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MAKING IT EASIER TO START A BUSINESS IN INDONESIA

Diagnostic Study

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CONTENTS

| | |
|---|------------|
| Acknowledgements | iii |
| APEC Ease of Doing Business Action Plan | iv |
| Executive Summary | v |
| 1. Introduction | 1 |
| 2. Review of the Status Quo | 2 |
| 3. Review of WB-IFC Methodology | 7 |
| 4. Government Efforts to Improve Ease of Starting a Business | 11 |
| 5. Field Observations in Mid-2010 | 12 |
| Step 1. Name Clearance | 12 |
| Step 2. Signing of the Act of Establishment | 13 |
| Step 3. Payment of Nonbudget Fee | 13 |
| Step 4. Legalization of the Act of Establishment and Publication in State Gazette | 14 |
| Steps 5 and 7. Obtain TDP and SIUP | 15 |
| Step 6. Obtain Tax Numbers | 16 |
| Step 8. Labor Registration | 17 |
| Step 9. Request for Social Insurance Participation | 17 |
| 6. Perceptions of Progress in Ease of Starting a Business | 19 |
| 7. Recommendations | 20 |
| Reforms with Indirect Effect on Starting a Business Indicator | 20 |
| Reforms with Direct Effect on Start a Business Indicator | 22 |
| Summary of Possible Reforms | 24 |

Illustrations

Tables

| | |
|---|---|
| Table 2-1. Comparison of Burden of Starting a Business in WB-IFC and KIB II | 3 |
|---|---|

| | |
|---|----|
| Table 2-2. Starting a Business in Seven Editions of Doing Business | 4 |
| Table 3-1. Experiments Using the EoDB Simulator | 9 |
| Table 7-1. Effect of Recommendations Made in the Diagnostic | 24 |
| | |
| Exhibits | |
| Exhibit 2-1 WB-IFC Standard Case Scenario for Ease of Starting a Business | 5 |

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APEC EASE OF DOING BUSINESS ACTION PLAN

At the 2009 Annual Ministerial Meeting in Singapore, Ministers agreed to adopt a new action plan to improve the environment for businesses in the Asia-Pacific region in five priority areas: Starting a Business, Getting Credit, Enforcing Contracts, Trading across Borders, and Dealing with Permits. The action plan is designed to promote reforms in APEC economies that will make it 25 percent cheaper, faster and easier to do business in the APEC region as a whole by 2015 as measured by the World Bank's *Doing Business* indicators. This 25 percent target will be based on APEC-wide average improvements. For example, in the area of "Starting a Business", making it 25 percent faster to register a business by 2015 would mean that APEC economies would on average need to reduce the start up time for setting up a business by one week. "Champion Economies" or top performers on the World Bank's *Doing Business* indicators have volunteered to lead work programmes in each of the five priority areas.¹ The EODB Action Plan is being managed through the APEC Economic Committee, with reporting directly to APEC's Senior Officials.

¹ New Zealand and the United States have agreed to champion Starting a Business; Japan – Getting Credit; Korea – Enforcing Contracts; Hong Kong, China and Singapore - Trading across Borders; and Singapore – Dealing with Permits.

EXECUTIVE SUMMARY

In 2009 APEC Economic Leaders endorsed the Ease of Doing Business (EoDB) Action Plan to help improve the business enabling environment in APEC member economies concentrating on five EoDB priority areas --- starting a business, getting credit, trading across borders, enforcing contracts, and dealing with permits. The overarching APEC goal is to promote reforms in APEC member economies to make it cheaper, faster and easier to do business in the APEC region as a whole by 2015. APEC officials set an APEC-wide average target of making it 25 percent cheaper, faster, and easier to register a business. As co-champions of the “Starting a Business” initiative, the United States and New Zealand are implementing a work programme² to provide capacity building and technical assistance to volunteer APEC member economies to analyze domestic legal and regulatory systems that govern the business startup and establishment process. Through a collaborative diagnostic approach, it is envisioned that the co-champion and volunteer economies will work together to identify ways to improve business startup/registration regime in Indonesia.

The World Bank-International Finance Corporation (WB-IFC) “Doing Business” project publishes an annual report that examines the regulatory environment for domestic businesses in 183 economies. For the Starting a Business indicator, it reviews four key areas (or subindicators): number of procedures required; number of days, on average, to complete the procedures; cost as a percent of per capita income; and minimum legal capital required as a percent of per capita income. The WB-IFC *Doing Business 2010* report indicates that Indonesia requires a total of 60 days to complete the 9 procedures necessary to start a business in Jakarta at a cost of 26 percent of income and a minimum capital of 59.7 percent of average per capita income. Thus Indonesia was ranked 122 out of 183 economies on overall ease of doing business and 161 out of 183 on ease of starting a business. While economic growth trends and forecasts for Indonesia by the Asian Development Bank provide a resilient picture of the economy, some contend that if Indonesia is able to improve its overall ease of doing business environment, e.g., streamline business startup procedures, even more growth could be achieved. It is, however, important to note that Indonesia’s starting a business status quo as presented in the WB-IFC report is the product of a particular methodology used by the WB-IFC.

² Currently the Starting a Business Work Programme consists of two phases. Phase 1 comprised a two-day workshop – Reducing the Start up and Establishment Times of Businesses, which was held on March 1-2, 2010 in the margins of APEC Senior Officials Meeting in Hiroshima, Japan. Phase 2 consists of tailored economy level diagnostic analysis designed to address issues and challenges encountered by individual APEC member economies.

Despite widespread acceptance of using the WB-IFC's reporting results as a valid input for policymaking, there are important considerations to take into account regarding the WB-IFC methodology, which determine the overall results. At the highest policy level, the World Bank's International Evaluation Group (IEG) criticisms suggest that economies should not eliminate or simplify procedures for business registration without considering how any benefits of existing procedures can be retained while streamlining the overall process of starting a business. At the level of statistical design and interpretation, Indonesian officials who are reforming the process of starting a business in Indonesia need to accept that even dramatic improvements in the ease of starting a business in Jakarta or in Indonesia generally, may not result in significant improvements in Indonesia's rankings for ease of starting a business and ease of doing business, though they will contribute to APEC's goal of improving the business environment by 25 percent by 2015.

The field investigation for this diagnostic confirmed that most of the information about Indonesia's business registration process as described by the WB-IFC report was accurate at the time the information was collected. Based on previous *Doing Business* reports, the Indonesian government has prioritized improving the ease of starting a new business. Many of the reforms proposed by the government (some of which have already implemented, at least on paper) since the *Doing Business 2010* research was completed would have changed Indonesia's scores on 3 of the 4 subindicators. We confirm that many of these reform efforts have already been identified by the Government of Indonesia's Task Force responsible for ease of starting a business and some of the potential reforms identified have already been made. Moreover, additional changes that have already been committed to by the relevant ministers (but not yet implemented) will also have a similar effect on the relevant subindicators. Finally, there is a possibility to go beyond the progress already made by combining additional procedures, and by reducing the number of and time for field inspections by the various agencies that administer the procedures.

This diagnostic proposes recommendations for additional reform that appear feasible and that would also improve Indonesia's scores on the subindicators for ease of starting a business. The recommendations are divided into two groups. One group consists of changes that need to be made in the long term and that are not focused on a particular starting a business subindicator in *Doing Business 2010*. These recommendations include publication of a simple guidebook for businesspersons to the process of starting a new business and socializing the business startup process more generally, expanding the role of notaries in the business registration process while maintaining open access for businesspersons who prefer to work without a notary, expanding the use of IT to cover every procedure and build on Kemkumham's existing IT network, and reconsidering the usefulness of the minimum legal capital requirement. The other group of recommendations consists of possible reforms that could impact a particular starting a business subindicator. Adoption of these reforms may have an immediate effect on Indonesia's ease of starting a business subindicator scores. These recommendations include combining the SIUP and TDP (trade registration and business registration, respectively) into a single document, issuing the two required tax numbers together with Kemkumham's confirmation of legal entity status for a new business, consolidating the 4 initial steps already controlled by Kemkumham into a single procedure and consolidating labor and social insurance registration into the SIUP-TDP registration process at the one-stop shop (OSS).

