

12TH EDITION

Doing Business 2015

Going Beyond Efficiency

Economy Profile 2015

Indonesia



COMPARING BUSINESS REGULATIONS FOR DOMESTIC FIRMS IN 189 ECONOMIES

A World Bank Group Flagship Report

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CONTENTS

Introduction	4
The business environment	6
Starting a business	16
Dealing with construction permits	31
Getting electricity	47
Registering property	56
Getting credit	64
Protecting minority investors	71
Paying taxes	81
Trading across borders	86
Enforcing contracts	91
Resolving insolvency	98
Labor market regulation	101
Distance to frontier and ease of doing business ranking	108
Resources on the <i>Doing Business</i> website	111

INTRODUCTION

Doing Business sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labor market regulation.

In a series of annual reports *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 189 economies, from Afghanistan to Zimbabwe, over time. The data set covers 47 economies in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 25 in East Asia and the Pacific, 26 in Eastern Europe and Central Asia, 20 in the Middle East and North Africa and 8 in South Asia, as well as 31 OECD high-income economies. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

This economy profile presents the *Doing Business* indicators for Indonesia. To allow useful comparison, it also provides data for other selected economies (comparator economies) for each indicator. The data in this report are current as of June

1, 2014 (except for the paying taxes indicators, which cover the period January–December 2013).

The *Doing Business* methodology has limitations. Other areas important to business—such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders and getting electricity), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not directly studied by *Doing Business*. The indicators refer to a specific type of business, generally a local limited liability company operating in the largest business city. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. The data not only highlight the extent of obstacles to doing business; they also help identify the source of those obstacles, supporting policy makers in designing regulatory reform.

More information is available in the full report. *Doing Business 2015* presents the indicators, analyzes their relationship with economic outcomes and presents business regulatory reforms. The data, along with information on ordering *Doing Business 2015*, are available on the *Doing Business* website at <http://www.doingbusiness.org>.

CHANGES IN *DOING BUSINESS 2015*

As part of a 2-year update in methodology, *Doing Business 2015* incorporates 7 important changes. First, the ease of doing business ranking as well as all topic-level rankings are now computed on the basis of distance to frontier scores (see the chapter on the distance to frontier and ease of doing business ranking). Second, for the 11 economies with a population of more than 100 million, data for a second city have been added to the data set and the ranking calculation. These economies are Bangladesh, Brazil, China, India, Indonesia, Japan, Mexico, Nigeria, Pakistan, the Russian Federation and the United States. Third, for getting credit, the methodology has been revised for both the strength of legal rights index and the depth of credit information index. The number of points has been increased in both indices, from 10 to 12 for the strength of legal rights index and from 6 to 8 for the depth of credit information index. In addition, only credit bureaus and registries that cover at least 5% of the adult population can receive a score on the depth of credit information index.

Fourth, the name of the protecting investors indicator set has been changed to protecting minority investors to better reflect its scope—and the scope of the indicator set has been expanded to include shareholders' rights in corporate governance beyond related-party transactions. Fifth, the resolving insolvency indicator set has been expanded to include an index measuring the strength of the legal framework for insolvency. Sixth, the calculation of the distance to frontier score for paying taxes has been changed. The total tax rate component now enters the score in a nonlinear fashion, in an approach different from that used for all other indicators (see the chapter on the distance to frontier and ease of doing business ranking).

Finally, the name of the employing workers indicator set has been changed to labor market regulation, and the scope of this indicator set has also been changed. The indicators now focus on labor market regulation applying to the retail sector rather than the manufacturing sector, and their coverage has been expanded to include regulations on labor disputes and on benefits provided to workers. The labor market regulation indicators continue to be excluded from the aggregate distance to frontier score and ranking on the ease of doing business.

Beyond these changes there are 3 other updates in methodology. For paying taxes, the financial statement variables have been updated to be proportional to 2012 income per capita; previously they were proportional to 2005 income per capita. For enforcing contracts, the value of the claim is now set at twice the income per capita or \$5,000, whichever is greater. For dealing with construction permits, the cost of construction is now set at 50 times income per capita (before, the cost was assessed by the *Doing Business* respondents). In addition, this indicator set no longer includes the procedures for obtaining a landline telephone connection.

For more details on the changes, see the "What is changing in *Doing Business*?" chapter starting on page 24 of the *Doing Business 2015* report. For more details on the data and methodology, please see the "Data Notes" chapter starting on page 114 of the *Doing Business 2015* report. For more details on the distance to frontier metric, please see the "Distance to frontier and ease of doing business ranking" chapter in this profile.

THE BUSINESS ENVIRONMENT

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies. *Doing Business* provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 189 by the ease of doing business ranking. This year's report presents results for 2 aggregate measures: the distance to frontier score and the ease of doing business ranking. The ranking of economies is determined by sorting the aggregate distance to frontier (DTF) scores. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. (See the chapter on the distance to frontier and ease of doing business). The 10 topics included in the ranking in *Doing Business 2015*: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The labor market regulation indicators (formerly employing workers) are not included in this year's aggregate ease of doing business ranking, but the data are presented in this year's economy profile.

The aggregate ranking on the ease of doing business benchmarks each economy's performance on the indicators against that of all other economies in the *Doing Business* sample (figure 1.1). While this ranking tells much about the business environment in an economy, it does not tell the whole story. The ranking on the ease of doing business, and the underlying indicators, do not measure all aspects of the business environment that matter to firms and investors or that affect the competitiveness of the economy. Still, a high ranking does mean that the government has created a regulatory environment conducive to operating a business.

ECONOMY OVERVIEW

Region: East Asia & Pacific

Income category: Lower middle income

Population: 249,865,631

GNI per capita (US\$): 3,580

DB2015 rank: 114

DB2014 rank: 117*

Change in rank: 3

DB 2015 DTF: 59.2

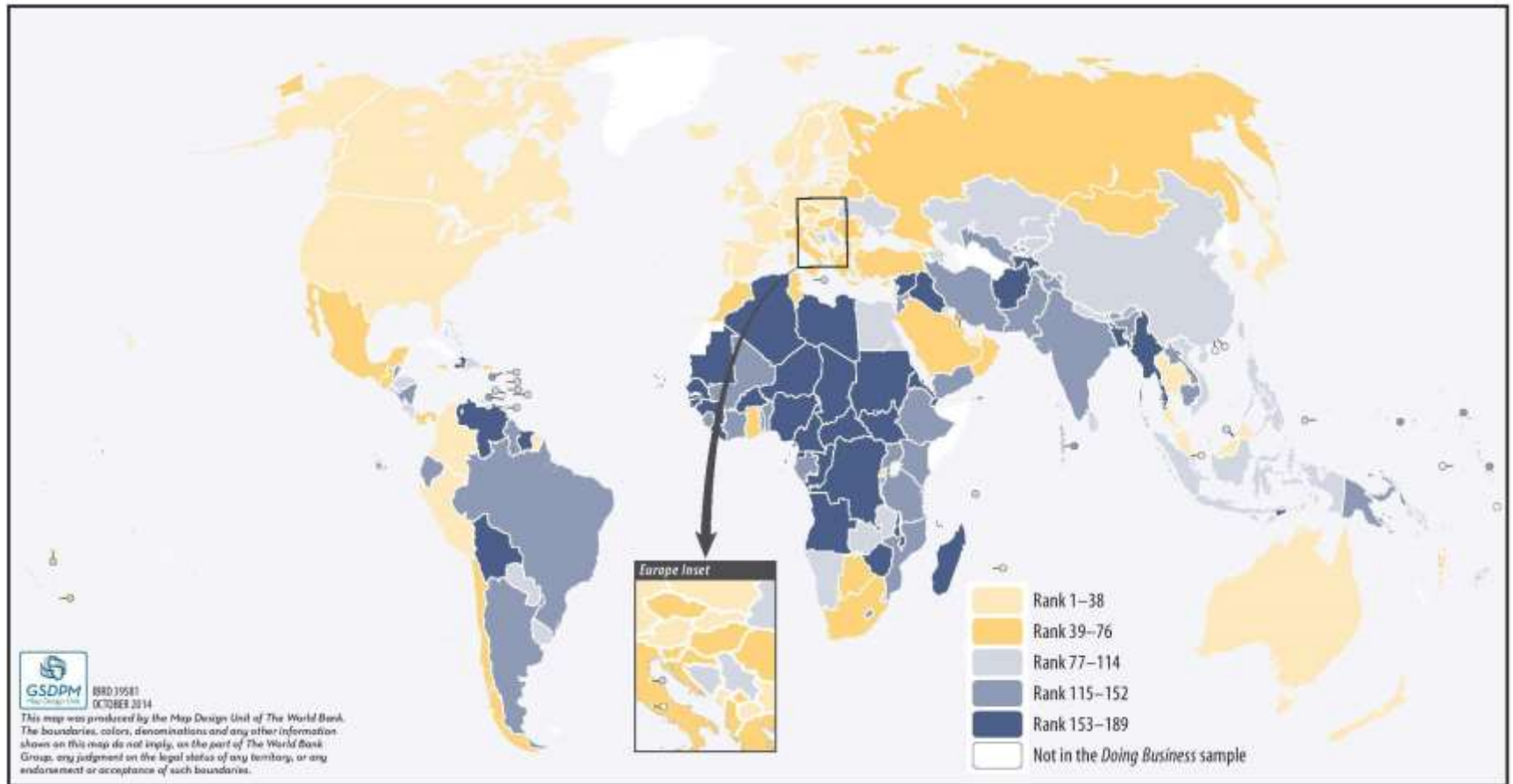
DB 2014 DTF: 58.1

Change in DTF: 1.1

* DB2014 ranking shown is not last year's published ranking but a comparable ranking for DB2014 that captures the effects of such factors as data corrections and the changes in methodology. See the data notes starting on page 114 of the *Doing Business 2015* report for sources and definitions.

THE BUSINESS ENVIRONMENT

Figure 1.1 Where economies stand in the global ranking on the ease of doing business



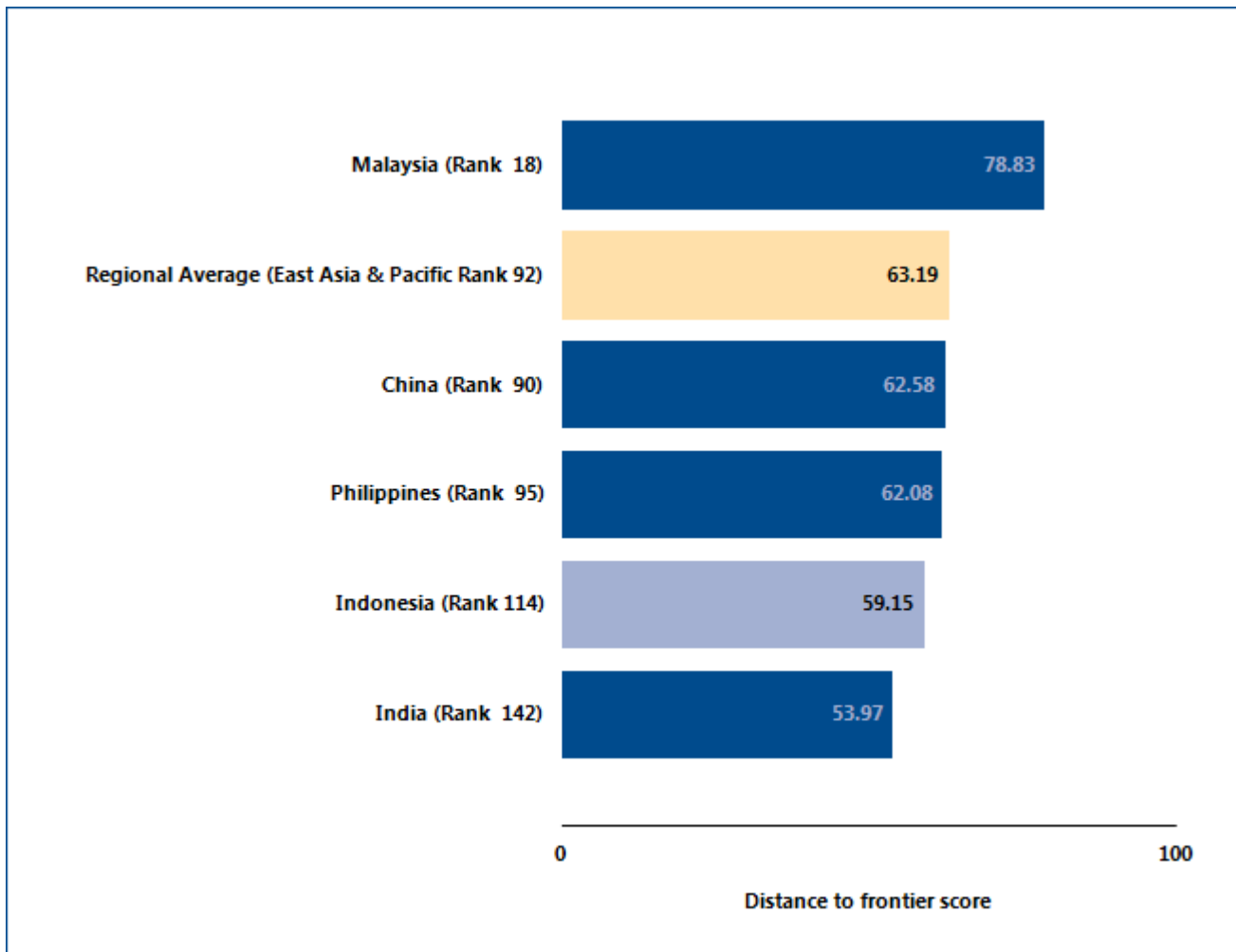
Source: *Doing Business* database.

THE BUSINESS ENVIRONMENT

For policy makers, knowing where their economy stands in the aggregate ranking on the ease of doing business is useful. Also useful is to know how it ranks relative to comparator economies and relative to the

regional average (figure 1.2). The economy's rankings (figure 1.3) and distance to frontier scores (figure 1.4) on the topics included in the ease of doing business ranking provide another perspective.

Figure 1.2 How Indonesia and comparator economies rank on the ease of doing business



Note: The rankings are benchmarked to June 2014 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities.

Source: *Doing Business* database.

THE BUSINESS ENVIRONMENT

Figure 1.3 Rankings on *Doing Business* topics - Indonesia
 (Scale: Rank 189 center, Rank 1 outer edge)

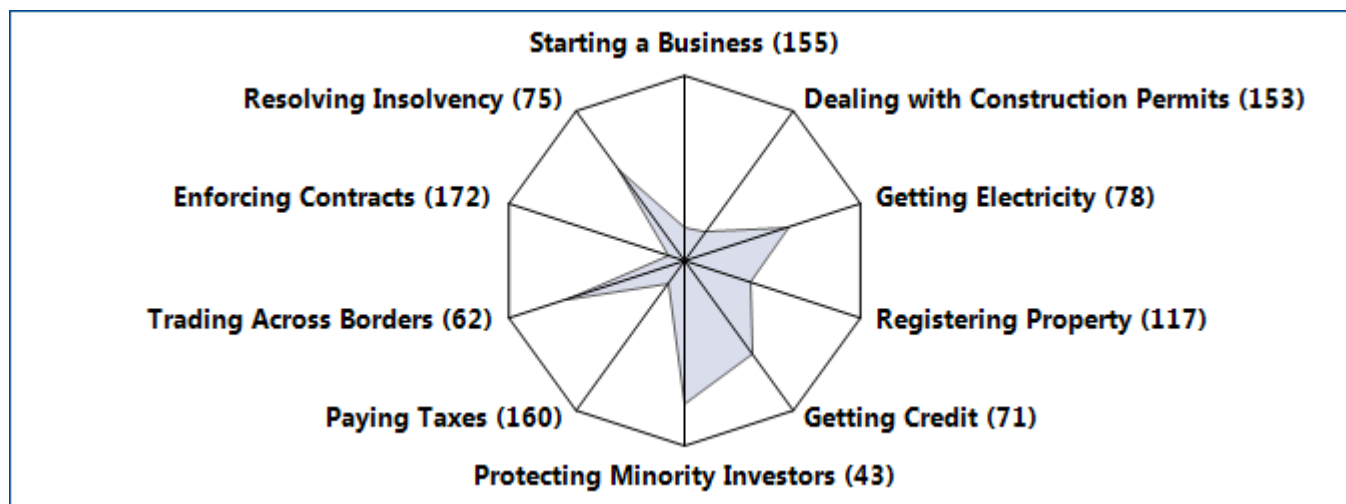
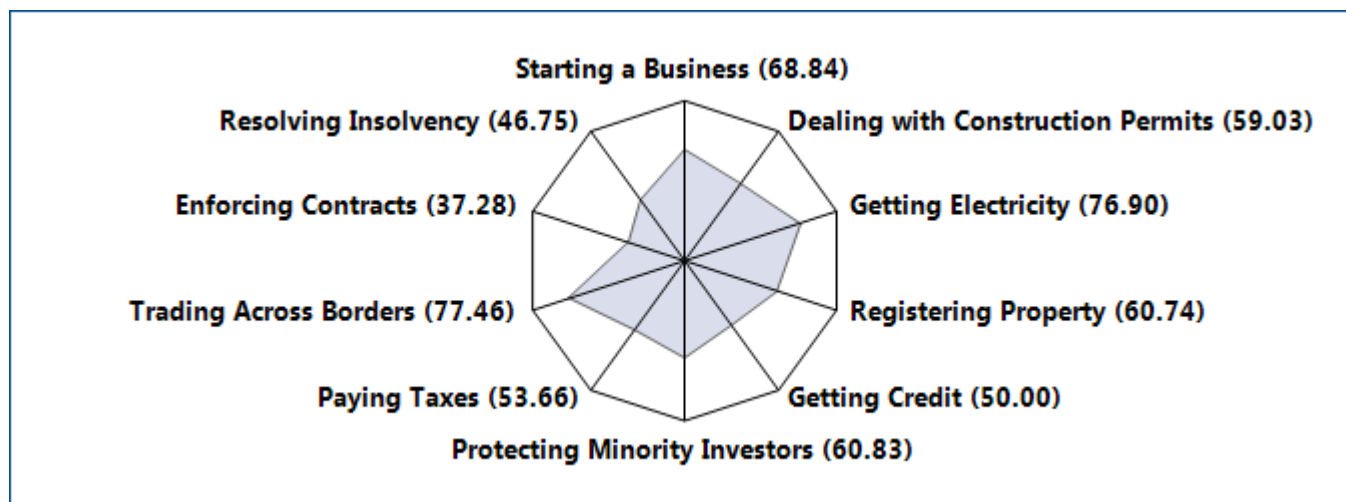


Figure 1.4 Distance to frontier scores on *Doing Business* topics - Indonesia
 (Scale: Score 0 center, Score 100 outer edge)



Note: The rankings are benchmarked to June 2014 and based on the average of each economy’s distance to frontier (DTF) scores for the 10 topics included in this year’s aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy’s distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities.
 Source: *Doing Business* database.

THE BUSINESS ENVIRONMENT

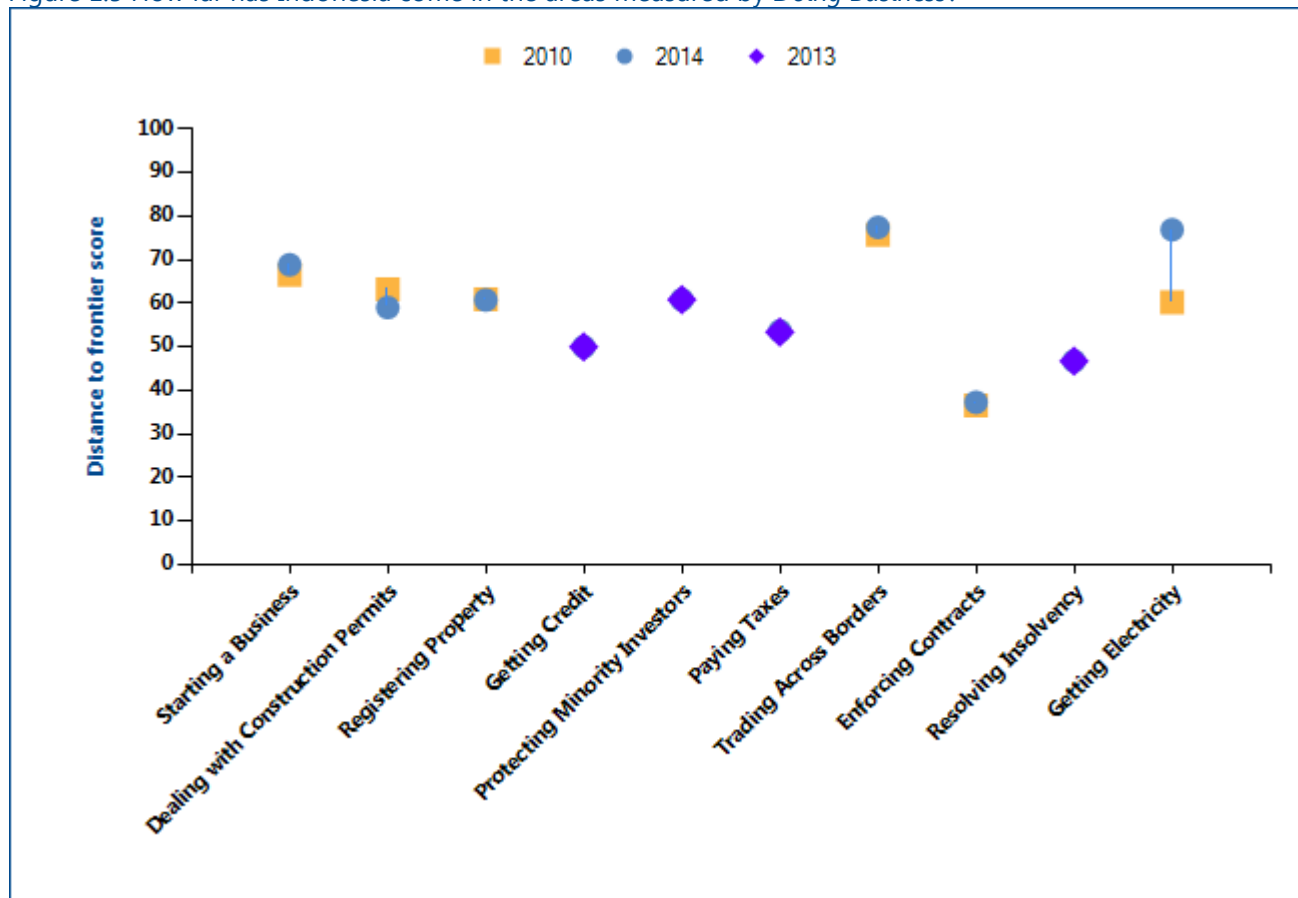
Just as the overall ranking on the ease of doing business tells only part of the story, so do changes in that ranking. Yearly movements in rankings can provide some indication of changes in an economy’s regulatory environment for firms, but they are always relative.

Moreover, year-to-year changes in the overall rankings do not reflect how the business regulatory environment in an economy has changed over time—or how it has changed in different areas. To aid in assessing such changes,

Doing Business introduced the distance to frontier score. This measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator.

Comparing the measure for an economy at 2 points in time allows users to assess how much the economy’s regulatory environment as measured by *Doing Business* has changed over time—how far it has moved toward (or away from) the most efficient practices and strongest regulations in areas covered by *Doing Business* (figure 1.5).

Figure 1.5 How far has Indonesia come in the areas measured by *Doing Business*?



Note: The distance to frontier score shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2010, except for getting credit, paying taxes, protecting minority investors and resolving insolvency which had methodology changes in 2014 and thus are only comparable to 2013. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). See the data notes starting on page 114 of the *Doing Business 2015* report for more details on the distance to frontier score.

Source: *Doing Business* database.

