

Freddy, Imelda Magdalena; Saputri, Novani Karina

**Research Report**

## Elevating Indonesia's Performance in Ease of Doing Business Index (Policy Reforms to Improve the 'Starting a Business' Indicator)

Policy Paper, No. 18

**Provided in Cooperation with:**

Center for Indonesian Policy Studies (CIPS), Jakarta

*Suggested Citation:* Freddy, Imelda Magdalena; Saputri, Novani Karina (2018) : Elevating Indonesia's Performance in Ease of Doing Business Index (Policy Reforms to Improve the 'Starting a Business' Indicator), Policy Paper, No. 18, Center for Indonesian Policy Studies (CIPS), Jakarta

This Version is available at:

<https://hdl.handle.net/10419/249398>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



**CIPS**  
Center for Indonesian  
Policy Studies



# Elevating Indonesia's Performance in Ease of Doing Business Index: Policy Reforms to Improve the 'Starting a Business' Indicator

by Imelda Magdalena Freddy & Novani Karina Saputri

[www.cips-indonesia.org](http://www.cips-indonesia.org)

A decorative border composed of a grid of small, white business-related icons on a dark red background. The icons include symbols for finance (dollar signs, coins, money bags), technology (laptops, lightbulbs, gears), communication (speech bubbles, mail, people icons), and general business (charts, trophies, target, handshake, scales, calendar, clock, magnifying glass, shopping cart, rocket, chess knight, target with arrow, medal, document, checklist, calendar, clock, credit card, person icon, and a person with a backpack).

## Elevating Indonesia's Performance in Ease of Doing Business Index: Policy Reforms to Improve the 'Starting a Business' Indicator

Author:

Imelda Magdalena Freddy

Novani Karina Saputri

Center for Indonesian Policy Studies (CIPS)

Jakarta, Indonesia

November, 2018

Copyright © 2018 by Center for Indonesian Policy Studies

## Glossary

Acronym	Indonesian	English	Description
SIUP	Surat Izin Tanda Usaha	Business license	A permit document required by an individual or organization that wants to establish a trading company. This license is not required for businesses that will operate outside the trading sector, branch and representative offices, or micro businesses (MOT 46/2009 Art. 4).
TDP	Tanda Daftar Usaha	Company registration certificate	Official document that shows a business is registered.
WLK	Wajib Lapor Ketenagakerjaan	Mandatory Labor Affairs Report	An employment report that businesses must send to the Ministry of Manpower after a company obtains its business license.
NIB	Nomor Induk Berusaha	Business Identification Number	Identity assigned to a business by the Online Single Submission system after it is registered.
HO	Izin Gangguan	Nuisance permit	Permit issued to ensure that business activity will not cause harm to the surrounding neighbourhood.
PTSP	Pelayanan Terpadu Satu Pintu	One Stop Integrated Services	Indonesian government Agency & Online portal established to facilitate licensing.
IMB	Izin Mendirikan Bangunan	Building establishment permit	Permit to construct a building for business purposes.
NPWP	Nomor Pokok Wajib Pajak	Taxpayer identification number	Identification number for tax administration.
AHU	Administrasi Hukum Umum	General Law Administration System	Directorate general that supports Ministry of Law and Human Rights Affairs. AHU provides online public services, such as the establishment of company deeds.
BPJS Kesehatan	Badan Penyelenggara Jaminan Sosial Kesehatan	Indonesia Health Social Security Program	National healthcare insurance program initiated by the Indonesian government.
BPJS Ketenagakerjaan	Badan Penyelenggara Jaminan Sosial Ketenagakerjaan	Manpower Social Security program	Social security program that covers occupational hazards, old age, pension, and life insurance for employees in Indonesia.
-	Surat Keterangan Domisili	Domicile letter	Proof of residence.

Sources are collated from American Chamber of Commerce (2018), Indonesia Ease of Doing Business Report (2018) and The Asia Foundation Report/TAF (2007).

## Executive Summary

Indonesian President Joko Widodo has set a target of improving the country's ranking in The World Bank's *Ease of Doing Business* (EODB) index from 72<sup>nd</sup> to 40<sup>th</sup> by 2019. One barrier to meeting this challenge is Indonesia's ranking in the Starting a Business Indicator, where it is 144<sup>th</sup> among 190 countries. According to the EODB Report, it takes 23 days and 11 procedures to register a business in Indonesia.

To address this problem, the central government has implemented changes requiring parallel procedures with local governments and introduced a program called the Online Single Submission system (OSS), established in July 2018. However, there are major barriers to the success of these changes, including a lack of information for businesses, inadequate IT infrastructure, and failure to synchronize the central and local governments under the OSS. As a result, policy changes and the OSS have not been working as intended.

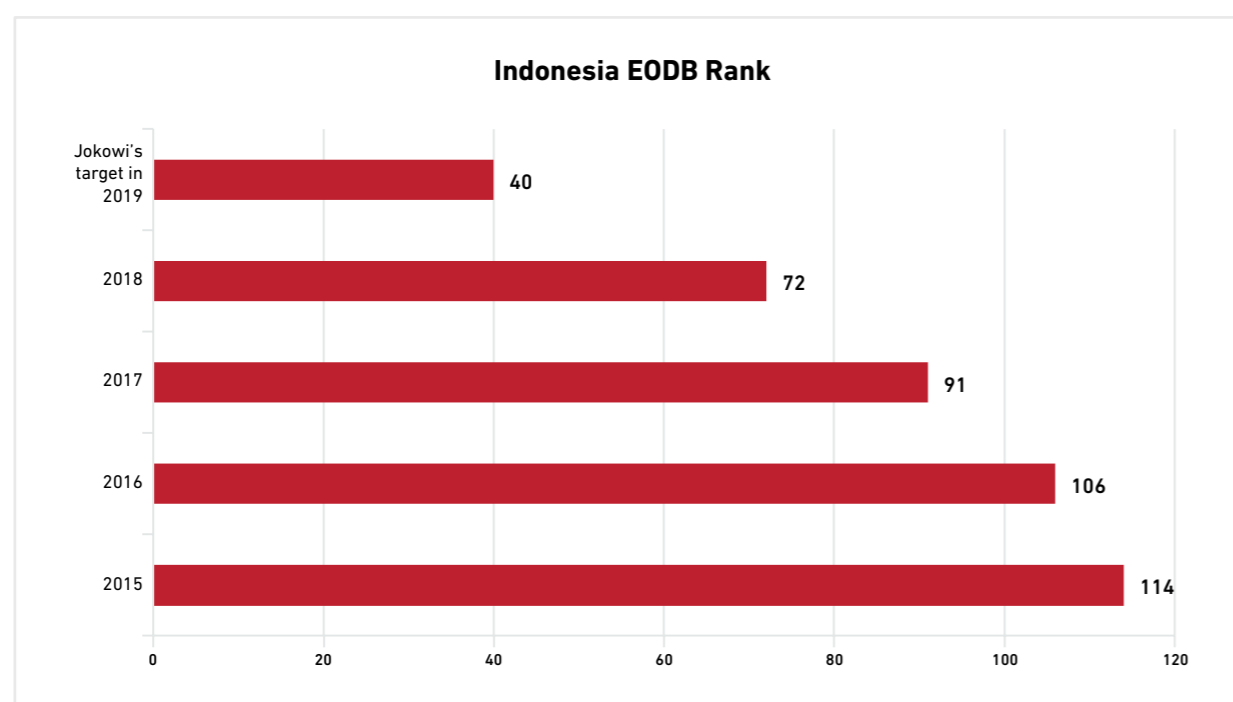
Case studies in Jakarta, Bandung, and Bandar Lampung revealed that there are two regulations—one implemented by the local government and the other implemented by the central government—that should be revised to speed up business registration. The government should also remove a procedure from the business registration process and develop collaboration with local private sectors and business associations to improve the OSS. These changes would reduce the time required for registering a business by 17 days. These reforms would benefit small and medium businesses the most, since they are the most common types of business in Indonesia (approximately 98% of all businesses). Such a reduction in the time required to register a business would be enough to improve Indonesia's Starting a Business Indicator ranking from 144<sup>th</sup> to 75<sup>th</sup>.

Based on our findings, we recommend four policy changes. First, the Jakarta provincial government should revise the Regulation of the Head of Investment and One Stop Integrated Services 23/2017 Article 2d. The Mandatory Labor Affairs Report (MLAR) stipulated in this regulation should be removed as a business registration requirement. Its content is duplicates data provided by the *BPJS Ketenagakerjaan* documents as part of national social security program. In addition, requiring an MLAR contradicts the regulation of the Minister of Manpower (MOM) 14/2006, which says it is not required for business registration. Second, Government Regulation 24/2018 Article 78 should be reformed to require that the central government collaborate with local business associations to disseminate information about the OSS. This collaboration will ensure that information reaches even remote areas. Third, Government Regulation 24/2018 Article 88 should be reformed to ensure that the ministries related to the OSS assist local governments to synchronize standard operating procedures and regulations to implement the OSS. This assistance should continue for one year, after which there should be a penalty for local governments that fail to comply with the new procedures for registering businesses through the OSS. Fourth, Government Regulation 24/2018 Article 91 should be changed to ensure the government will collaborate with the private sector to improve the IT infrastructure in all regions to support the OSS. Participation by the private sector is important because they have the resources to provide internet access and computers needed to implement the OSS in districts and municipalities across Indonesia.

## Current Situation

According to The World Bank (2018) Indonesia improved its position in the 2018 Ease of Doing Business Index (EoDB) compared to the previous year (2017), rising 19 spots from its position of 91<sup>st</sup> in 2017 to 72<sup>nd</sup> (Figure 1). The Coordinating Minister for Economic Affairs responded by saying, “In the past three years, Indonesia has become an easier place to do business” (Cabinet Secretary, 2017a). This achievement is part of a trend of improvement in the country’s performance. Indonesia has risen in the EoDB ranking from 114<sup>th</sup> in 2015 to 106<sup>th</sup> in 2016 before rising again in 2017 for to the rank of 91<sup>st</sup>. President Joko Widodo has set a target of ranking 40<sup>th</sup> in the 2019 EoDB (Cabinet Secretary, 2017b). The country needs to overtake 32 others in the ranking to reach this target.

**Figure 1**  
**Indonesia Ease of Doing Business Rank from 2015–2018**



Sources are collated from Investment Coordinating Board (Badan Koordinasi Penanaman Modal/BKPM) (2018)

Despite its progress in the recent years, Indonesia is being held back by its low ranking in the ‘Starting a Business’ indicator (World Bank, 2018a, p.1). Its current ranking by this indicator is 144<sup>th</sup>, lagging behind neighboring countries such as Singapore, Malaysia and Thailand, which rank 6<sup>th</sup>, 36<sup>th</sup>, and 111<sup>th</sup> respectively (World Bank, 2018b). Table 1 represents these rankings.

Indonesia’s rank in the Starting a Business Index is calculated based on the number of procedures, the number of days, and the cost of undertaking the steps to legally register a business (The World Bank, 2017, p.14). According to the 2018 EoDB report, it takes up to 23 days to register a business in Indonesia while in Singapore and Thailand it takes less than a week. While Indonesian business

people must complete 11 procedures to register their business, Singapore, Thailand, and Malaysia require at most nine procedures (The World Bank, 2018b). Moreover, the cost of registering a business is highest in Indonesia, costing about 10.9% of the average income per capita, while in Singapore, Thailand, and Malaysia, the cost of registering is 0.5%, 6.2%, and 4.4% respectively.

**Table 1**  
**Parameters of 2017 EoDB ‘Starting a Business Rank’ in Indonesia, Singapore, Malaysia and Thailand**

Countries	Starting a Business Rank	Number of Procedures	Time (days)	Cost (% of income per capita)
Singapore	6	3	2.5 days	0.5
Thailand	36	5	4.5 days	6.2
Malaysia	111	8.5	18.5 days	5.4
Indonesia	144	11.2	23.1 days	10.9

Sources are collated from World Bank (2018b).

