been fully realized in an optimal manner.

Meanwhile, legal certainty is ensured through the application of the positive fictitious mechanism, stipulating that a permit is deemed to have been granted if the statutory service time limit expires without a decision from the competent authority. This mechanism is intended to prevent bureaucratic delays and provide time certainty for business actors. Nevertheless, this policy entails potential administrative risks if it is not balanced with adequate substantive supervision. Based on empirical reports from the Investment and One-Stop Integrated Service Office East Java, a number of permits are still automatically approved without proper verification of supporting documents, potentially leading to

legal violations and harm to environmental interests. Therefore, the application of administrative law principles within the PBBR framework requires stronger supervision systems, cross-agency data integration, and enhanced institutional capacity to ensure a sustainable balance between public service efficiency and the protection of the public interest.

5. Conclusions

5.1 Conclusion

This study concludes that the risk-based business licensing system in Indonesia has brought significant improvements in efficiency and legal certainty in business activities. However, its implementation still faces several key challenges, including regulatory disharmony between central and regional governments, limited infrastructure and human resources in the implementation of the Online Single Submission (OSS) system, and low substantive compliance of small business actors with established risk standards. Therefore, although the system is normatively aligned with the principles of modern administrative law, its empirical implementation still requires further improvement.

5.4 Research Limitations

This study has several limitations that should be considered when interpreting the findings. First, it focuses on a normative and empirical legal analysis of the risk-based licensing system and does not cover all sectors or regions comprehensively. Second, most empirical data were obtained from institutional reports and limited interviews, which may have introduced potential bias in representing field conditions. Third, the dynamic nature of regulatory changes in the licensing sector may affect the relevance of the study's findings in the future. Nonetheless, these limitations are intended to serve as reflections for future researchers to expand the scope of the study, deepen the empirical analysis, and enrich the understanding of legal effectiveness within modern business licensing systems in Indonesia.

5.3 Suggestions and Directions for Future Research

Future research should expand the scope of the analysis by incorporating broader sectoral and regional comparisons to provide a more comprehensive understanding of the implementation of risk-based business licensing in Indonesia. Subsequent studies should also adopt more robust empirical approaches, including large-scale surveys and in-depth field observations, to better capture the practical challenges of OSS implementation. In addition, future research may explore the integration of digital governance, administrative accountability, and legal compliance in licensing systems, particularly in relation to MSME behavior and institutional capacity. Finally, longitudinal studies are encouraged to examine the sustainability and long-term effectiveness of the risk-based business licensing system amid ongoing regulatory developments.

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Author Contributions

DI contributed to the conceptualization, study design, and manuscript drafting. FMP was responsible for data collection and validation. FP conducted the data analysis and interpretation. MI contributed to the literature review and manuscript drafting. YPP assisted in methodology development and data processing. NH contributed to critical revision and language editing. GIH supervised the research process and provided final approval of the manuscript. All authors have read and agreed to the published version of the manuscript.

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