THE BUSINESS ENVIRONMENT

The absolute values of the indicators tell another part of the story (table 1.1). The indicators, on their own or in comparison with the indicators of a good practice economy or those of comparator economies in the region, may reveal bottlenecks reflected in large numbers of procedures, long delays or high costs. Or they may reveal unexpected strengths in an area of business

regulation—such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. Comparison of the economy's indicators today with those in the previous year may show where substantial bottlenecks persist—and where they are diminishing.

Table 1.1 Summary of *Doing Business* indicators for Indonesia

Indicator	Indonesia DB2015	Indonesia DB2014	Jakarta DB2015	Surabaya DB2015	China DB2015	India DB2015	Malaysia DB2015	Philippines DB2015	Best performer globally DB2015
Starting a Business (rank)	155	158	--	--	128	158	13	161	New Zealand (1)
Starting a Business (DTF Score)	68.84	63.91	68.97	68.36	77.43	68.42	94.90	67.23	New Zealand (99.96)
Procedures (number)	10.0	9.2	10.0	10.0	11.0	11.9	3.0	16.0	New Zealand (1.0)*
Time (days)	52.5	75.5	52.5	52.5	31.4	28.4	5.5	34.0	New Zealand (0.5)
Cost (% of income per capita)	21.1	21.9	20.1	24.9	0.9	12.2	7.2	16.6	Slovenia (0.0)
Paid-in min. capital (% of income per capita)	35.5	38.5	35.5	35.5	0.0	111.2	0.0	3.6	112 Economies (0.0)*
Dealing with Construction Permits (rank)	153	150	--	--	179	184	28	124	Hong Kong SAR, China (1)
Dealing with Construction Permits (DTF Score)	59.03	58.41	58.87	59.61	43.75	30.89	82.49	66.08	Hong Kong SAR, China (95.53)

Indicator	Indonesia DB2015	Indonesia DB2014	Jakarta DB2015	Surabaya DB2015	China DB2015	India DB2015	Malaysia DB2015	Philippines DB2015	Best performer globally DB2015
Procedures (number)	17.0	17.0	17.0	17.0	22.0	25.4	13.0	24.0	Hong Kong SAR, China (5.0)
Time (days)	211.0	211.0	202.0	243.0	244.3	185.9	74.0	94.0	Singapore (26.0)
Cost (% of warehouse value)	4.3	4.7	4.9	2.1	7.6	28.2	1.3	1.2	Qatar (0.0)*
Getting Electricity (rank)	78	101	--	--	124	137	27	16	Korea, Rep. (1)
Getting Electricity (DTF Score)	76.90	71.71	76.39	78.69	66.35	63.06	86.67	90.59	Korea, Rep. (99.83)
Procedures (number)	5.0	5.8	5.0	5.0	5.5	7.0	5.0	4.0	12 Economies (3.0)*
Time (days)	90.7	96.2	94.0	79.0	143.2	105.7	32.0	42.0	Korea, Rep. (18.0)*
Cost (% of income per capita)	353.6	368.1	360.0	330.9	459.4	487.7	46.3	90.6	Japan (0.0)
Registering Property (rank)	117	112	--	--	37	121	75	108	Georgia (1)
Registering Property (DTF Score)	60.74	60.78	60.89	60.21	80.67	60.40	71.16	62.81	Georgia (99.88)
Procedures (number)	5.0	5.0	5.0	5.0	4.0	7.0	8.0	9.0	4 Economies (1.0)*
Time (days)	27.4	27.4	25.0	36.0	19.4	47.0	13.5	35.0	3 Economies (1.0)*
Cost (% of property value)	10.8	10.8	10.9	10.4	3.6	7.0	3.3	4.3	4 Economies (0.0)*
Getting Credit (rank)	71	67	--	--	71	36	23	104	New Zealand (1)
Getting Credit (DTF Score)	50.00	50.00	50.00	50.00	50.00	65.00	70.00	40.00	New Zealand (100)
Strength of legal rights index (0-12)	4	4	4	4	4	6	7	3	3 Economies (12)*

Indicator	Indonesia DB2015	Indonesia DB2014	Jakarta DB2015	Surabaya DB2015	China DB2015	India DB2015	Malaysia DB2015	Philippines DB2015	Best performer globally DB2015
Depth of credit information index (0-8)	6	6	6	6	6	7	7	5	23 Economies (8)*
Credit registry coverage (% of adults)	46.4	41.2	46.4	46.4	33.2	0.0	56.2	0.0	Portugal (100.0)
Credit bureau coverage (% of adults)	0.0	0.0	0.0	0.0	0.0	22.4	78.6	11.3	23 Economies (100.0)*
Protecting Minority Investors (rank)	43	43	--	--	132	7	5	154	New Zealand (1)
Protecting Minority Investors (DTF Score)	60.83	60.83	60.83	60.83	45.00	72.50	74.17	41.67	New Zealand (81.67)
Extent of conflict of interest regulation index (0-10)	6.0	6.0	6.0	6.0	5.0	6.7	8.7	4.0	Singapore (9.3)*
Extent of shareholder governance index (0-10)	6.2	6.2	6.2	6.2	4.0	7.8	6.2	4.3	France (7.8)*
Strength of minority investor protection index (0-10)	6.1	6.1	6.1	6.1	4.5	7.3	7.4	4.2	New Zealand (8.2)
Paying Taxes (rank)	160	158	--	--	120	156	32	127	United Arab Emirates (1)*
Paying Taxes (DTF Score)	53.66	53.38	53.66	53.66	67.44	55.53	83.95	66.46	United Arab Emirates (99.44)*
Payments (number per year)	65.0	65.0	65.0	65.0	7.0	33.0	13.0	36.0	Hong Kong SAR, China (3.0)*
Time (hours per year)	253.5	259.0	253.5	253.5	261.0	243.0	133.0	193.0	Luxembourg (55.0)
Trading Across Borders (rank)	62	61	--	--	98	126	11	65	Singapore (1)
Trading Across Borders	77.46	78.01	77.37	77.77	71.68	65.47	89.94	77.23	Singapore (96.47)

Indicator	Indonesia DB2015	Indonesia DB2014	Jakarta DB2015	Surabaya DB2015	China DB2015	India DB2015	Malaysia DB2015	Philippines DB2015	Best performer globally DB2015
(DTF Score)									
Documents to export (number)	4	4	4	4	8	7	4	6	Ireland (2)*
Time to export (days)	17.0	17.0	17.0	17.0	21.0	17.1	11.0	15.0	5 Economies (6.0)*
Cost to export (US\$ per container)	571.8	595.2	585.0	525.0	823.0	1,332.0	525.0	755.0	Timor-Leste (410.0)
Cost to export (deflated US\$ per container)	571.8	620.0	585.0	525.0	823.0	1,332.0	525.0	755.0	
Documents to import (number)	8	8	8	8	5	10	4	7	Ireland (2)*
Time to import (days)	26.0	23.0	26.0	26.0	24.0	21.1	8.0	15.0	Singapore (4.0)
Cost to import (US\$ per container)	646.8	646.8	660.0	600.0	800.0	1,462.0	560.0	915.0	Singapore (440.0)
Cost to import (deflated US\$ per container)	646.8	673.7	660.0	600.0	800.0	1,462.0	560.0	915.0	
Enforcing Contracts (rank)	172	171	--	--	35	186	29	124	Singapore (1)
Enforcing Contracts (DTF Score)	37.28	37.28	37.59	36.22	68.21	25.81	69.39	52.02	Singapore (89.54)
Time (days)	471.0	471.0	460.0	510.0	452.8	1,420.0	425.0	842.0	Singapore (150.0)
Cost (% of claim)	115.7	115.7	118.1	107.3	16.2	39.6	37.3	31.0	Iceland (9.0)
Procedures (number)	40.0	40.0	40.0	40.0	37.0	46.0	29.0	37.0	Singapore (21.0)*
Resolving Insolvency (rank)	75	71	--	--	53	137	36	50	Finland (1)
Resolving Insolvency (DTF Score)	46.75	46.71	46.09	49.07	55.31	32.60	65.61	56.74	Finland (93.85)

Indicator	Indonesia DB2015	Indonesia DB2014	Jakarta DB2015	Surabaya DB2015	China DB2015	India DB2015	Malaysia DB2015	Philippines DB2015	Best performer globally DB2015
Time (years)	1.9	1.9	2.0	1.5	1.7	4.3	1.0	2.7	Ireland (0.4)
Cost (% of estate)	21.6	21.6	22.0	20.0	22.0	9.0	10.0	32.0	Norway (1.0)
Outcome (0 as piecemeal sale and 1 as going concern)	0	0	0	0	0	0	1	0	
Recovery rate (cents on the dollar)	31.7	31.6	30.5	36.0	36.0	25.7	81.3	21.2	Japan (92.9)
Strength of insolvency framework index (0-16)	9.5	9.5	9.5	9.5	11.5	6.0	7.0	14.5	5 Economies (15.0)*

Note: DB2014 rankings shown are not last year's published rankings but comparable rankings for DB2014 that capture the effects of such factors as data corrections and changes to the methodology. Trading across borders deflated and non-deflated values are identical in DB2015 because it is defined as the base year for the deflator. The best performer on time for paying taxes is defined as the lowest time recorded among all economies in the DB2015 sample that levy the 3 major taxes: profit tax, labor taxes and mandatory contributions, and VAT or sales tax. If an economy has no laws or regulations covering a specific area—for example, insolvency—it receives a “no practice” mark. Similarly, an economy receives a “no practice” or “not possible” mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a “no practice” mark puts the economy at the bottom of the ranking on the relevant indicator.

* Two or more economies share the top ranking on this indicator. A number shown in place of an economy's name indicates the number of economies that share the top ranking on the indicator. For a list of these economies, see the *Doing Business* website (<http://www.doingbusiness.org>).

Source: *Doing Business* database.

STARTING A BUSINESS

Formal registration of companies has many immediate benefits for the companies and for business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can benefit from protections provided by the law. An additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Where governments make registration easy, more entrepreneurs start businesses in the formal sector, creating more good jobs and generating more revenue for the government.

What do the indicators cover?

Doing Business measures the ease of starting a business in an economy by recording all procedures officially required or commonly done in practice by an entrepreneur to start up and formally operate an industrial or commercial business—as well as the time and cost required to complete these procedures. It also records the paid-in minimum capital that companies must deposit before registration (or within 3 months). The ranking of economies on the ease of starting a business is determined by sorting their distance to frontier scores for starting a business. These scores are the simple average of the distance to frontier scores for each of the component indicators.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the procedures. It assumes that all information is readily available to the entrepreneur and that there has been no prior contact with officials. It also assumes that the entrepreneur will pay no bribes. And it assumes that the business:

- Is a limited liability company, located in the largest business city and is 100% domestically owned¹.
- Has between 10 and 50 employees.
- Conducts general commercial or industrial activities.
- Has a start-up capital of 10 times income per capita.
- Has a turnover of at least 100 times income per capita.
- Does not qualify for any special benefits.
- Does not own real estate.

WHAT THE STARTING A BUSINESS

INDICATORS MEASURE

Procedures to legally start and operate a company (number)

- Preregistration (for example, name verification or reservation, notarization)
- Registration in the economy's largest business city¹
- Postregistration (for example, social security registration, company seal)

Time required to complete each procedure (calendar days)

- Does not include time spent gathering information
- Each procedure starts on a separate day (2 procedures cannot start on the same day). Procedures that can be fully completed online are recorded as ½ day.
- Procedure completed once final document is received
- No prior contact with officials

Cost required to complete each procedure (% of income per capita)

- Official costs only, no bribes
- No professional fees unless services required by law

Paid-in minimum capital (% of income per capita)

- Deposited in a bank or with a notary before registration (or within 3 months)

¹ For the 11 economies with a population of more than 100 million, data for a second city have been added.

STARTING A BUSINESS

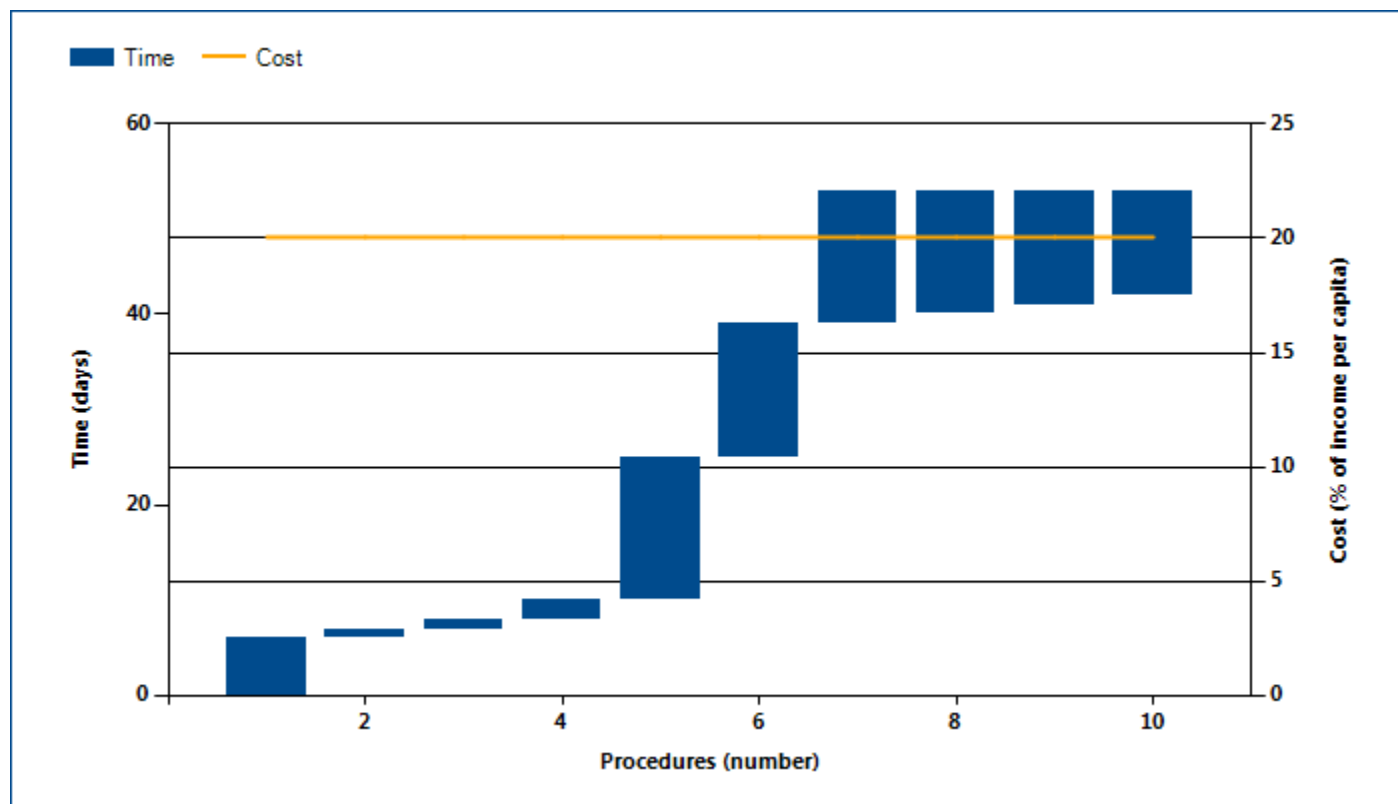
Where does the economy stand today?

What does it take to start a business in Indonesia? According to data collected by *Doing Business*, starting a business there requires 10.0 procedures, takes 52.5 days, costs 21.1% of income per capita and requires paid-in minimum capital of 35.5% of income per capita (figure 2.1). Most indicator sets refer to a case scenario in the

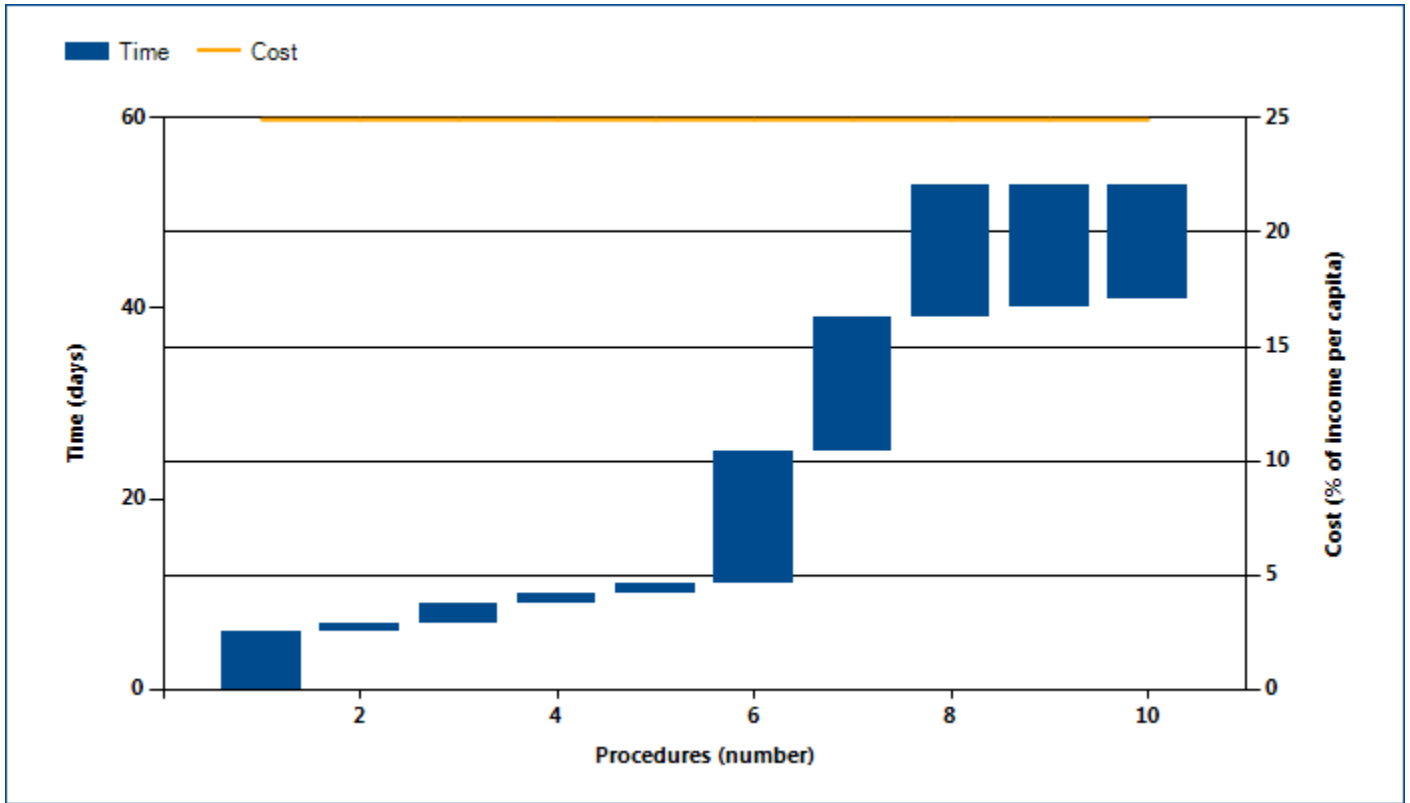
largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 2.1 What it takes to start a business in Indonesia - Jakarta

Paid-in minimum capital (% of income per capita): 35.5



What it takes to start a business in Indonesia - Surabaya



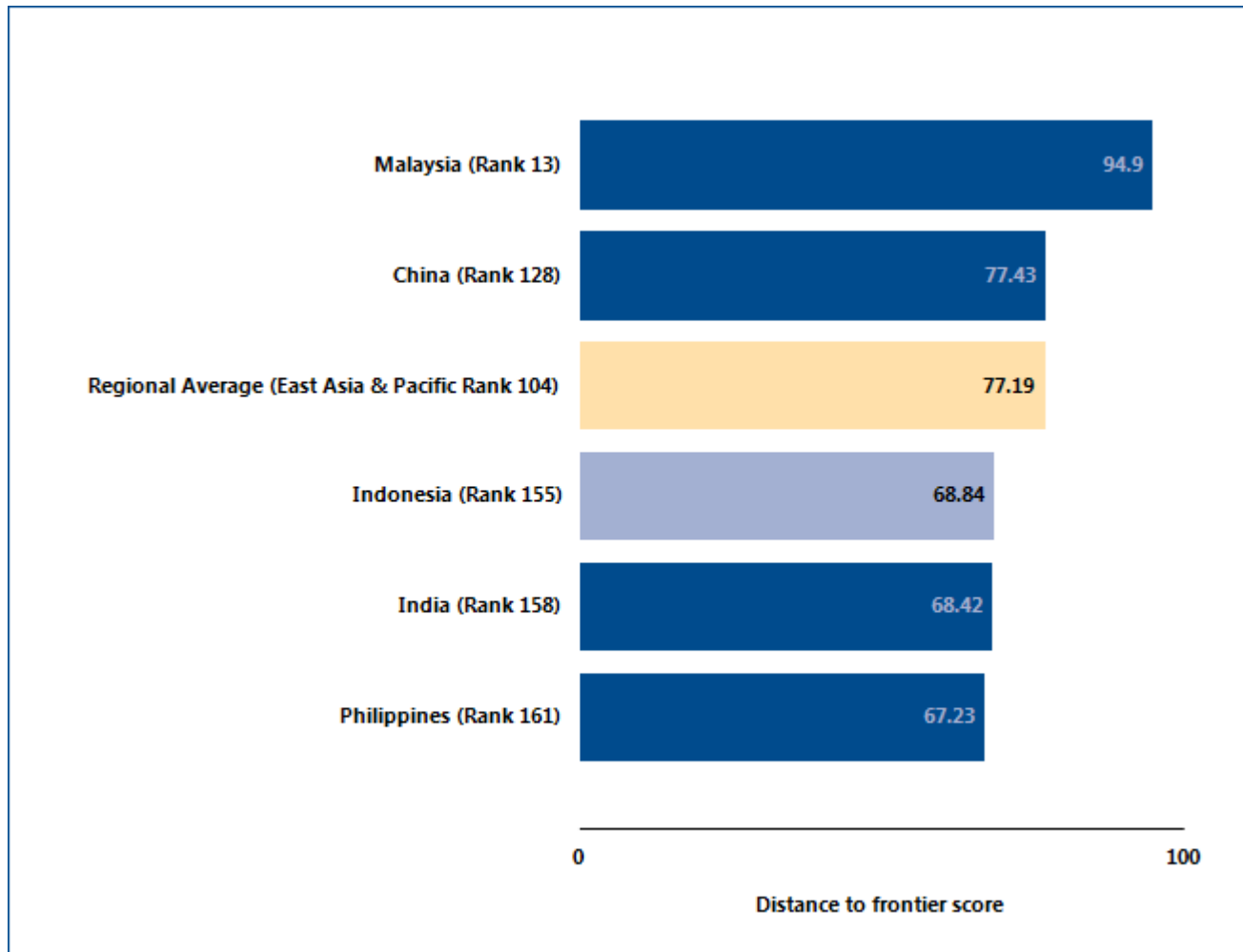
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the starting a business indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter. Source: *Doing Business* database.

STARTING A BUSINESS

Globally, Indonesia stands at 155 in the ranking of 189 economies on the ease of starting a business (figure 2.2). The rankings for comparator economies and the regional

average ranking provide other useful information for assessing how easy it is for an entrepreneur in Indonesia to start a business.

Figure 2.2 How Indonesia and comparator economies rank on the ease of starting a business



Source: Doing Business database.

STARTING A BUSINESS

Economies around the world have taken steps making it easier to start a business—streamlining procedures by setting up a one-stop shop, making procedures simpler or faster by introducing technology and reducing or eliminating minimum capital requirements. Many have undertaken business registration reforms in stages—and

they often are part of a larger regulatory reform program. Among the benefits have been greater firm satisfaction and savings and more registered businesses, financial resources and job opportunities.