Note to Table 1:

The cost of registration is presented as a percentage of the average income per capita in each country. This calculation excludes bribes and includes all official fees and fees for legal or professional services that are in accordance with the law or commonly used in practice. Intermediary fees are also included in this cost, since they are considered a professional service (World Bank EoDB Report, 2018b, p 72). In Indonesia, national income per capita is IDR 38,375,519.6 (Statistics Indonesia, 2017a) and the average cost to register a business in Jakarta is about IDR 4,180,000, or about 10.9% from the national income per capita. Number of procedures is calculated based on “interaction of the company founders with external parties (for example, government agencies, lawyers, auditors or notaries). Procedures that must be completed in the same building but in different offices or at different counters are counted as separate procedures. If founders have to visit the same office several times for different sequential procedures, each is counted separately” (World Bank EoDB Report, 2018b, p 72)

Moreover, Indonesia’s low rank in the Starting a Business index can give insight into the rate of informal business in Indonesia. In this case, “informal” refers to the legal status of businesses that are not registered with government (ILO, 2011). The Organization for Economic Cooperation and Development (OECD) (2018; Rothenber et al., 2016) estimates that about 93% of businesses in Indonesia exist in the informal sector, which corroborates data from Statistics Indonesia (2017b) that found that of the 26,711,011 businesses in Indonesia, about 24,882,555 business not registered and therefore informal. There are about 1,828,446 registered, formal businesses. Table 2 illustrates the size of the informal and formal business sectors in Indonesia.

**Table 2**  
**Businesses in Indonesia in 2016**

Type of Business	Number of Businesses	Percentage
Informal	24,882,555	93%
Formal	1,828,446	7%
Total Businesses	26,711,001	100%

Source: Economics Census (Statistics Indonesia, 2017, p.52)

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) (2014, p. 20) reported that there are potential benefits to operating a formal, registered business. These benefits include better access to business development services<sup>1</sup> and financial services such as credit from

<sup>1</sup> Business development services come in various form such as business training, consultancy, technology development and transfer (United Nations Development Programme/UNDP, 2004)

banks. Formal businesses also have better access to market supplying other formal businesses<sup>2</sup> and the public sector. In addition to these advantages, formal business are more likely to have formal labor contracts and worker empowerment (Rand and Torm, 2012) and the ability to operate from a more established physical location (Fajnzylber et al., 2011). Importantly, these benefits can translate to higher revenues and profits (Khamis, 2014, p.1).

However, according to some studies (Aidies et al, 2007; Cross, 2000; Gerxhani, 2004; Smallbone and Wetler, 2004; Adele, 2014) the decision to operate an informal business can be seen as a rational choice. Informal businesses have greater autonomy, flexibility, and freedom when making strategic business decisions. Informal businesses also offer employment opportunities with low education and skills requirements and enable entrepreneurs with low capital to establish their business (ILO, 2014). According to a European Union/OECD Report (2015), another factor in the decision by an entrepreneur to run an informal business is the ability to avoid government tax and instead focus on generating profit.

In addition to the fact that there are real advantages to operating an informal business, registering a business can be difficult and costly. Factors that can hinder an entrepreneur who wants to register their business include a lack of information about the registration process, the time required, the number and complexity of steps to register, and the cost of registering (The Asia Foundation Report, 2007). Many entrepreneurs do not have sufficient information to register their business (Khamis, 2014, p.2), and as the Indonesia EoDB Report found, it takes up to 23 days and costs IDR 4,180,000 to register a business in Indonesia (World Bank, 2018a).

Business Registration through the One Stop Integrated Service and Online Single Submission (OSS)

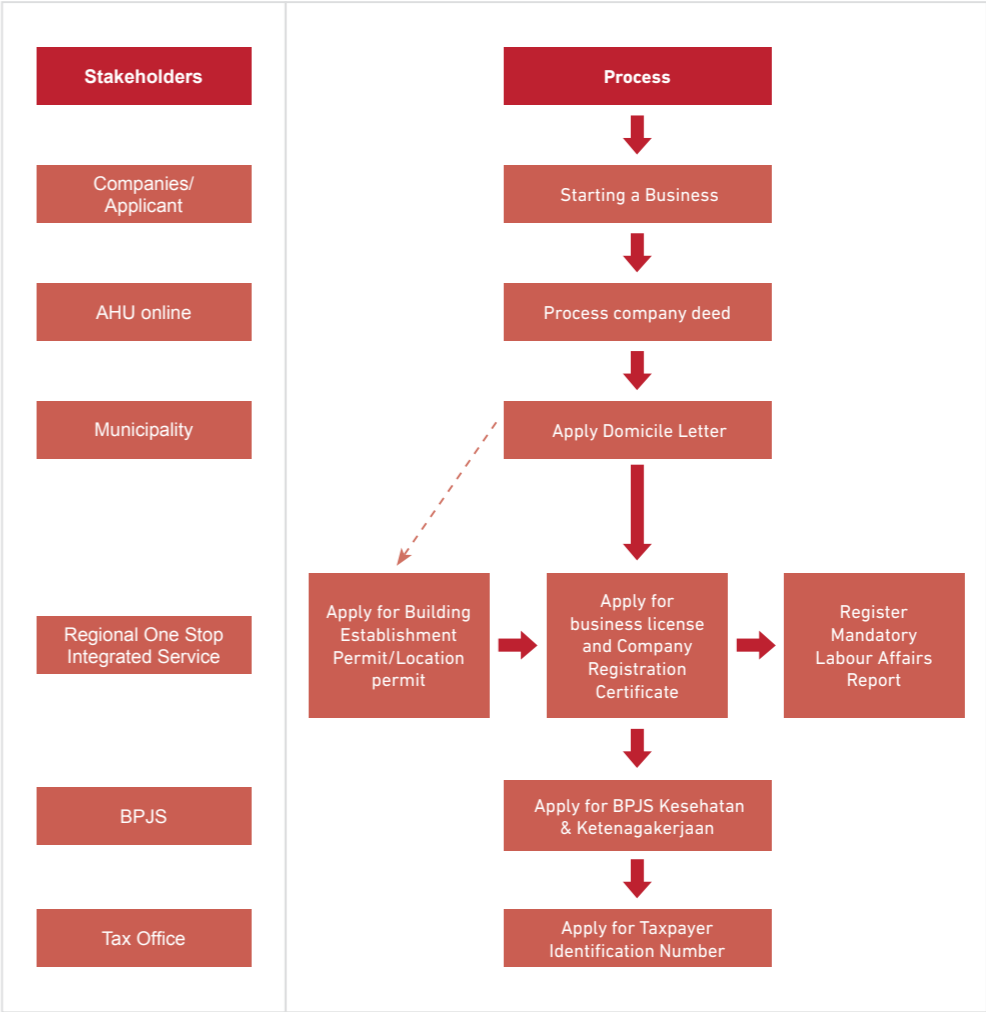
The business registration process reported in the Indonesia EoDB Report (The World Bank, 2018a) is represented in Figure 2. The registration process begins with the establishment of a company deed, which is done through the General Law Administration System (AHU Online/ Administrasi Hukum Umum) under the authority of the Ministry of Law and Human Rights Affairs. Once a business owner has acquired their company deed, they must obtain a domicile letter for the municipality (The World Bank, 2018a).

Next, the business owner must meet pre-registration requirements, such as securing a building establishment permit or location permit, then register their business to obtain a business license and company registration certificate. Under Presidential Decree 97/2014, these processes are done through the One Stop Integrated Service Office under the authority of the local government (Komite Pemantauan Pelaksanaan Otonomi Daerah/KPPOD, 2014).

After a business owner obtains their business license and company registration certificate, they must register their Mandatory Labor Affairs Report (MLAR) through the One Stop Integration Service Office. Next they must apply for the workers social security program (BPJS Ketenagakerjaan) and public healthcare insurance (BPJS Kesehatan). Finally, the business owner must obtain a taxpayer identification number (NPWP).

<sup>2</sup> Other formal business unit are supermarket, Big Corporation, foreign companies among many others.

Figure 2  
Process of Starting a Business<sup>3</sup>



Source collated from EoDB Report 2018 (World Bank 2018).

Note for Figure 2: “- - - ->” symbol indicates that the process is not included in the EoDB Report 2018, however, it is required in order to obtain a business license.

In July 2018, the central government established the Online Single Submission system (OSS), changing the business registration system in Indonesia. Although OSS has a similar objective to the One Stop Integrated Service, which is to accelerate the business licensing service, unlike the One Stop Integrated Service, which is operated locally, the OSS is operated centrally.

Under the new system, issuing business licenses and company registration certificates is no longer under the jurisdiction of the One Stop Integrated Service Office—both are now completed through the OSS. In addition, the One Stop Integrated Service systems are required to synchronize with the OSS by processing the local permits, such as building establishment permits and location permits, required to obtain a business license in such a way as to correspond with and support the OSS (Investment Coordinating Board, 2018).

<sup>3</sup> This process is based on business registration in Jakarta as stated in the Indonesia EoDB Report.

## Methodology and Research Locations

To form a better understanding of the real situation facing those pursuing business registration, this report uses qualitative analysis of data gathered through semi-structured interviews with various resource persons from March to August 2018. We recorded the business registration process as experienced by a number of companies in three cities in Indonesia: Jakarta, Bandar Lampung, and Bandung. These cities were selected due to their potential in the entrepreneurship sector, indicated by support from local governments.

In Bandung, the local government has shown its seriousness in pushing business growth by launching an official portal specifically designed to help users to register their business. The portal was released in 2015 and named “*Hayu Bandung*” (Come On, Bandung). Twenty-four types of licenses and permits can be processed through this online portal and users receive them by mail (Perdana, 2015; Bandung City Communication & Information Agency, 2015; Tiah, 2015).

In Bandar Lampung, support from the local government for the entrepreneurship sector can be seen in the establishment of “Lampung Goes Digital” or Lampung Entrepreneurship Village Goes Digital in 2016. This program has become a milestone for improving economic resilience in Bandar Lampung through the use of technology (Budiman, 2016; Julianto, 2017; Communication & Information Lampung Provincial Agency, 2016).

Finally, Jakarta was chosen because in addition to being the national capital and the most populous city in the country, it is the birthplace of numerous new start-up businesses. The Jakarta government has attempted to strengthen the entrepreneurship sector by establishing training for new entrepreneurs (Alamsyah. 2017; Julianto, 2017; Trihendrawan, 2017).

The potential for entrepreneurship in these cities is also evidenced by the number of businesses in each region. Bandung City has the third highest number of businesses in the West Java province, Bandar Lampung has the most businesses of any city in Lampung Province, and Jakarta has the fourth most businesses among the provinces on Java Island.

