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Session 2

Key Challenges Faced by Entrepreneurs: Indonesia

Submitted by: Indonesian Chamber of Commerce and Industry (KADIN)



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**Workshop on Reducing Start-up and
Establishment Time of Businesses
Hiroshima, Japan
1-2 March 2010**



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Establishment Time of Businesses**
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Reality on the ground: Key challenges faced by entrepreneurs

Leo J. Susilo
Vice Chairman of
Permanent Committee on Business Ethics
Indonesian Chamber of Commerce and Industry



INDONESIAN CHAMBER OF COMMERCE AND INDUSTRY

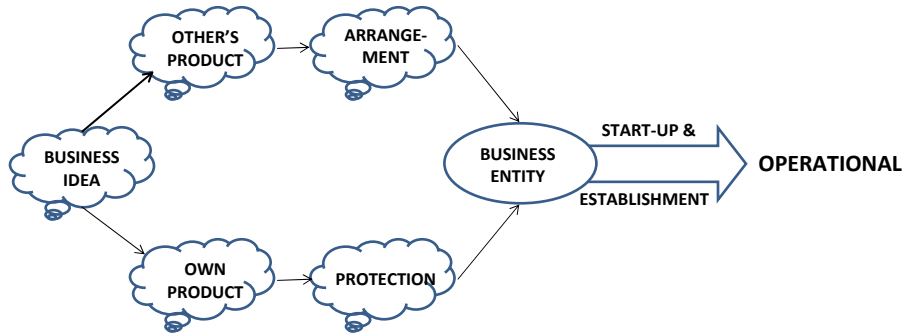
Preliminary notes



- This presentation will try to present critical opinion on what have been reported in “*Doing Business in Indonesia 2010*”;
- In line with the workshop, observation will be done only to the area of “*Starting the Business*”
- We will observe from the perspective of micro, small and medium enterprise



Starting a business

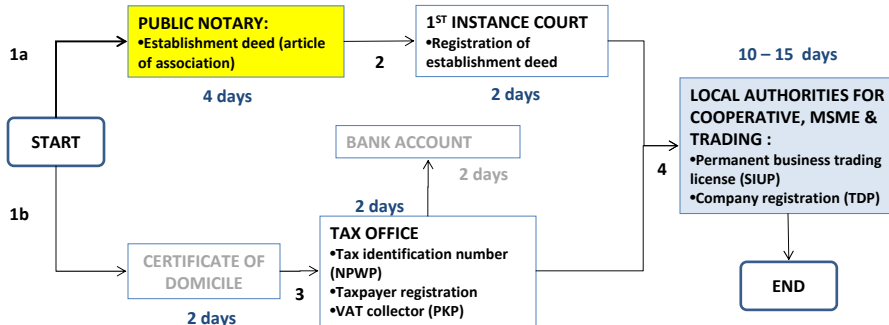


Source: Low Kee Yang & B.S. Tabaluja (2002),p.23. Modified as necessary



Starting a business

Start up procedure for sole proprietorship (UP, PD) (exclude professional services)

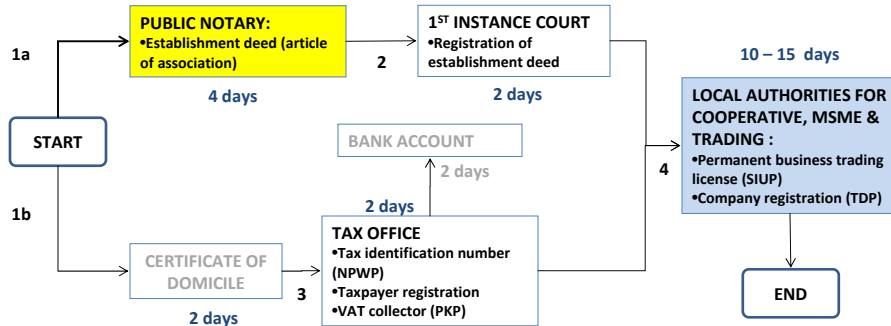


Note: Compliance to the manpower regulation can be taken care after the company is established and in operation



Starting a business

Start up procedure for partnership (Firma , CV) (exclude professional services)