What business registration reforms has *Doing Business* recorded in Indonesia (table 2.1)?

Table 2.1 How has Indonesia made starting a business easier—or not?
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2010	Indonesia made starting a business easier by introducing online service, eliminating certain licenses, increasing efficiency at the registry and reducing several fees.
DB2011	Indonesia eased business start-up by reducing the cost for company name clearance and reservation and the time required to reserve the name and approve the deed of incorporation.
DB2012	Indonesia made starting a business easier by introducing a simplified application process allowing an applicant to simultaneously obtain both a general trading license and a business registration certificate.
DB2015	Indonesia made starting a business easier by allowing the Ministry of Law and Human Rights to electronically issue the approval letter for the deed of establishment. This reform applies to both Jakarta and Surabaya.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

STARTING A BUSINESS

What are the details?

Underlying the indicators shown in this chapter for Indonesia is a set of specific procedures—the bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm. These are identified by *Doing Business* through collaboration with relevant local professionals and the study of laws, regulations and publicly available information on business entry in that economy. Following is a detailed summary of those procedures, along with the associated time and cost. These procedures are those that apply to a company matching the standard assumptions (the “standardized company”) used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators measure).

STANDARDIZED COMPANY

Legal form: Perseroan Terbatas (PT)

Paid in minimum capital requirement: IDR 12,500,000

City: Jakarta, Surabaya

Start-up Capital: 10 times GNI per capita

Table 2.2 Summary of time, cost and procedures for starting a business in Indonesia - Jakarta

No.	Procedure	Time to complete	Cost to complete
1	<p>Hire a notary to pay the fee for name clearance at a bank; obtain the standard form of the company deed; arrange for a notary electronically; obtain clearance for the Indonesian company's name at the Ministry of Law and Human Rights; notarize company documents; pay the State Treasury for the non-tax state revenue (PNBP) fees for legal services at a bank</p> <p>Because the process of company name clearance must be done through a computerized processing system, the reservation and clearance must be done by a notary public.</p> <p>The notary must first pay the fee of IDR 200,000 at a bank before obtaining clearance for the proposed company name. Once the notary pays at a bank, he obtains a payment receipt with a code. He then inserts the code online when reserving the company name as proof of payment. The reserved name will be blocked for 60 days. If the founding shareholders are confident that the same name has not been used by another Indonesian company, this procedure is not necessary.</p> <p>Under Article 16 of Law No. 40 of 2007 on Limited Liability Companies, company must not use a name which:</p> <ul style="list-style-type: none"> a. has been lawfully used by another company or is similar to the name of another company; b. contravenes public order and/or decency; c. is identical or similar to the name of a state agency, government agency, or international agency, except with their approval; d. does not conform to the purposes and objectives and business activities of the company, or only designates the purposes and objectives of the company without having its own name; 	6 days	See procedure details

No.	Procedure	Time to complete	Cost to complete
	<p>e. consists of numbers or a set of figures, a letter or a set of letters that do not form any words; or f. means a Company, a legal entity, or a civil enterprise (persekutuan perdata).</p> <p>The Ministry of Law and Human Rights may reject a name application reservation if the requested name is, among others, the same or resembles similarities to name of other companies.</p> <p>Government Regulation No. 26 of 1998 on Use of Names of Limited Liability Companies also provides that an application to use a name that is the same or similar to a well-known trademark shall be rejected unless approval is obtained from the holder of the trademark</p> <p>Law No. 30 of 2004 concerning Notaries (Article 36 paragraph 3) stipulates that the maximum notary fee for objects of deed with an economical value of above IDR 100,000,000 up to IDR 1,000,000,000 is 1.5% of the total value of the object of the deed.</p> <p>The requirement to pay the non-tax state revenue (PNBP) fee for legal services in relation to the establishment of a PT is obtained from the information stated in the website of the Legal Entity Administration System known as SABH (Sistem Administrasi Badan Hukum) (www.sisminbakum.go.id).</p> <p>Cost: Name clearance fee is IDR 200,000. Law No. 30 of 2004 concerning Notaries (Article 36 paragraph 3) stipulates that the maximum notary fee for objects of deed with an economical value of above IDR 100,000,000 up to IDR 1,000,000,000 is 1.5% of the total value of the object of the deed. IDR 1,580,000 non-tax state revenue (PNBP) fees for legal services.</p> <p>Time: 1 day to complete the payment for the name clearance at the bank + 4 days to complete the name clearance and prepare the deed of establishment and have the founders sign it + 1 day to pay the State Treasury for the non-tax state revenue (PNBP) fees.</p> <p><i>Agency: Notary</i></p>		
<p>2</p>	<p>Apply to the Ministry of Law and Human Rights for approval of the deed of establishment</p> <p>Based on Article 9, 10, 29 and 30 Indonesian Company Law No. 40 year 2007, the application for approval of Ministry of Law and Human Right (the ""Ministry of Law"") on establishment of company should be able to file electronically by attaching with the certificate of bank account, copy of the relevant bank transmittal advice. The process will be taken as follows:</p> <ul style="list-style-type: none"> •The application should be filled at the latest 60 days since the date of establishment deed; • Since the application has already fulfilled, the Ministry of Law directly electronically stated no objection on said application. However, if the application is not fulfilled, the Ministry of Law will directly electronically state his objection on said application; 	<p>Less than one day (online procedure)</p>	<p>included in procedure 5</p>

No.	Procedure	Time to complete	Cost to complete
	<ul style="list-style-type: none"> • in 30 days since the date of no objection by Ministry of Law, the applicant should submit the original application and supporting documents; • 14 days after fulfillment of above requirements, Ministry of Law will issue the legalization on the establishment of the company; • Data of company which its establishment has been approved by Ministry of Law i.e. name, domicile, object and purpose, period, Capital Company will be inserted into Company Registry. • The Ministry of Law will announce the establishment of company in Supplement State Gazette (TBNRI) within 14 days of the Ministry's Approval Letter. <p>As of March 2014, the Ministry of Law and Human Rights issues the approval of the deed of establishment electronically.</p> <p>The cost of this procedure is based on the Schedule to the Government Regulation Number 38 of 2009 concerning Types and Tariffs on Non-Tax State Revenues Applied for in the Department of Law and Human Rights which comes into effect on 28 May 2009.</p> <p><i>Agency: Ministry of Law and Human Rights</i></p>		
3	<p>Obtain the Building Management Domicile Certificate</p> <p>For companies that locate in an office building, business founders need to get the Building Management Domicile Certificate from the Building Management Office before applying for the Certificate of Company Domicile.</p> <p><i>Agency: municipal</i></p>	1 day	no charge
4	<p>Apply for the Certificate of Company Domicile</p> <p>All Indonesian limited liability companies must have a certificate of company domicile. This certificate is issued by the head of the village (the Lurah) where the company is located or by the building management if office space is leased. There is no official fee for this certificate. This certificate is required for several documents (SIUP, TDP, etc.)</p> <p><i>Agency: municipal</i></p>	2 days	no charge
5	<p>Apply at the Ministry of Industry and Trade for the permanent business trading license (Surat Izin Usaha Perdagangan, SIUP)</p> <p>The Surat Izin Usaha Perdagangan (SIUP) constitutes the business license for a non-facility company engaging in trading business. The SIUP contains details about the company activities and the person in charge of the company (normally the President Director). The Ministry of Industry and Trade, which issues the SIUP for a non-facility company,</p>	15 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>may require a letter of good conduct from the Indonesian police in support of the person in charge of the company. Normally, the following copy of documents should be attached for the application for a SIUP:</p> <ul style="list-style-type: none"> • The articles of association (copy). • An attestation of location and address of the company's offices (building management domicile certificate and certificate of company domicile). • Identity card of the company President Director. • Letter of approval from the Ministry of Law and Human Rights <p>After reviewing the application, the Municipality passes it to the technical agency at the regional office for cooperatives for further review• it takes 2 days to get the signature of the head of that office as the authority is not delegated. Once the application is back, the SIUP is provided.</p> <p>The Trade Minister Regulation No. 36/M-DAG/PER/9/2007 as amended by the Trade Minister Regulation No. 46/M-DAG/PER/9/2009 classified the SIUP based on the enterprises' net assets as follows:</p> <p>"Article 3 (1) Small Scale SIUP must be held by businesses engaging in trade having a net asset of more than Rp. 50.000.000,- (fifty million Rupiah) up to no more than Rp. 500.000.000,- (five hundred million Rupiah) not including land and building on which the business operates; (2) Medium Scale SIUP must be held by businesses engaging in trade having a net asset of more than Rp. 500.000.000,- (five hundred million Rupiah) up to no more than Rp. 10.000.000.000,- (ten billion Rupiah) not including land and building on which the business operates; (3) Large Scale SIUP must be held by businesses engaging in trade having a net asset of more than Rp. 10.000.000.000,- (ten billion Rupiah) not including land and building on which the business operates."</p> <p><i>Agency: Ministry of Industry and Trade</i></p>		
<p>6</p>	<p>Obtain company registration certificate (Tanda Daftar Perusahaan/TDP) from the Local Government Office</p> <p>The SIUP must be obtained before the TDP can be issued. The same documents submitted for the SIUP must also be submitted for the TDP, in addition to the SIUP itself.</p> <p><i>Agency: Local Government Office (Trade Sub-division)</i></p>	<p>14 days</p>	<p>no charge</p>
<p>7</p>	<p>Register with the Ministry of Manpower</p> <p>According to Law No. 7/1981, companies with more than 10 workers or a monthly payroll of IDR 1 million must register with the Ministry of Manpower. This procedure can be completed concurrently with other</p>	<p>14 days</p>	<p>no charge</p>

No.	Procedure	Time to complete	Cost to complete
	<p>post-registration procedures by filing the manpower compulsory report and company regulations with the Ministry of Manpower. Although there is no official fee, there may an unofficial administrative fee that depends on negotiation and usually starts at IDR 100,000.</p> <p><i>Agency: Ministry of Manpower</i></p>		
8	<p>* Apply for the Workers Social Security Program (BPJS Ketenagakerjaan)</p> <p>According to legal provisions on workers' social security (Law No. 3/1992), it is mandatory for every company or individual employing 10 workers or more or generating a monthly payroll of at least IDR 1 million a month to apply for the Workers Social Security Program (BPJS Ketenagakerjaan), operated by the executing agency. This social security program covers occupational accident security, death security and old age security.</p> <p>A company or an individual is not obligated to enroll its employees in the social security program if it offers an independent employee social security program with benefits comparable or better than those offered by the Package of Basic Health Maintenance Security (according to Government Regulation No. 14/1993, as amended by Government Regulation No. 28 /2002).</p> <p><i>Agency: Social Security Administrative Bodies (BPJS Ketenagakerjaan)</i></p>	7 days (simultaneous with previous procedure)	no charge
9	<p>* Apply for healthcare insurance with BPJS (Badan Penyelenggara Jaminan Sosial) Kesehatan</p> <p>All new businesses must apply for health insurance with BPJS (Badan Penyelenggara Jaminan Sosial) Kesehatan.</p> <p><i>Agency: Social Security Administrative Bodies (BPJS Kesehatan)</i></p>	7 days (simultaneous with previous procedure)	no charge
10	<p>* Obtain a taxpayer registration number (NPWP) and a VAT collector number (NPPKP)</p> <p>Regulation of Directorate General of Taxation No. 44/PJ/2008 which comes into effect on 20 October 2008 concerning Procedures of Application of Taxpayer Registration and/or Taxable Entrepreneur Number, Amendment of Data and Transfer of Taxpayer and/or Taxable Entrepreneur aimed to enhance the service to the taxpayer. The regulation states that within 1 year as of the issuance of NPWP, the relevant Tax Office will conduct field confirmation regarding the correct data/identity of the taxpayer a. The person/entity can apply for NPWP in the relevant tax office where the company is located or can apply it online through http://www.pajak.go.id, choose e-registration to make account as a taxpayer and then follow the procedures therein, by filling</p>	1 day (simultaneous with previous procedure)	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>the form and attaching copies of deed of establishment and its amendment if any, identity card/KTP of one of active Director, statement letter regarding confirmation on place of business from one of the active Director (form is provided), POA and identity card/KTP of the authorized. The NPWP card and Registered Statement Letter is obtained within 1 calendar day upon the completeness of the required document without and fee, charge and/or retribution.</p> <p><i>Agency: Tax Office</i></p>		

* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: *Doing Business* database.

Summary of time, cost and procedures for starting a business in Indonesia - Surabaya

No.	Procedure	Time to complete	Cost to complete
1	<p>Hire a notary to pay the fee for name clearance at a bank; obtain the standard form of the company deed; arrange for a notary electronically; obtain clearance for the Indonesian company's name at the Ministry of Law and Human Rights; notarize company documents; pay the State Treasury for the non-tax state revenue (PNBP) fees for legal services at a bank</p> <p>Because the process of company name clearance must be done through a computerized processing system, the reservation and clearance must be done by a notary public. The notary must first pay the fee of IDR 200,000 at a bank before obtaining clearance for the proposed company name. Once the notary pays at a bank, he obtains a payment receipt with a code. He then inserts the code online when reserving the company name as proof of payment. The reserved name will be blocked for 60 days. If the founding shareholders are confident that the same name has not been used by another Indonesian company, this procedure is not necessary.</p> <p>Under Article 16 of Law No. 40 of 2007 on Limited Liability Companies, company must not use a name which:</p> <ol style="list-style-type: none"> has been lawfully used by another company or is similar to the name of another company; contravenes public order and/or decency; is identical or similar to the name of a state agency, government agency, or international agency, except with their approval; does not conform to the purposes and objectives and business activities of the company, or only designates the purposes and objectives of the company without having its own name; consists of numbers or a set of figures, a letter or a set of letters that do not form any words; or means a Company, a legal entity, or a civil enterprise (persekutuan perdata). <p>The Ministry of Law and Human Rights may reject a name application reservation if the requested name is, among others, the same or</p>	6 days	see procedure details

No.	Procedure	Time to complete	Cost to complete
	<p>resembles similarities to name of other companies. Government Regulation No. 26 of 1998 on Use of Names of Limited Liability Companies also provides that an application to use a name that is the same or similar to a well known trademark shall be rejected unless approval is obtained from the holder of the trademark Law No. 30 of 2004 concerning Notaries (Article 36 paragraph 3) stipulates that the maximum notary fee for objects of deed with an economical value of above IDR 100,000,000 up to IDR 1,000,000,000 is 1.5% of the total value of the object of the deed.</p> <p>The requirement to pay the non-tax state revenue (PNBP) fee for legal services in relation to the establishment of a PT is obtained from the information stated in the website of the Legal Entity Administration System (known as SABH (Sistem Administrasi Badan Hukum) (www.sisminbakum.go.id).</p> <p>Cost: Name clearance fee is IDR 200,000. Average notary fee is IDR 7,000,000. IDR 1,580,000 non-tax state revenue (PNBP) fees for legal services, including IDR 1,000,000 for validation of company as legal entity, IDR 30,000 for publication in state gazette, and IDR 550,000 for publication in the supplement to state gazette.</p> <p>Time: 1 day to complete the payment for the name clearance at the bank + 4 days to complete the name clearance and prepare the deed of establishment and have the founders sign it + 1 day to pay the State Treasury for the non-tax state revenue (PNBP) fees</p> <p><i>Agency: Notary</i></p>		
2	<p>Obtain the Building Management Domicile Certificate</p> <p>For companies that locate in an office building, business founders need to get the Building Management Domicile Certificate from the Building Management Office before applying for the Certificate of Company Domicile.</p> <p><i>Agency: Building Management Office</i></p>	1 day	no charge
3	<p>Apply for the Certificate of Company Domicile</p> <p>All Indonesian limited liability companies must have a certificate of company domicile. This certificate is issued by the head of the village (the Lurah) where the company is located or by the building management if office space is leased. There is no official fee for this certificate. This certificate is required for several documents (Ministry of Law and Human Rights approval, SIUP, TDP, etc.)</p> <p><i>Agency: Head of the village (Lurah)</i></p>	2 days	no charge

No.	Procedure	Time to complete	Cost to complete
4	<p>Apply to the Ministry of Law and Human Rights for approval of the deed of establishment</p> <p>Based on Article 9, 10, 29 and 30 Indonesian Company Law No. 40 year 2007, the application for approval of Ministry of Law and Human Right (the ""Ministry of Law"") on establishment of company should be able to file electronically by attaching with the certificate of bank account, and copy of the relevant bank transmittal advice. The process will be taken as follows:</p> <ul style="list-style-type: none"> •The application should be filled at the latest 60 days since the date of establishment deed; • Since the application has already fulfilled, the Ministry of Law directly electronically stated no objection on said application. However, if the application is not fulfilled, the Ministry of Law will directly electronically state his objection on said application; • in 30 days since the date of no objection by Ministry of Law, the applicant should submit the original application and supporting documents; • 14 days after fulfillment of above requirements, Ministry of Law will issue the legalization on the establishment of the company; • Data of company which its establishment has been approved by Ministry of Law i.e. name, domicile, object and purpose, period, Capital Company will be inserted into Company Registry. • The Ministry of Law will announce the establishment of company in Supplement State Gazette (TBNRI) within 14 days of the Ministry's Approval Letter. <p>As of March 2014, the Ministry of Law and Human Rights issues the approval of the deed of establishment electronically.</p> <p>The cost of this procedure is based on the Schedule to the Government Regulation Number 38 of 2009 concerning Types and Tariffs on Non-Tax State Revenues Applied for in the Department of Law and Human Rights which comes into effect on 28 May 2009.</p> <p><i>Agency: Ministry of Law and Human Rights</i></p>	<p>Less than one day (online procedure)</p>	<p>included in procedure 1</p>
5	<p>Obtain a taxpayer registration number (NPWP) and a Value Added Tax (VAT) collector number (NPPKP) from the local Tax Office</p> <p>Maximum one month from the start of business operations, the company must register with the Tax Office. The company must also obtain a VAT collector number (NPPKP) if it anticipates annual revenue of more than IDR 600 million from the sales of goods and services. The company domicile certificate, articles of association, and identity cards of the directors must be submitted to obtain the tax numbers. NPWP and NPPKP can be arranged simultaneously in one package. The applicant submits the required documents to the Tax Office and gets the receipt of application. The Tax Officer will inform the applicant when the NPWP and NPPKP cards are ready for pick up.</p> <p>The NPWP application can also be arranged on-line but the applicant</p>	<p>1 day</p>	<p>no charge</p>

No.	Procedure	Time to complete	Cost to complete
	<p>still needs to provide hard copies of documents and visit the Tax Office to pick up the NPWP Card. Most applicants visit the Tax Office in person.</p> <p>In practice, unofficial fees may apply and range from IDR 50,000 to IDR 300,000 specifically for the technical surveyor.</p> <p><i>Agency: Tax Office</i></p>		
6	<p>Apply for the permanent business trading license (Surat Izin Usaha Perdagangan, SIUP) at the One Stop Shop (UPTSA)</p> <p>The Surat Izin Usaha Perdagangan (SIUP) constitutes the business license for a non-facility company engaging in trading business. The SIUP contains details about the company activities and the person in charge of the company. The following documents should be attached (based on local regulation No. 1 of 2010, enacted in April 2010):</p> <ol style="list-style-type: none"> Copy of ID Card; An attestation from the applicant (stamp duty IDR 6,000) regarding the business area; Copy of the deed of company establishment; Passport photo size 3 x 4 cm (2 pieces); Copy of NPWP. <p>Only the SIUP can be obtained at the one-stop shop.</p> <p><i>Agency: One Stop Shop</i></p>	14 days	no charge
7	<p>Register with the Company Register (Department of Trade) and obtain a registration certificate (Tanda Daftar Perusahaan, TDP) at the City Agency of Trade and Industry Affairs</p> <p>TDP cannot be applied for at the same time as SIUP because SIUP is a pre-requisite for TDP.</p> <p>The following documents should be attached:</p> <ol style="list-style-type: none"> Copy of deed of establishment; Copy of ID Card; Copy of technical permit related the business; Copy of NPWP; Copy of SIUP. <p>Based on Mayor Regulation No. 35 of 2010 concerning the business services industry and the trade sector, it is mandatory to register the company no later than 3 months after the business operations started.</p> <p><i>Agency: City Agency of Trade and Industry Affairs</i></p>	14 days	no charge

No.	Procedure	Time to complete	Cost to complete
8	<p>Register with the Ministry of Manpower at the local Manpower Office</p> <p>According to Law No. 7/1981, companies with more than 10 workers or a monthly payroll of IDR 1 million must register with the Ministry of Manpower. This procedure can be completed concurrently with other post-registration procedures by filing the manpower compulsory report and company regulations with the Ministry of Manpower. Although there is no official fee, there may an unofficial administrative fee that depends on negotiation and usually starts at IDR 100,000.</p> <p><i>Agency: Ministry of Manpower</i></p>	14 days	no charge
9	<p>* Apply for the Workers Social Security Program (BPJS Ketenagakerjaan)</p> <p>According to legal provisions on workers' social security (Law No. 3/1992), it is mandatory for every company or individual employing 10 workers or more or generating a monthly payroll of at least IDR 1 million a month to apply for the Workers Social Security Program (BPJS Ketenagakerjaan), operated by the executing agency. This social security program covers occupational accident security, death security and old age security.</p> <p>A company or an individual is not obligated to enroll its employees in the social security program if it offers an independent employee social security program with benefits comparable or better than those offered by the Package of Basic Health Maintenance Security (according to Government Regulation No. 14/1993, as amended by Government Regulation No. 28 /2002).</p> <p><i>Agency: Social Security Administrative Bodies (BPJS Ketenagakerjaan)</i></p>	7 days (simultaneous with previous procedure)	no charge
10	<p>* Apply for healthcare insurance with BPJS (Badan Penyelenggara Jaminan Sosial) Kesehatan</p> <p>Under the enactment President Decree No. 12/2013, as amended by President Decree No. 111/2013 regarding Health Insurance, PT Jamsostek (Persero) will no longer operate the health maintenance security program. As of January 1, 2014 BPJS-Kesehatan has taken on that role. And Jamsostek has changed its name to BPJS Ketenagakerjaan.</p> <p><i>Agency: Social Security Administrative Bodies (BPJS Kesehatan)</i></p>	7 days (simultaneous with previous procedure)	no charge

* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

Regulation of construction is critical to protect the public. But it needs to be efficient, to avoid excessive constraints on a sector that plays an important part in every economy. Where complying with building regulations is excessively costly in time and money, many builders opt out. They may pay bribes to pass inspections or simply build illegally, leading to hazardous construction that puts public safety at risk. Where compliance is simple, straightforward and inexpensive, everyone is better off.

What do the indicators cover?

Doing Business records the procedures, time and cost for a business in the construction industry to obtain all the necessary approvals to build a warehouse in the economy's largest business city, connect it to basic utilities and register the warehouse so that it can be used as collateral or transferred to another entity.

The ranking of economies on the ease of dealing with construction permits is determined by sorting their distance to frontier scores for dealing with construction permits. These scores are the simple average of the distance to frontier scores for each of the component indicators.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the warehouse, including the utility connections.

The business:

- Is a limited liability company operating in the construction business and located in the largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added. Is domestically owned and operated.
- Has 60 builders and other employees.

The warehouse:

- Is valued at 50 times income per capita.
- Is a new construction (there was no previous construction on the land).

WHAT THE DEALING WITH CONSTRUCTION PERMITS INDICATORS MEASURE

Procedures to legally build a warehouse (number)

Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates

Submitting all required notifications and receiving all necessary inspections

Obtaining utility connections for water and sewerage

Registering the warehouse after its completion (if required for use as collateral or for transfer of the warehouse)

Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day. Procedures that can be fully completed online are recorded as ½ day.