Figure 3  
Total Businesses in West Java (2016)

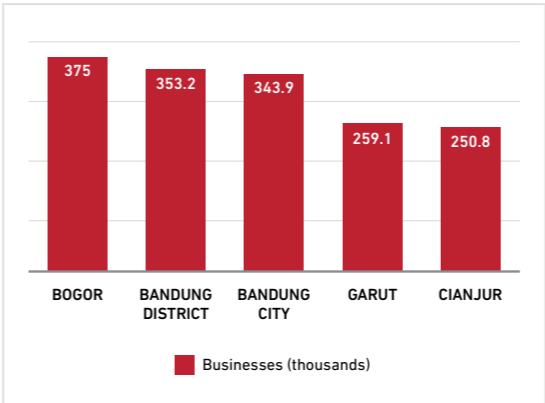
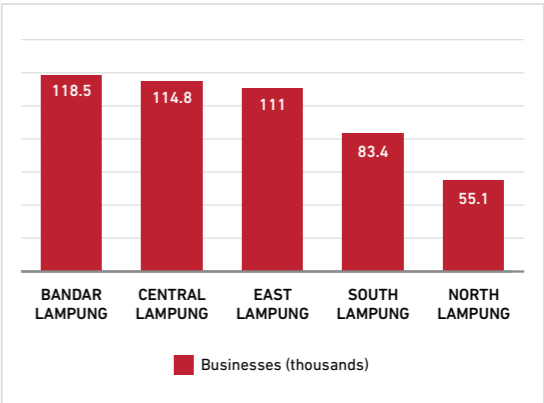
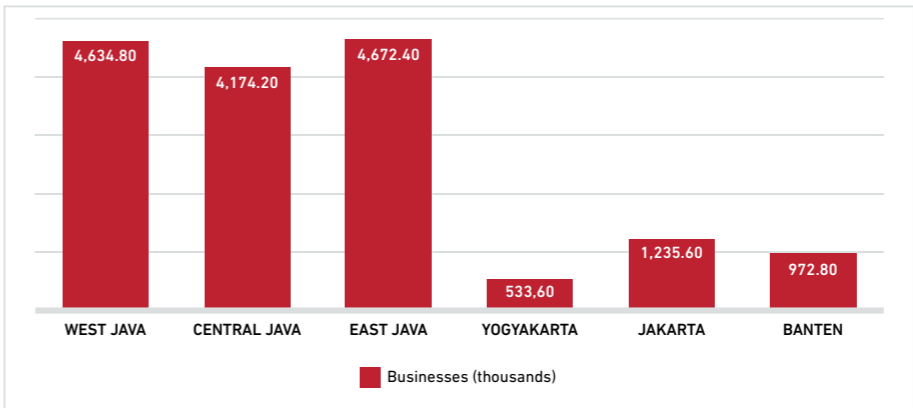


Figure 4  
Total Businesses in Lampung Province (2016)



Source: Statistics Indonesia (2017c)

Figure 5  
Total Businesses in Java Island (2016)



Source: Statistics Indonesia (2017c)

### Small Medium Enterprises in Jakarta, Bandung, Bandar Lampung

Moreover, this research focuses on small and medium enterprise (SME) sized businesses, since 98% of the businesses in Indonesia, or about 26.2 million of the 26.7 million total businesses in Indonesia were SMEs in 2016 (Statistics Indonesia, 2017c). In Indonesia, the difference between small and medium businesses is their total assets and total revenue, as depicted in Table 3.

Table 3  
Range of Total Assets and Total Revenue Defining Small and Medium Businesses in Indonesia (in Rupiah)

Indicators	Small	Medium
Total Assets (Max)	> IDR 50 million–500 million	> IDR 500 million–10 billion
Total Revenue/year (Max)	> IDR 300 million–2,500 million	> IDR 2,500 million–50 billion

Source: SME Law 20/2008, Ministry of Cooperatives and SMEs.

SMEs are also the most common business sizes in Bandung, Bandar Lampung, and Jakarta, as can be seen in Table 4, which represents the number of SMEs and employment by SMEs in Bandung and Bandar Lampung. In Bandung, about 97% of all businesses are SMEs, and these businesses employed about 672,334 workers, almost twice as many workers as were employed by large-scale businesses. SMEs also represented almost 97% of businesses in Bandar Lampung, and these employed more than 220,000 workers. However, in Jakarta even though there are more than one million SMEs, employment by SMEs and by larger businesses is almost even—about 50.4% of employees work for large-scale businesses, while 49.6% work for SMEs.

**Table 4**  
**Businesses and Employment by Business Size in Bandung, Bandar Lampung, and DKI Jakarta (2016)**

Description	Bandung		Bandar Lampung		DKI Jakarta	
	SME	Large Scale	SME	Large Scale	SME	Large Scale
Businesses	333,110	10,830	115,356	3,190	1,154,792	80,859
Employment	672,334	347,280	220,004	89,218	2,435,786	2,479,678

Source: Statistics Indonesia (2017c)

Data

We collected primary data for this study through interviews with various resource persons, including entrepreneurs and company representatives, business associations, experts in the business sector, notaries, and government officials (Table 5). Most entrepreneurs we interviewed operate in the tourism, entertainment, food and beverage, property, textile, and education sectors. The interviews were conducted from March to August 2018. Secondary data used in this report was collected from sources including statistical data released by the Ministry of Small Medium Enterprise, Statistics Indonesia, Indonesia EoDB 2018, EoDB World 2018, policy papers, and academic journals.

**Table 5**  
**Primary Resource Persons**

Cities	Source & Business Sector
Jakarta	2 business representatives from tourism sector 1 business representative from food sector 1 business representative from property sector. 3 Business Associations 1 Business Expert 1 Notary
Bandung	4 business representatives from property sector. 1 business representative from tourism sector 1 business representative from printing sector. 1 business representative from technology sector 1 Government Official
Bandar Lampung	2 business representatives from food sector 1 business representative from education sector 3 Business Associations 2 Notaries

Source: CIPS interview notes (2018)

Limitations

Due to the limited number of companies interviewed, this paper is not meant to be representative. Instead, it should be treated as a case study that can illustrates the dynamics and challenges facing business going through the registration process in Indonesia. Of 14 companies in the three cities, only three (two in Jakarta and one in Bandung) reported that they personally registered their business without the help of an intermediary agent or broker. All companies that we interviewed used a notary service to obtain their company deed.

No company was able to report the cost/price information for each step in detail because they paid an intermediary all at once and are not aware of the breakdown or because the sources interviewed do not recall the price because the company was set up over one year ago. At the time of the interview, only two companies who registered with the process were still waiting to be formalized, the rest completed the process between 2015 and 2017.

Another data limitation stems from the limited publicly available official data on SMEs in Indonesia. The most recent data was released in the 2016 Economic Census by Statistics Indonesia, which is only conducted every ten years. In addition, since most SMEs are informal businesses, it is difficult for the government to capture or record information about them.

Finally, some of the regulations mentioned in the interview process were eliminated during the data collection process, and the OSS was not fully operational when interviews were conducted, so interviewees did not have any experience using the system.

## Existing Policies

The large number of informal small businesses makes it difficult for the Indonesian government to craft policy that will ease and accelerate the process of registering businesses. But such policy, if successful, will help the national government achieve its EoDB target. For this reason, there are several national and local regulations aimed at meeting this goal.

First among these is the Regulation of Ministry of Trade 77/2013 Article 2, which states that the business license (SIUP) and company registration certificate (TDP) can be issued simultaneously for all trading companies. In the Indonesian context, “trading” refers to business transactions regarding goods and services that involve buy-and-sell and/or rent-and-sell and/or rental activities (MOT 36/2007 article 1).

A business license is compulsory for all businesses in all sectors (MOT 46/2009 Article 2), except for those who conduct their businesses without trading activities; are a subsidiary part, branch, or representative offices of a main company; or are considered a “micro” businesses—run by a sole individual, managed by the individual or his/her immediate family members or close relatives, and with a net worth of less than IDR 50 million, excluding land and building. Micro businesses are entitled to obtain a business license should their owners wish to do so, but they are not required to (MOT 46/2009 article 4).

Second, the Regulation of Ministry of Home Affairs 19/2017 Article 1 states that to achieve the EoDB target, the Ministry Home Affairs eliminates the requirement for a nuisance permit (Hinder Ordonantie/HO), which is no longer considered in line with the government’s objectives as it tries to improve the ease of doing business.

Third, the Jakarta Regulation of One Stop Integrated Service (PTSP) Special Region I 23/2017 states in Article 2d that to improve the registration service and to meet the central government’s EoDB target, the local government of Jakarta requires that the Mandatory Labor Affairs Report (MLAR, in Indonesian WLK) be performed automatically with the business license (SIUP) and company registration certificate (TDP) are issued—in other words, once the business license and company registration certificate are issued, the business should process its MLAR right away.

Fourth is Government Regulation 24/2018, regarding the OSS, which is meant to facilitate and accelerate business registration. Government Regulation 24/2018 Article 78 stipulates that the central and local governments must also provide information, especially to SMEs, about how to access and use the OSS. Article 88 of the same regulation requires ministries that have requirements related to the OSS to develop standards or procedures that are in accordance with regulation of OSS. In Article 91, the regulation specifies that the feasibility of the OSS integration system depends on a due diligence process, requiring the corresponding feasibility of standard operating procedures and business processes related to the system and of the infrastructure of the registration system.

## Analysis

### A. Challenges experienced by companies in registering their business in Jakarta, Bandung, Lampung versus what was found in the EoDB Report

This section describes the significant challenges experienced by companies as they registered their businesses in terms of procedure, time, and cost. Table 6 outlines the findings of the EoDB Report.

**Table 6**  
**Average Business Registration Procedure, Cost, and Time in Jakarta According to EoDB 2018**

Step	Procedures	Time to complete (working days)	Associated Cost (IDR)
1	Pay fee for obtaining approval of company name	1 day	IDR 100,000
2	Obtain approval for the company’s name at the Ministry of Law and Human Rights	Less than one day (online procedure)	Included in Step No. 1
3	Arrange for a notary to obtain the standard form of the company deed and notarize company documents	1 day, (simultaneous with step 2)	IDR 1,650,000 (price varies by notary)
4	Apply to the Ministry of Law and Human Rights for approval of the deed of establishment	Less than one day (online procedure)	IDR 850,000
5	Apply for company domicile letter	2 days	No charge
6	Pay the non-tax state revenue (PNBP) fees for legal services at a bank	1 day	IDR 1,580,000
7	Apply SIUP and TDP from the Investment and One Stop Shop Agency (DPMPTSP) for Jakarta	7 days on average	No charge
8	Register with the Ministry of Manpower	1 day	No charge
9	Apply for healthcare insurance with social security program (BPJS)	7 days (simultaneous with step 8)	No charge
10	Obtain a taxpayer identification number (NPWP)	1 day (simultaneous with step 9)	No charge
	Total	23 working days	± IDR 4,180,000

Source: Collated from Indonesia EoDB Report 2018 (The World Bank, 2018a)

Through interviews, we also gathered feedback about the lack of information that creates additional challenges in the business registration process. This challenge is not discussed in the EoDB Report.

“Although the problems in the business registration process caused by a lack of information are not discussed in the EoDB Report, companies that have completed the registration process in Jakarta, Bandung, and Bandar Lampung reported that it can significantly hinder the business registration process”

### 1. Lack of Information

Although the problems in the business registration process caused by a lack of information are not discussed in the EoDB Report, companies that have completed the registration process in Jakarta, Bandung, and Bandar Lampung reported that it can significantly hinder the business registration process (Personal Interview with Company Representatives in Jakarta, Bandung, Bandar Lampung, March–August 2018). Interviewees reported that it was difficult to get reliable information to guide their business registration when beginning the process. They also reported that they did not receive any information from the government about the registration procedure. Instead, businesses had to find information through friends or by hiring intermediaries (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018).

Although some companies tried to find the information they needed through the One Stop Integrated Service Office directly, they often dealt with an officer who did not give complete information about the procedure or the documents they would need to complete the process (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018). Table 7 shows the information that was available through the One Stop Integrated Service websites in Jakarta, Bandung, and Bandar Lampung. Complete information was only available in Jakarta. Neither Bandung nor Bandar Lampung offered any information about the registration procedure. In Bandung, complete information was available about required documents and document tracking was available, but only some downloadable forms and partial information was available regarding the cost and time that would be required to complete each procedure. In Bandar Lampung, complete information was only available for document tracking—there was partial information about required documents and only some downloadable forms, while no information was available about the costs or time required.

**Table 7**  
**Available Information on Regional One Stop Integrated Service Websites**

Location	Information on the registration procedures	Information on required documents	Downloadable form for required document	Information on cost and time to complete each procedure	Feature to track the document
Jakarta	✓	✓	✓	✓	✓
Bandung	x	✓	partial	partial	✓
Bandar Lampung	x	partial	partial	x	✓

Source are collated from the One Stop Integrated Service websites in Jakarta, Bandung, and Bandar Lampung

Moreover, companies reported that in addition to friends or agents, they were able to find some information about the business registration process through local business associations. A representative of a business association similar to the Community of Indonesian Youth Entrepreneurship (Himpunan Pengusaha Muda Indonesia/HIPMI) and Hands On Community (Tangan Di Atas/TDA) noted that these business associations can have regular meetings to educate their members about legal procedures for businesses in Indonesia (Interview with the Business Association, 2018).