Despite the clear potential for Indonesia to achieve dramatic improvements related to the subindicators for ease of starting a business, it would be uncertain whether such improvements would raise Indonesia's EoDB rankings as dramatically. The reason is that the ease of starting a business ranking is not directly dependent on subindicator scores, rather on where in the distribution of scores Indonesia falls among all economies. Depending on how many other economies are in the same “neighborhood” and how much those other economies improve their scores, Indonesia's improvements may or may not produce a significant change in the ranking for ease of starting a business. From a policy perspective, therefore, the changes that are adopted should be ones that are worthwhile for the benefits they produce for business and society and not only for their possible impact on Indonesia's ranking for ease of start a business.

1. INTRODUCTION

During the recent financial crisis, Indonesia was among the more resilient APEC economies and the Asian Development Bank expects Indonesia's economy to grow 6 percent to 8 percent per annum, putting it ahead of the more developed economies in APEC. Many positive trends support this forecast, but Indonesia's economic performance does lag behind in one area: ease of doing business, especially, ease of starting a business. In the *Doing Business 2010* report, by the World Bank and the International Finance Corporation (WB-IFC report), Indonesia was ranked 122 out of 183 economies on overall ease of doing business and 161 out 183 on ease of starting a business. These rankings are counterintuitive given the strength and resilience evident in Indonesia's economy in recent years.³ How is it possible for the economy to do as well as it has when it is apparently more difficult to do business there than in almost any other economy? In this diagnostic study we will explore this issue and identify the areas in which Indonesia can make it easier to do business and improve its overall growth rate.

This diagnostic forms part of Phase 2 of the APEC Economic Committee's Ease of Doing Business Action Plan 2010-2015 (EoDB Plan). The EoDB Plan, insofar as it relates to starting a business, seeks to reduce the time and burden of starting a business in APEC economies. The goal of the plan is to make it 25 percent cheaper, faster, and easier to do business in five areas by 2015; one such area is "starting a business."

This diagnostic makes three key points. First, the time and financial burdens associated with starting a business in Indonesia are being eased through simplification of the legal framework and improved implementation of relevant legal provisions. Further simplification and improvement should make it even easier to start a business but might or might not boost Indonesia's ranking in future WB-IFC reports. Second, there are many opportunities to extend progress achieved so far, such as by expanding the use of IT to carry out and to monitor procedures connected to the establishment of new businesses. Third, the perception and the reality of easier business establishment can be promoted by "socializing" start up procedures, for example, using IT or publishing guides similar to New Zealand's 10-page guide on establishing a business.

³ Indonesia ranks much higher in other indices and on other indicators of economic attractiveness: (1) World Economic Forum 2010 ranks Indonesia at 50 out of 133 economies on competitiveness; (2) UNCTAD's World Investment Prospects Survey 2009-2011 ranks Indonesia at 8 out of 193 economies for location of FDI; (3) Survey Report on Overseas Business Operations by Japanese Manufacturing Companies (2009) of JBIC ranks Indonesia 8 out of the 20 main investment destinations; (4) FDI Confidence Index of AT Kearney (2010) puts Indonesia at 20 in the group of 25 top investment destinations.

2. REVIEW OF THE STATUS QUO

Research to date about the ease of starting a business in Indonesia suggest that the process takes longer than it should, involves more costs—particularly unofficial costs—than it should, and is more cumbersome than it should be. The WB-IFC report bases its assessment and ranking of the ease of starting a business on four indicators:

- Number of procedures required;
- Number of days, on average, to complete the procedures;
- Costs payable to the government for completing the procedures, as a percent of per capita income; and
- Minimum legal capital required, as a percent of per capita income.

Table 2-1 shows the steps, timing, and costs reported in the WB-IFC report; as shown in Table 2-2, progress since the first edition of the WB-IFC report in 2004 has been substantial. The time needed to start a business has been reduced to 36 percent of what it was in the 2004 report and costs are now just about 20 percent of what they were then. The number of procedures has been reduced, but less dramatically, and minimum capital needed has changed only slightly as a percentage of per capita income. Such changes would have raised Indonesia's position in the WB-IFC ranking except that many other economies made similar or even more dramatic reforms to ease the starting of a business. Indonesia's reforms have not gone far enough to move the economy up in the rankings.⁴

The Indonesian government has prided itself since the Suharto regime left office in 1998 on developing services for citizens, and such services include administering the establishment procedures for new businesses. A recent law provides standards for services provided to citizens.⁵ To implement this law a recent interministerial regulation has set targets for business startup procedures, especially for the time needed to complete each procedure (see the right side of Table 2-1).⁶ The challenge now facing the government is to make the changes necessary to meet new standards and to consider whether even higher standards could be met.

⁴ In the Pacific region, Indonesia is a large economy with many companies. Many smaller economies, such as Tonga, Micronesia, and Fiji, have higher rankings on ease of starting a business in the WB-IFC report because they could—given their small size—completely replace their company registration laws and procedures with those of regional “champion” New Zealand. Tonga even hired the New Zealand Companies Office to manage the IT system for its company registry.

⁵ Law No. 25/2009 on Service to the Public.

⁶ Inter-Ministerial Regulation No. 69/2009 of the Minister of Home Affairs, Concerning Acceleration of the Licensing and Non Licensing Services to Start a Business, dated December 17, 2009 (Reg No 69/2009).

Table 2-1

Comparison of Burden of Starting a Business in WB-IFC and KIB II

| No. | WB-IFC Report Procedure | Time to Complete | Cost to Complete | No. | 100-Day Government Work Plan (KIB II) Procedure | Time to Complete | Cost to Complete |
|-----|---|---|---|-----|---|------------------|--|
| 1 | Obtain form of act of establishment for registration of business name electronically and obtain agreement for use of the business name at Kemkumham | 7 days | Rp. 385,000 (process completed and name ordered) | 1 | Obtain agreement to use of name | 2 days | Rp. 200,000 (PNBP) |
| 2 | Signing of the act of establishment | 7 days | Rp. 2,526,816 | 2 | Signing of act of establishment (notary) | 3 days | Rp. 2,526,816 |
| 3 | Payment at a bank of nonbudgetary tax (PNBP) for cost of service | 1 day | Rp. 200,000 | - | | - | - |
| 4 | Request for legalization of the act of establishment at Kemkumham | 14 days | Rp. 1,000,000 (legalization of act+Rp. 580,000 (publication in State Gazette) | 3 | Request for legalization of LLC status and announcement in the State Gazette Supplement | 5 days | Total Rp. 1,550,000 which consists of Rp. 1,000,000 (legalization of act) + Rp. 550,000 (pubn. in State Gazette Supp.) |
| 5 | Registration for TDP at DINAS Trade | 15 days | Rp. 500,000 | 4 | Obtain tax numbers (NPWP and NPPKP) | 1-2 days | No cost |
| 6 | Obtain tax numbers (NPWP and NPPKP) | 1-2 days | No cost | 5 | Request SIUP | 3 days | No cost for new SIUP |
| 7 | Register for SIUP | 5 days (Can be simultaneous with 8 and 9) | Rp. 250,000 | 6 | Submit registration to obtain TDP | 3 days | No cost for new TDP |
| 8 | Register for mandatory business labor report at DINAS Labor | 14 days (Can be simultaneous with 9) | No cost | 7 | Register for mandatory business labor report at local agency handling labor | 2 days | No cost |
| 9 | Request participation in social insurance (Jamsostek) | 7 days (Can be simultaneous with 8) | No cost | 8 | Request participation in social insurance (Jamsostek) | 2 days | No cost |
| | Total | 60 days | 26.0% of pci | | | 17 days | |

Table 2-2
Starting a Business in Seven Editions of Doing Business

| No. | DB | SB Ranking | No. of Procedures | Days | Cost (% pci) | Min. Capital (% pci) |
|-----|------|------------|-------------------|------|--------------|----------------------|
| 1 | 2004 | - | 12 | 168 | 136.7 | 69.1 |
| 2 | 2005 | - | 12 | 151 | 130.7 | 62.8 |
| 3 | 2006 | - | 12 | 151 | 101.7 | 48.9 |
| 4 | 2007 | - | 12 | 95 | 86.7 | 41.7 |
| 5 | 2008 | 168 | 12 | 105 | 80.0 | 38.4 |
| 6 | 2009 | 171 | 11 | 76 | 77.9 | 74.2 |
| 7 | 2010 | 161 | 9 | 60 | 26.0 | 59.7 |

SOURCE: BKPM.