Procedure considered completed once final document is received

No prior contact with officials

Cost required to complete each procedure (% of warehouse value)

Official costs only, no bribes

- Will have complete architectural and technical plans prepared by a licensed architect or engineer.
- Will be connected to water and sewerage (sewage system, septic tank or their equivalent). The connection to each utility network will be 150 meters (492 feet) long.
- Will be used for general storage, such as of books or stationery (not for goods requiring special conditions).
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

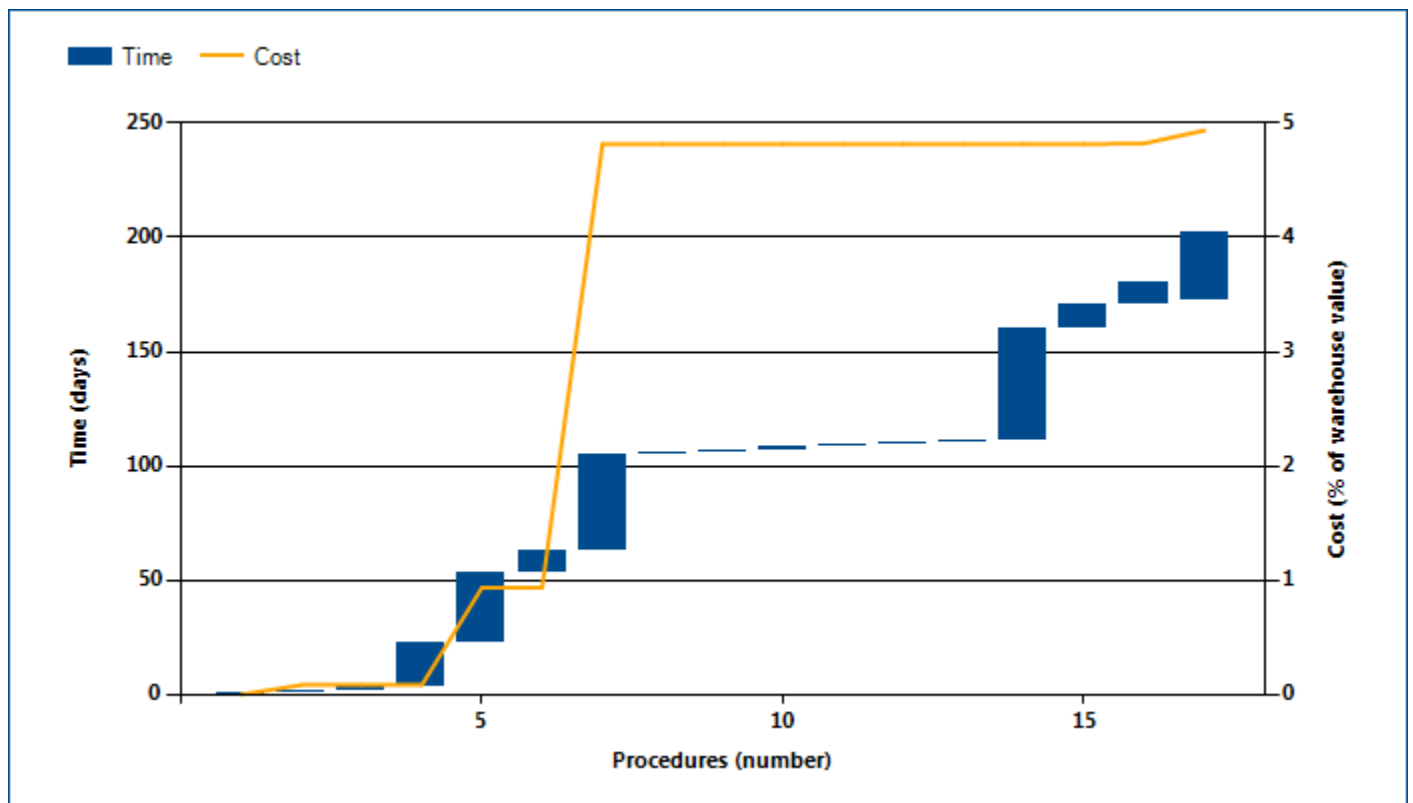
DEALING WITH CONSTRUCTION PERMITS

Where does the economy stand today?

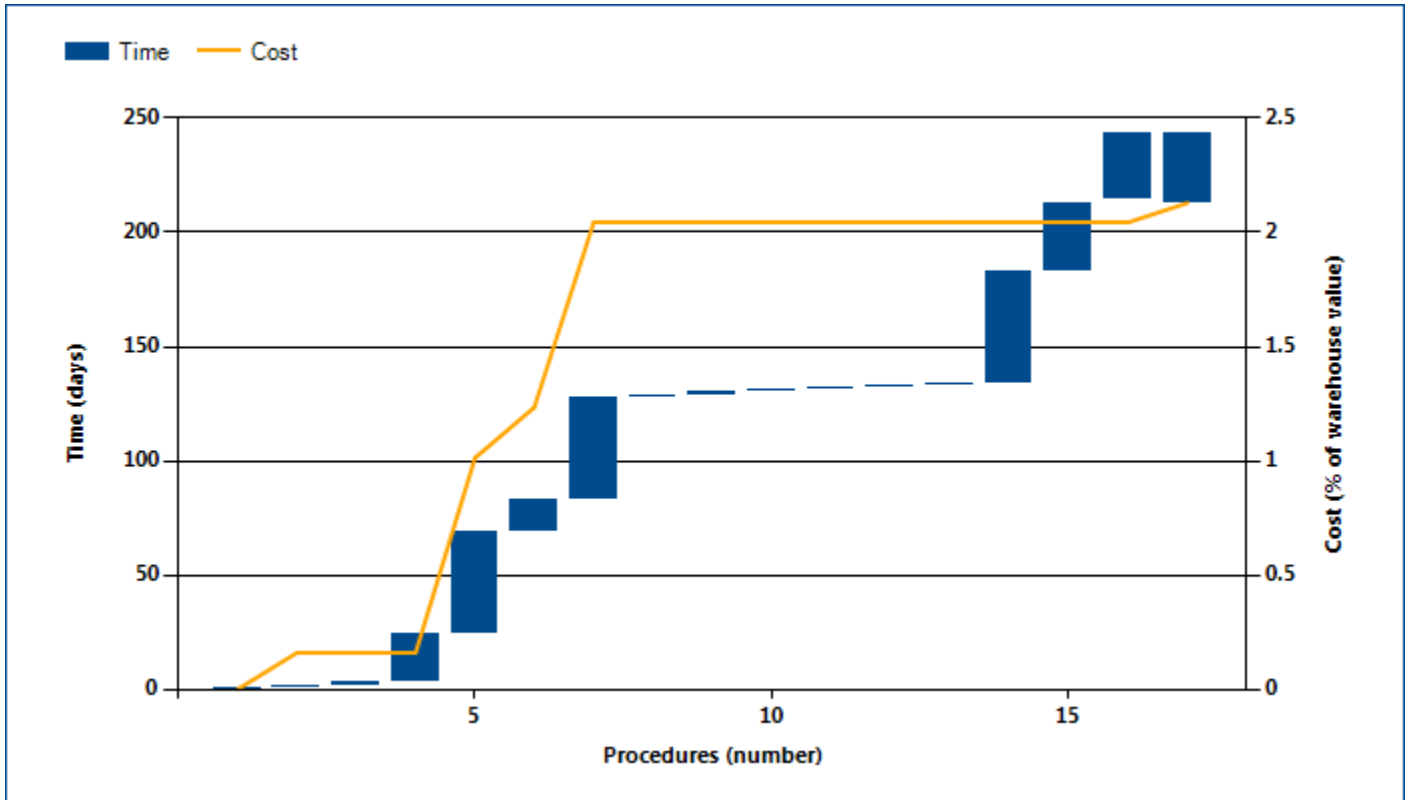
What does it take to comply with the formalities to build a warehouse in Indonesia? According to data collected by *Doing Business*, dealing with construction permits there requires 17.0 procedures, takes 211.0 days and costs 4.3% of the warehouse value (figure 3.1). Most indicator sets refer to a case scenario in the largest

business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 3.1 What it takes to comply with formalities to build a warehouse in Indonesia - Jakarta



What it takes to comply with formalities to build a warehouse in Indonesia - Surabaya



Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the dealing with construction permits indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

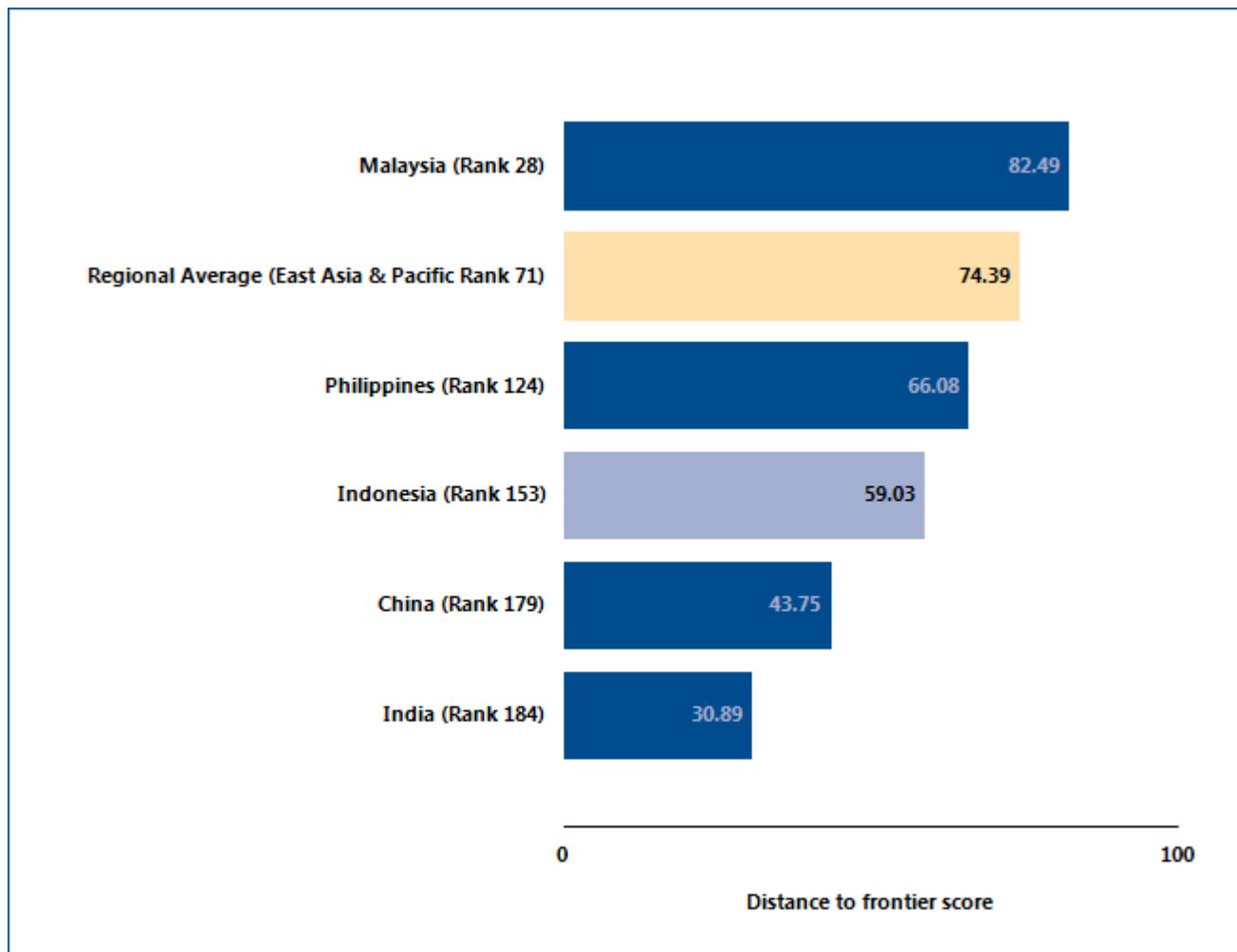
Source: *Doing Business* database.

DEALING WITH CONSTRUCTION PERMITS

Globally, Indonesia stands at 153 in the ranking of 189 economies on the ease of dealing with construction permits (figure 3.2). The rankings for comparator economies and the regional average ranking provide

other useful information for assessing how easy it is for an entrepreneur in Indonesia to legally build a warehouse.

Figure 3.2 How Indonesia and comparator economies rank on the ease of dealing with construction permits



Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

What are the details?

The indicators reported here for Indonesia are based on a set of specific procedures—the steps that a company must complete to legally build a warehouse—identified by *Doing Business* through information collected from experts in construction licensing, including architects, civil engineers, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations. These procedures are those that apply to a company and structure matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

BUILDING A WAREHOUSE

Estimated cost of construction : **IDR 1,760,639,353**

City : **Jakarta, Surabaya**

The procedures, along with the associated time and cost, are summarized below.

Table 3.2 Summary of time, cost and procedures for dealing with construction permits in Indonesia - Jakarta

No.	Procedure	Time to complete	Cost to complete
1	<p>Request and obtain notarized copy of land ownership certificate</p> <p>BuildCo must notarize a copy of the land ownership certificate before applying for the building permit.</p> <p>Agency: Notary</p>	1 day	IDR 25,000
2	<p>Request city planning permit (KRK) and building site plan (RTLB) from City Planning Office</p> <p>BuildCo must submit a completed application form, along with the required documentation (including the architectural drawings and the notarized land ownership certificate) to the City Planning Office (STR) in order to obtain the city planning permit (KRK). The KRK is a statement that contains planning information about the plot of land that BuildCo intends to build the warehouse on. The KRK also includes a city planning map scale (1:1000) signed by the Head of Jakarta City Planning Office. The city planning map covers information on:</p> <ul style="list-style-type: none"> a. Building setback (GSB) - the borders within which BuildCo is allowed to construct the building b. Road border lines (GSJ) - the borders of the front yard or block borders or road control borders c. Land use plan - explanation about the benefits of the land d. Type of building e. Height of building in terms of floors/storey f. Floor area ratio (FAR/KLB) - the multiplication figure used to calculate the total area of building that is permitted g. Building coverage (KDB) h. Blocking - the arrangement of city spaces on certain lanes governing the length and width of the piece of land for which the city planning permit is being applied for <p>BuildCo must also request a building site plan (RTLB) from the City Planning Office. The RTLB is a plan that outlines the exact position of the building on the city planning map and contains the following</p>	1 day	IDR 1,482,000

No.	Procedure	Time to complete	Cost to complete
	<p>information (some of which is already contained on the city planning map previously):</p> <ul style="list-style-type: none"> a. Building setback (GSB) - the borders within which BuildCo is allowed to construct the building b. Road border lines (GSJ) - the borders of the front yard or block borders or road control borders c. Building trace form and location d. Building usage e. Height of building, including KDB (building coverage) and KLB (floor area) f. Building cuts g. Parking lot h. Kelzar circulation/entry of vehicles <p>Once the documents are submitted, BuildCo receives an invoice with the amount of fees that must be paid (SKRD). BuildCo must pay the fees at a local branch of Bank DKI and submit the receipt to the City Planning Office. The total cost to obtain these documents is IDR 1,482,000.00 according to Article 123 of the Regional Regulation No. 1 Year 2006.</p> <p>The following is the detailed calculation:</p> <ul style="list-style-type: none"> • Land measurement (based on the land certificate, namely 500 -- 1,000 sq. m.) a retribution of IDR 750,000.00 • Print out of the map (scale of 1:1000), a retribution of IDR 1,000.00 per copy x 12 copies or a total of IDR 12,000.00 • KRK for plans to use the land for warehouse construction (Karya pergudangan/Kpg) for a land area of up to 1,000 sq. m. is subject to a fee of IDR 40,000.00 • RTLB for plans to build warehouse construction is subject to a fee of IDR 40,000.00/100 sq. m. of floor surface, so the total fee for the RTLB: IDR 40,000.00 x 13 (based on a 1,300.6 sq. m. floor surface) = IDR 520,000.00 • Land marking for city planning implementation purposes (pematokan penerapan rencana kota) is subject to a fee of IDR 80,000.00 x 2 (because the building exceeds 1,000 sq. m.), or a total of IDR 160,000.00 <p><i>Agency: Local Administrative Building Office - City Planning Office</i></p>		
3	<p>Receive inspection from City Planning Office</p> <p>The City Planning Office inspects the site to plant the marks on the borders of the building.</p> <p><i>Agency: Local Administrative Building Office - City Planning Office</i></p>	1 day	no charge
4	<p>Obtain KRK and RTLB from City Planning Office</p> <p>After the inspection, the application is forwarded to different offices within the City Planning Office for approval. The location officer, the roads officer and the architectural officer approve the application. When the internal procedure is completed, the builder is notified (by</p>	20 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>phone, mail or electronically) and can pick up the SKRK. The recommendation letter includes the documents listed previously.</p> <p><i>Agency: Local Administrative Building Office - City Planning Office</i></p>		
<p>5</p>	<p>Request and obtain the preparation of the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)</p> <p>BuildCo hires an external consultant that will prepare the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL). When they are ready, BuildCo will submit the documents to the Local Environmental Management Agency (BPLHD) for the Province of DKI Jakarta for approval.</p> <p><i>Agency: External Consultant</i></p>	<p>30 days</p>	<p>IDR 15,000,000</p>
<p>6</p>	<p>Request and obtain the approval of the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)</p> <p>The legal basis for this procedure is:</p> <ul style="list-style-type: none"> • Law No. 32 of 2009 regarding the Environment • Decision of the Minister of the Environment No 86 of 2002 on Implementation of UKL and UPL <p><i>Agency: Regional Environmental Control Agency (BPLHD)</i></p>	<p>10 days</p>	<p>no charge</p>
<p>7</p>	<p>Request and obtain building construction permit (IMB)</p> <p>When BuildCo has the complete set of documents (see below) and the application is submitted, the Supervision and Control Office will conduct an inspection. Given that the plot where the warehouse will be built is empty, no representative from BuildCo needs to be present. Officials will only verify that the plot is vacant.</p> <p>The legal basis for this procedure is:</p> <ul style="list-style-type: none"> • Decree of the Governor of the Province of DKI Jakarta No. 76 Year 2000, Article 2 paragraph (2) b • Regulation of the Head of the Local Building Supervision and Control (P2B) Office No. 21 Year 2009, Annex I point I.b • The legal basis for the time to complete this step in 14 days working days (21 calendar days) is the Regulation of the Governor of DKI Jakarta Number 85 of 2006, Article 11 paragraph <p>The supporting documents required are:</p> <ul style="list-style-type: none"> • Photocopy of the ID Card • Photocopy of the Land Certificate (notarized) • Land use permit (SIPPT) • KRK and RTLB (description and map of the city, including the complete plan of the building) obtained from the City Planning Office 	<p>42 days</p>	<p>IDR 68,281,500</p>

No.	Procedure	Time to complete	Cost to complete
	<ul style="list-style-type: none"> • Architectural, structural, mechanical and electrical as-built drawings (4 sets) • Results of soil investigation (4 sets) • Photocopy of the license to operate as a Building Planner • Photocopy of the license of the supervising director • Photocopy of the license of the architect, the structural engineer, the mechanical engineer and the electrical engineer who prepare th drawings • Statement of uncontested ownership of the land for which IMB is applied • Company's Deed of Establishment • Company's tax ID (NPWP) • Completed Application Form • Receipt of UKL-UPL or UKL-UPL •Recommendation from the BPLHD • Copy of evidence of tax payment for the most current year • Budget plan (if required) <p>The Building Supervision and Control Office has 4 different teams that review the architectural, structural, mechanical and electrical drawings. The application is first reviewed by TPAK (the team that reviews the architectural drawings). This can take 3-4 weeks. The application is then forwarded to TPKB (team that reviews the structural drawings) and in parallel to TPIB (team that reviews the mechanical, electrical and plumbing drawings). This also takes about 3-4 weeks on average.</p> <p>According to Bylaw No. 3 on Building Tariff Rates of October 2012, the permit fee is calculated as follows:</p> $RPP = L \times It \times HSbg = 1,300.6 \times 2.1 \times 25,000$ <ul style="list-style-type: none"> • L = area of the building (1,300.6 sq. m) • It = index that is calculated as follows: $Ikg \times If \times Ik \times Iw \times Ipt$ where $Ikg = 1$ (for a new building); $If = 3$ (for commercial buildings); $Ik = 0.7$; $Iw = 1$ (for permanent buildings); $Ipt = 1$ (if the building does not have a basement). Therefore, $It = 1 \times 3 \times 0.7 \times 1 \times 1 = 2.1$ • $HSbg = IDR 25,000 / sq. m.$ <p><i>Agency: Local Administrative Building Office - Supervision and Control Office (P2B)</i></p>		
8	<p>Receive inspection upon completion of foundation</p> <p>According to the building regulations, the Supervision and Control Office must inspect during the various phases of construction.</p> <p><i>Agency: Local Administrative Building Office - Supervision and Control Office (P2B)</i></p>	1 day	no charge
9	<p>Receive inspection upon completion of the structure</p> <p>According to the building regulations, the Supervision and Control Office must inspect during the various phases of construction.</p>	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
	<i>Agency: Local Administrative Building Office - Supervision and Control Office (P2B)</i>		
10	<p>Receive inspection upon completion of roofing</p> <p>According to the building regulations, the Supervision and Control Office must inspect during the various phases of construction.</p> <p><i>Agency: Local Administrative Building Office - Supervision and Control Office (P2B)</i></p>	1 day	no charge
11	<p>Submit building completion report to Supervision and Control Office</p> <p>The construction completion and compliance report is a prerequisite for obtaining a usage permit. The party issuing the official report on the completion of the construction and compliance with the building permit is the Supervising Director, who can be an individual, a group of experts, or an entity appointed by the project owner to supervise the construction work. The individual or group of experts must be independent of BuildCo and cannot be its employees.</p> <p><i>Agency: Land and Building Tax Office</i></p>	1 day	no charge
12	<p>Receive final inspection from the Fire Department</p> <p>The Fire Department must conduct a final inspection once the building is completed. They will then issue a certificate of fire safety recommendations stating the building was built according to the proper safety standards. This fire safety certificate is needed in order to obtain the SLF.</p> <p><i>Agency: Fire Department</i></p>	1 day	no charge
13	<p>* Receive final inspection from the Supervision and Control Office</p> <p>Once the Supervising Director has submitted the completion report, the Supervision Office will conduct a final inspection to ensure that the building was built according to the conditions stipulated in the building permit. This can take about 3 - 7 working days. Once the inspection is completed, the Supervision Office will issue an SLF (certificate of proper functioning) within 35 - 38 working days.</p> <p><i>Agency: Local Administrative Building Office – Supervision and Control Office (P2B)</i></p>	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
14	<p>Obtain SLF (certificate of proper functioning) from the Supervision Office</p> <p>The SLF is required under Law No. 25/PRT/M/2007 and Law No. 7/2010 on Buildings. The certificate is a declaration that the building has been built according to the conditions stipulated in the building permit and can be used in accordance with its intended function. BuildCo must submit the following documents in order to obtain the SLF:</p> <ul style="list-style-type: none"> - Construction completion report from the supervising directors/consultant appointed by BuildCo - Application form - Copy of applicant's ID card - Copy of notarized proof of land ownership - Copy of the building permit (IMB) - Architectural, structural and mechanical as-built drawings - Map and city plans (which are appended to the IMB) - Photo of the completed building (showing at least 3 sides of the building) - Notarized copy of the license of the supervising engineer, the architect, the structural engineer and mechanical engineer - Insurance of supervising engineer <p><i>Agency: Local Administrative Building Office – Supervision and Control Office (P2B)</i></p>	49 days	no charge
15	<p>Register the warehouse with Land and Building Tax Office</p> <p>After the warehouse is built BuildCo must update its records at the Land and Building Tax Office. While in theory this update can be done automatically, many builders do it in person to avoid delays. This is critical when a builder wants to sell the property or use it as collateral to obtain a loan.</p> <p><i>Agency: Land and Building Tax Office</i></p>	11 days	no charge
16	<p>Register the warehouse with the Regional Office of the Ministry of Trade</p> <p>BuildCo must submit the following documents:</p> <ul style="list-style-type: none"> • A copy of the trade business license • A copy of company registration code • A copy of the owner's or shareholders' identity card(s) • A copy of the taxpayer number • A copy of the warehouse lease agreement (if the warehouse is leased) • A copy of the building permit (IMB) • A copy of the map of the warehouse <p>Warehouses in a privately owned port, warehouses in a bonded zone, and warehouses adjacent to the plant are exempted from the registration requirement.</p>	9 days	IDR 100,000

No.	Procedure	Time to complete	Cost to complete
	<i>Agency: Ministry of Trade (Regional Office)</i>		
17	<p>* Obtain water and sewerage connection</p> <p>BuildCo notifies the industrial manager that the warehouse is ready for utility connections.</p> <p><i>Agency: PAM Jaya</i></p>	30 days	IDR 2,000,000

* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: Doing Business database.