### 2. Complicated procedure

The lack of information discussed in the previous section contributes to mistakes in the complicated registration process in Indonesia. During the registration process, companies reported that they often filled out forms incorrectly, provided the wrong document, or went to the wrong institutions while trying to complete the process (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018). The process is further complicated by the many regulations governing business registration in Indonesia, which are outlined in Table 8.

**Table 8**  
**Number of Regulations Affecting the Business Registration Procedure in Indonesia**

Regulation Type	Number
Constitutional law (Undang – Undang)	10
Government regulations (Peraturan Pemerintah)	10
Ministerial regulations (Peraturan Kementerian)	23
Local regulations (Peraturan Daerah)	13
Institutional regulations (Peraturan Lembaga)	13
<b>Total Regulations governing starting a business</b>	<b>69</b>

Sources are collated from EoDB Indonesia (World Bank 2017).

The registration and licensing process is not only affected by many regulations. It is also governed by, and requires interaction with, many levels of government and institutions throughout the legal hierarchy—these are outlined in Table 9. For example, according to companies in Jakarta, in order to obtain a business license, a company must obtain a company deed (administered by the Ministry of Justice and Human rights), a domicile letter (issued by a village administrative unit governed by regulation of Jakarta Governor Decree), a building establishment permit (administered by the One Stop Integrated Service under regulation by the governor of Jakarta), and register for the business license (organized by the One Stop Integrated Service and under the Head of Jakarta One Stop Integrated Service Decree Agency) (Personal Interview with Company Representative in Jakarta, March–August 2018).

“The registration and licensing process is not only affected by many regulations. It is also governed by, and requires interaction with, many levels of government and institutions throughout the legal hierarchy”

**Table 9**  
**Procedure to Obtain a Business License, Authorized Institution, Legal Basis, and Supporting Documents in Jakarta**

Procedure to Obtain Business License	Authorized Institutions	Regulatory Level	Supporting documents
a. Process a company deed	Ministry of Justice and Human Rights	Ministry of Justice and Human Rights	1. Draft of company deed 2. Taxpayer identification number 3. Proof of down payment on to process the decree 4. Proof of non-tax state revenue 5. Proof of capital payment in the bank
b. Process the domicile letter	Village Administrative Unit	Governor Decree	1. Copy of identification number 2. Copy of company deed 3. Copy of decree of the company's ratification as a legal entity 4. Proof of land ownership 5. Domicile statement 6. Proof of property tax 7. Picture of the business location
c. Process building establishment permit	Jakarta One Stop Integrated Service Agency	Provincial Regulation	1. Copy of identification number 2. Copy of company deed 3. Copy of decree of the company's ratification as a legal entity 4. Copy of company taxpayer identification number 5. Proof of land ownership 6. Proof of property tax 7. Permit of building technical implementation 8. Copy of city plan provision 9. Picture of architectural plan.
d. Process business license	Jakarta One Stop Integrated Service Agency	Head of Agency Decree	1. Copy of company deed 2. Copy of identification number 3. Copy of company taxpayer identification number 4. Statement letter 5. Picture of company's representative

Sources collated from Director General of Law Administration Decree 01/2013 and Jakarta One Stop Integrated Service Website (2018)

Companies also reported that the high number of supporting documents they must prepare at each stage of registration is onerous (Personal Interviews with companies, March–August 2018). At least five supporting documents are required at every stage of registration, and many documents are required repeatedly at different stages. The cost of complying with these documentation requirements becomes a burden even before business registration—it begins with the process to acquire pre-registration documents.

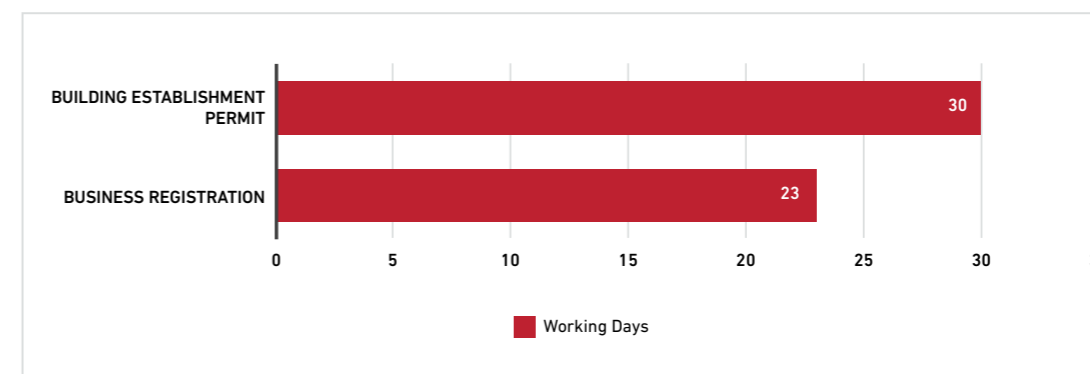
### 3. Time consuming

The many documents required and the complicated and repetitive procedures in the business registration result in a longer process. When companies went to the One stop Integration Service to register, they reported that they were required to return several times to complete all required documentation, and this takes a while to finish (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018). Moreover, companies reported that the time required to register a business is the most significant issue for them in the process (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018; Steer, 2006).

The CIPS field study shows that the more procedures businesspeople have to complete, the more time they spend on the registration process. As explained in the previous section (and illustrated in Table 9), obtaining a business license in Indonesia requires many procedures and many supporting documents. Companies reported that obtaining these supporting documents contributes to lengthy process of registering a business.

For example, in order to obtain a business license for a manufacturing company (23 days to complete, according to the EoDB Report), companies have to provide a building establishment permit, which can take longer than the 30 days recorded in the EoDB Report to obtain (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018). This means that completing the pre-registration requirement and the business registration itself can take more than 53 days—almost two months even if things go well (illustrated in Figure 6).

**Figure 6**  
**Average Processing Time for Building Establishment Permit & Business Registration**



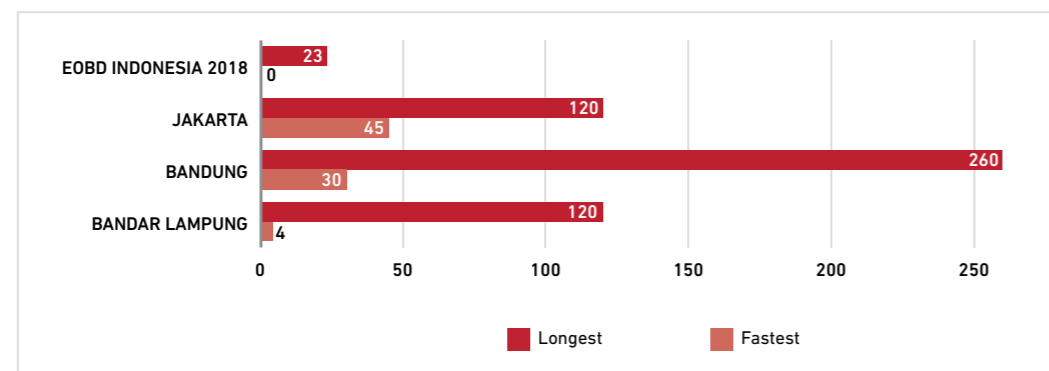
Source: Indonesia EoDB Report (World Bank, 2018)

Moreover, the standard time required to register a business reported in the 2018 EoDB Report does not include the time required to comply with the permit. This helps to explain the discrepancy between the time to register reported in the EoDB Report, up to 23 days, and in the CIPS field study, which found that the time required to complete the process ranged from four to 260 working days<sup>4</sup> (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018). This means that some businesses spend almost a year on this process. The different findings between are illustrated in Figure 7.

<sup>4</sup> Survey conducted by Olken & Singhal (2009) in Indonesia used several normalizations of time to standardize the data. They assumed each working day is equivalent to 6 hours worked, and that there are 260 working days per year.

“The many documents required and the complicated and repetitive procedures in the business registration result in a longer process.”

**Figure 7**  
**Days to Complete Business Registration Process (in Working Days)**



Source are collated from EoDB Report (The World Bank, 2018a) and Personal Interviews with Companies, March–August 2018).

Note: One company in Bandar Lampung managed to complete the registration process within four days because it used the service of an intermediary agent who is well connected with officials in the One Stop Integrated Services Office.

#### 4. High Cost

The difficulty, discussed in the previous sections, of the registration process leads to the use of intermediaries, brokers, and informal fees that speed up and simplify, but also increase the cost of business registration. Many companies are frustrated by the fact that intermediaries, brokers, and even government officials take advantage of the complication of the registration process to add to the already high price of completing their business registration (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018). The formal cost of the legitimate process is not the issue for companies (Steer, 2009; Rothenberg et al, 2015). The issue is the high fees charged by the brokers and intermediaries needed to navigate the long and complicated process and the informal fees charged by government officials (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018; Steer, 2018).

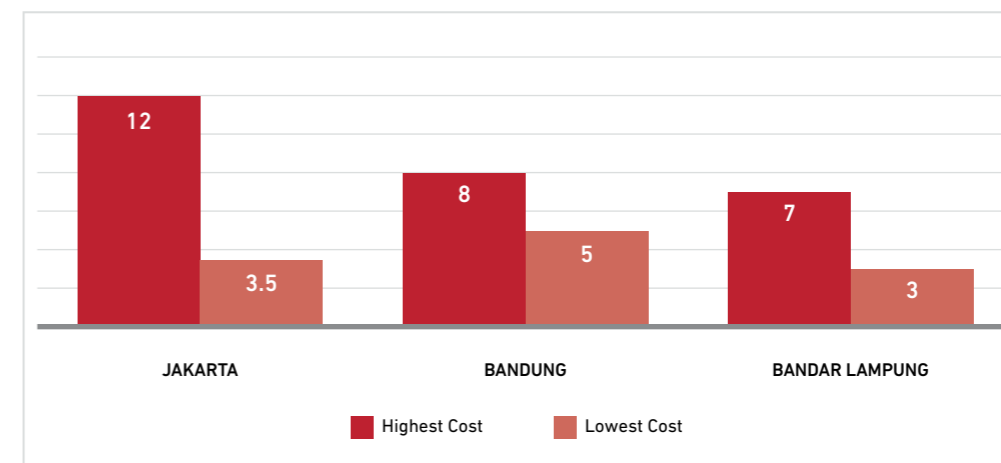
The high fees charged by brokers and intermediaries are positively correlated to the number of permits and business licenses that companies must secure to operate legally

The high fees charged by brokers and intermediaries are positively correlated to the number of permits and business licenses that companies must secure to operate legally. This is also true of the likelihood that companies will have to pay an informal fee to complete the registration procedure (Steer, 2004). The more requirements there are for business registration, the higher the price they have to pay. For example, to get the domicile letter required for a business license application, a company must request cover letters from a neighborhood leader and a community leader and then submit them to the village administrative unit. According to one company in Jakarta, at each stage of the procedure, they had to pay the authorized person to obtain these documents (Personal Interview with Company Representative in Jakarta, March–August 2018), even though according to the One Stop Integrated Service Website in Jakarta, these documents should be free.

The informal fees and broker or intermediary fees create uncertainty about cost of business registration process, and this problem is not captured by the EoDB Report. The EoDB Report states that the average price for completing business registration is about IDR 4,180,000 (World Bank, 2018), but CIPS's field study found that the cost for business

registration ranges from 3 million to 12 million rupiah (Personal Interviews with Companies, March–August 2018). The ranges of costs CIPS found in each city are illustrated in Figure 8.

**Figure 8**  
**Cost Range for Registering A business (in Million Rupiah)**



Source are collated from Personal Interviews with Companies (March–August 2018)

#### 5. Impact of the onerous process on business registration and EoDB Starting a Business Ranking

The overall impact of the complicated, opaque, and expensive registration process is that companies are discouraged from registering their business. Even though companies stated that it is important to formalize a business, some of them preferred to wait to register or to discontinue the registration process until they can obtain all the supporting documents, which can take a substantial amount of time, or until it is time for them to expand the business (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018). Some companies reported that so long as they do not have plans to expand their business, there is no need to register. Because the time and money spent registering a business is so significant, businesspeople prefer to spend it on business activity rather than registration, even if they think registering is important.