The most detailed research on ease of starting a business in Indonesia is the WB-IFC report. While that research has a number of limitations as pointed out below, its overall assessment is consistent with the findings of the authors' own investigation. The caveat is that WB-IFC report findings are based on research conducted more than one year before this diagnostic and, while roughly accurate for the time when the data supporting them was collected, are already out of date.⁷

As shown in Table 2-1, it takes 60 days to complete 9 procedures at a cost of 26 percent of income, with minimum capital of 59.7 percent of average per capita income required. To analyze how Indonesia's score on each subindicator might be improved, the details of each procedure (step) will be reviewed. The WB-IFC report and *Doing Business in Indonesia 2010* are the two primary sources used to review the steps. Greater detail for Jakarta is reported in the latter report, which compares ease of doing business in 14 Indonesian cities using the same methodology as the WB-IFC report.

To meet the APEC goal it will be necessary to make significant improvements in Jakarta itself because the IFC methodology examines only the largest business city of an economy.⁸ Similarly, much of the improvement the authors observed was in the business licensing regime as it applies to all businesses. The IFC methodology uses standardized case scenarios; those for ease of starting a business are presented in Exhibit 2-1. To achieve a measurable improvement in the subindicators for the ease of starting a business, this is where the focus needs to be. Still, even dramatic improvement in the subindicators may not result in much change in the rankings for ease of starting a business or ease of doing a business.

⁷ In fact, the scores for various subindicators are sometimes more favorable for Indonesia than may be deserved. For example, the WB-IFC report says that 7 days are required to obtain the SIUP and TDP. But the authors received reports of 10 to 15 days for these steps from their notary and DINAS Trade contacts. Likewise, the WB-IFC report mentions the need for a certificate of domicile in two steps but obtaining such a certificate is not itself recognized as a step even though it would seem to meet the WB-IFC criteria for treatment as a separate step.

⁸ *Doing Business 2010*, p. 77.

The initial steps for starting a business in Jakarta are intended to meet requirements that are administered nationally by or in interaction with the Ministry of Law and Human Rights (Kemkumham). The WB-IFC report indicates that Steps 1 through 4—clearing name conflicts, signing the act of establishment, getting it legalized by Kemkumham, and paying the administrative fee set by Kemkumham—are reasonably efficient, probably because of the use of IT. The total time for these four procedures is an average of 29 days.

Exhibit 2-1

WB-IFC Standard Case Scenario for Ease of Starting a Business

-
- | | |
|---|---|
| <ul style="list-style-type: none"> • Is a limited liability company. If there is more than one type of limited liability company in the country, the limited liability form most popular among domestic firms is chosen. Information on the most popular form is obtained from incorporation lawyers or the statistical office. • Operates in the country's most populous city. • Is 100 percent domestically owned and has 5 owners, none of whom is a legal entity. • Has start-up capital of 10 times income per capita at the end of 2008, paid in cash. • Performs general industrial or commercial activities, such as the production or sale of products or services to the public. The business does not perform | <ul style="list-style-type: none"> foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. It is not using heavily polluting production processes. • Leases the commercial plant and offices and is not a proprietor of real estate. • Does not qualify for investment incentives or any special benefits. • Has at least 10 and up to 50 employees 1 month after the commencement of operations, all of them nationals. • Has a turnover of at least 100 times income per capita. • Has a company deed 10 pages long. |
|---|---|
-

A second set of steps (5 and 7) involves obtaining a trading license (SIUP) and business registration (TDP) at the local level. A third group of steps is also carried out at the local level. Step 6, obtaining tax numbers, is carried out online or at a local tax office and takes 1-2 days according to the WB-IFC report.⁹ The report indicates that labor registration (Step 8) and requesting social insurance participation (Step 9) could be done at the same time as the TDP application. However, since a TDP application takes 5 days, labor registration 14 days, and social insurance participation 7 days, Steps 8 and 9 add a net 9 days.

⁹ *Doing Business in Indonesia 2010* indicates that the tax numbers, together with certificates of domicile and bank account, need to be filed with the application for status legalization by Kemkumham. The legal basis is reported in the WB-IFC report to be Articles 9, 10, 29 and 30 of Law No. 40/2007 on Limited Companies, but those articles make no reference to the tax numbers or the other documents mentioned. It is possible that the implementing regulation of that law adds such requirement but the authors so far have not found a regulation with such a requirement. Uncertainty about the legal basis for requiring the tax numbers at the time of legalization raises two issues: (1) whether the application for tax numbers needs to be done in parallel with the procedures under the supervision of Kemkumham, and (2) which procedures - either the Kemkumham procedures (Steps 1, 2, 4, and 3), or the OSS/DINAS Trade procedures -- could application for tax numbers be combined with.

The WB-IFC report thus calculates a total of 60 days to start a business in Jakarta, which is then used as an indicator of the length of the process in Indonesia as a whole and is included in the calculation of the overall ranking for ease of doing a business in Indonesia.¹⁰

What is relevant to note about this status quo picture as presented in the WB-IFC report is that it is the product of a particular methodology used by the WB-IFC. A different methodology, for example, a different criterion for determining whether a required procedure is part of starting a new business or whether it is a post-startup requirement, might dramatically change the ranking of many economies for the ease of starting a business indicator. For any one economy such as Indonesia, the WB-IFC will always defend its identification of the procedures required for business startup by asserting that the same criteria are used in every economy included in the research and essentially the same activities are included in every economy, e.g., labor registration. As a result, it would seem that from the WB-IFC point of view, the rankings may be accurate even when there are economies where inclusion of a particular procedure as part of the business startup process does not seem to make sense.

¹⁰ *Doing Business Indonesia 2010* indicates that a number of localities complete processes faster than Jakarta (Jakarta ranks 7 out of 14 local Indonesian governments studied). Because the WB-IFC uses the standard case scenario that it does for all 183 economies, success in making it easier to start a business outside of Jakarta has no effect on Indonesia's rankings in the WB-IFC report.

3. REVIEW OF WB-IFC METHODOLOGY

The WB-IFC bases its analysis of ease of starting a business on four subindicators that are weighted equally in the calculation of a final rank. The percentile rank on each subindicator is averaged and ranked to arrive at a rank for ease of starting a business. The ease of doing business overall is then determined in the same manner from the percentile ranks on ease of starting a business and nine other indicators. For ease of starting a business, the four subindicators are

- Number of procedures required to be completed
- Time in days to complete the procedures
- Cost as a percent of per capita income
- Minimum legal capital as a percentage of income per capita.

(We assume that the reader is familiar with the WB-IFC report so report details, concepts, and data collection will not be discussed here.)

Despite its widespread acceptance as a valid input for policymaking in the sectors that it covers, the methodology behind the WB-IFC report has been subject to important criticism. Presumably it is the plausibility, presentation, and standardization of data collection that have attracted widespread acceptance of the *Doing Business* reports since the first report was published in 2004. General criticism and criticism specific to Indonesia should qualify the weight and uses to which the report results are put. The World Bank's own reviewers, the International Evaluation Group (IEG), recommend caution in their 2008 analysis of *Doing Business 2007*.¹¹ This section will review the most important criticisms of the WB-IFC report, including criticisms identified by the IEG.