Summary of time, cost and procedures for dealing with construction permits in Indonesia - Surabaya

No.	Procedure	Time to complete	Cost to complete
1	<p>Request and obtain notarized copy of land ownership certificate</p> <p>BuildCo must notarize a copy of the land ownership certificate before applying for the city planning permit and building permit.</p> <p><i>Agency: Notary</i></p>	1 day	IDR 25,000
2	<p>Request city planning permit (SKRK) from Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</p> <p>In order to obtain the city planning permit (SKRK), BuildCo must submit the following documents:</p> <ul style="list-style-type: none"> a. Application form (available at Surabaya one-stop shop); b. Copy of identity card of the applicants; c. Copy of property tax invoice and receipt; d. Legalized copy of land ownership certificate. e. BuildCo's deed of establishment f. License of supervising engineer <p>BuildCo can see the map of Surabaya online and click on the location where they intend to build the project. Majority of applicants apply for the city planning permit in person, although it is possible to submit the documents online.</p> <p>Once it submits the documents, BuildCo is interviewed about the project details. After that, the Surabaya one-stop shop checks adherence of the location with master plan and calculates the retribution charges. BuildCo pays the fees at the Surabaya one-stop shop and the file is transferred to the City Planning Agency (Dinas Cipta Karya dan Tata Ruang). City Planning Agency representatives inspect the future building site, measure the location, prepare drawings, and position the future building's plot in technical master plan. They also prepare location drawings (with border, base coefficient, size</p>	1 day	IDR 2,822,000

No.	Procedure	Time to complete	Cost to complete
	<p>coefficient, and technical requirements). When all is complete, the City Planning Agency evaluates, registers, and approves the application. Once the application has been approved, the City Planning Agency transfers the file back to the Surabaya one-stop shop which then notifies BuildCo that the statement is ready for pick up.</p> <p>Regulations establish a statutory time of 7 days for the city planning statement to be issued, but it usually takes longer.</p> <p>This procedure is governed by the following regulations:</p> <ul style="list-style-type: none"> a. Local Regulation No. 7 of 2010 on Buildings b. Local Regulation No. 5 of 2012 On City Maps c. Major Regulation No. 39 of 2012 on Guidelines and Technical Standards of Land Use <p><i>Agency: Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</i></p>		
3	<p>Receive inspection from City Planning Agency (Dinas Cipta Karya dan Tata Ruang)</p> <p>A technical team of the City Planning Agency inspects the future building site and measures the location in the presence of BuildCo representatives.</p> <p><i>Agency: City Planning Agency (Dinas Cipta Karya dan Tata Ruang)</i></p>	1 day	no charge
4	<p>Obtain city planning permit (SKRK) from Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</p> <p><i>Agency: Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</i></p>	21 days	no charge
5	<p>Request and obtain the preparation of the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)</p> <p>BuildCo hires an external consultant that will prepare the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL). When this is ready BuildCo will submit the documents to the Local Environmental Management Agency (BPLHD) in Surabaya for approval.</p> <p><i>Agency: External Consultant</i></p>	45 days	IDR 15,000,000
6	<p>Request and obtain the approval (HO – ijin gangguan) for the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)</p> <p>The legal basis for this procedure is:</p> <ul style="list-style-type: none"> a. Bylaw No. 4 of 2011 on the HO b. Mayor Regulation No. 74 of 2011 on Implementation of Regional 	14 days	IDR 3,901,800

No.	Procedure	Time to complete	Cost to complete
	<p>Regulation No. 4 of 2011</p> <p>The local environmental agency (BPLHD) will review the UKL and UPL and conduct the environmental impact assessment. But the letter of approval (HO – ijin gangguan) is issued by the one-stop shop.</p> <p>The one-stop shop charges a fee for the approval letter. According to the fee schedule, buildings over 900 sq. m. are charged at a fee of IDR 500 / sq. m. x 1300.6 sq. m. x 2 (location index) x 3 (environmental index) = IDR 3,901,800.</p> <p><i>Agency: Local Environmental Control Agency (BPLHD) / Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</i></p>		
7	<p>Request and obtain building construction permit (IMB)</p> <p>The supporting documents required to apply for a building permit (IMB) are:</p> <ol style="list-style-type: none"> Application form and statement letter of construction requirement adherence; Copy of ID card of BuildCo's director; Copy of property tax receipt; Copy of land ownership certificate; City planning permit (SKRK); Construction accountability statement, prepared by BuildCo's architect; Picture of the site and building plans, prepared by BuildCo's architect. Design drawings (3 copies): <ul style="list-style-type: none"> - Landscaping (scale 1:1000/1:5000), - Lay out (scale 1:100), - Foundation base, roof, sanitation (1:100); Structural drawings. Copy of UKL / UPL <p>It is possible to submit the required documents online.</p> <p>According to Regulation No. 53 of 2011 and No. 37 of 2012, the legal time limit to issue the IMB is 20 days. But in practice, it takes much longer.</p> <p>Architects and engineers will review all the drawings. There is usually a lot of back and forth interactions between the one-stop shop and the applicant.</p> <p><i>Agency: Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</i></p>	45 days	IDR 14,225,800
8	<p>Receive inspection upon completion of foundation</p> <p>According to the building regulations, the Local Administrative Building Office must inspect during the various phases of construction, although this rarely happens in practice.</p>	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
	<i>Agency: Local Administrative Building Office</i>		
9	<p>Receive inspection upon completion of the structure</p> <p>According to the building regulations, the Local Administrative Building Office must inspect during the various phases of construction, although this rarely happens in practice.</p> <p><i>Agency: Local Administrative Building Office</i></p>	1 day	no charge
10	<p>Receive inspection upon completion of roofing</p> <p>According to the building regulations, the Local Administrative Building Office must inspect during the various phases of construction, although this rarely happens in practice.</p> <p><i>Agency: Local Administrative Building Office</i></p>	1 day	no charge
11	<p>Submit building completion report to the one-stop shop</p> <p>The construction completion and compliance report is a prerequisite for obtaining the certificate of proper functioning (SLF) and the usage permit. The party issuing the official report on the completion of the construction and compliance with the building permit is the Supervising Director, who can be an individual, a group of experts, or an entity appointed by the project owner to supervise the construction work.</p> <p><i>Agency: Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</i></p>	1 day	no charge
12	<p>Receive final inspection from the Fire Department</p> <p>The Fire Department must conduct a final inspection once the building is completed. They will then issue a certificate of fire safety recommendations stating the building was built according to the proper safety standards. This fire safety certificate is needed in order to obtain the SLF.</p> <p><i>Agency: Fire Department</i></p>	1 day	no charge
13	<p>* Receive final inspection from the Local Administrative Building Office</p> <p>Once the Fire Department has conducted the final inspection and the Supervising Director has submitted the completion report, the Local Administrative Building Office will conduct a final inspection to ensure that the building was built according to the conditions stipulated in the</p>	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>building permit. Once the inspection is completed, the Local Administrative Building Office will issue an SLF (certificate of proper functioning). However, the final inspection does not always occur in practice, although it is legally required.</p> <p><i>Agency: Local Administrative Building Office</i></p>		
14	<p>Obtain SLF (certificate of proper functioning) from the Local Administrative Building Office</p> <p>The SLF is a declaration that the building has been built according to the conditions stipulated in the building permit and can be used in accordance with its intended function.</p> <p><i>Agency: Local Administrative Building Office</i></p>	49 days	no charge
15	<p>Register warehouse with the Land and Building Tax Office (PBB)</p> <p>After the warehouse is built BuildCo needs to update its records at the Land and Building Tax Office. The process can take 1-2 months because the office must appraise the value of the building.</p> <p><i>Agency: Land and Building Tax Office</i></p>	30 days	no charge
16	<p>Register the warehouse with Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap)</p> <p>In order to register the warehouse with the one-stop shop, BuildCo must submit the following documents:</p> <ol style="list-style-type: none"> Copy of ID Card; Copy of building permit (IMB); Copy of certificate of land ownership; Copy of business trading license (SIUP) and company registration (TDP); BuildCo's director's pictures (2 copies - size 4x6 cm) <p>The legal basis for this procedure is:</p> <ol style="list-style-type: none"> Local Regulation No. 1/2010, regarding warehouse registration charges Mayor Regulation No. 35/2010, regarding warehouse registration procedures. <p>Both regulations have been implemented since 2010.</p> <p><i>Agency: Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</i></p>	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
17	<p>* Obtain water and sewerage connection</p> <p>The company notifies the industrial manager that the warehouse is ready for utility hook-ups.</p> <p><i>Agency: PDAM Surya</i></p>	30 days	IDR 1,500,000

* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: *Doing Business* database.

GETTING ELECTRICITY

Access to reliable and affordable electricity is vital for businesses. To counter weak electricity supply, many firms in developing economies have to rely on self-supply, often at a prohibitively high cost. Whether electricity is reliably available or not, the first step for a customer is always to gain access by obtaining a connection.

What do the indicators cover?

Doing Business records all procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them. These procedures include applications and contracts with electricity utilities, clearances from other agencies and the external and final connection works. The ranking of economies on the ease of getting electricity is determined by sorting their distance to frontier scores for getting electricity. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, several assumptions are used.

The warehouse:

- Is owned by a local entrepreneur, located in the economy's largest business city, in an area where other warehouses are located. For the 11 economies with a population of more than 100 million, data for a second city have been added.
- Is not in a special economic zone where the connection would be eligible for subsidization or faster service.
- Is located in an area with no physical constraints (ie. property not near a railway).
- Is a new construction being connected to electricity for the first time.
- Is 2 stories, both above ground, with a total surface of about 1,300.6 square meters (14,000 square feet), is built on a plot of 929 square meters (10,000 square feet), is used for storage of refrigerated goods

The electricity connection:

- Is 150 meters long and is a 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection.

WHAT THE GETTING ELECTRICITY INDICATORS MEASURE

Procedures to obtain an electricity connection (number)

- Submitting all relevant documents and obtaining all necessary clearances and permits
- Completing all required notifications and receiving all necessary inspections
- Obtaining external installation works and possibly purchasing material for these works
- Concluding any necessary supply contract and obtaining final supply

Time required to complete each procedure (calendar days)

- Is at least 1 calendar day
- Each procedure starts on a separate day
- Does not include time spent gathering information
- Reflects the time spent in practice, with little follow-up and no prior contact with officials

Cost required to complete each procedure (% of income per capita)

- Official costs only, no bribes
- Excludes value added tax
- Is to either the low-voltage or the medium-voltage distribution network and either overhead or underground, whichever is more common in the area where the warehouse is located. Included only negligible length in the customer's private domain.
- Requires crossing of a 10-meter road but all the works are carried out in a public land, so there is no crossing into other people's private property.
- Involves installing one electricity meter. The monthly electricity consumption will be 26880 kilowatt hour (kWh). The internal electrical wiring has been completed.

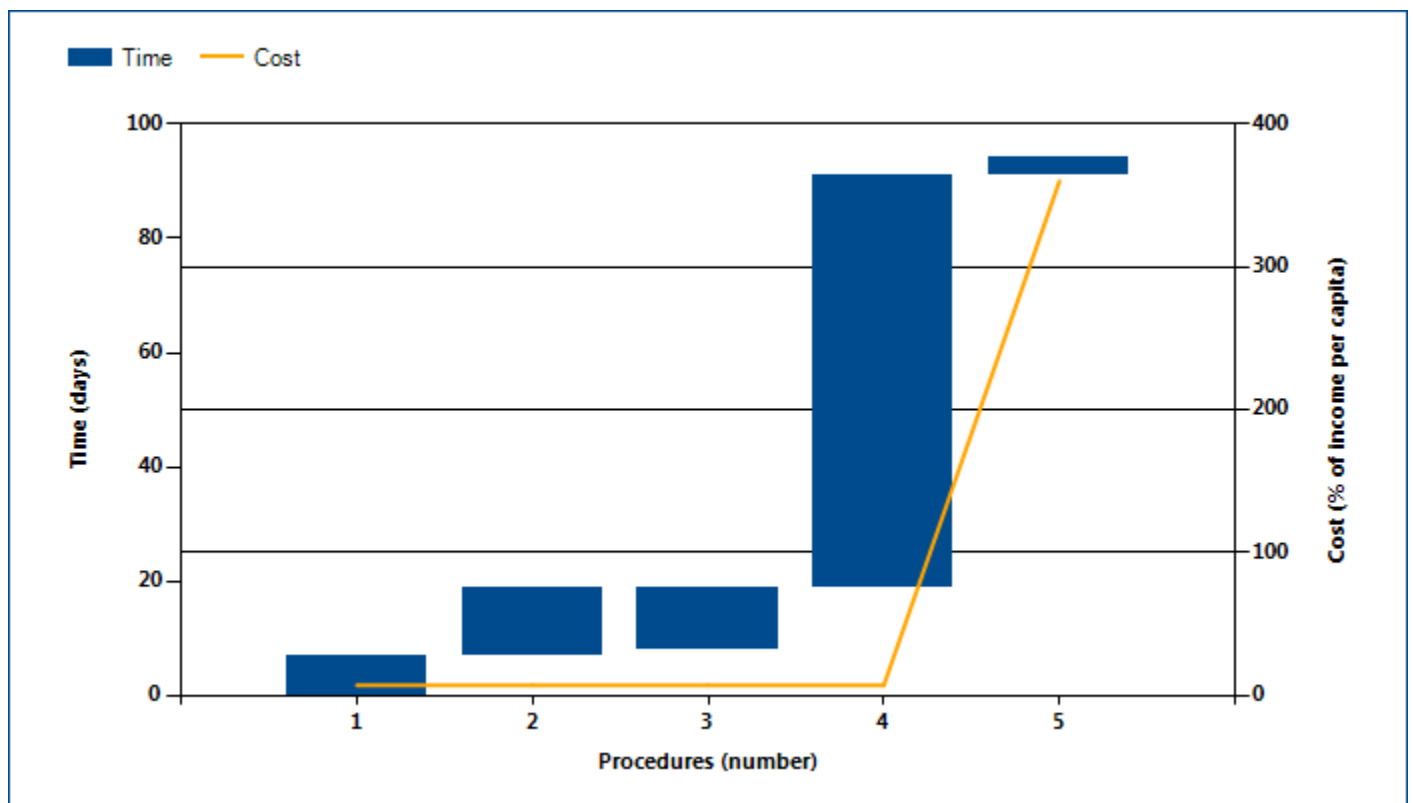
GETTING ELECTRICITY

Where does the economy stand today?

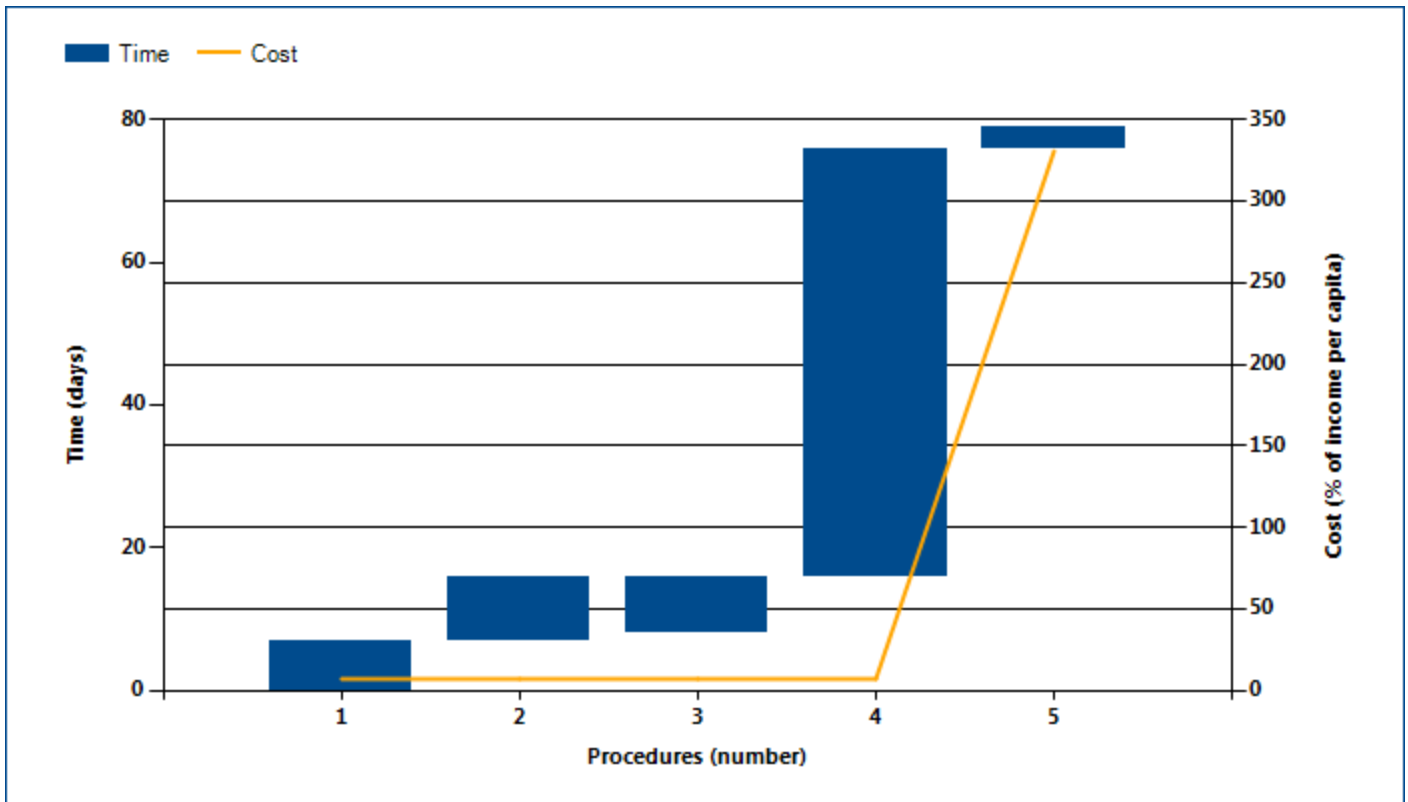
What does it take to obtain a new electricity connection in Indonesia? According to data collected by *Doing Business*, getting electricity there requires 5.0 procedures, takes 90.7 days and costs 353.6% of income per capita (figure 4.1).

Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 4.1 What it takes to obtain an electricity connection in Indonesia - Jakarta



What it takes to obtain an electricity connection in Indonesia - Surabaya



Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the getting electricity indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

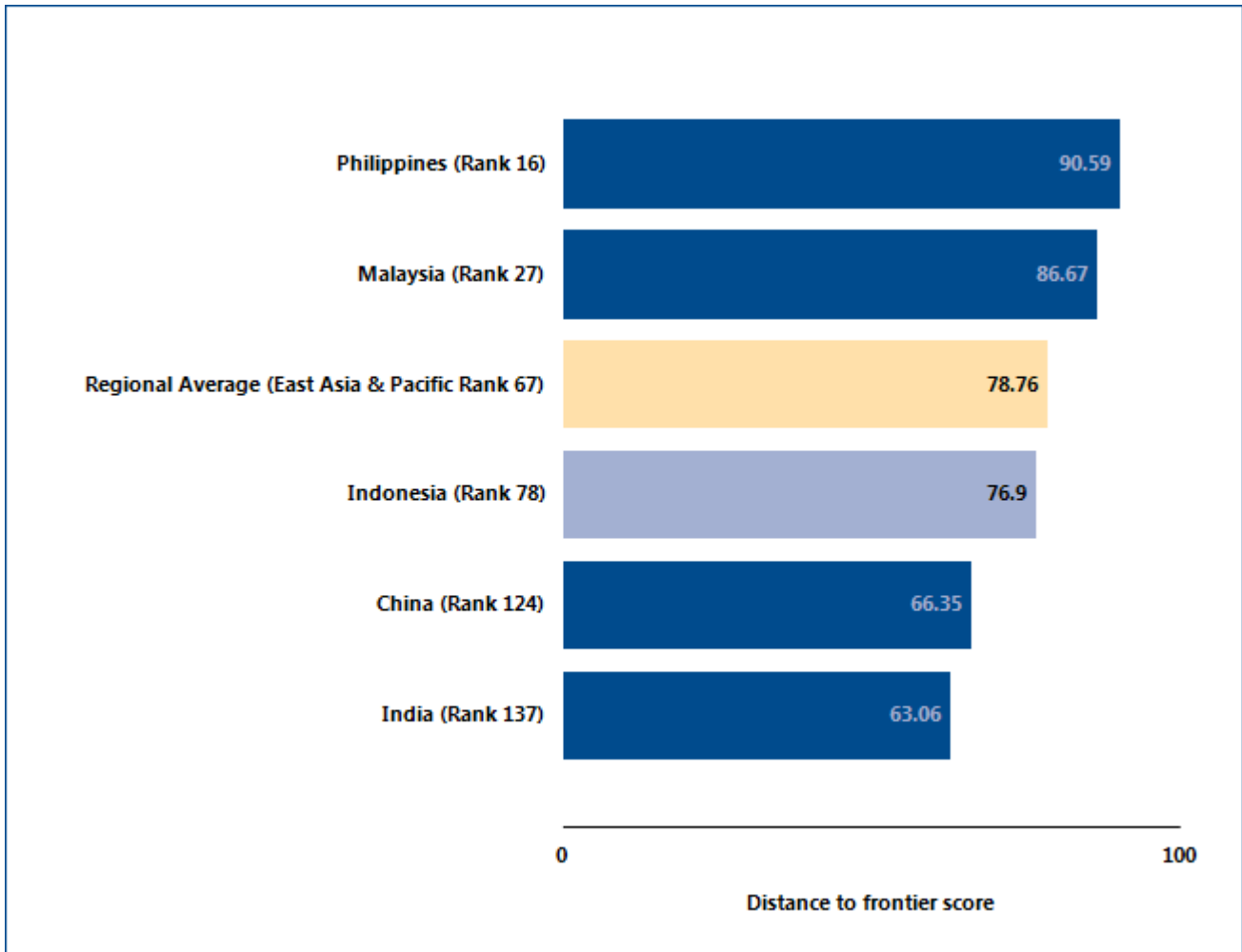
Source: *Doing Business* database.

GETTING ELECTRICITY

Globally, Indonesia stands at 78 in the ranking of 189 economies on the ease of getting electricity (figure 4.2). The rankings for comparator economies and the regional

average ranking provide another perspective in assessing how easy it is for an entrepreneur in Indonesia to connect a warehouse to electricity.

Figure 4.2 How Indonesia and comparator economies rank on the ease of getting electricity



Source: Doing Business database.