The significant challenges for starting a business documented in our interviews suggest that even Indonesia's low rank at 144<sup>th</sup> in the Starting a Business Index in the 2018 EoDB Report does not reflect how difficult it is for companies in Indonesia registering a business. The differences between the 2018 EoDB Report and our findings are illustrated in Table 10. If instead of the numbers reported in the 2018 EoDB Report, the most pessimistic numbers found through interviews for the number of procedures, the length of time to complete the process, and the cost of registering a business in Jakarta, Bandar, and Bandar Lampung, Indonesia's Starting a Business rank would fall to 182<sup>nd</sup>, lowering the country's overall EoDB rank to 86<sup>th</sup>.

**Table 10**  
**EoDB Ranking based on World Bank Findings vs. CIPS Interviews**  
**in Jakarta, Bandung, and Bandar Lampung**

Indicators	Description Based on EoDB Indonesia 2018	Starting a Business Rank Points Based on EoDB Indonesia 2018	Description based on interviews in Jakarta, Bandung, Bandar Lampung	Starting a Business Rank Points Based on Interviews
Procedures	10 procedures	11.2	12 procedures: <ul style="list-style-type: none"> <li>10 procedures listed in the EoDB Report</li> <li>1 procedure to find the broker/intermediary</li> <li>1 procedure to obtain the building establishment permit</li> </ul>	12.0
Time (Days)	23 working days	23.1	260 working days	263.1
Cost (% income per capita)	IDR 4,180,000	10.9	IDR 12,000,000	31.3
Rank in 'Starting a Business' Indicator	-	144	-	182
Overall Rank of EoDB Index	-	72	-	86

Sources collated from World Bank (2018) and calculated based on Distance to Frontier (DTF) Calculator.<sup>5</sup>

<sup>5</sup> The Indonesia EoDB Rank is based on a survey conducted in Jakarta & Surabaya.

## B. Regulation for Accelerating Business Registration in Indonesia Prior to Implementation of the Online Single Submission (OSS) system

To support the business sector in Indonesia, the central government addressed the inefficiencies of the business registration process by introducing several regulatory changes. However, the decentralized nature of the Indonesian government allows for interpretation in local implementation, and the changes have resulted in different results depending on the local government and their respective region. The challenges this creates can be illustrated by the implementation of MOT 77/2013, which governs the issuance of company registration certificates and business licenses; MHA 19/2017, which eliminated the requirement for a nuisance permit; and Jakarta Investment Service and One Stop Integrated Service (PTSP) Regulation I Number 23/2017, which regards the mandatory labour affairs report.

### 1. Simultaneous Issuance of Business License and Company Registration Certificate.

The Indonesian Ministry of Trade wants to improve the registration service for trading companies by issuing business licenses and company registration certificates simultaneously, as stipulated under the MOT 77/2013. To act in accordance with this, the One Stop Integrated Service must issue the documents simultaneously within three working days of receiving a complete and correct application.

The local government of Jakarta adopted this regulation by issuing Investment Services and Jakarta One Stop Integrated Service (PTSP) Special Region I Number 23/2017, which stated that business licenses and company registration certificates should be issued simultaneously in order to support the achievement of the central government's EoDB target. However, despite the simultaneous issuance of these documents and the fact that this should take one day according to the regulation, companies reported that the process is not completed in one day (Personal Interview with Company Representative in Jakarta, March–August 2018). This is due to the verification process, which requires the direct authorization of the Head of Agency of the One Stop Integrated Office, who is not always available at the office. As a result, a process that is supposed to take one day takes up to two weeks (Personal Interview with Company Representative in Jakarta, 2018).

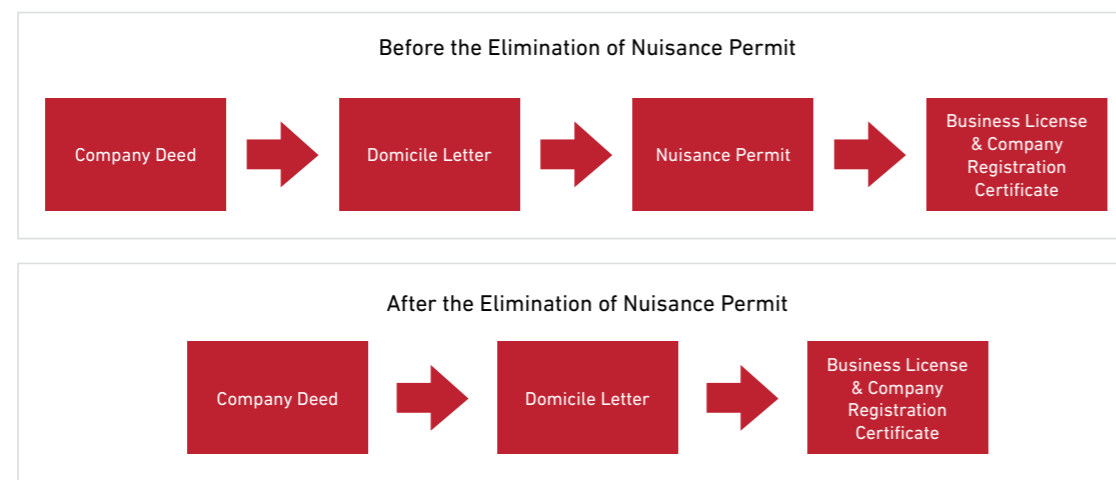
The local governments in Bandung and Bandar Lampung apply MOT 77/2013 differently than Jakarta's government. In Bandung, although they use the same online system as in Jakarta, processing is not designed to be simultaneous. Instead, the business license is issued before the company registration certificate (SOP of The Mayor Bandung Regulation No 495/2015 and The Mayor Lampung Regulation 04/2015). This is because the business license is a juridical and technical requirement for the issuance of a company registration certificate because it proves the business unit has completed the requirements to become a legal entity (Personal Interview with One Stop Integrated Officer, 11 June 2018; Personal Interview with Notary, 24 May 2018).

## 2. Elimination of the Nuisance Permit

In pursuance of the central government's EoDB target, in March 2017 the Ministry of Home Affairs (MHA) eliminated nuisance permits (HO) as a requirement for business registration.

The local governments of Jakarta, Bandung, and Bandar Lampung did not comply with this regulation all at once, but in the end, they harmonized their policy with the regional regulation. Evidence of this is the issuance of the Jakarta One Stop Integrated Service Regulation No 16/2017 on April 2017, the Mayor Bandar Lampung Regulation 29/2017 on November 2017, and the Bandung Regional Regulation No 05/2018 on March 2018, all of which repealed the requirement for a nuisance permit. As illustrated in Figure 9, this reduced the number of procedures and reduced the time required by seven days (the average time to obtain a nuisance permit) (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018).

**Figure 9**  
**Business Registration Before and After the Elimination of Nuisance Permit Requirement**



Source: Personal Interview with One Stop Integrated Officer, 11 June 2018; Personal Interview with Notary, 24 May 2018.

Although the elimination of the nuisance permit shortens the business registration procedure, the One Stop Integrated Service Officer we interviewed states that this permit is an important tool for the government to monitor and ensure that businesses do not harm their neighborhood (Personal Interview with One Stop Integrated Officer, 11 June 2018; Personal Interview with Notary, 24 May 2018). Without nuisance permits, local governments can no longer directly check whether companies operate responsibly (Personal Interview with One Stop Integrated Officer, 11 June 2018; Personal Interview with Notary, 24 May 2018). Companies also believe that for high-impact businesses, such as metal works, large scale manufacturing, and large scale food processing they are required to obtain issuance permits, which ensure these operations will be monitored by the government. However, nuisance permits perform a similar function to a domicile letter, which requires the approval from a neighborhood official or the head of a sub-district, which is the main information in the nuisance permit (Personal Interview with One Stop Integrated Service Officer, 11 June 2018).

On the other hand, SMEs have responded positively because the elimination of the nuisance permit reduces the burden of business registration (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018).

## 3. Mandatory Labor Affairs Report

According to Marhaeni et al (2017, p. 177), the Mandatory Labor Affairs Report (MLAR) is used by the government to create an accurate database of manpower in Indonesia to help the government create appropriate policy. All for-profit companies that employ workers must register a MLAR with the Ministry of Manpower, as stated in Ministry of Manpower Regulation 14/2006. Regardless of the number of workers a company hires or whether they are part-time or full-time workers, the company must register them with the Ministry of Manpower. However, while this report is required from all businesses, it is not required as part of the business registration process.

In Bandung and Bandar Lampung, the local government applies the regulation appropriately, requiring companies to complete and submit the mandatory labor affairs report, but not requiring it as part of the business registration process (Interview with Notary, 24 May 2018; Interview with One Stop Integrated Officer, 11 June 2018). The local governments of Bandung and Bandar Lampung do not exercise any authority over this report, instead requiring companies to report directly to the Provincial Manpower Agency website.

However, the Local Government of Jakarta has made this report part of its business registration process (The World Bank, 2017). The intention of this policy is both to provide data on employment and to simplify the business registration procedure in Jakarta (One Stop Integrated Service Regulation 23/2017). Through this regulation, the local government of Jakarta intended for the MLAR to be completed at the same time that the business license and company registration certificate were issued, as stated in the One Stop Integrated Service Regulation 23/2017, and all three together are intended to take two days to complete (One Stop Integrated Service Regulation 23/2017).

In practice, this has failed to meet the goals stated by the Jakarta government. SMEs interviewed in Jakarta reported that they do not register the MLAR because they believe that their businesses and the number of employees are too small, or because they do not have any employees (Personal Interview with Company Representative in Jakarta, March–August 2018). They also stated that they mostly use part-time employees, who they consider informal employees—believing there is no need to register them (Personal Interview with Company Representative in Jakarta, March–August 2018). Companies also stated that they can operate normally without registering the MLAR, which makes the requirement seem more insignificant for their business (Personal Interview with Company Representative in Jakarta, March–August 2018).

Companies also stated that they can operate normally without registering the MLAR, which makes the requirement seem more insignificant for their business

The experience in Jakarta demonstrates that even when the MLAR is made a requirement for business registration, companies prefer to skip it entirely. This is due to their misunderstanding of the regulation and the weak monitoring system. Moreover, if the local government in Jakarta truly wishes to simplify the business registration process, then the MLAR requirement can be replaced by the Manpower Social Security program (BPJS Ketenagakerjaan), which requires the same employment data and can be updated periodically rather than only once a year (MOM 14/2006).

### C. The Implementation of Online Single Submission

In July 2018, President Jokowi formalized the OSS regulation in an effort to improve the business environment in Indonesia. This regulation applies to the business registration service, intending to integrate it electronically and eliminate the ability of ministries and local governments to issue licenses in sectors other than mining, oil and gas, and finance (Investment Coordinating Board, 2018).<sup>6</sup> The purpose of the OSS is to simplify business licensing, making it more efficient, simple, and modern; to simplify regulation through standardization, integration, coordination; and to bring the services system in line with current technology (Investment Coordinating Board, 2018)

Business identification numbers (BIN) (valid as company registration certificates) and business licenses are issued by the OSS (Investment Coordinating Board, 2018). Moreover, through obtaining a BIN through the OSS, a company is automatically registered with the Workers Social Security Program (BPJS) and healthcare insurance with BPJS. In addition, the OSS requires synchronization with the regional One Stop Integrated Service to fulfill requirements such as location permits and building establishment permits, which are still administered locally (Investment Coordinating Board, 2018).