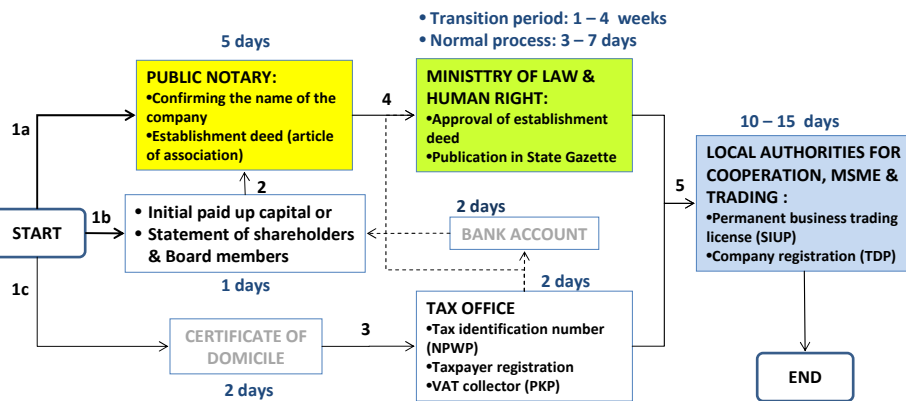


Note: Compliance to the manpower regulation can be taken care after the company is established and in operation



Starting a business

Start up procedure for limited liability company (PT)



Note: Compliance to the manpower regulation can be taken care after the company is established and in operation



The challenges



- Ca. 50 million of MSME represent 60% of GDP
- 50% of the MSME in Indonesia go unregistered (p. 13);
- It reported MSME with legal status of limited liability company (PT) only and did not consider other MSME with another legal status.

The Questions:

- Why 50% of the MSME in Indonesia go unregistered?
- Is it difficult to get information about company registration, if it is not a limited liability company (PT)?
- Is it costly to register and to formalize a company, if it is not a PT?
- What have been undertaken to rectify this situation?



The challenges

The key challenge: Choosing the right business entity:

- Sole Proprietorship;
- Partnership (*Firma*) or Limited Liability Partnership (CV – *Perseroan Komanditer*);
- Limited Liability Company (*Perseroan Terbatas*)

What to consider?

- The easiness of the start up procedure
- Pros and cons on business entity choice
- Access to bank credit or other source of fund



The challenges

Easiness of business start up

- For micro and small the recommended business entity to be used is sole proprietorship or partnership (see the previous procedure chart):
- The challenges are:
 - ✓ How to reduce the cost for the public notary or is it possible that establishment deed for micro and small business entity to be made by other authority?
 - ✓ How the local authorities can speed up the issuance of business trading license and company registration process?
 - ✓ Can we have a “One Stop Service” for micro and small enterprise, such as for Cooperative (by Ministry of Cooperative, Small and Medium Enterprise) or Public Accountant (by Ministry of Finance)?



The challenges

Easiness of business start up

- For small and medium enterprise the recommended business entity to be used is limited liability company (see the previous procedure);
- The challenges are:
 - ✓ Is that possible to reduce the cost for the public notary or to standardize the cost?
 - ✓ How can the local authorities speed up the issuance of business trading license and company registration process?
 - ✓ Is that possible to have a “One Stop Service” for small and medium enterprise, such as for Cooperative (by Ministry of Cooperative, Small and Medium Enterprise) or Public Accountant (by Ministry of Finance)?



The challenges

Pro and cons of each business entity

- Sole proprietorship
 - ✓ Have the full control over the operation and also financial gain, but on the other hand also full liability if the business goes down;
 - ✓ **Limited financial resources, has to depend largely on his/her own resources during the start up period.**
 - ✓ **Difficult or no access to bank credit or financial assistance**
- Some countermeasures have been taken, but mostly not for start up business:
 - ✓ Government program KUR (Credit for people) and KUK (Credit for small enterprise);
 - ✓ Some state owned banks have program for micro and small enterprise financing;
 - ✓ CSR program from some state own enterprises, especially in micro and small industry financing

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The challenges

Pro and cons of each business entity

- Partnership or limited liability partnership:
 - ✓ The control are shared among the partners, each partner can represent the partnership/firm. → One partner binds the firm;
 - ✓ Liability rest not on the firm, but on the partners jointly or several, in case of *Firma*
 - ✓ Limited liability for shareholders in case of *PT*
 - ✓ Additional financial resources and manpower for start up.
 - ✓ **Difficult to bank credit or financial assistance**
- Some countermeasures have been taken, but mostly not for start up business:
 - ✓ Government program KUK (Credit for small enterprise);
 - ✓ Some state owned banks have program for micro and small enterprise financing;
 - ✓ CSR program from some state own enterprises, especially in micro and small industry financing

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Summary

Key challenges that made 50% of micro, small and medium enterprise in Indonesia remain not formalized or registered are:

- The cost to notarize company documents is still too high for them;
- The process of issuing business trading license (SIUP) and company registration (TDP) by local authorities is still too long
- Mostly they are lack of capital;
- In general they do not see the benefit of being formalized or registered, that is, could make access to bank credit easier;



THANK YOU