GETTING ELECTRICITY

Obtaining an electricity connection is essential to enable a business to conduct its most basic operations. In many economies the connection process is complicated by the multiple laws and regulations involved—covering service quality, general safety, technical standards, procurement practices and internal wiring installations. In an effort to

ensure safety in the connection process while keeping connection costs reasonable, governments around the world have worked to consolidate requirements for obtaining an electricity connection. What reforms in getting electricity has *Doing Business* recorded in Indonesia (table 4.1)?

Table 4.1 How has Indonesia made getting electricity easier—or not?

By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2012	Indonesia made getting electricity more difficult by increasing connection fees.
DB2013	Indonesia made getting electricity easier by eliminating the requirement for new customers applying for an electricity connection to show a neighbor's electricity bill as a way to help determine their address.
DB2015	In Indonesia the electricity company in Jakarta made getting electricity easier by eliminating the need for electrical contractors to obtain multiple certificates guaranteeing the safety of internal installations—though it also increased the cost by introducing a security deposit for new connections.

Source: *Doing Business* database.

GETTING ELECTRICITY

What are the details?

The indicators reported here for Indonesia are based on a set of specific procedures—the steps that an entrepreneur must complete to get a warehouse connected to electricity by the local distribution utility—identified by *Doing Business*. Data are collected from the distribution utility, then completed and verified by electricity regulatory agencies and independent professionals such as electrical engineers, electrical contractors and construction companies. The electricity distribution utility surveyed is the one serving the area (or areas) in which warehouses are located. If there is a choice of distribution utilities, the one serving the largest number of customers is selected.

OBTAINING AN ELECTRICITY CONNECTION

Name of utility - Jakarta:	PT PLN
Name of utility - Surabaya:	PT Perusahaan Listrik Negara (PLN)
City:	Jakarta, Surabaya

The procedures are those that apply to a warehouse and electricity connection matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). The procedures, along with the associated time and cost, are summarized below.

Table 4.2 Summary of time, cost and procedures for getting electricity in Indonesia - Jakarta

No.	Procedure	Time to complete	Cost to complete
1	<p>The client applies for and obtains inspection and Certificate of Operation Worthiness (SLO) of the Internal Installation from the National Committee for Electrical Installation (KONSUIL) or the Society for the Protection of National Electrical Installation (PPILN)</p> <p>The client needs to obtain a certificate that guarantees the proper operation of the internal installation from the National Committee for Electrical Installation, Komite Nasional Keselamatan Untuk Instalasi Listrik (KONSUIL) or Perkumpulan Perlindungan Instalasi Listrik Nasional (PPILN)</p> <p>KONSUIL (www.konsuil.or.id) and PPILN (www.ppiln.or.id) act as independent bodies in charge of inspecting and verifying the conformity of LV Installation to the norms in place. This is in accordance with articles 21 paragraph (7) and 22 paragraph (2) of the Government Regulation number 3 Year 2005, amending Government Regulation number 10 Year 1989 on the Supply and Electricity Connections.</p> <p>The following documents need to be submitted:</p> <ul style="list-style-type: none"> • Installation drawings • List of materials used: brand, size / specs <p><i>Agency: National Committee for Electrical Installation (KONSUIL) or Society for the Protection of National Electrical Installation (PPILN)</i></p>	7 calendar days	IDR 2,572,500

No.	Procedure	Time to complete	Cost to complete
2	<p>The client submits application for electricity connection and awaits request approval including estimate of fees from PT Perusahaan Listrik Negara (PLN)</p> <p>The client needs to submit the following documents along with the application:</p> <ul style="list-style-type: none"> -Copy of Identity Card -Layout of the location, and -Certificate of Operation Worthiness (SLO) from KONSUIL <p><i>Agency: PT Perusahaan Listrik Negara (PLN)</i></p>	12 calendar days	IDR 0
3	<p>* The client obtains external inspection from PT Perusahaan Listrik Negara (PLN)</p> <p>An inspection of the site is needed to carry out a technical study of the connection works.</p> <p><i>Agency: PT Perusahaan Listrik Negara (PLN)</i></p>	1 calendar day	IDR 0
4	<p>The client obtains external works from PT Perusahaan Listrik Negara (PLN)'s contractor</p> <p>Works consist of expanding the distribution network by installing an overhead transformer and connecting to the warehouse and to the MV network.</p> <p>PLN's contractor buys the materials needed (transformer and accessories, cables) and bills the customer for the price.</p> <p><i>Agency: PT Perusahaan Listrik Negara (PLN)'s contractor</i></p>	72 calendar days	IDR 0
5	<p>The client obtains final connection from PT Perusahaan Listrik Negara (PLN)</p> <p>In July 2010 a new Ministerial Regulation was introduced with the aim of increasing fairness and efficiency of connection costs. Based on that regulation, in early 2011 the Board of Directors of the utility PLN issued an official memo (PLN Board of Directors' decree No. 617.K/DIR/2010) to all PLN municipal branches instructing them to eliminate the security deposit.</p> <p>Connection fees to pay to the utility were on the other hand, increased. These fees were adjusted for two reasons: to account for additional charges incurred by PLN in certain cases for the installation of new connections and to ensure all applicants receive the same treatment with respect to official connection charges.</p> <p>The other reasoning for the cost adjustment was the previous fee was a</p>	3 calendar days	IDR 124,210,992.29

No.	Procedure	Time to complete	Cost to complete
	<p>product of a calculation made in 2003, as such since then the market prices have gone up and PLN had made the adjustment to take into account the market price.</p> <p><i>Agency: PT Perusahaan Listrik Negara (PLN)</i></p>		

* Takes place simultaneously with another procedure.

Source: Doing Business database.

Summary of time, cost and procedures for getting electricity in Indonesia - Surabaya

No.	Procedure	Time to complete	Cost to complete
1	<p>The client applies for and obtains inspection and Certificate of Operation Worthiness (SLO) of the Internal Installation from the National Committee for Electrical Installation (KONSUIL) or the Society for the Protection of National Electrical Installation (PPILN)</p> <p>The client needs to obtain a certificate that guarantees the proper operation of the internal installation from the National Committee for Electrical Installation, Komite Nasional Keselamatan Untuk Instalasi Listrik (KONSUIL) or Perkumpulan Perlindungan Instalasi Listrik Nasional (PPILN)</p> <p>KONSUIL (www.konsuil.or.id) and PPILN (www.ppiln.or.id) act as independent bodies in charge of inspecting and verifying the conformity of LV Installation to the norms in place. This is in accordance with articles 21 paragraph (7) and 22 paragraph (2) of the Government Regulation number 3 Year 2005, amending Government Regulation number 10 Year 1989 on the Supply and Electricity Connections.</p> <p>The following documents need to be submitted:</p> <ul style="list-style-type: none"> • Installation drawings • List of materials used: brand, size / specs <p><i>Agency: National Committee for Electrical Installation (KONSUIL) or Society for the Protection of National Electrical Installation (PPILN)</i></p>	7 calendar days	IDR 2,572,500
2	<p>The client submits application for electricity connection and awaits request approval including estimate of fees from PT Perusahaan Listrik Negara (PLN)</p> <p>The client needs to submit the following documents along with the application:</p> <ul style="list-style-type: none"> -Copy of Identity Card -Layout of the location -Guaranteed Electrical Installation Certificate (JIL), and -Certificate of Operation Worthiness (SLO) from KONSUIL 	9 calendar days	IDR 0

No.	Procedure	Time to complete	Cost to complete
	Agency: PT Perusahaan Listrik Negara (PLN)		
3	<p>* The client obtains external inspection from PT Perusahaan Listrik Negara (PLN)</p> <p>An inspection of the site is needed to carry out a technical study of the connection works.</p> <p>Agency: PT Perusahaan Listrik Negara (PLN)</p>	1 calendar day	IDR 0
4	<p>The client obtains external works from PT Perusahaan Listrik Negara (PLN)'s contractor</p> <p>Works consist of expanding the distribution network by installing an overhead transformer and connecting to the warehouse and to the MV network.</p> <p>PLN's contractor buys the materials needed (transformer and accessories, cables) and bills the customer for the price.</p> <p>Agency: PT Perusahaan Listrik Negara (PLN) 's contractor</p>	60 calendar days	IDR 0
5	<p>The client obtains final connection from PT Perusahaan Listrik Negara (PLN)</p> <p>In July 2010 a new Ministerial Regulation was introduced with the aim of increasing fairness and efficiency of connection costs. Based on that regulation, in early 2011 the Board of Directors of the utility PLN issued an official memo (PLN Board of Directors' decree No. 617.K/DIR/2010) to all PLN municipal branches instructing them to eliminate the security deposit.</p> <p>Connection fees to pay to the utility were on the other hand, increased. These fees were adjusted for two reasons: to account for additional charges incurred by PLN in certain cases for the installation of new connections and to ensure all applicants receive the same treatment with respect to official connection charges.</p> <p>Agency: PT Perusahaan Listrik Negara (PLN)</p>	3 calendar days	IDR 113,931,000

* Takes place simultaneously with another procedure.

Source: Doing Business database.

REGISTERING PROPERTY

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chance of being accepted as collateral for loans—limiting access to finance.

What do the indicators cover?

Doing Business records the full sequence of procedures necessary for a business to purchase property from another business and transfer the property title to the buyer's name. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. The ranking of economies on the ease of registering property is determined by sorting their distance to frontier scores for registering property. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, several assumptions about the parties to the transaction, the property and the procedures are used.

The parties (buyer and seller):

- Are limited liability companies, 100% domestically and privately owned and perform general commercial activities.
- Are located in the economy's largest business city².
- Have 50 employees each, all of whom are nationals.

The property (fully owned by the seller):

- Has a value of 50 times income per capita. The sale price equals the value.
- Is registered in the land registry or cadastral, or both, and is free of title disputes.
- Property will be transferred in its entirety.

WHAT THE REGISTERING PROPERTY INDICATORS MEASURE

Procedures to legally transfer title on immovable property (number)

Preregistration (for example, checking for liens, notarizing sales agreement, paying property transfer taxes)

Registration in the economy's largest business city²

Postregistration (for example, filing title with the municipality)

Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day. Procedures that can be fully completed online are recorded as ½ day.

Procedure considered completed once final document is received

No prior contact with officials

Cost required to complete each procedure (% of property value)

Official costs only, no bribes

No value added or capital gains taxes included

- Is located in a periurban commercial zone, and no rezoning is required.
- Has no mortgages attached, has been under the same ownership for the past 10 years.
- Consists of 557.4 square meters (6,000 square feet) of land and a 10-year-old, 2-story warehouse of 929 square meters (10,000 square feet). The warehouse is in good condition and complies with all safety standards, building codes and legal requirements. There is no heating system.

² For the 11 economies with a population of more than 100 million, data for a second city have been added.

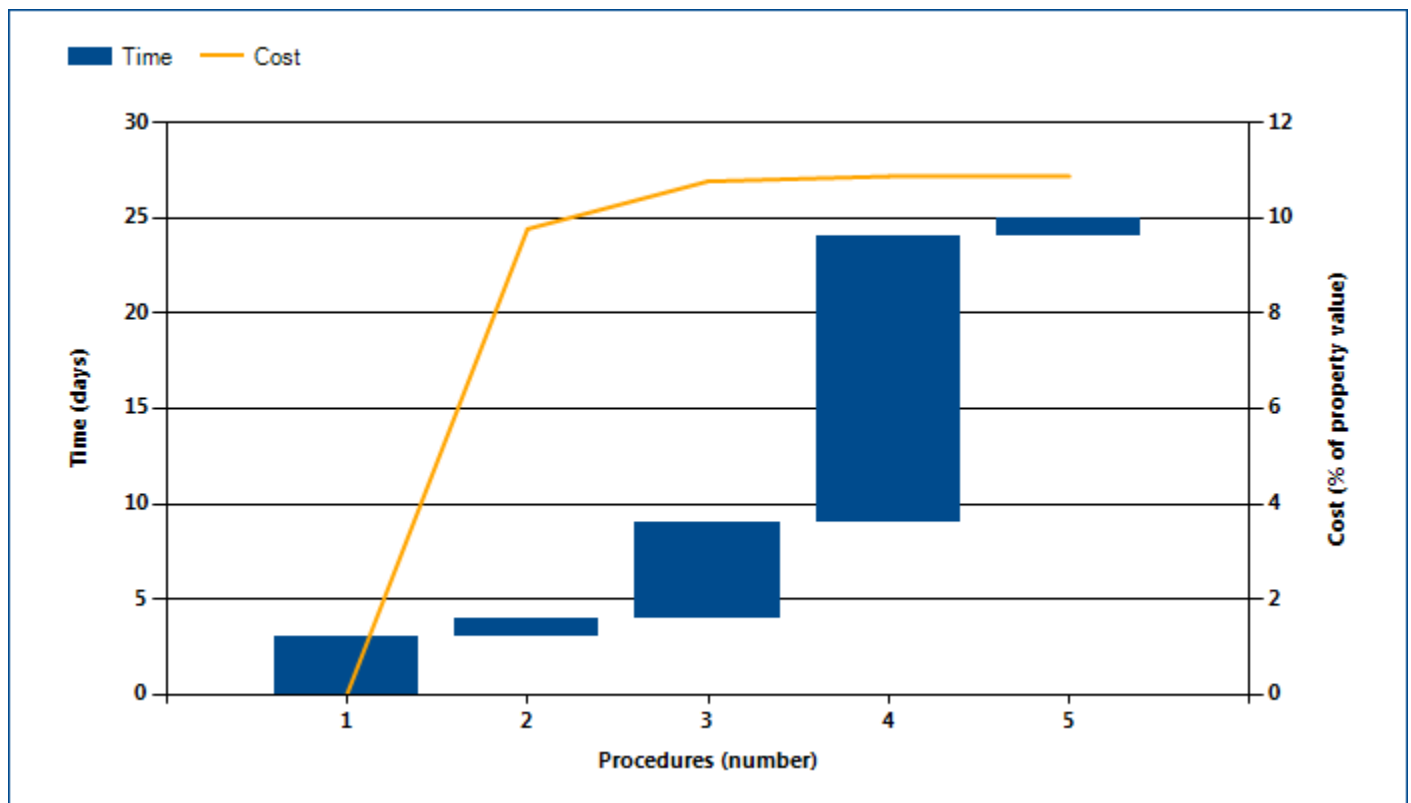
REGISTERING PROPERTY

Where does the economy stand today?

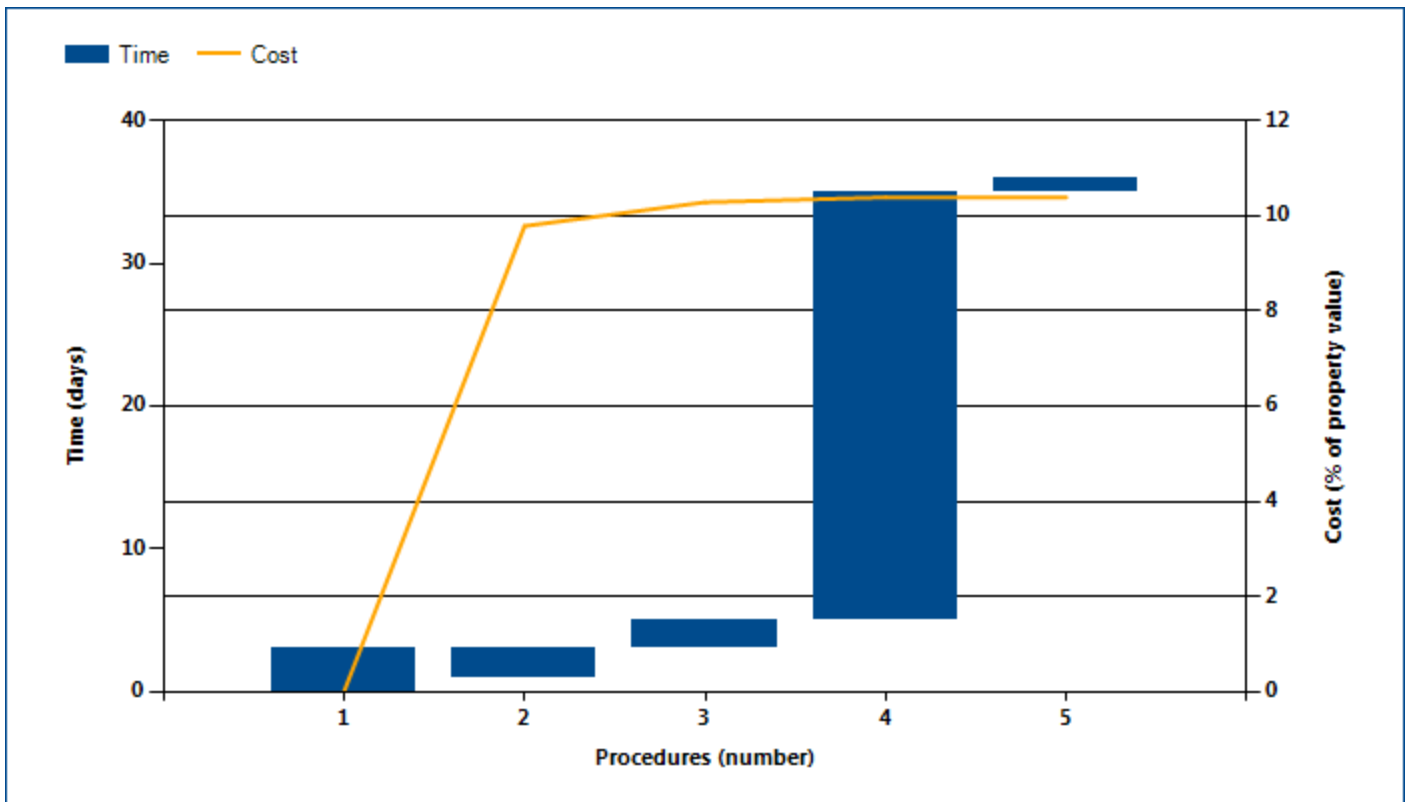
What does it take to complete a property transfer in Indonesia? According to data collected by *Doing Business*, registering property there requires 5.0 procedures, takes 27.4 days and costs 10.8% of the property value (figure 5.1).

Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 5.1 What it takes to register property in Indonesia - Jakarta



What it takes to register property in Indonesia - Surabaya



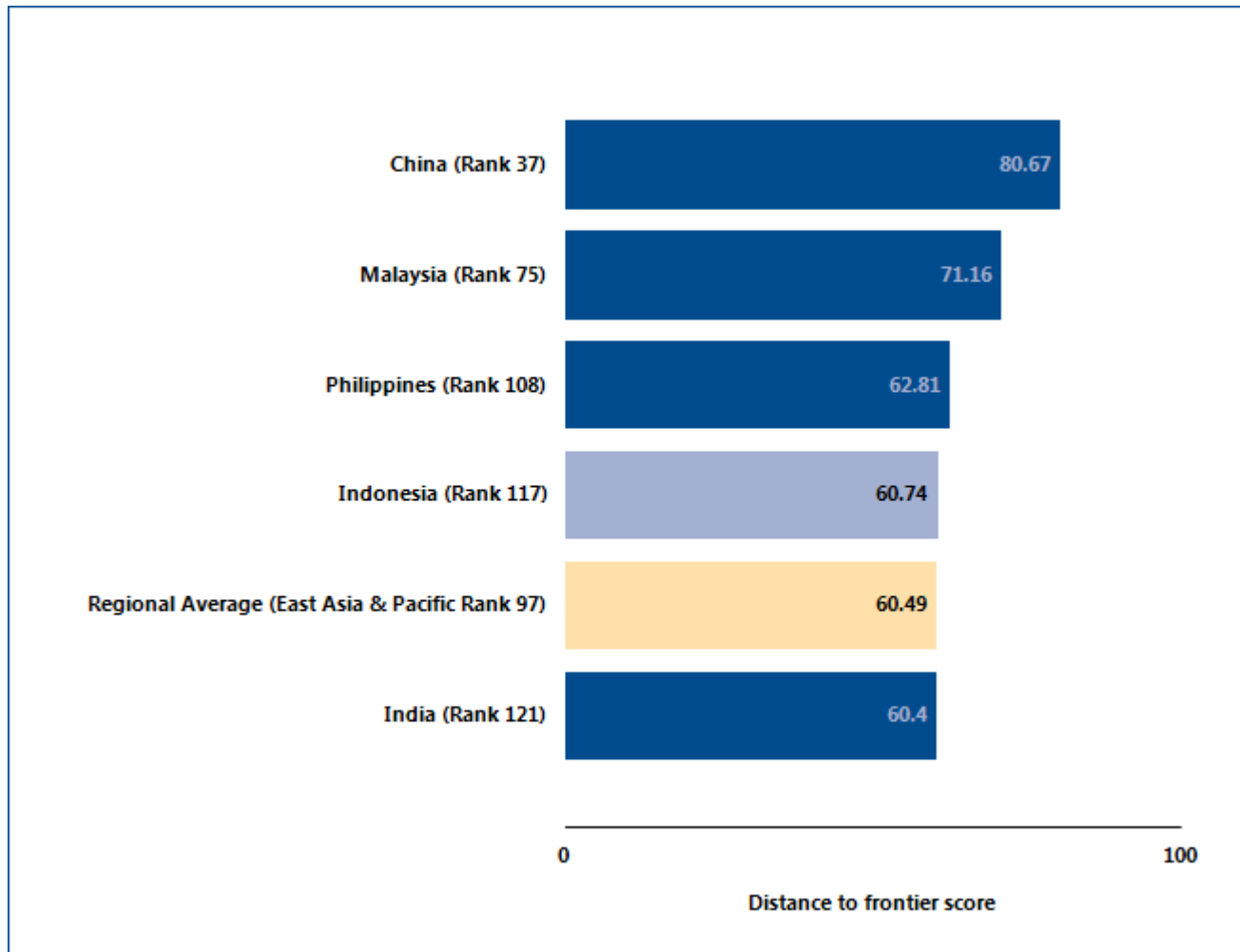
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the registering property indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter. Source: *Doing Business* database.

REGISTERING PROPERTY

Globally, Indonesia stands at 117 in the ranking of 189 economies on the ease of registering property (figure 5.2). The rankings for comparator economies and the

regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Indonesia to transfer property.

Figure 5.2 How Indonesia and comparator economies rank on the ease of registering property



Source: Doing Business database.

REGISTERING PROPERTY

Economies worldwide have been making it easier for entrepreneurs to register and transfer property—such as by computerizing land registries, introducing time limits for procedures and setting low fixed fees. Many have cut

the time required substantially—enabling buyers to use or mortgage their property earlier. What property registration reforms has *Doing Business* recorded in Indonesia (table 5.1)?

Table 5.1 How has Indonesia made registering property easier—or not?
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2010	Indonesia made registering property easier by introducing time limits for procedures at the land registry.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

REGISTERING PROPERTY

What are the details?

The indicators reported here are based on a set of specific procedures—the steps that a buyer and seller must complete to transfer the property to the buyer’s name—identified by *Doing Business* through information collected from local property lawyers, notaries and property registries. These procedures are those that apply to a transaction matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

STANDARD PROPERTY TRANSFER

Property value: IDR 1,760,639,353

City: Jakarta, Surabaya

The procedures, along with the associated time and cost, are summarized below.