#### Business Registration Under OSS

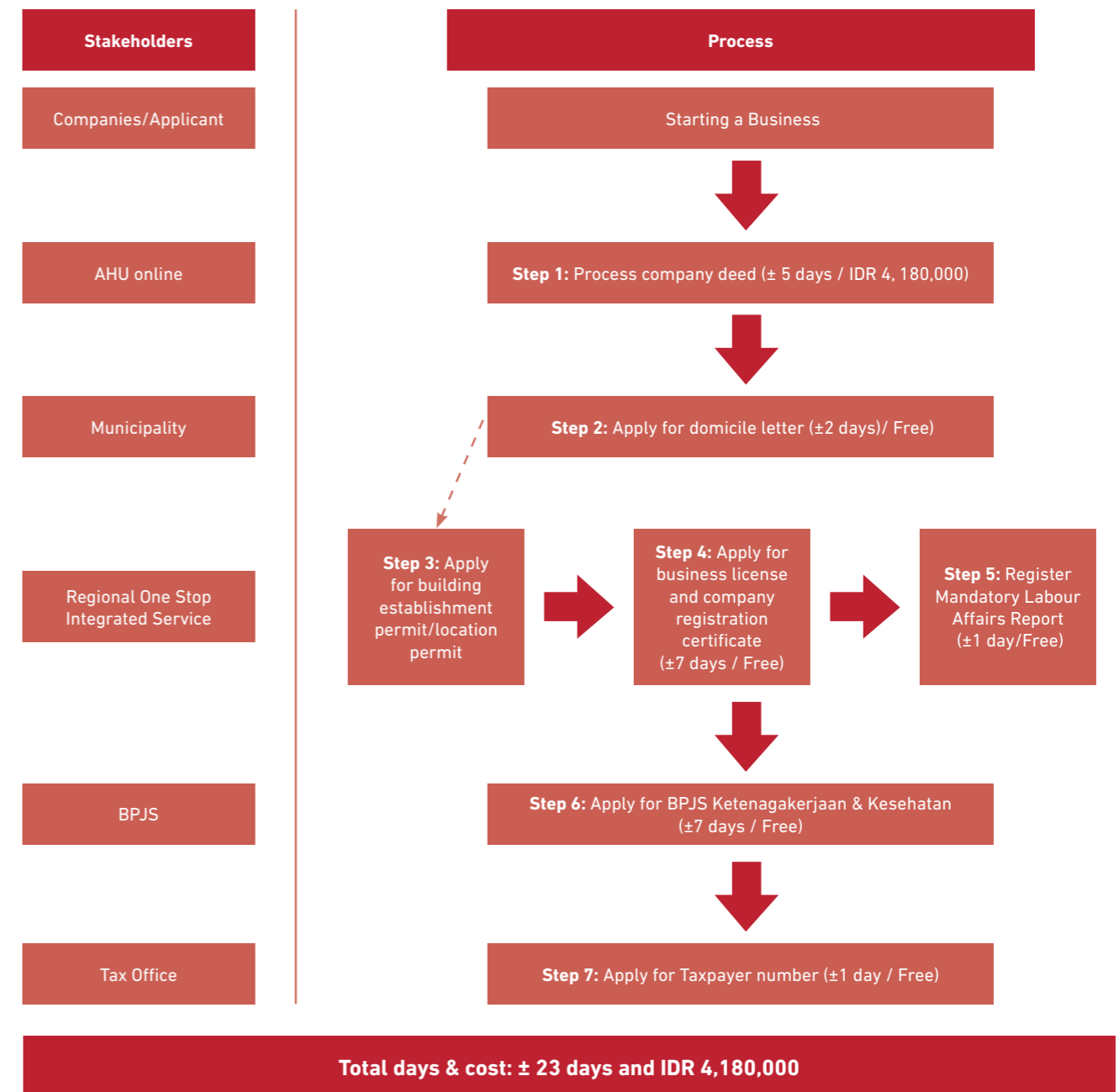
Although the procedure to obtain a business license, which required companies to process the company deed through a notary and the General Law Administration system (AHU), remained the same under the new OSS system, issuing the business license through the OSS enabled companies to receive their license up front before completing local requirements such as building establishment permits or location permits. In return, companies must commit to meet the necessary requirements within 30 days (though this depends on the deadline set for each required permit). If the companies fail to follow through with the commitment, then the business license becomes null and void (Government Regulation 24/2018).

“Although the procedure to obtain a business license, which required companies to process the company deed through a notary and the General Law Administration system (AHU), remained the same under the new OSS system, issuing the business license through the OSS enabled companies to receive their license up front before completing local requirements such as building establishment permits or location permits”

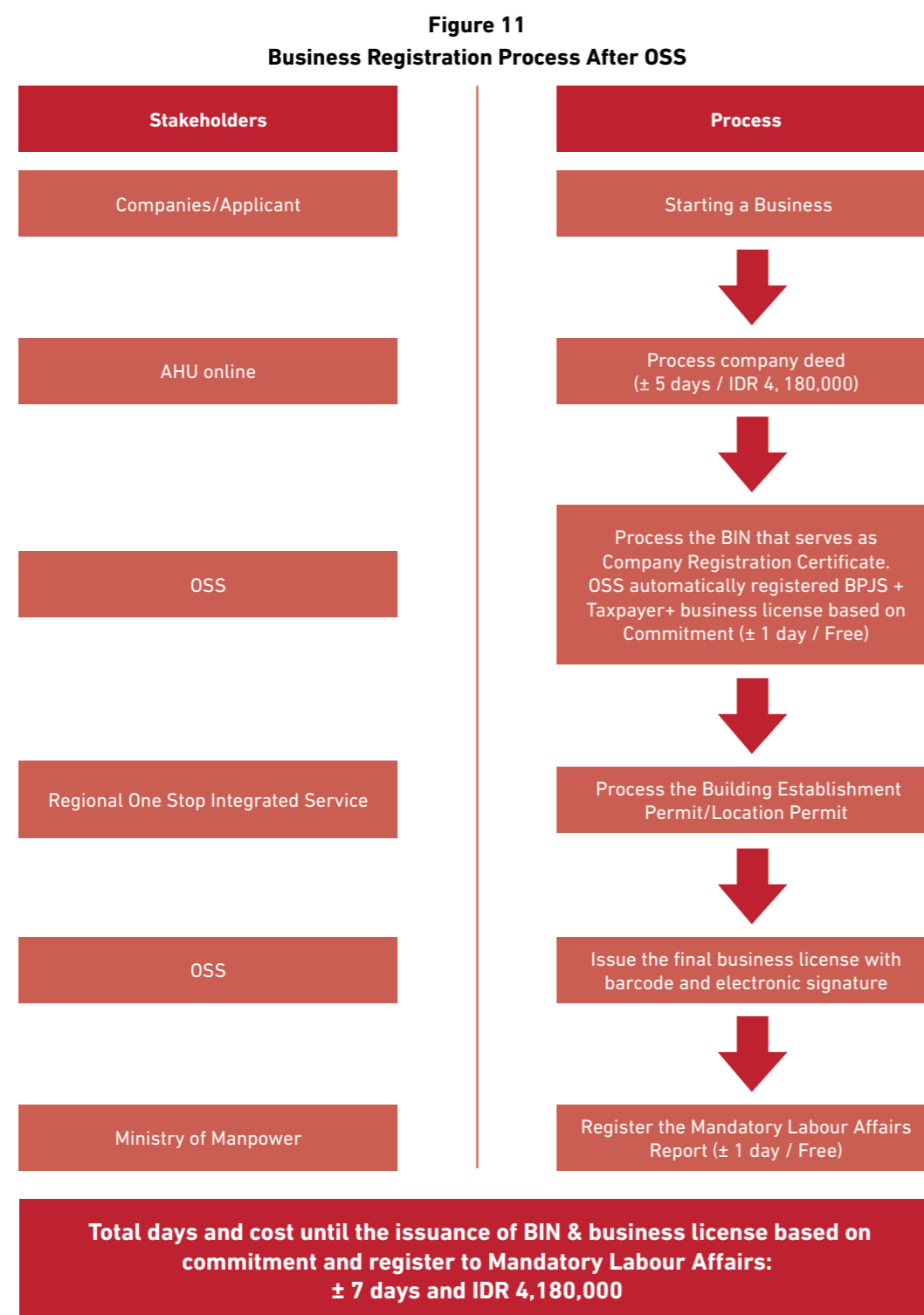
Figure 10 and Figure 11 show a before-and-after comparison illustrating the effect of the OSS. These figures illustrate that the procedure to obtain a company deed (Step 1), and to register the MLAR (Step 5) remained the same, but the process to obtain a business license and company registration certificate (Step 4), registration of Workers Social Security Program and healthcare insurance with BPJS (Step 6), and obtaining a taxpayer identification number (Step 7) were shortened. Moreover, the OSS removed the company domicile (Step 2) requirement from the registration process.

<sup>6</sup> Although interviewed Companies already formalized their company before OSS's establishment, but the company still within the sector that included in the OSS.

**Figure 10**  
**Business Registration Process Before OSS**



Source collated from Indonesia EoDB Report (World Bank, 2018b)



Sources collated from OSS (OSS, 2018)

Although OSS represents a breakthrough regulation with the potential to simplify the business registration process in Indonesia, the implementation of OSS faces two challenges: insufficient infrastructure and the integration of central and local regulation.

### 1. IT Infrastructure

Although local governments responded positively to the establishment of the OSS and are willing to implement the system, they do not have the required IT infrastructure. According to the Expert Staff of Coordination from the Ministry for Economic Affairs, Edy Putra Irawady, the implementation of OSS is not supported by the regional IT infrastructure. "In some districts, the internet connection is not yet ready and the bandwidth size is too weak for the implementation of OSS system in some districts" (Akbar, 2018; Asmara, 2018; Putera, 2018). This means that the process of sending licensing documents online is slower than it should be. By the time this system was launched in July 2018, there were at least 60 districts/municipalities in Indonesia that had not implemented the OSS because of IT infrastructure issues and were still using the old system (Akbar, 2018; Asmara, 2018; Putera, 2018).

Companies are concerned that the implementation of the OSS will have similar problems to the previous system, with poor website maintenance, a confusing user experience, and slow upload times (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018). In addition, although younger entrepreneurs will not have problem with an online-based business registration, it may be a challenge for older entrepreneurs.

The private sector can provide the resources and support the development of IT infrastructure, which can be used to improve and accelerate the implementation of the OSS (Ahad, 2018; Rahadi, 2018; Aco, 2018).