Four criticisms of the WB-IFC report apply to all economies surveyed and to most or all of the 10 indicators used in the report. First, the report posits an unproven link between ease of doing business, or economic performance generally, and lower costs and amounts of time spent in the areas covered by the 10 indicators. In other words, the WB-IFC assumes that lower costs and time spent by businesspersons always represents a social improvement. Most of the business community is probably ready to accept that lower costs and less time spent help their businesses but it is important to understand the mechanism. In at least a few economies some failures to regulate may lead to a decline in some measures of economic performance. The IEG describes

¹¹ International Evaluation Group, *Doing Business: An Independent Evaluation* (Washington: World Bank, 2008).

this issue as the failure so far to prove a causal link between reduced regulatory burden and better economic performance (e.g., increased number of SMEs or a greater proportion of SMEs entering the formal part of the economy).¹²

The second criticism is that the methodology focuses on the cost of regulation and not the benefit. Any removal of regulation will reduce compliance times and costs and lead to higher “scores.” But a proper evaluation of the ease of doing business should consider the benefits of regulation as well for business and society at large.¹³ How might this issue play out? In attempting to achieve higher rankings for ease of doing business or starting a business, a economy might “postpone” collecting information about companies that might be needed by regulators or consumers until after the company has been established and operating. While collecting such information may be more costly if done later, the cosmetic benefit of streamlining business startup may be seen as outweighing that increased cost.

How do the first two criticisms relate to Indonesia? As noted earlier, the Government of Indonesia and APEC have made it a policy to refer to WB-IFC rankings in attempting to improve the business climate. This does not mean that the general criticisms are being ignored. Like many other economies, Indonesia may see that the benefit in preserving existing business startup procedures while reducing the time and costs involved. If procedures require stricter deadlines for a government agency or if two procedures can be combined, the benefits of those procedures are not necessarily lost. If a procedure is eliminated, benefits may be lost—but not if another procedure still in place provides the same benefit. Perhaps it is from this point of view that the WB-IFC authors refer to their approach to data collection as a “time and motion approach”¹⁴ rather than a deregulatory approach. The two criticisms raised so far suggest that in reforming business startup, it is worthwhile to identify the benefits provided by particular procedures as well as their burdens and to then deliberately choose to preserve or not to preserve such benefits.

The third criticism is that the method of calculating ranks prevents “linear” rises based on a economy’s “effort.” The IEG presents the same issue in more complicated language, stating that “change in ranking for any country [from one survey year to another] is driven largely by where a economy is located on the distribution of economies on a specific indicator...”.¹⁵ The result is that the methodology obscures to some extent the changes and the degree of change necessary to improve rank. Probably with a different method for combining the data on subindicators and indicators, the research would be criticized for choosing inappropriate subindicators and assigning equal weights to the subindicators inappropriately. But the methodology obscures the contributions of particular variables to such a degree that the WB-IFC team reports that changes in weighting of the subindicators seem not to affect rankings very much.¹⁶ While this may be reassuring on the issue of weighting, it is troublesome for the methodology as a whole. It means

¹² Ibid., p. 28.

¹³ Ibid., p. 10.

¹⁴ *Doing Business 2010*, p. v.

¹⁵ IEG, op. cit., p. 9.

¹⁶ Ibid., p. 9.

that any year's rankings should be used even more cautiously than surveys with a more direct process of index construction.

Presumably to overcome this general criticism, the Doing Business website provides a simulator that tests the effects of changes on rankings in the current year's survey. For example, using the simulator one can test the effect of eliminating the minimum capital requirement on rankings for ease of doing business and starting a business.¹⁷ It is also possible to check the effect of achieving the 8-procedures in 17 days goal of the KIB II project on rankings, with and without elimination of the minimum capital requirement (see Table 3-1).

Table 3-1
Experiments Using the EoDB Simulator

| Experiment | Ease of Doing Business | Ease of Starting a Business |
|---|------------------------|-----------------------------|
| 2010 Results | 122 | 161 |
| Experiment 1: Eliminate the minimum legal capital requirement, no other change | 115 | 119 |
| Experiment 2: Achieve KIB II goals of 8 procedures, 17 days for starting a business, but no change in minimum legal capital | 120 | 131 |
| Experiment 3: Achieve KIB II goals of 8 procedures, 17 days for starting a business, and eliminate the requirement for minimum legal capital | 113 | 71 |
| Experiment 4: Implement recommendation of this diagnostic report to reduce procedures to 2 with 13 days required to complete them, with no change to minimum legal capital | 113 | 87 |
| Experiment 5: Implement recommendation of this diagnostic report to reduce procedures to 2 with 13 days required to complete them with elimination of the requirement for minimum legal capital | 100 | 28 |

In looking at the results of the experiments proposed here, it is difficult to separate out the effect of any particular change. The KIB II changes and elimination of the minimum legal capital requirement both seem necessary to move Indonesia into the top half of rankings for ease of starting a business. But if Indonesia goes beyond the KIB II goals for procedures and time, without eliminating the minimum legal capital requirement, it might also achieve a ranking near the 71 achieved by the third experiment. (See Section 7 for a discussion of going beyond the KIB II goals.) For all such experiments, one must keep in mind that the experiment can only “backcast” the result of the methodology not “forecast” it. This means that a simulation result only shows how having different scores on the subindicators would affect the 2010 rankings if they were redone. Thus, since many economies besides Indonesia are trying to improve their rankings, any improvement shown in the experiments probably overstates the improvement in rankings that can be expected from any particular change. This reinforces the criticism that the methodology obscures the relationship between improvement on a specified subindicator and rankings. (Experiments 4 and 5 will be discussed in Section 7 on Recommendations.)

¹⁷ There is a case for eliminating the minimum legal capital requirement but it is not strong. It is mentioned here simply to demonstrate the difficulty of determining the effect of any particular change in the procedures on WB-IFC report rankings.

The fourth criticism is that problems with data collection reduce confidence in data validity and reliability. The most important issue may be that the informants and supplemental informants that the WB-IFC team uses to interpret and go beyond bare legal provisions relating to business startup are not the sources most closely involved with business registration.

As indicated in the IEG evaluation, the most frequent informants appear to be lawyers from big law firms in the capital city.¹⁸ While they may be knowledgeable about the legal system, new legislation, etc., whether they have much practical experience in licensing companies of the type in the standard case scenario is an open question that should be resolved empirically. Most large law firms in large and medium size economies do not spend much time helping to establish companies except when there is a substantial amount of capital investment involved.¹⁹ It is doubtful that most of the lawyers consulted in Indonesia (see list in WB-IFC report) were involved in any company establishments (certainly not the 100-150 per year as mentioned as an ideal by the WB-IFC report).²⁰ Rather, they are involved in transactions for companies larger than that specified in the standard case study and establish companies needing investment facilities through the local OSS. This contact with the OSS may give them some insight into the process for smaller companies but not into the treatment of small companies being set up without a lawyer. In fact, in Indonesia, it is notaries that actually work with small start-ups and the law requires such involvement. It would have made a great deal more sense for the WB-IFC team's informants in Indonesia to be mostly notaries.

Data collection issues arise also from the fact that the WB-IFC report covers only the capital city of an economy. This has an uncertain effect on rankings for, say, ease of starting a business. In some economies it will be easier to complete start-up procedures in the capital city and rankings will reflect this; in others, the city's size, congestion, and political influences could hamper start-up procedures and push rankings lower.

The overall impression to be derived from the criticisms of the WB-IFC report is not that the reporting exercise is valueless or that it should be abandoned. Rather, actions that governments take in response to the report need to factor in the limitations of the methodology, particularly when they are deciding how to reform business startup procedures. Governments should also have a reasonable expectation of the effect that these reforms may have on the economy's ranking. Although the WB-IFC report itself does not focus on the benefit to business or society from implementing a particular procedure, the WB-IFC report does not penalize economies maintain any benefit that can be identified for any existing procedure. But even with the most careful reform of the business registration process, a dramatic improvement in ranking may be almost impossible to achieve for statistical reasons.

¹⁸ IEG, *op.cit.*, p. 43.

¹⁹ In the experience of the one of the authors who is a lawyer.

²⁰ *Doing Business 2010*, p. viii.