Table 5.2 Summary of time, cost and procedures for registering property in Indonesia

No.	Procedure	Time to complete	Cost to complete
1	<p>Land certificate examination at the local Land Office (BPN)</p> <p>A land certificate examination is carried out by a Land Deed Official. If the land book concerned is available at the Land Office, it usually takes 1 day. However, sometimes the land book is unavailable, misplaced or being used by another division of the Land Office, so then the examination process will be pending and it usually takes a few days to obtain the information from the Land Office. The Regulation of the National Land Agency Number 1 of 2010 stipulates that the requirements to examine the land certificate include the following:</p> <ul style="list-style-type: none"> a. Land Ownership Certificate; b. Copy of the applicant’s identification or its proxy; c. Letter of request from the Land Deed Official (PPAT) for the transfer of rights by virtue of the Deed of the Land Deed Officer. <p>The land title search would also involve a check at the local City Planning Office, located at the local government office, to determine the intended use of the said plot of land, whether for residences, industry or green belt. No written statement is given, but a note made on the certificate saying 'Has been examined and according to the Land Registry/ Land Book at the Land Office, dated _____, time _____' and initialed by the officer at the Land Office.</p> <p><i>Agency: Land Office</i></p>	3 days (simultaneous with procedure 2)	IDR 50,000

No.	Procedure	Time to complete	Cost to complete
2	<p>* Payment of transfer and acquisition tax</p> <p>The seller pays the Tax on Transfer of Land and Building (Transfer Tax) in the amount of 5% which is calculated on the transfer value. Taxes to the central government can be paid at any commercial bank.</p> <p>The buyer pays the Tax on Acquisition of Land and Building (BPHTB) in the amount of 5% x [(transfer value or sale value or Nilai Perolehan Obyek Pajak (NPOP)) – (non-taxable sale value or Nilai Perolehan Obyek Pajak Tidak Kena Pajak (NPOPTKP))]. According to the law on Local Tax (Law No. 28/2009), the BPHTB belongs to the local government. Taxes to the local government are paid at a Local Government Bank (as per Article 4.2 of Law No. 7/1983, amended by Law No. 10/1994 and Law 17/2000 concerning Income Tax and Parts 2.1 and 5.1 of the Director General of Taxation Circular No. SE-04/P.J.33/1996 dated August 26, 1996). Article 87 point 4 of the Law sets a minimum value for the NPOPTKP at IDR 60,000,000.</p> <p>For Surabaya, the local regulation (Perda No. 11/2010) stipulates a NPOPTKP of IDR 75,000,000.</p> <p><i>Agency: Commercial Bank</i></p>	<p>1 day (simultaneous with procedure 1)</p>	<p>Seller pays 5% of property value and buyer pays 5% of property minus IDR 75 million, which is tax free</p>
3	<p>Execution of sale and purchase agreement of Land Deed by a Land Deed Official (PPAT) appointed by the Head of the National Land Office or a local Head of a Sub-District</p> <p>The execution of the sale and purchase of the Land Deed is made before Land Officials, namely a Land Deed Official (PPAT) appointed by the Head of the National Land Office after the taxes in procedures 3 and 4 have been paid. The documentation shall include:</p> <ul style="list-style-type: none"> a. Original land certificate; b. Evidence of the latest payment of Tax on Land and Building (PBB). Every year, the local PBB Tax Office issues a tax assessment to land owners. By custom, the buyer usually wants to obtain the original of the payment of PBB for the past three years and utility bills for the last three months--though in practice the office will check the last 10 years. The Land Deed Officer drawing up the sale and purchase deed will only need to see the most recent PBB while the Land Office will need a copy of the most recent PBB for registering the land into the name of the new owner; c. Evidence of payment of the Tax on Transfer of Land and Building (Transfer Tax) (obtained in Procedure 2); d. Evidence of payment of the Tax on Acquisition of Land and Building (BPHTB) (obtained in Procedure 3); e. Evidence of deed of Company Establishment which was already authorized by the Ministry of Law and Human Rights; f. Company Tax-Registration Numbers (NPWP) of the seller and the purchaser g. Deed of Establishment and its amendments of both the seller and purchaser; 	<p>1-3 days</p>	<p>0.5% of property value</p>

No.	Procedure	Time to complete	Cost to complete
	<p>h. Corporate approvals of the seller to dispose of the land and the purchaser to acquire the land as required in the Articles of Association of both the seller and purchaser; i. Advise Planning from the City Administration Institution; j. Permit for Building Establishment. (h) Copy of buyer and seller's identification cards</p> <p><i>Agency: Land deed official</i></p>		
4	<p>Registration of the Land Deed at the local Land Office (BPN) under the name of the buyer</p> <p>After the buyer submits the registration of the Land Deed, she/he leaves it there and has to return some days later to pick up the Land Deed that has been registered under the buyer's name. In between submission of the deed and pick-up, the buyer has to phone the Officer at the Land Office to ask about the progress. The Land Office crosses out the name of the previous owner and inserts the name of the buyer, stamps and signs it.</p> <p><i>Agency: Land Office</i></p>	45 days	IDR 50000 + 0.1% of property value + IDR 6,000 stamp duty per document (2 required)
5	<p>Registration of the Land Deed at the Surabaya Regional Government Revenue Office under the name of a buyer</p> <p>In connection to the registration of the Land Deed, the change of ownership must be registered with the Land and Building Tax Office (PBB). Surabaya Regional Government Revenue Office. The taxpayer reports the transfer of land title. He must present a copy of his identification card and the new land deed.</p> <p><i>Agency: Regional Government Revenue Office</i></p>	1 day	no cost

* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: Doing Business database.

GETTING CREDIT

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and borrowers and lenders in collateral and bankruptcy laws. Credit information systems enable lenders' rights to view a potential borrower's financial history (positive or negative)—valuable information to consider when assessing risk. And they permit borrowers to establish a good credit history that will allow easier access to credit. Sound collateral laws enable businesses to use their assets, especially movable property, as security to generate capital—while strong creditors' rights have been associated with higher ratios of private sector credit to GDP.

What do the indicators cover?

Doing Business assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions through 2 sets of indicators. The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through a credit registry or a credit bureau. The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. *Doing Business* uses two case scenarios, Case A and Case B, to determine the scope of the secured transactions system, involving a secured borrower and a secured lender and examining legal restrictions on the use of movable collateral (for more details on each case, see the Data Notes section of the *Doing Business 2015* report). These scenarios assume that the borrower:

- Is a private limited liability company.
- Has its headquarters and only base of operations in the largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added.

WHAT THE GETTING CREDIT INDICATORS MEASURE

Strength of legal rights index (0–12)³

Rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

Depth of credit information index (0–8)⁴

Scope and accessibility of credit information distributed by credit bureaus and credit registries

Credit bureau coverage (% of adults)

Number of individuals and firms listed in largest credit bureau as percentage of adult population

Credit registry coverage (% of adults)

Number of individuals and firms listed in credit registry as percentage of adult population

- Has up to 50 employees.
- Is 100% domestically owned, as is the lender.

The ranking of economies on the ease of getting credit is determined by sorting their distance to frontier scores for getting credit. These scores are the distance to frontier score for the strength of legal rights index and the depth of credit information index.

³ For the legal rights index, 2 new points are added in *Doing Business 2015* for new data collected to assess the overall legal framework for secured transactions and the functioning of the collateral registry.

⁴ For the credit information index, 2 new points are added in *Doing Business 2015* for new data collected on accessing borrowers' credit information online and availability of credit scores.

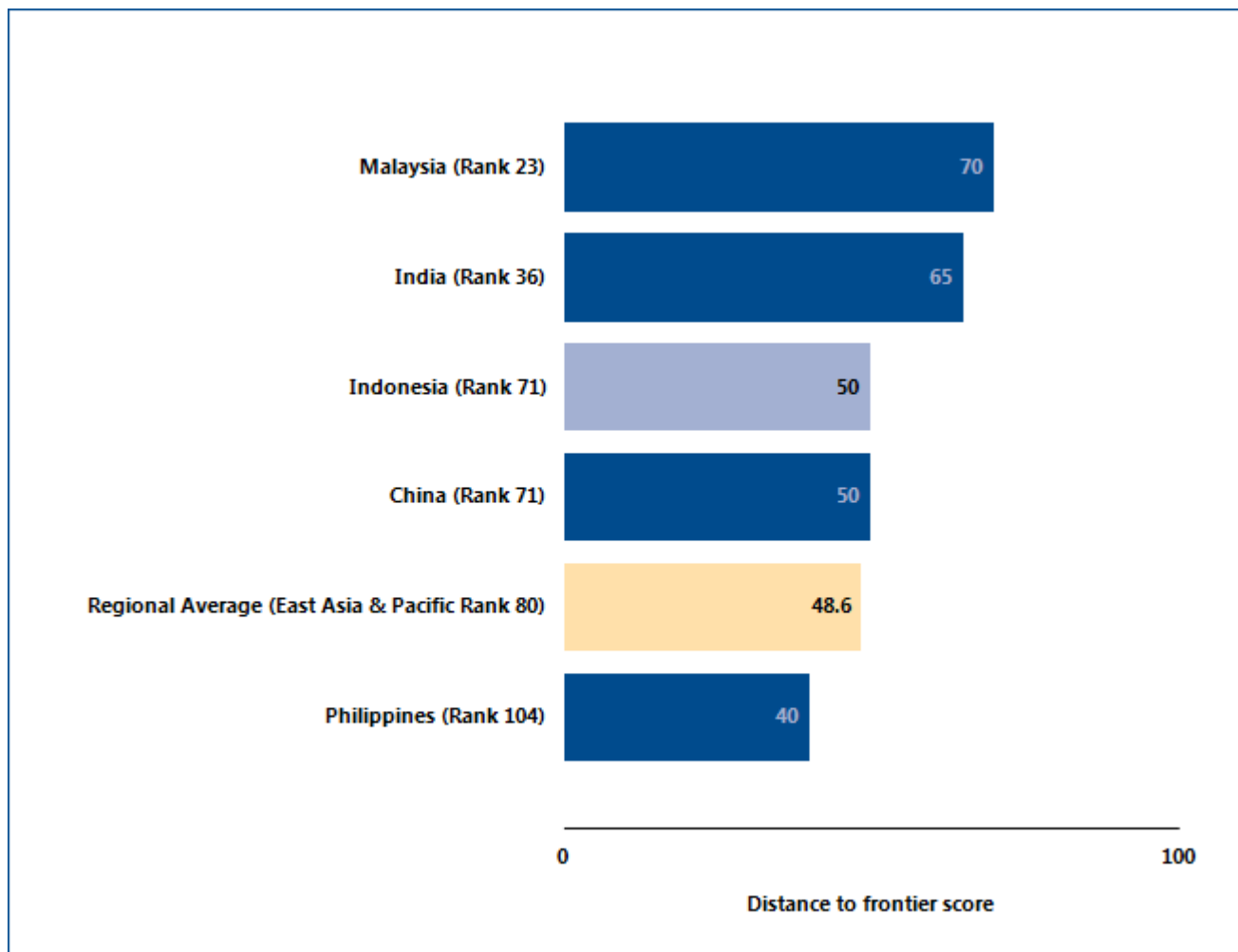
GETTING CREDIT

Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Indonesia facilitate access to credit? The economy has a score of 6 on the depth of credit information index and a score of 4 on the strength of legal rights index (see the summary of scoring at the end of this chapter for details). Higher scores indicate more credit information and stronger legal rights for borrowers and lenders.

Globally, Indonesia stands at 71 in the ranking of 189 economies on the ease of getting credit (figure 6.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how well regulations and institutions in Indonesia support lending and borrowing.

Figure 6.1 How Indonesia and comparator economies rank on the ease of getting credit



Source: Doing Business database.

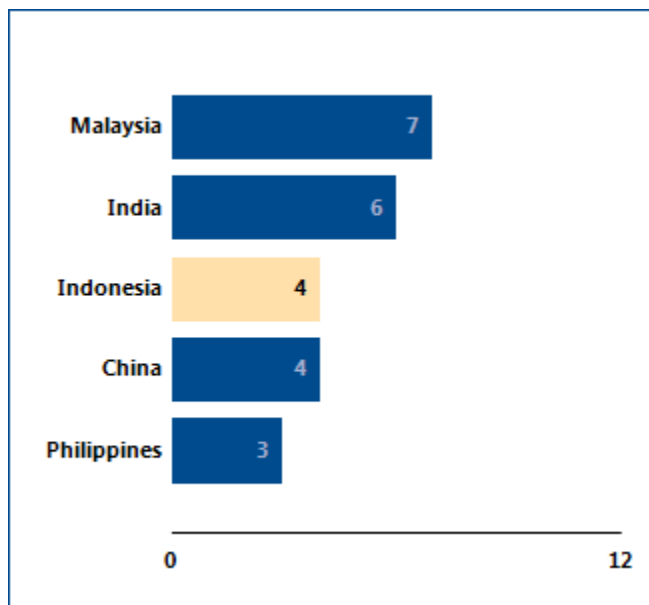
GETTING CREDIT

One way to put an economy’s score on the getting credit indicators into context is to see where the economy stands in the distribution of scores across economies. Figure 6.2 highlights the score on the strength of legal

rights index for Indonesia and shows the scores for comparator economies as well as the regional average score. Figure 6.3 shows the same for the depth of credit information index.

Figure 6.2 How strong are legal rights for borrowers and lenders?

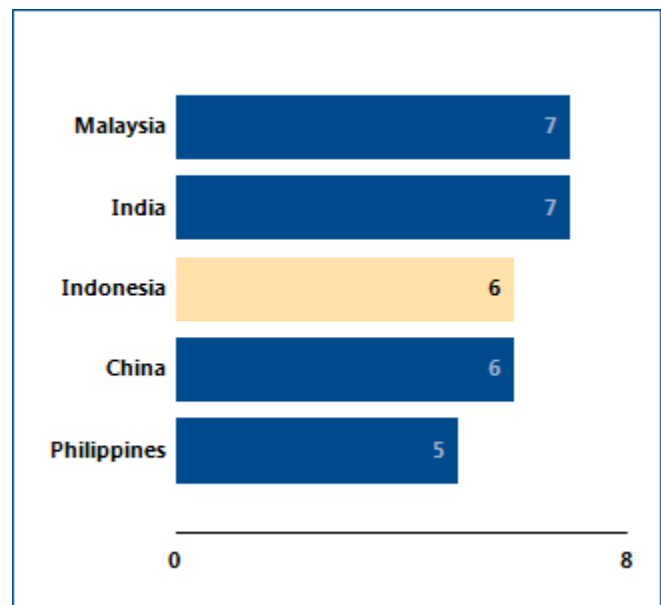
Economy scores on strength of legal rights index



Note: Higher scores indicate that collateral and bankruptcy laws are better designed to facilitate access to credit.
Source: Doing Business database.

Figure 6.3 How much credit information is shared—and how widely?

Economy scores on depth of credit information index



Note: Higher scores indicate the availability of more credit information, from either a credit registry or a credit bureau, to facilitate lending decisions. If the credit bureau or registry is not operational or covers less than 5% of the adult population, the total score on the depth of credit information index is 0.
Source: Doing Business database.

GETTING CREDIT

When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws, and increase the scope, coverage and accessibility of credit

information, they can increase entrepreneurs' access to credit. What credit reforms has *Doing Business* recorded in Indonesia (table 6.1)?

Table 6.1 How has Indonesia made getting credit easier—or not?
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2014	Indonesia improved its credit information system through a new regulation setting up a legal framework for establishing credit bureaus.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

GETTING CREDIT

What are the details?

The getting credit indicators reported here for Indonesia are based on detailed information collected in that economy. The data on credit information sharing are collected through a survey of a credit registry and/or credit bureau (if one exists). To construct the depth of credit information index, a score of 1 is assigned for each of 8 features of the credit registry or credit bureau (see summary of scoring below).

The data on the legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral and bankruptcy laws. For the strength of legal rights index, a score of 1 is assigned for each of 10 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law.

Strength of legal rights index (0–12)	Jakarta Index score: 4	Surabaya Index score: 4
Does an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets exist in the economy?	No	No
Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral?	Yes	Yes
Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral?	No	No
May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets?	Yes	Yes
Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered?	Yes	Yes
Is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name?	No	No
Does a notice-based collateral registry exist in which all functional equivalents can be registered?	No	No
Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party?	No	No

Strength of legal rights index (0–12)	Jakarta Index score: 4	Surabaya Index score: 4
Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	No	No
Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated?	No	No
Are secured creditors subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure? Does the law protect secured creditors' rights by providing clear grounds for relief from the stay and/or sets a time limit for it?	Yes	Yes
Does the law allow parties to agree on out of court enforcement at the time a security interest is created? Does the law allow the secured creditor to sell the collateral through public auction and private tender, as well as, for the secured creditor to keep the asset in satisfaction of the debt?	No	No

Depth of credit information index (0–8)	Credit bureau	Credit registry	Index score: 6
Are data on both firms and individuals distributed?	No	Yes	1
Are both positive and negative credit data distributed?	No	Yes	1
Are data from retailers or utility companies - in addition to data from banks and financial institutions - distributed?	No	No	0
Are at least 2 years of historical data distributed? (Credit bureaus and registries that distribute more than 10 years of negative data or erase data on defaults as soon as they are repaid obtain a score of 0 for this component.)	No	Yes	1
Are data on loan amounts below 1% of income per capita distributed?	No	Yes	1
By law, do borrowers have the right to access their data in the credit bureau or credit registry?	No	Yes	1
Can banks and financial institutions access borrowers' credit information online (for example, through an online platform, a system-to-system connection or both)?	No	Yes	1
Are bureau or registry credit scores offered as a value-added service to help banks and financial institutions assess the creditworthiness of borrowers?	No	No	0

Note: Prior to *Doing Business 2015*, the depth of credit information index covered only the first 6 features listed above. An economy receives a score of 1 if there is a "yes" to either bureau or registry. If the credit bureau or registry is not operational or

covers less than 5% of the adult population, the total score on the depth of credit information index is 0.

Coverage	Credit bureau (% of adults)	Credit registry (% of adults)
Number of firms	0	525,658
Number of individuals	0	75,889,326
Percent of total	0.0	46.4

Source: *Doing Business* database.

PROTECTING MINORITY INVESTORS

Protecting minority investors matters for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. Effective regulations define related-party transactions precisely, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set detailed standards of accountability for company insiders.

What do the indicators cover?

Doing Business measures the protection of minority investors from conflicts of interest through one set of indicators and shareholders' rights in corporate governance through another. The ranking of economies on the strength of minority investor protections is determined by sorting their distance to frontier scores for protecting minority investors. These scores are the simple average of the distance to frontier scores for the extent of conflict of interest regulation index and the extent of shareholder governance index. To make the data comparable across economies, a case study uses several assumptions about the business and the transaction.

The business (Buyer):

- Is a publicly traded corporation listed on the economy's most important stock exchange (or at least a large private company with multiple shareholders).
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.

The transaction involves the following details:

- Mr. James, a director and the majority shareholder of the company, proposes that the company purchase used trucks from another company he owns.
- The price is higher than the going price for used trucks, but the transaction goes forward.
- All required approvals are obtained, and all required disclosures made, though the transaction is prejudicial to Buyer.
- Shareholders sue the interested parties and the members of the board of directors.

WHAT THE PROTECTING MINORITY INVESTORS INDICATORS MEASURE

Extent of disclosure index (0–10)

Review and approval requirements for related-party transactions ; Disclosure requirements for related-party transactions

Extent of director liability index (0–10)

Ability of minority shareholders to sue and hold interested directors liable for prejudicial related-party transactions; Available legal remedies (damages, disgorgement of profits, fines, imprisonment, rescission of the transaction)

Ease of shareholder suits index (0–10)

Access to internal corporate documents; Evidence obtainable during trial and allocation of legal expenses

Extent of conflict of interest regulation index (0–10)

Sum of the extent of disclosure, extent of director liability and ease of shareholder indices, divided by 3

Extent of shareholder rights index (0-10.5)

Shareholders' rights and role in major corporate decisions

Strength of governance structure index (0-10.5)

Governance safeguards protecting shareholders from undue board control and entrenchment

Extent of corporate transparency index (0-9)

Corporate transparency on ownership stakes, compensation, audits and financial prospects

Extent of shareholder governance index (0–10)

Sum of the extent of shareholders rights, strength of governance structure and extent of corporate transparency indices, divided by 3

Strength of investor protection index (0–10)

Simple average of the extent of conflict of interest regulation and extent of shareholder governance indices

PROTECTING MINORITY INVESTORS

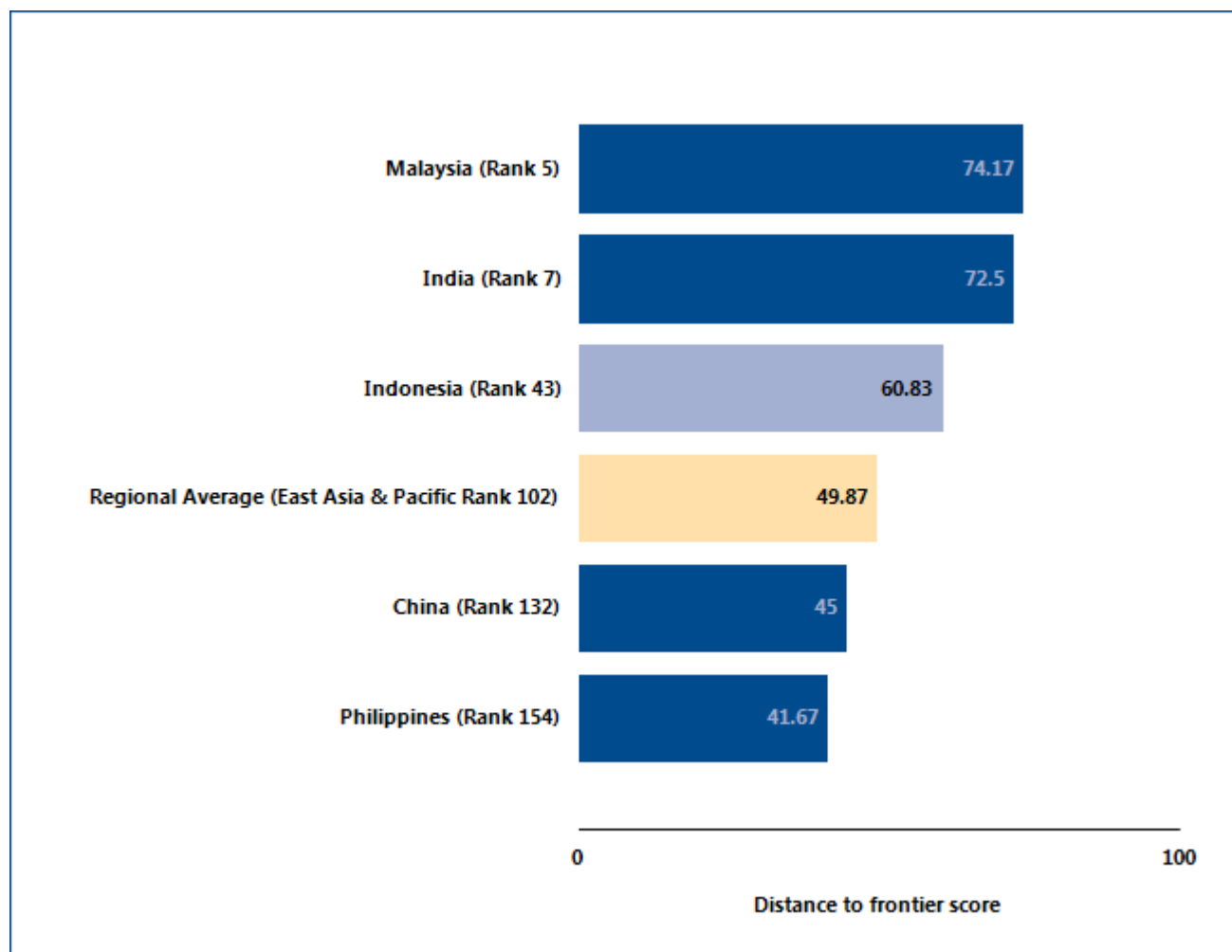
Where does the economy stand today?

How strong are minority investor protections against self-dealing in Indonesia? The economy has a score of 6.1 on the strength of minority investor protection index, with a higher score indicating stronger protections.

Globally, Indonesia stands at 43 in the ranking of 189 economies on the strength of minority investor

protection index (figure 7.1). While the indicator does not measure all aspects related to the protection of minority investors, a higher ranking does indicate that an economy's regulations offer stronger minority investor protections against self-dealing in the areas measured.