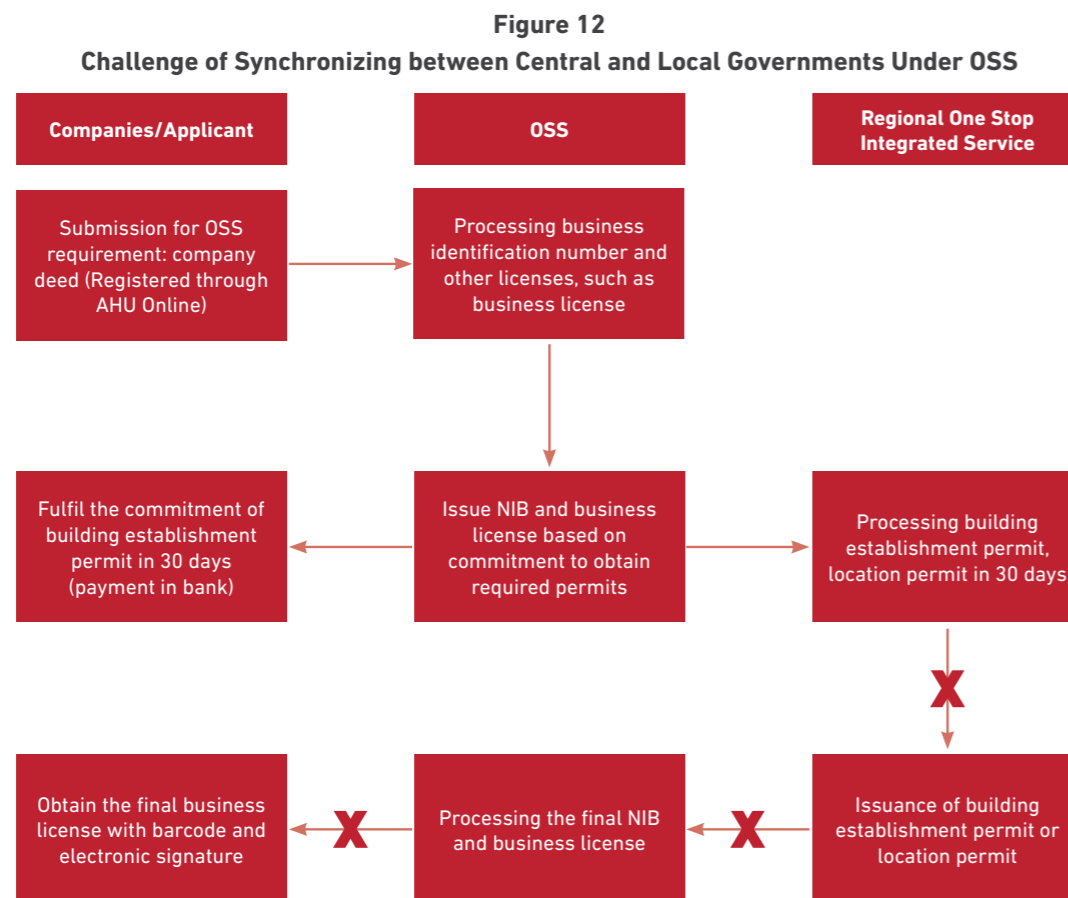
### 2. Synchronization Process Between Central and Local Regulation

According to an officer the One Stop Integrated Service, the implementation of OSS may also be challenged by the difficulties of synchronizing between central and regional governments. It is difficult to accommodate all the interests of agencies and stakeholders at the different levels of government (Personal Interview with One Stop Integrated Service Officer, 11 June 2018).

Figure 12 illustrates the challenge of synchronizing between the central and local governments. OSS implementation uses a centralized mechanism, which becomes a constraint, since the One Stop Integrated Service Agency at the local level struggles to keep up with the pace of the central government. As explained in previous sections, the One Stop Integrated Service Agency processes local permits such as the building establishment permit, which has to be issued within 30 days of companies' receiving their business license. However, a field inspection is required to issue this permit and the regional standard operating procedures and regulations are not entirely synchronized with the central government, so the regions are struggling to catch up to the central government (Personal Interview with Dewi Desuk, Researcher UKM Center Faculty of Economics, University of Indonesia, 2018).

Although OSS represents a breakthrough regulation with the potential to simplify the business registration process in Indonesia, the implementation of OSS faces two challenges: insufficient infrastructure and the integration of central and local regulation.

These issues could potentially defeat the purpose of the establishment of the OSS. If the local government cannot release their permits on time, then the business licenses issued up front will become void and companies will need to repeat the entire process through no fault of their own. Companies also mentioned that the implementation of OSS will most likely not be ready until at least one year after its launch due to trial and error in implementation (Personal Interview with Company Representative in Jakarta, Bandung, Bandar Lampung, March–August 2018).



Source: collated from OSS (2018)  
Notes: 'X' signifies a synchronization challenge in the procedure that may undermine the registration process.

## Recommendations

In principle, the establishment of Government Regulation 24/2018, which establishes the OSS, should significantly accelerate the business registration process in Indonesia. In practice, however, the implementation remains challenged by insufficient infrastructure in some districts and municipalities in Indonesia and by the challenges of synchronizing the procedures and regulations of the central and regional government. Moreover, the government needs to consider removing any steps in the process that are not requirements to obtain a business license. Four policy reforms are required to improve the situation.

First, the Jakarta One Stop Integrated Service Agency should revise One Stop Integrated Service Decree No 23/2017 Article 2d to remove the MLAR from the business registration process in Jakarta. In addition to the fact that this report contradicts the requirements for business licenses in central regulation MOM 14/2006, the MLAR is also not necessary for the Jakarta Government to gather employment data since it can use data from BPJS Ketenagakerjaan, which provides similar information. These changes will eliminate one procedure and one day of the time required for business registration in Jakarta.

Second, the central government should revise Government Regulation 24/2018 Article 78 by adding a section regarding educating SMEs about the OSS by working together with local business associations. Although Government Regulation 24/2018 requires that information about the OSS be disseminated to companies, activities to do so have not taken place. By cooperating with local governments and business associations, the government can ensure that information about OSS will reach even remote communities and communities that do not have access to information facilities.

Third, the central government should revise Government Regulation 24/2018 Article 88 to require that ministries related to the OSS assist local governments in formulating new standard operating procedures and regulations to ensure that they are synchronized between all levels of government and the OSS. Ministries should provide this assistance for one year (an adjustment period), after which time districts and municipalities must be able to implement the OSS properly. To ensure that local governments meet this requirement, there should be penalties for local governments who fail to comply. This penalty can be implemented by reducing the performance allowance for officials of districts and municipalities that fail to implement the OSS after receiving assistance.

Fourth, the central government should revise Government Regulation 24/2018 Article 91 to ensure that governments work with the private sector to synchronize between the central and local government, especially concerning upgrades to IT infrastructure. Support from the private sector is needed. Districts and municipalities are willing to implement the OSS, but they lack the infrastructure to make it happen. Meanwhile, the private sector has the resources to provide internet access and computers for the implementation of the OSS. Collaboration between local governments and the private sector is the best way to accomplish synchronization quickly so that OSS implementation can proceed in the required timeframe.

Assuming that there are no changes in other sub-indicators of the EoDB Index and no changes in the rank of other counties, the implementation of the OSS and the proposed reforms in this paper will improve Indonesia's EoDB Starting a Business ranking, moving the country up 69 places to 75<sup>th</sup> from its current ranking of 144<sup>th</sup>. This alone will improve Indonesia's overall rank in the EoDB Index and move it up the ranking to 70<sup>th</sup> best in the world, bringing Indonesia that much closer to the president's EoDB target.

**Table 11**  
**Expected Outputs from Implementing the Proposed Policy Reforms**

Indicators	Current	Expected Outputs	After
Procedures	11.2	The reform will simplify 4 procedures: 1. Erasing of Mandatory Labor Affairs Report → new recommendation 2. Removing Company Domicile Letter → included in the OSS 3. Simplifying BPJS → included in the OSS 4. Simplifying Taxpayer Identification number → already included in the OSS	7.2
Time (Days)	23.1	The reform will reduce the time procedures to register a business up to 17 days: 1. Removing Mandatory Labor Affairs Report will eliminate 1 day 2. Registering Business license through OSS will eliminate 6 days 3. Removing Company Domicile Letter will eliminate 2 days 4. Simplifying BPJS will eliminate 7 days 5. Simplifying Taxpayer Identification number will eliminate 1 day	6.1
Rank in 'Starting A Business' Indicator	144	The EoDB Starting a Business Indicator rank improves by 69 positions	75
Overall Rank of EoDB Index	72	The EoDB Rank increases by 2 positions	70

## References

- Aco, H. (2018, May 4). Tedi Supardi Bicara Peran Strategis APJII untuk Pertumbuhan Internet di Indonesia [Tedi Supardi Speaks APJII's Strategic Role for Internet Growth in Indonesia]. Retrieved 2018, October 30 from <http://www.tribunnews.com/techno/2018/05/04/tedi-supardi-bicara-peran-strategis-apjii-untuk-pertumbuhan-internet-di-indonesia?page=all>
- Adele, H. A. et al. (2015): An Examination of Factors Motivating Informal Entrepreneurship in Ibadan, South West Nigeria. *European Journal of Business and Management*, Vol. 7, pp 18-30
- Aidis, R., Welter, F., Smallbone, D. and Isakova, N. (2007), "Female Entrepreneurship in Transition Economies: the case of Lithuania and Ukraine", *Feminist Economics*, Vol. 13 No. 2
- Akbar, C. (2018, July 9). 60 Kabupaten Disebut Belum Siap Terapkan Online Single Submission [60 Districts Called Not Ready to Apply Single Submission Online]. Retrieved 2018, October 30 from <https://bisnis.tempo.co/read/1105204/60-kabupaten-disebut-belum-siap-terapkan-online-single-submission>
- Alamansyah, I.E. (2017, October 17). Kemenkop dan UKM-Pemprov DKI Gelar Pelatihan Kewirausahaan [Ministry of Cooperatives and UKM - DKI Provincial Government Holds Entrepreneurship Training]. Retrieved October 30, 2018 <https://republika.co.id/berita/ekonomi/makro/17/10/17/oxz1p6349-kemenkop-dan-ukmpemprov-dki-gelar-pelatihan-kewirausahaan>
- American Chamber of Commerce in Indonesia. (2018, July 24). *Indonesia Looks to Simplify Business Licensing with OSS System*. Retrieved October 30, 2018, from <http://www.amcham.or.id/regulatory/5751-indonesia-looks-to-simplify-business-licensing-with-oss-system>
- Asmara, C. G. (2018, July 9). Masih Ada 60 Daerah Belum Terkoneksi Sistem Perizinan Online [There Are Still 60 Regions Not Connected Online Licensing Systems]. Retrieved 2018, October 30 from <https://www.cnbcindonesia.com/news/20180709132650-4-22629/masih-ada-60-daerah-belum-terkoneksi-sistem-perizinan-online>
- Bandung Communication & Information Agency. (2015, May 28). Reformasi Birokrasi, Ridwan Kamil Meresmikan Pelayanan Perizinan Terpadu Secara Online dari BPPT[Bureaucratic Reform, Ridwan Kamil Inaugurated Online Integrated Licensing Services from BPPT]. Retrieved October 30, 2018, from <https://portal.bandung.go.id/posts/2015/05/29/ynm8/reformasi-birokrasi-ridwan-kamil-meresmikan-pelayanan-perizinan-terpadu-secara-online-dari-bppt>
- Budiman, Budisantoso. (2016, August 11). Kampung UKM Digital Unila Diluncurkan [Unila Digital SME Village Launched] Retrieved on October 30, 2018 from <https://lampung.antaranews.com/berita/291667/kampung-ukm-digital-unila-diluncurkan>
- Cabinet Secretary Republic of Indonesia. (2017a, November 1). Melompat 19 Tingkat, Peringkat Kemudahan Berusaha di Indonesia Kini Nomor 72 [Jumping to the 19<sup>th</sup> Position, Now Indonesian Ranking in Ease of Doing business is 72<sup>nd</sup>]. Retrieved October 30, 2018, from <http://setkab.go.id/melompat-19-tingkat-peringkat-kemudahan-berusaha-di-indonesia-kini-nomor-72/>
- Cabinet Secretary Republic of Indonesia. (2017b, December 12). Banyak Kemajuan 3 Tahun Terakhir, Presiden Jokowi: Negara Lain Optimistis Lihat Perkembangan Indonesia [Many Progresses in the Last 3 Years, President Jokowi: Other Countries Optimistic See Indonesia's Development]. Retrieved October 30, 2018, from: <http://setkab.go.id/banyak-kemajuan-3-tahun-terakhir-presiden-jokowi-negara-lain-optimistis-lihat-perkembangan-indonesia/>

Communication & Information Lampung Provincial Agency. (2016, August 11). Peluncuran Kampung UKM "Lampung Goes Digital" [Launch of UKM Village "Lampung Goes Digital"]. Retrieved on October 30, 2018 from <http://lampungprov.go.id/berita/peluncuran-kampung-ukm-lampung-goes-digital.html>

Coordinating Ministry for Economic Affairs Republic of Indonesia. (2018). Pedoman perizinan Berusaha Melalui OSS (Untuk Pelaku Usaha) [Licensing Guidelines Through OSS (For Business Actors)]. Retrieved from <https://oss.go.id/oss/portal/download/f/PedomanIndonesia.pdf>

Coordinating Ministry for Economic Affairs Republic of Indonesia. (2016). Doing Business in Indonesia: Produk Hukum (Law Products). Retrieved from <http://eodb.ekon.go.id/produk-hukum/>

Cross, J.C. (2000): "Street Vendors, Modernity and Postmodernity: Conflict and Compromise in the Global Economy", *International Journal of Sociology and Social Policy*, Vol. 20 No. 1

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. (2014). Enterprise formalization: "Fact or fiction? A quest for case studies". Retrieved from [https://www.ilo.org/wcmsp5/groups/public/@ed\\_emp/@emp\\_ent/@ifp\\_seed/documents/publication/wcms\\_245359.pdf](https://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/@ifp_seed/documents/publication/wcms_245359.pdf)

Dewi Desuk Researcher of UKM Center FE University of Indonesia. (2018, October 12). Personal Interview.