4. GOVERNMENT EFFORTS TO IMPROVE EASE OF STARTING A BUSINESS

The cabinet appointed by President Yudhoyono after his recent reelection put improving performance on indicators for ease of starting a business in the action program for the first 100 days of the new government (KIB II).²¹ In early 2010, ministry and agency representatives reviewed actions taken and planned, and reported that the following actions had been taken:

- A task force of ministries and agencies coordinated by the Vice President's Secretariat was formed to reduce the number of days to start a new business in Jakarta from 60 to 40.
- An interministerial regulation regarding the 9 procedures covered in the WB-IFC report was issued on December 17, 2009.²² It deals with setting a standard of service such that
 - Steps related to Kemkumham (IFC steps 1, 2, 4 and 3) can be completed in 8 working days.
 - The step to issue tax numbers can be completed in 1 day instead of 1-2 days.
 - The SIUP and the TDP can be issued simultaneously in, at most, 3 working days.
 - The issuance of the letter on the labor registration and of the certificate of participation in social insurance can be simultaneous and completed in a maximum of 5 working days.
 - Confirmation from the Minister of Trade that the SIUP is not required for every new business but only for those involved in trading activities.
- The Minister of Law and Human Rights has committed that
 - Steps 1, 2 and 3 will be combined, and carried out by a notary and will involve a fee of only Rp. 200,000.
 - Kemkumham will work with the Indonesian Notary Association (INI) to shorten the time for a notary's signing the act of establishment to 3 days.

As discussed in Section 5, some of the above mandated improvements have been put into effect but most have not.

²¹ Presidential Instruction (INPRES) No. 1/2010 on Acceleration of Implementation of National Development Priorities for the Year 2010 (February 19, 2010).

²² Regulation No. 69/2009, especially Art. 6.

5. FIELD OBSERVATIONS IN MID-2010

The authors carried out a field investigation of the ease of starting a business in Indonesia in July 2010 with the assistance of the Coordinating Ministry of the Economy (Kemenko Perekonomian) and the staff of the Vice President's Secretariat. The investigation was carried out in Jakarta and other localities at agencies that administer the steps of starting a business in a particular locality, i.e., one-stop shops (OSSs).²³ In Jakarta, we visited Kemkumham, the OSS, DINAS Trade,²⁴ the INI and the IFC. In Yogyakarta and Sragen, we visited the local OSSs and interviewed an expert of the national-level Investment Coordinating Board (BKPM) in addition to a number of business persons. While the number of meetings and interviews was not sufficient to cover all agencies involved in registering businesses, the interviews combined with other information gave us a sense of the state of play for business registration in Indonesia. For comparability with the preceding discussion, we present our rough findings in terms of the nine steps or procedures that the WB-IFC report found to comprise the process of starting a business in Jakarta.

STEP 1. NAME CLEARANCE

The authors found that the name clearance step has recently been more tightly integrated with later steps than it was when the WB-IFC report was being researched (December 2008-February 2009). Name clearance, signing of the act of establishment and payment of nonbudget fees were reorganized at the direction of Kemkumham so that all three steps are now carried out by a notary engaged by the founders of the new business.

The average time for the three steps carried out by a notary at the start of the process was shortened because of the efforts of Kemkumham to improve the efficiency of each step. Kemkumham sped up name clearance to one day when there are no identified conflicts. When a potential conflict is identified the applicant must work with Kemkumham to confirm whether there really is a conflict and, if so, to clear a different name. This conflict resolution is why some applications take more than one day. Kemkumham has improved its internal procedures so that conflicts can be resolved more quickly. It reports that for the 12 months ending June 2010, 80 percent of name clearance cases were resolved in 1-2 days and only 5 percent required 7 days or

²³ In Jakarta there are four OSSs, which are under the local investment coordinating agency.

²⁴ The word "DINAS" in front of a particular name refers to the local government equivalent of a national-level ministry. For example DINAS Trade and DINAS Labor refer to the local equivalents of the Ministry of Trade and the Ministry of Labor and Transmigration.

more. This contrasts with the WB-IFC report which found that it took 7 days on average to clear names.

STEP 2. SIGNING OF THE ACT OF ESTABLISHMENT

How long it takes to sign the act of establishment depends on the extent to which business founders have agreed on issues that need to be incorporated in the act of establishment. According to our notary informant, signing can take as little as 1-2 days if founders use a standard form or agree on key issues before going to the notary. As indicated in the discussion above of implementation of the KIB II, Kemkumham plans to work with the INI to limit the number of days for signing the act of establishment to 3 days. The best means to do this would be to encourage the use of a standard form and to make it easy for persons planning to start a business to study the form before meeting the notary. Presumably, notaries will resist changes that reduce their fees, which seem to depend on the amount of work they do for each establishment. If the notary is no longer drafting custom documents it may be difficult for them to claim the same fees, which we understand are generally about 2.5 million rupiah.

Note that the notary's work following Kemkumham's recent reforms includes collecting the fee covered in Step 3 and additional work for Step 2, which involves submitting the signed act of establishment to Kemkumham electronically and, if no objection is received, then submitting it in paper form. Most notaries provide additional services directly or through an associated consulting firm to manage contact with the OSS and the DINAS Trade, all on a fixed-fee basis. The effect of recent changes is that Steps 1-3 have become one procedure starting at one point in time with an average duration of 3 days for name clearance, 2-7 seven days for signing of the act of establishment (and transmittal to Kemkumham), and zero extra days for payment of the nonbudget fee. The overall result is 5 to 10 days for the initial steps supervised by Kemkumham and carried out by a notary, and it seems quite reasonable to believe that most cases could be at the lower end of this range. This compares with the 15 days for the 3 steps in the WB-IFC report.²⁵

STEP 3. PAYMENT OF NONBUDGET FEE

This step no longer seems to create much of a burden for those starting new businesses. The WB-IFC report found that paying a required nonbudget fee (PNBP) added one procedure and one day to the total. Kemkumham has revised its procedures so that the fee is collected by notaries as part of name checking and the fee is now more clearly identified as a fee for use of the name checking system. If a businessperson chooses to check names without a notary, then a separate trip to a bank will be necessary to pay the fee as was the case when the WB-IFC conducted its research. But recent experience seems to be that most founders of new businesses, who have to involve

²⁵ The WB-IFC criterion for certain actions by an applicant to be considered one procedure is that there is one interaction by company founders with an external party. In addition, the interaction should be focused on one application submission though the result of the process may be more than one document as output. The formal criterion is discussed in *Doing Business Indonesia 2010* on page 28 and the authors obtained additional explanation of the criterion from the IFC. Based on our understanding of it, the three separate procedures administered by notaries under the supervision of Kemkumham should now be counted as a single procedure.

notaries anyway to prepare and submit an act of establishment, will choose to use the notary for name checking and payment for such name checking. The net result is that the PNBPN step should be eliminated as a separate step (i.e., the number of procedures and days for ease of starting a business should each be reduced by one).

STEP 4. LEGALIZATION OF THE ACT OF ESTABLISHMENT AND PUBLICATION IN STATE GAZETTE

This step is shown in the WB-IFC report as requiring 14 days from the issuance of the letter of no objection by the Minister, and this corresponds to the maximum number of days permitted by the statute.²⁶ The step is initiated by a notary, but unlike the three previous steps, is completed by Kemkumham itself. Apparently the 14 days for the step is entirely for the process of review by Kemkumham and no number of days is added for publication in the state gazette.²⁷ In fact, the 14 days the WB-IFC found for Kemkumham's review already seems to have been reduced, according to Kemkumham's report, to less than 7 days (i.e., only 3 percent of cases require more than 7 days).

The WB-IFC description in *Doing Business Indonesia 2010* at page 42 indicates that at the time of approval/publication the obtaining of tax numbers needs to have been completed as well as a certificate of domicile obtained from the village head where the office of the company is located.²⁸ No supporting reference is given by the WB-IFC and we have not been able to determine whether the certificate of domicile is ever required and whether the tax numbers need to have been obtained by the time of legalization.²⁹ As noted in our discussion of Step 6, tax numbers can be obtained in one day but only after the act of establishment has been legalized. That appears to contradict the statement that the tax number is required before legalization. If the certificate of domicile is really required in order to apply for tax numbers, it is surprising that the WB-IFC has not added the obtaining of the certificate of domicile as a tenth procedure required for business startup. In any case, it can be obtained simultaneously with some of the early steps carried out by the notary and thereby avoid increasing the total number of days required for business startup.