Dinas Penanaman Modal Dan PTSP Kota Bandung. (2018). Dinas Penanaman Modal Dan PTSP Kota Bandung: Penyedia Layanan Perizinan Cepat dan Mudah. Retrieved from <https://dpmpptsp.bandung.go.id/>

Dinas Penanaman Modal Dan Pelayanan Terpadu Satu Pintu Provinsi DKI Jakarta. (2018). Dinas Penanaman Modal Dan Pelayanan Terpadu Satu Pintu Provinsi DKI Jakarta. Retrieved from <https://pelayanan.jakarta.go.id/>

Dinas Penanaman Modal Dan Pelayanan Terpadu Satu Pintu Provinsi Lampung. (2018). Dinas Penanaman Modal Dan Pelayanan Terpadu Satu Pintu Provinsi Lampung (2016 – 2020). Retrieved from <http://ptsp.lampungprov.go.id/>

Fajnzylber, P, Maloney, W & Montes-Rojas, G 2011, 'Does formality improve micro-firm performance? Evidence from the Brazilian SIMPLES program', *Journal of Development Economics*, vol. 94, pp. 262–276.

Gerxhani, K. (2004), "The Informal Sector in Developed and Less Developed Countries: A Literature Survey", *Public Choice*, Vol. 120, pp. 267-300.

Hidayat, F. (2018, May 6). Peran Strategis APJII Dorong Pertumbuhan Internet di Indonesia [APJII's Strategic Role in Encouraging Internet Growth in Indonesia]. Retrieved 2018, October 30 from <http://www.beritasatu.com/sains/491304-peran-strategis-apjii-dorong-pertumbuhan-internet-di-indonesia.html>

ILO. (2011). "Statistical update on employment in the informal economy", Geneva: International Labour Office, Department of Statistics.

ILO. (2014). Transitioning from the Informal to The Formal Economy. International Labour Conference. Retrieved from [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_241897.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_241897.pdf)

Investment Coordinating Board Republic of Indonesia. (2018). Licensing Reform: Online Single Submission (OSS).

Julianto, A.P. (2017, October 20). Jalankan Program Wirausaha Pemula, Kemenkop Siapkan Rp 100 Miliar [Run the Beginner Entrepreneurship Program, Kemenkop Prepare Rp. 100 Billion]. Retrieved on October 30, 2018 from <https://ekonomi.kompas.com/read/2017/10/20/080000626/jalankan-program-wirausaha-pemula-kemenkop-siapkan-rp-100-miliar->

Julianto, A.P. (2017, August 10) Pusat Layanan Usaha Terpadu Koperasi dan UKM Lampung Diresmikan [The Integrated Cooperative and SME Business Services Center in Lampung was officially opened]. Retrieved on October 30, 2018 from <https://ekonomi.kompas.com/read/2017/08/10/100000726/pusat-layanan-usaha-terpadu-koperasi-dan-ukm-lampung-diresmikan>

Khamis, M. (2014). Formalization of jobs and firms in emerging market economies through registration reform. *IZA World of Labor*. doi:10.15185/izawol.67

KPPOD. (2014). Penyerderhanaan Perizinan Usaha di Daerah [Simplifying the Business Licensing in the Region]. Retrieved from <https://media.neliti.com/media/publications/263-ID-penyederhanaan-perizinan-usaha-di-daerah.pdf>

Marhaeni, A.A. et al. (2017). Kondisi Pasar Kerja di Provinsi Bali: Implementasi Undang-Undang Wajib Lapor Ketenagakerjaan di Perusahaan. *Journal Buletin Studi Ekonomi*, Vol 22, pp. 175-186.

OECD. (2015). Policy Brief on Informal Entrepreneurship. European Union/OECD. Retrieved from [https://www.oecd.org/cfe/leed/Policy%20Brief%20on%20Informal%20Entrepreneurship\\_%20Entrepreneurial%20Activities%20in%20Europe.pdf](https://www.oecd.org/cfe/leed/Policy%20Brief%20on%20Informal%20Entrepreneurship_%20Entrepreneurial%20Activities%20in%20Europe.pdf)

OECD. (2018). OECD Economic Survey Indonesia (October 2018). Retrieved from <http://www.oecd.org/eco/surveys/Indonesia-2018-OECD-economic-survey-overview.pdf>

Official of One Stop Integrated Service Office. (2018, June 11). Personal Interview.

Olken, B., & Singhal, M. (2009). Informal Taxation. doi:10.3386/w15221

Perdana, P.P. (2015, May 28). Kini, 24 Jenis Izin di Bandung Bisa Diajukan Secara "Online" [Now, 24 Types of Permit in Bandung Can Be Applied "Online"]. Retrieved October 30, 2018, from <https://regional.kompas.com/read/2015/05/28/16090711/Kini.24.Jenis.Izin.di.Bandung.Bisa.Diajukan.secara.Online>

Putera, A, D. (2018, July 9). Implementasi OSS di Daerah, Infrastruktur TI Jadi Tantangan [OSS Implementation in Regions, IT Infrastructure is a Challenge]. Retrieved 2018, October 30 from <https://ekonomi.kompas.com/read/2018/07/09/193239026/implementasi-oss-di-daerah-infrastruktur-ti-jadi-tantangan>

Rahadi, F. (2018, May 06). APJII Punya Peran Strategis untuk Pertumbuhan Internet. [APJII Has a Strategic Role for Internet Growth]. Retrieved 2018, October 30 from <https://www.republika.co.id/berita/trendtek/internet/18/05/07/p8bzgc291-apjii-punya-peran-strategis-untuk-pertumbuhan-internet>

Rand, J., & Torm, N. (2012). The Benefits of Formalization: Evidence from Vietnamese Manufacturing SMEs. *World Development*, 40(5), 983-998. doi:10.1016/j.worlddev.2011.09.004

Representative of Notary. (2018, May 24). Personal Interview.

Representatives of Business Association. (2018, June 6). Personal Interview.

Representatives of Business Association. (2018, April 25). Personal Interview

Representative of PT. IK, PT. IS PT, AK, PT. AI, CV TT, PT. M, CV. AB, PT. BAR, PT. MPC, PT. MAG, PT. A, PT. KB, CV. UI, CV. RI (2018, March – August). Personal Interview

Rothenberg, A. et al. (2016). "Rethinking Indonesia's informal sector", World Development, Vol. 80, pp. 96-113.

Smallbone, D. and Welter, F. (2004): "Entrepreneurship in Transition Economies: Necessity or Opportunity Driven?" <http://www.babson.edu/entrep/fer/BABSON2003/XXV/XXV-S8/xxv-s8.htm> (accessed 9 April 2006).

Statistics Indonesia. (2017a). Pendapatan Nasional Indonesia [Indonesia National Income], 2013 – 2017. Retrived from <https://www.bps.go.id/publication/2018/06/07/03ef95597507c3214e16e421/pendapatan-nasional-indonesia-2013-2017.html>

Statistics Indonesia. (2017b). Hasil Pendaftaran Usaha/Perusahaan Sensus Ekonomi 2016 Indonesia [Result of 2016 Indonesian Economic Census Business Registration / Company Results].

Statistics Indonesia. (2017c). Sensus Ekonomi 2016 (Economics Census 2016). Retrieved from <https://se2016.bps.go.id/>

Steer, Liesbet. (2006). Business Licensing and One Stop Shops in Indonesia. The Asia Foundation

The Asia Foundation. (2007). Making Senses of Business Licensing in Indonesia. Retrieved from <https://asiafoundation.org/2017/04/12/licensing-reform-indonesia-whats-next-one-stop-shop/>

The World Bank. (2018a). *Doing Business 2018: Reforming to Create Jobs (Indonesia)*. The World Bank Group

The World Bank. (2018b). *Doing Business 2018: Reforming to Create Jobs (World)*. The World Bank Group

The World Bank. (2017). *Doing Business 2017: Equal Opportunity for All*. The World Bank Group

Tiah, S.M. (2015, May 2015). Perizinan Secara Online, Jawaban dari Keluhan Warga Bandung [Online Licensing, Answers from Complaints of Residents of Bandung]. Retrieved October 30, 2018, from <http://jabar.tribunnews.com/2015/05/28/perizinan-secara-online-jawaban-dari-keluhan-warga-bandung>.

Trihendrawan, Nuriwan. (2017, October 31). Kemenkop UKM Rangkul IBM SInergi Pelatihan Wirausaha [Kemenkop UKM Rangkul IBM SInergi Pelatihan Wirausaha]. Retrieved on October 30, 2018 <https://ekbis.sindonews.com/read/1253087/34/kemenkop-ukm-rangkul-ibm-sinergi-pelatihan-wirausaha-1509422813>

UNDP. (2004). Business Development Service: How To Guide. Retrieved from [http://www.pintoconsulting.de/Images/pdf/10\\_business\\_dev\\_services\\_2004.pdf](http://www.pintoconsulting.de/Images/pdf/10_business_dev_services_2004.pdf)



## ABOUT THE AUTHOR

**Imelda Magdalena Freddy** is a researcher at the Center for Indonesian Policy Studies. Currently, she involves in research about subsidy policy and the project of Ease of Doing Business (EoDB). Imelda's involvement with research started with social research about indigenous people and Indonesian work migrant. Previously, for five years, Imelda responsible for program management role in one of a local NGO in Jakarta. Imelda is an alumnus of Wageningen University, Netherlands, and Maranatha Christian University in Bandung.

**Novani Karina Saputri** is a Junior Researcher at the Center for Indonesian Policy Studies. Her research focuses on policy issues related to trade and livelihood, including entrepreneurship policies and trade policies on agriculture and food commodities. She is part of CIPS' Ease of Doing Business project and she compiles the BuRT Index' (Monthly Household Expenses Index). This index measures and tracks how much Indonesian consumers pay for basic food items and compares this with prices found in neighboring countries. This comparison aims to show how much Indonesian families would save on basic food items if food prices in Indonesia were as cheap as other countries.

Previously, Novani worked as a Teaching Assistant University of Indonesia for Research Associate in Lembaga Manajemen UI and Teaching Assistant for Accounting Research Method in FEB UI.

## ABOUT THE CENTER FOR INDONESIAN POLICY STUDIES

**The Center for Indonesian Policy Studies (CIPS)** is a strictly non-partisan and non-profit think tank providing policy analysis and practical policy recommendations to decision-makers within Indonesia's legislative and executive branches of government.

CIPS promotes social and economic reforms that are based on the belief that only civil, political, and economic freedom allows Indonesia to prosper. We are financially supported by donors and philanthropists who appreciate the independence of our analysis.

### KEY FOCUS AREAS:

**Food Trade Policy:** CIPS exposes links between trade restrictions, food prices, and fulfilment of nutrition for the Indonesian consumers, especially those with low-income.

**Education:** CIPS studies the quantity and quality of low-cost private schools and whether they are more accountable to the demands of the parents than public schools.

**Community Livelihood:** CIPS researches areas that impact the livelihoods of individuals and families. This research area focuses on secure property rights, public health in relation to alcohol prohibition laws, and international labour migration.

[www.cips-indonesia.org](http://www.cips-indonesia.org)



[facebook.com/cips.indonesia](https://facebook.com/cips.indonesia)



[@cips\\_id](https://twitter.com/cips_id)



[@cips\\_id](https://www.instagram.com/cips_id)

Grand Wijaya Center Blok F-59  
Jalan Wijaya II  
Jakarta Selatan 12160