Kemkumham, as noted in Table 2-1, has modified Step 4 so that it no longer involves "legalization" of the act of establishment but only "requesting the status of legal entity." The change in the name of the step does not appear to have any practical significance for the number of procedures or the time required to complete them. Law No. 40/2007 has not been changed and the relevant provision in Article 10 describes the requirement covered by the step as involving

²⁶ Law No. 40/2007 on Limited Liability Companies, Art. 10(7).

²⁷ It seems the WB-IFC report could have added the standard 14 days needed for publication in the state gazette. However, it is uncertain whether publication is required before the new business can begin to operate and the references provided in *Doing Business Indonesia 2010* do not refer to publication.

²⁸ Unfortunately, the authors were unable to confirm these requirements in the field.

²⁹ The *Doing Business 2010* report at page 38 indicates that in other localities in Indonesia, a letter from the responsible person the company stating its address is sufficient to submit in place of a certificate of domicile. If obtaining a certificate of domicile is required, then one would have expected the WB-IFC to have added a procedure for obtaining it and a specified average number of days to complete the procedure.

“legalization of the legal entity” so that it appears that both the old and the new names for Step 4 could be considered accurate shorthand for what the legal provision requires.

STEPS 5 AND 7. OBTAIN TDP AND SIUP

The two steps are combined here for purpose of discussion because they are the two steps carried out by DINAS Trade through the OSS. The WB-IFC report indicates that 15 and 5 days, respectively, are required for these steps, for a total of 20 days. Implicitly, the *Doing Business in Indonesia 2010* report indicates that the WB-IFC report assumes the two steps cannot be done simultaneously. Our own investigation differs slightly from these results reported by the WB-IFC. Our notary informant indicated that the two steps are done sequentially and usually take about two weeks each. DINAS Trade said that two weeks is normal for the SIUP and 3 days for the TDP but the authors did not get a clear answer to the question of whether applications for the two are handled simultaneously. Why it takes so long to process SIUP and TDP applications could not be determined. We understand that the initial applications are submitted to the OSS, which transmits them to the DINAS Trade for approval and for issuance.³⁰ The power to issue these documents has not been delegated to the head of the OSS in Jakarta as it has been in Yogyakarta and Sragen, the other two regional governments we visited. As noted above, at the beginning of this year the Minister of Trade committed to simultaneous issuance of SIUPs and TDPs and within a period of 3 days. Apparently the circular expressing this commitment has not yet been issued.

Our informants said that the DINAS Trade and the other relevant agencies recognize that SIUP-TDP issuance in Jakarta is a bottleneck in business establishment. They indicate that there is a significant scope to reduce the time for the steps or even to reduce the number of the steps from two to one. Here are their key observations:

- The SIUP is not necessary for any business unless the business is involved in trading activities. Manufacturing, including delivery of the manufactured products to distributors, should not require a SIUP. The Minister of Trade has confirmed this view in the meeting referred to earlier (i.e., nontrading businesses do not need a SIUP) but our informants say that all new businesses apply for and receive SIUPs. The reasons given were the following:
 - Certain ministries and agencies require SIUPs for activities in their jurisdictions that do not involve trading (e.g., the Ministry of Health requires one for businesses to establish a hospital).
 - A SIUP is often required to compete in a tender (e.g., for a construction contract).

³⁰ In case of a PMD or PMA company which will benefit from investment incentives (“facilities”) in particular sectors, the procedure may be different and presumably involves the relevant technical ministry or local equivalent.

- Notaries and other intermediaries do not understand the law and so cannot persuade or do not try to persuade their clients to skip applying for a SIUP.³¹
- The SIUP itself serves no useful function because the information collected on the application is merely the field of activity of the business and the name of the managing director or other responsible party. This information is also in the Kemkumham file and the TDP application. There should be no need for a separate application. Even the DINAS Trade itself recommended abolishing the SIUP or at least combining the SIUP and the TDP into a single document.

The TDP presents a slightly different case than the SIUP. The TDP is a kind of business registration tied to a specific locality and type of business activity. It appears to overlap with the HO (Hinder Ordinatie or “no bother” regulation) certificate that is required in some localities but not in Jakarta. The TDP serves a similar function as the HO in that it can be issued only after consideration of the local environment where a business is located. The TDP generally requires more time for issuance because in many cases—perhaps most cases in Jakarta—it requires a field inspection.

Since the TDP is issued by the same office that issues the SIUP and is based on similar but actually more extensive information in its application, it would seem reasonable to combine the SIUP and TDP if the SIUP is not itself abolished. In the long run, it would be reasonable to consider whether the TDP itself might be eliminated where sectoral licenses are considered by the particular sectoral ministries or be combined into one of the various sectoral licenses. Whether any sectoral licenses would be suitable for combination with the TDP is beyond the scope of this diagnostic.

So the most preferable method to reduce the burden of Steps 5 and 7 would be to eliminate the SIUP, a change that almost certainly would require action by the Indonesian Parliament (DPR), and thus is most likely to occur in longer term. However, in the lead up to DPR action, consideration should be given to combining the SIUP and the TDP into one document with one application form and to be issued in one procedure. At the same time, efforts should be made to eliminate the requirement for a field inspection where there is no specific reason for one based on the activity of the business. Elimination of the field inspection will be probably necessary if the Minister of Trade’s goal for issuing the proposed circular to reduce the number of days to obtain the SIUP and TDP is to be achieved.

STEP 6. OBTAIN TAX NUMBERS

The WB-IFC report indicates that only 1-2 days are required to obtain tax numbers. In fact, the time can be as short as one day using the online mechanism of the Directorate General of Taxation (DG Tax). It may be appropriate to try to eliminate even the 1-2 days and this one procedure by combining it with procedures carried out under Kemkumham. If the information required to issue tax numbers were entered by notaries when submitting an act of establishment

³¹ Informants at the DINAS Trade stated that from time to time they deny SIUP applications in cases where a SIUP is not legally required. Usually the notaries or other intermediaries pressure the DINAS Trade to comply with the request for a SIUP anyway.

and application for legalization to Kemkumham then it might be possible for Kemkumham to connect electronically with the DG Tax so the tax numbers could be issued to the new business at the same time as the legalization of the company's act of establishment. Alternatively, the issuance of the tax numbers could be made a part of an improved OSS and combined with the application for the SIUP and TDP—but this approach could be taken only if it becomes possible for SIUPs and TDPs to be applied for before the legalization of the act of establishment is completed, since possession of the tax numbers, if the WB-IFC is correct, is a requirement for the legalization.

STEP 8. LABOR REGISTRATION

No informant contacted for this diagnostic seems to be concerned about the burden or the length of time needed to fulfill the requirement for labor registration but the authors were not able to meet with anyone from the Ministry of Labor and Transmigration or the DINAS Labor in Jakarta. For example, no one at any of the three OSSs visited seems to have considered whether it would be beneficial to combine labor registration with other services provided by the OSS, though none saw any reason why such combination could not occur. Nevertheless, the WB-IFC report found that the step requires 14 days, an amount of time that has a significant effect on Indonesia's rankings. So it would be desirable to reduce the number of days or even to combine the procedure with another to further reduce the impact of the requirement.

The WB-IFC indicates that a period as long as 14 days, on average, is needed to complete the procedure because the labor offices (DINAS Labor) in Jakarta still carry out field checks. It is difficult to understand how field checks could protect labor since a company that probably has not yet begun operations could not have employees to be observed during a check. The Ministry of Labor at the national level has indicated that it plans to send a circular to agencies involved with labor to tell them to limit the time needed for checking for labor registration to 2 days. If such a circular were effective in Jakarta, reducing the time for this step from 14 to 2 days would indeed be a very significant reduction. However, further reduction may be feasible if labor registration were not only shortened but also combined with one or more other procedures so that the total number of procedures could be reduced.

The WB-IFC report itself already indicates that Step 8 (and Step 9 as well) can be carried out simultaneously with application for SIUP and TDP. Whether or not this is legally possible is uncertain and the investigation for this diagnostic did not include any interviews that could indicate whether this is feasible. If simultaneity is possible, the WB-IFC report should not have counted the full 14 days it indicated as needed for labor registration in the total days for business startup. In addition to carrying out Steps 8 and 9 alongside Step 7, it may be possible to combine the step with any other preceding step (such as Steps 1-4 or Step 5) using an expanded online process under Kemkumham or the OSS.

STEP 9. REQUEST FOR SOCIAL INSURANCE PARTICIPATION

The WB-IFC report found that 7 days are required for this step, which could be done simultaneously with labor registration and even with the application for the SIUP. As is often noted in the WB-IFC report, the request for participation in social insurance with JAMSOSTEK is only required for businesses of a certain size and then only if there is no other form of social

insurance participation for a business' employees. JAMSOSTEK has committed to simplifying procedures so only 2 days are required for this step; this would be a significant reduction from the current 7 days. If the procedure could be combined with labor registration then as long as the number of days required for social insurance participation request is less than the period for labor registration, the impact on the ease of starting a business will not be so great. Other possibilities for combining Step 9 with other steps are described above under labor registration.

6. PERCEPTIONS OF PROGRESS IN EASE OF STARTING A BUSINESS

The WB-IFC report depends heavily on the perceptions of informants surveyed by the research team. The authors of this report understand that the starting point of the WB-IFC report is the set of relevant laws, regulations, and guidelines of national and local government agencies. If a particular application requirement or a deadline for receiving a response from an agency is not clear or cannot be found, then the WB-IFC team relies on informants who, in Indonesia, are mostly lawyers from prominent firms in Jakarta. In light of the paucity of references to laws, regulations, and legal documents in the discussion of the steps of business registration in Jakarta as presented in *Doing Business in Indonesia 2010*, it seems the WB-IFC relied heavily on informants.³² Whether such reliance leads to an accurate depiction of the ease of starting a business in Jakarta depends on whether informants have accurate information and perceptions about starting a business in the SME category and whether that information is up-to-date.

On the basis of our discussions with a variety of stakeholders during our field investigation (July 2010), it seems highly likely that Indonesia's ranking in the WB-IFC report is at least in part a result of faulty perceptions about the ease of starting a business. Such faulty perceptions may arise because of the large number of very recent improvements that the WB-IFC methodology may not have been able to identify, and the interest that certain stakeholders may have in continuing to view the process as cumbersome and difficult. Our informants for this diagnostic referred frequently to misinformation among many business persons, and even intermediaries who act for them, about the requirements and difficulties involved in starting up a business. For example, intermediaries were said to be uncertain about the relationship between the OSS and the DINAS Trade, which led to the intermediaries failing to meet the minimum requirements for the SIUP or TDP and to needing to contact DINAS Trade to resolve such matters directly. To deal with misinformation and the misperceptions of various stakeholders we recommend several ways to improve perceptions about the ease of starting a business in Indonesia.

³² For example, no reference is made in the WB-IFC report or *Doing Business Indonesia 2010* to any law or regulation as the basis for the requirement for and the procedure to get a SIUP.

7. RECOMMENDATIONS

As indicated above, a number of reforms in the business registration process in Indonesia could reduce the burden of the process for businesspersons and be perceived by stakeholders as having improved the process. Both effects are likely to make it possible for Indonesia to rise in the rankings of the WB-IFC report; however, the actual effect on rankings will depend on whether economies previously ranked higher than Indonesia also carry out reforms that raise their scores on the same indicators. Our recommendations for reform are in two groups. If implemented, the first group of reforms would make it easier to start a business but would only affect the WB-IFC report's subindicators indirectly, while the second group would directly affect performance on those subindicators and in the short-run.

REFORMS WITH INDIRECT EFFECT ON *STARTING A BUSINESS* INDICATOR

Publish a Guidebook to Starting a Business in Jakarta

One fact that became apparent during our research is that it's quite difficult for ordinary citizens as well as for notaries and even intermediaries to obtain good information about requirements for starting a new business, requirements for particular procedures, and even the locations of the offices in which to carry out the procedures. It would almost certainly reduce the burden greatly on business founders and even the agencies that deal with them if better information were available. Such information should be made available online and at the OSS and other critical locations for business startup.

New Zealand publishes a guidebook that could be used as a model. It consists of about 10 pages that seems to cover almost all issues that could arise when an individual or group plan to start a business and need to know the steps for doing so.³³ Publishing a guidebook of similar size and scope for Jakarta alone would make a great deal of sense and was in fact suggested by a number of informants, including those at the DINAS Trade. Such a project is also the sort for which it should be easy to obtain donor funding or contributions from business associations that want to stimulate formation of new businesses in the city.

³³ Companies: A guide for New Zealand businesses (Ministry of Economic Development, The Companies Office, June, 2010).

Define the Role of Notaries

While it would be tempting to consider eliminating the need for business founders to interact with a notary every time a company is formed, the authors believe that significant improvements can be had instead by working with notaries. They provide an existing network and most are already connected to the Kemkumham electronically. On the basis that a competitive environment can be created and sustained in the interim, then the notaries can play an important part in the reform. In fact, the Kemkumham has already built on these advantages of the network of notaries and there is likely potential for further consolidation of procedures with those that already are handled by the notaries.³⁴

Expand the Use of IT in Registering New Businesses

As shown by the experience of Kemkumham at the national level and the regional OSSs, IT can reduce the time necessary to establish a new business. Jakarta does not yet use IT to the extent that it is used in the most progressive provincial OSSs, and consideration should be given to expanding IT use in Jakarta. Specifically, Kemkumham's IT system (already used for Steps 1-4) should be expanded to include additional steps that are under the control of other agencies, e.g., steps controlled by DINAS Trade in each locality. In addition, greater use of IT appears to be feasible and potentially beneficial in making it possible for the OSS in Jakarta to communicate with the DINAS Trade about applications for SIUP and TDP, with DINAS Labor about labor registration, and with JAMSOSTEK about registration for social insurance participation. As demonstrated at Yogyakarta and Sragen OSSs, IT could keep the business registration process on track by making it possible to monitor the timing of each step and the performance of personnel at the OSSs and other agencies—and even of the performance of notaries and intermediaries.

In the long-run, it should be feasible to enable companies to be issued business licenses through the OSS. This could be achieved with an electronic interface between Kemkumham and the OSS with linkages to DINAS Trade and other agencies by way of some form of interagency agreement. Kemkumham has articulated a program of reform that includes simplifying establishment requirements and moving away from waiting for the paper documents to be received in the Jakarta office. The ability to leverage off this existing network and infrastructure is appealing as it offers a solution that can be developed in Jakarta and then built up to include all the regions of Indonesia.

Through meetings with the IFC in Jakarta and with officials at Kemkumham, the authors are aware of additional proposed registry reforms, including the next phase of registry computerization. It would be unfortunate if those reforms were not used to positively affect the agencies that are downstream in the registration process as well. The ability to use the Kemkumham's IT infrastructure to capture data for the DINAS Trade, the DG Tax Office, and

³⁴ Open access for citizens to the business registration process without the use of notaries as intermediaries is found in most of economies at the top of the starting a business indicator ranking. It should be noted, however, that the optimum arrangement will be one where the founders of a business and notaries are able to have equal access to the business startup processes and authorities. It should be the choice of those founders to use a notary for particular steps. Whatever future reform that occurs in the Kemkumham should look to accommodate a strategy of more open access.

even JAMSOSTEK and other social insurance providers would greatly simplify the experience of entrepreneurs starting businesses in Jakarta.

Review Minimum Legal Capital

The usefulness of requiring a minimum amount of legal capital and of paying-in 25 percent at startup is assessed differently by different experts. Many legal experts in Indonesia and elsewhere argue that the requirement protects creditors by making a distinction between the assets of the company and the assets of the members. Others point out that the amount to be paid-in at startup—Rp. 12,500,000 (about \$1200)—is not large enough to be an obstacle for the sort of companies that are ready to formalize operations by becoming a PT (the Indonesian equivalent of LLC.)

The authors understand that many small companies register as businesses using a CV (*Commanditaire Venootschaap* in Dutch) as the business form instead of a PT company. Registration of a CV is achieved at the district court and does not require any paid-up capital. Further research is needed to determine whether the lack of a minimum capital requirement for CVs is a decisive factor for many of these small companies.

As noted, the WB-IFC methodology places an equal weighting on having minimum legal capital as it does on the time, cost, and number of procedures. This equivalence is probably misplaced. Nevertheless, if, as many suspect, research on the usefulness of the requirement finds that it does not provide much benefit, and if the legislative changes necessary to eliminate the paid-up capital requirement could be made (as has been done in Chinese Taipei and South Korea), there would be a quantum impact on Indonesia's ranking on ease of starting a business. See Experiment 3 in Table 3-1. With the short run being defined as the length of time within which no legislative changes are possible, Indonesia will have to accept a ranking in the short run for ease of starting a business that likely will be lower overall than the 66 other economies that have no minimum legal capital requirement.

REFORMS WITH DIRECT EFFECT ON START A BUSINESS INDICATOR

Combine SIUP and TDP into a Single Document

The SIUP, in the short run, should be combined with the TDP and field checking for SIUP-TDP should be time-limited so that the combined document can be issued within 3 days as the Minister of Trade has committed to stipulate in a planned circular. The feasibility and desirability of this change was discussed earlier.

Issue the Two Tax Numbers with Legalization of the Act of Establishment

Issuance of the two tax numbers is already very efficient, requiring only 1-2 days if done online and perhaps the same amount of time if done at a local office of the DG Tax. Eliminating the separate procedure in which business founders contact the DG Tax to apply for and obtain these numbers would make it even easier to start a business. The founders must also submit the

numbers to Kemkumham to complete the legalization step.³⁵ If the information required for issuance of tax numbers were entered by the notaries when submitting an act of establishment and application for legalization to Kemkumham then it might be possible for the IT system to connect with the DG Tax so the tax numbers are sent to Kemkumham for issuance together with the legalization of the company's act of establishment. Alternatively, the OSS could handle application for and issuance of the tax numbers in the same step as the application for and issuance of the SIUP-TDP.

Consolidate Four Initial Steps at Kemkumham

Steps 1-4 are essentially under the control of Kemkumham, although a notary is the contact point through which business founders deal with Kemkumham. There appears to be no justification for keeping the four steps separate. In fact, Kemkumham recently combined Steps 1, 2 and 3 into a single process, but it is unclear if the next WB-IFC report will recognize the change in its findings. Since the Kemkumham is responsible for Steps 1-4, it is recommended that they could be combined into one procedure, i.e., bringing in Step 4 as well, in which the notary collects certain information, signatures on a standard form charter, and fees at the beginning of the step and the founders receive the notarized act of establishment and certificate representing legalization of the act a specified number of days later. As long as the notary has to complete only one application then what are currently treated as four steps by the WB-IFC should be treated as one consolidated procedure (except when there is a name conflict).

Consolidate Labor and Social Insurance Registration with SIUP-TDP Issuance at the OSS

A number of our informants seemed confused by the WB-IFC report's view that labor registration and application for social insurance participation by new businesses are part of starting a business. For these informants, these are post-startup procedures. Nevertheless, the WB-IFC report consistently includes such steps in business registration in every economy where such steps are required by businesses at any time. Unless Indonesia abolishes both requirements, related procedures and the days to complete them will be counted in the subindicators for ease of starting a business. In the short run, the only way to reduce the effect of the two procedures on Indonesia's ranking is to (1) consolidate them with the SIUP-TDP issuance step in the OSS, (2) carry them out simultaneously, and (3) ensure that it takes no more than 3 days to complete them (the time limit proposed for issuance of the SIUP and TDP, or the consolidated SIUP-TDP). Since the information needed for labor registration and for the application for social insurance registration probably are already provided by business founders when they apply for the TDP, or could easily be provided at the same time if requested, there seems to be no reason why these steps should not be moved into the OSS either by locating DINAS Labor and JAMSOSTEK officials at the OSS or connecting the OSSs electronically with DINAS Labor and JAMSOSTEK.

³⁵ The authors were not able to confirm how Kemkumham gets the tax numbers from the founders or even if Kemkumham actually must have them prior to legalization as [Doing Business in Indonesia 2010](#) indicates.

SUMMARY OF POSSIBLE REFORMS

Table 7-1, a revision of the right-hand portion of Table 2-1, summarizes the effect of some of these recommendations. It appears to be feasible to make changes in the short-run, without the need for DPR approval, that will have a dramatic effect on Indonesia's WB-IFC report ranking for ease of starting a business.

As discussed previously, Kemkumham has already taken steps to reduce the number of procedures and the time to complete them. Specifically, the first four procedures identified by the WB-IFC report have been consolidated into two procedures (Step 1-3 and Step 4). They should be further consolidated into one procedure by making it possible for a group of founders to visit a notary once and arrange for name checking, act of establishment, and legalization all at once. This is almost the case already. In addition, there seems to be no reason why Kemkumham's IT system could not be connected with the DG Tax IT system so that the new business would receive its tax numbers at the same time it receives its business registration certificate. (This makes sense because every business will need the tax numbers immediately after establishment and the information to obtain them is already in the Kemkumham file.) Thus Steps 1,2,3,4, and 6 would be combined into one procedure. Former Steps 1, 2 and 3 are now supposed to take only 5 days. With the inclusion of 5 days for Step 4 and simultaneous processing of the request for tax numbers, the total number of days would be 10.

Table 7-1
Effect of Recommendations Made in the Diagnostic

| No. | Procedure | Days to Complete | Cost to Complete |
|-----|---|------------------|--|
| 1 | Obtain agreement to use of name | | Rp. 200,000 (PNBP) |
| 1 | Signing of act of establishment (notary) | | Rp. 2,526,816 |
| 1 | Request for legalization of LLC status and announcement in the State Gazette Supplement | 10 | Total Rp. 1,550,000 which consists of Rp. 1,000,000 (legalization of act) + Rp. 550,000 (pubn. in State Gazette Supp.) |
| 1 | Obtain tax numbers (NPWP and NPPKP) | | No cost |
| 2 | Submit registration to obtain combined SIUP and TDP | | No cost for new SIUP or TDP |
| 2 | Register for mandatory business labor report at local agency handling labor | 3 | No cost |
| 2 | Request participation in social insurance (Jamsostek) | | No cost |
| | Total | 13 | |
| | Total Procedures | 2 | |

A second consolidation of procedures is possible at the OSS. First, it should be possible in the short run to combine the SIUP and TDP. The information for issuance of the SIUP is just a subset of that for the TDP. The Minister of Trade has already committed to publishing a circular requiring that both be issued within 3 days. Combining the two certificates, or issuing them simultaneously, would make compliance by DINAS Trade with this deadline even easier. Then the two "orphan" steps—Steps 8 and 9, which WB-IFC already concedes can be done simultaneously with the issuance of the SIUP-TDP—need to be moved into the OSS to make it visible to WB-IFC. Apparently during research for the last report it was not clear that such

reporting/registration is simultaneous. Since the Minister of Labor and Transmigration and the head office of JAMSOSTEK have directed that Step 8 should not take more than 2 days and Step 9 not more than one day, it would not be necessary need to extend the 3 days allowed for SIUP-TDP issuance at the OSS. The main change necessary to satisfy WB-IFC requirements would be to ensure that a new business fills out just one application to receive the SIUP-TDP and complete labor and social insurance registration at the OSS.

Thus, it should be possible to reduce the number of procedures to two, and the number of days to carry out the procedures to 13. Associated costs are already relatively minimal, and there is really no need to reduce them further. The requirement for minimum legal capital could be changed in the long-run and it would be useful if additional research could be conducted on its usefulness. As indicated in the above-described experiments, changes at the level of those proposed in the KIB II could produce a significant rise in Indonesia's ranking, which is of course subject to what other economies do to improve their scores. If Indonesia were to go beyond KIB II (as recommended in this report), then it could achieve an even greater improvement. Experiments 4 and 5, shown in Table 3-1 above indicate that if the changes recommended in this report were implemented, the 2010 rankings would have improved dramatically to 87 or even 28 for ease of starting a business, depending on whether the minimum legal capital requirement is also eliminated. (The authors are not making a recommendation about whether there should be a minimum legal capital requirement until more research can be done on that issue.) The corresponding change in the overall ease of doing business indicator would be to 113 or 100, respectively.