Figure 7.1 How Indonesia and comparator economies perform on the strength of minority investor protection index



Source: Doing Business database.

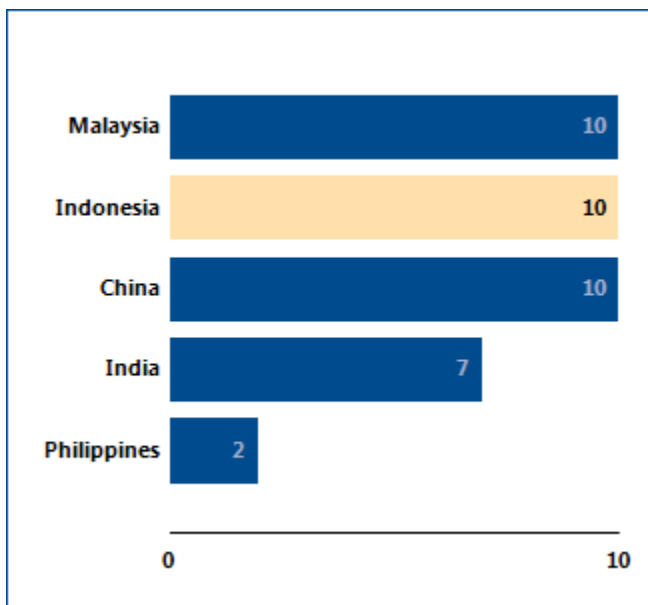
PROTECTING MINORITY INVESTORS

One way to put an economy's scores on the protecting minority investors indicators into context is to see where the economy stands in the distribution of scores across comparator economies. Figures 7.2 through 7.7 highlight the scores on the various minority investor protection

indices for Indonesia in 2014. A summary of scoring for the protecting minority investors indicators at the end of this chapter provides details on how the indices were calculated.

Figure 7.2 How extensive are disclosure requirements?

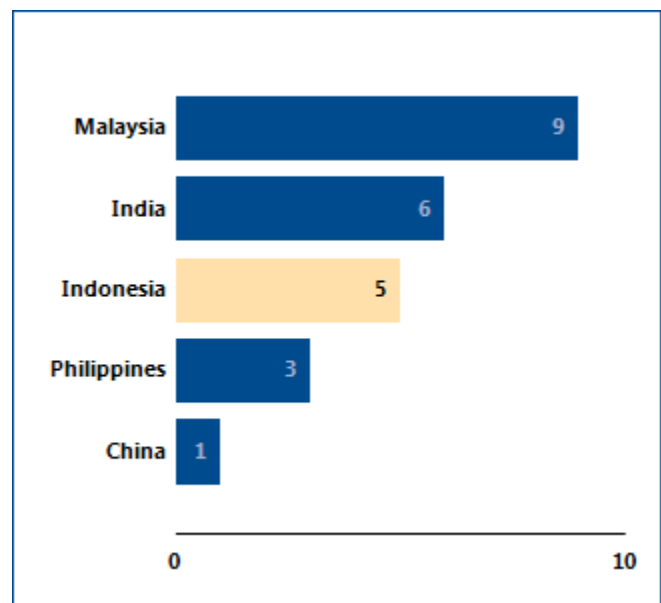
Extent of disclosure index (0-10)



Note: Higher scores indicate greater disclosure.
Source: Doing Business database.

Figure 7.3 How extensive is the liability regime for directors?

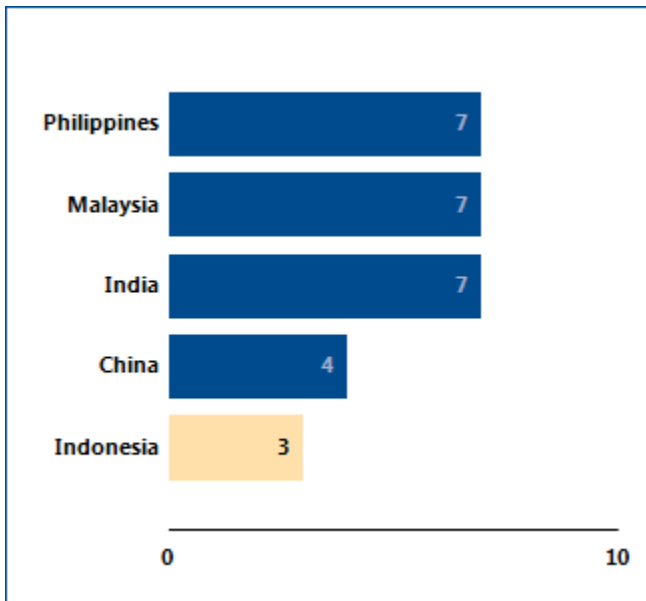
Extent of director liability index (0-10)



Note: Higher scores indicate greater liability of directors.
Source: Doing Business database.

PROTECTING MINORITY INVESTORS

Figure 7.4 How easy is accessing internal corporate documents?

Ease of shareholder suits index (0-10)

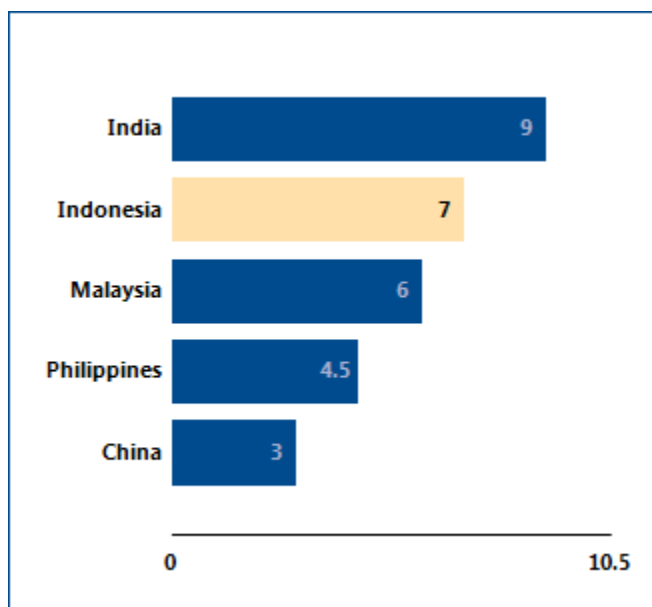
Note: Higher scores indicate greater minority shareholder access to evidence before and during trial.

Source: Doing Business database.

PROTECTING MINORITY INVESTORS

Figure 7.5 How extensive are shareholder rights?

Extent of shareholder rights index (0-10.5)

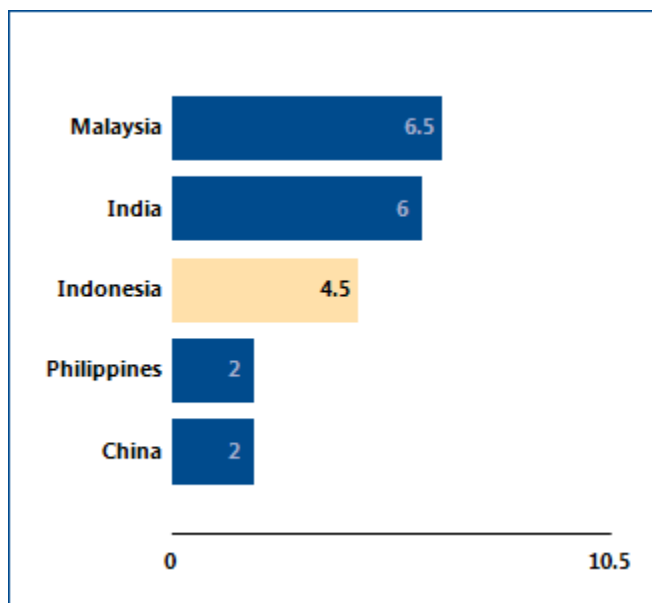


Note: The higher the score, the stronger the protections.

Source: Doing Business database.

Figure 7.6 How strong is the governance structure?

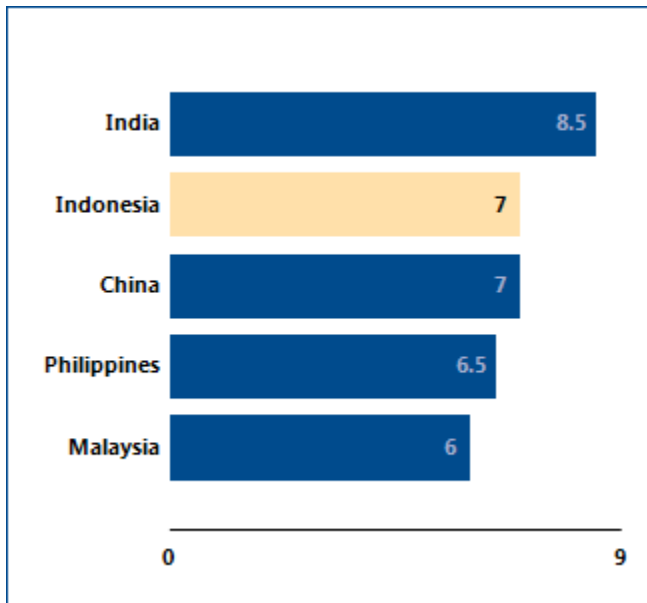
Strength of governance structure index (0-10.5)



Note: Higher scores indicate more stringent governance structure requirements.

Source: Doing Business database.

Figure 7.7 How extensive is corporate transparency?

Extent of corporate transparency index (0-9)

Note: Higher scores indicate greater transparency.
Source: Doing Business database.

PROTECTING MINORITY INVESTORS

Economies with the strongest protections of minority investors from self-dealing require detailed disclosure and define clear duties for directors. They also have well-functioning courts and up-to-date procedural rules that give minority shareholders the means to prove their case and obtain a judgment within a reasonable time. As a

result, reforms to strengthen minority investor protections may move ahead on different fronts—such as through new or amended company laws, securities regulations or civil procedure rules. What minority investor protection reforms has *Doing Business* recorded in Indonesia (table 7.1)?

Table 7.1 How has Indonesia strengthened minority investor protections—or not?
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2010	Indonesia strengthened investor protections by increasing disclosure requirements for related-party transactions.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

PROTECTING MINORITY INVESTORS

What are the details?

The protecting minority investors indicators reported here for Indonesia are based on detailed information collected through a survey of corporate and securities lawyers about securities regulations, company laws and court rules of evidence and procedure. To construct the six indicators on minority investor protection, scores are assigned to each based on a range of conditions relating

to disclosure, director liability, shareholder suits, shareholder rights, governance structure and corporate transparency in a standard case study (for more details, see the Data Notes section of the *Doing Business 2015* report). The summary below shows the details underlying the scores for Indonesia.

Table 7.2 Summary of scoring for the protecting minority investors indicators in Indonesia

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Extent of disclosure index (0-10)		10.0		10.0
Which corporate body can provide legally sufficient approval for the Buyer-Seller transaction? (0-3)	Shareholders excluding interested parties	3	Shareholders excluding interested parties	3
Is disclosure by the interested director to the board of directors required? (0-2)	Full disclosure of all material facts	2	Full disclosure of all material facts	2
Is disclosure of the transaction in published periodic filings (annual reports) required? (0-2)	Disclosure on the transaction and on the conflict of interest	2	Disclosure on the transaction and on the conflict of interest	2
Is immediate disclosure of the transaction to the public and/or shareholders required? (0-2)	Disclosure on the transaction and on the conflict of interest	2	Disclosure on the transaction and on the conflict of interest	2
Must an external body review the terms of the transaction before it takes place? (0-1)	Yes	1	Yes	1
Extent of director liability index (0-10)		5.0		5.0
Can shareholders sue directly or derivatively for the damage caused by the Buyer-Seller transaction to the company? (0-1)	Yes	1	Yes	1
Can shareholders hold the interested director liable for the damage caused by the transaction to the company? (0-2)	Liable if negligent	1	Liable if negligent	1
Can shareholders hold members of the approving body liable for the damage cause by the transaction to the company? (0-2)	Not liable	0	Not liable	0
Must the interested director pay damages for the harm caused to the company upon a successful claim by a shareholder plaintiff? (0-1)	Yes	1	Yes	1
Must the interested director repay profits made from the transaction upon a successful claim by a shareholder plaintiff? (0-1)	No	0	No	0

Can both fines and imprisonment be applied against the interested director? (0-1)	No	0	No	0
Can a court void the transaction upon a successful claim by a shareholder plaintiff? (0-2)	Voidable if unfair or prejudicial	2	Voidable if unfair or prejudicial	2
Ease of shareholder suits index (0-10)		3.0		3.0
Before filing suit, can shareholders owning 10% of the company's share capital inspect the transaction documents? (0-1)	Yes	1	Yes	1
Can the plaintiff obtain any documents from the defendant and witnesses during trial? (0-3)	No	0	No	0
Can the plaintiff request categories of documents from the defendant without identifying specific ones? (0-1)	No	0	No	0
Can the plaintiff directly question the defendant and witnesses during trial? (0-2)	No	1	No	1
Is the level of proof required for civil suits lower than that of criminal cases? (0-1)	No	0	No	0
Can shareholder plaintiffs recover their legal expenses from the company? (0-2)	Yes if successful	1	Yes if successful	1
Strength of minority investor protection index (0-10)		6.1		6.1
Extent of conflict of interest regulation index (0-10)		6.0		6.0
Extent of shareholder rights index (0-10.5)		7.0		7.0
Can shareholders amend company bylaws or statutes with a simple majority?	No	0	No	0
Can shareholders owning 10% of the company's share capital call for an extraordinary meeting of shareholders?	Yes	1.5	Yes	1.5
Can shareholders remove members of the board of directors before the end of their term.	Yes	1.5	Yes	1.5
Must a company obtain its shareholders' approval every time it issues new shares?	Yes	1.5	Yes	1.5
Are shareholders automatically granted subscription rights on new shares?	Yes	1.5	Yes	1.5
Must shareholders approve the election and dismissal of the external auditor?	Yes for listed companies	1	Yes for listed companies	1
Can shareholders freely trade shares prior to a major corporate action or meeting of shareholders?	No	0	No	0
Strength of governance structure index (0-10.5)		4.5		4.5
Is the CEO barred from also serving as chair of the board of directors?	Yes	1.5	Yes	1.5
Must the board of directors include independent board members?	No	0	No	0
Must a company have a separate audit committee?	Yes	1.5	Yes	1.5
Must changes to the voting rights of a series or class of shares be approved only by the holders of the affected shares?	No	0	No	0
Must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of a company?	No	0	No	0
Is cross-shareholding between 2 independent companies limited to 10% of outstanding shares?	Yes	1.5	Yes	1.5
Is a subsidiary barred from acquiring shares issued by its parent company?	No	0	No	0
Extent of corporate transparency index (0-9)		7.0		7.0

Must ownership stakes representing 10% be disclosed?	Yes for listed companies	1	Yes for listed companies	1
Must information about board members' other directorships as well as basic information on their primary employment be disclosed?	Yes for listed companies	1	Yes for listed companies	1
Must the compensation of individual managers be disclosed?	Yes	1.5	Yes	1.5
Must financial statements contain explanatory notes on significant accounting policies, trends, risks, uncertainties and other factors influencing the reporting?	Yes for listed companies	1	Yes for listed companies	1
Must annual financial statements be audited by an external auditor?	Yes	1.5	Yes	1.5
Must audit reports be disclosed to the public?	Yes for listed companies	1	Yes for listed companies	1
Extent of shareholder governance index (0-10)		6.2		6.2

Source: Doing Business database.

PAYING TAXES

Taxes are essential. The level of tax rates needs to be carefully chosen—and needless complexity in tax rules avoided. Firms in economies that rank better on the ease of paying taxes in the *Doing Business* study tend to perceive both tax rates and tax administration as less of an obstacle to business according to the World Bank Enterprise Survey research.

What do the indicators cover?

Using a case scenario, *Doing Business* measures the taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions. This case scenario uses a set of financial statements and assumptions about transactions made over the year. Information is also compiled on the frequency of filing and payments as well as time taken to comply with tax laws. The ranking of economies on the ease of paying taxes is determined by sorting their distance to frontier scores on the ease of paying taxes. These scores are the simple average of the distance to frontier scores for each of the component indicators, with a threshold and a nonlinear transformation applied to one of the component indicators, the total tax rate⁵. The financial statement variables have been updated to be proportional to 2012 income per capita; previously they were proportional to 2005 income per capita. To make the data comparable across economies, several assumptions are used.

- TaxpayerCo is a medium-size business that started operations on January 1, 2012.
- The business starts from the same financial position in each economy. All the taxes and mandatory contributions paid during the second year of operation are recorded.
- Taxes and mandatory contributions are measured at all levels of government.

⁵ The nonlinear distance to frontier for the total tax rate is equal to the distance to frontier for the total tax rate to the power of 0.8. The threshold is defined as the total tax rate at the 15th percentile of the overall distribution for all years included in the analysis. It is calculated and adjusted on a yearly basis. The threshold is not based on any economic theory of an “optimal tax rate” that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). This year’s threshold is 26.1%.

WHAT THE PAYING TAXES INDICATORS MEASURE

Tax payments for a manufacturing company in 2013 (number per year adjusted for electronic and joint filing and payment)

Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)

Method and frequency of filing and payment

Time required to comply with 3 major taxes (hours per year)

Collecting information and computing the tax payable

Completing tax return forms, filing with proper agencies

Arranging payment or withholding

Preparing separate tax accounting books, if required

Total tax rate (% of profit before all taxes)

Profit or corporate income tax

Social contributions and labor taxes paid by the employer

Property and property transfer taxes

Dividend, capital gains and financial transactions taxes

Waste collection, vehicle, road and other taxes

- Taxes and mandatory contributions include corporate income tax, turnover tax and all labor taxes and contributions paid by the company.
- A range of standard deductions and exemptions are also recorded.

PAYING TAXES

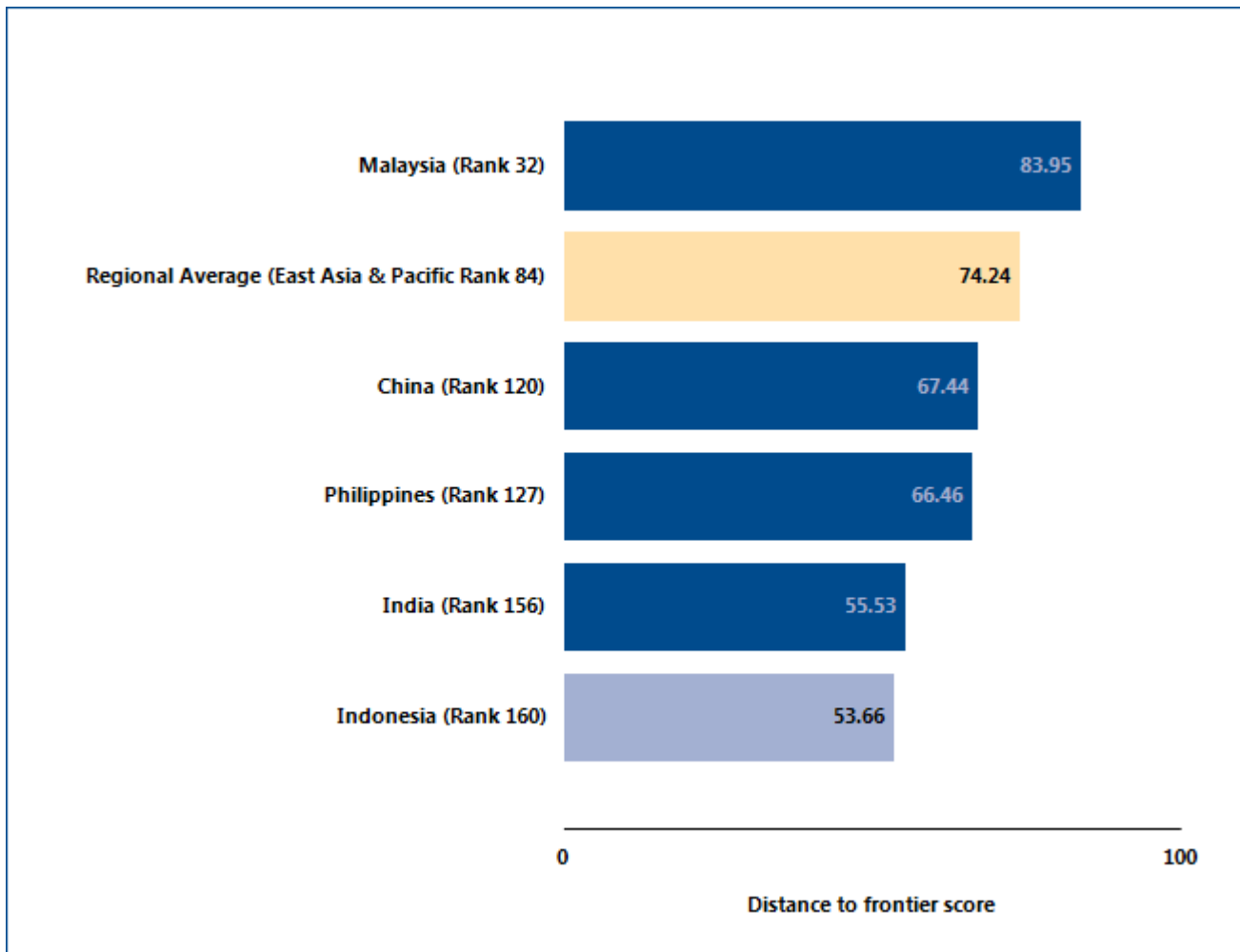
Where does the economy stand today?

What is the administrative burden of complying with taxes in Indonesia—and how much do firms pay in taxes? On average, firms make 65.0 tax payments a year, spend 253.5 hours a year filing, preparing and paying taxes and pay total taxes amounting to 31.4% of profit (see the summary at the end of this chapter for details). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the

2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Globally, Indonesia stands at 160 in the ranking of 189 economies on the ease of paying taxes (figure 8.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing the tax compliance burden for businesses in Indonesia.

Figure 8.1 How Indonesia and comparator economies rank on the ease of paying taxes



Source: Doing Business database.

PAYING TAXES

Economies around the world have made paying taxes faster and easier for businesses—such as by consolidating filings, reducing the frequency of payments or offering electronic filing and payment. Many have lowered tax rates. Changes have brought

concrete results. Some economies simplifying tax payment and reducing rates have seen tax revenue rise. What tax reforms has *Doing Business* recorded in Indonesia (table 8.1)?

Table 8.1 How has Indonesia made paying taxes easier—or not?
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2010	Indonesia made paying taxes less costly for companies by reducing the top corporate income tax rate.
DB2011	Indonesia reduced its corporate income tax rate.
DB2015	Indonesia made paying taxes less costly for companies by reducing employers' health insurance contribution rate. This reform applies to both Jakarta and Surabaya.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

PAYING TAXES

What are the details?

The indicators reported here for Indonesia are based on the taxes and contributions that would be paid by a standardized case study company used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). Tax practitioners are asked to review a set of financial statements as well as a standardized list of assumptions and transactions that the company completed during its 2nd year of operation. Respondents are asked how much taxes and mandatory contributions the business must pay and how these taxes are filed and paid.

LOCATION OF STANDARDIZED COMPANY

City: Jakarta, Surabaya

The taxes and contributions paid are listed in the summary below, along with the associated number of payments, time and tax rate.

Table 8.2 Summary of tax rates and administration

Jakarta: Tax or mandatory contribution	Payments (number)	Notes on payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on total tax rate
Corporate income tax	13		75	12.5% - 25%	taxable profit	16.7	
Employer paid - Health insurance contributions	12		0	6%	gross salaries	6.6	
Employer paid - Social security contributions	12		89	4.24%	gross salaries	4.8	
Capital gains tax	1		0	5%	price of sale	3	
Property tax	1		0	0.2%	property sales value	0.3	
Vehicle registration tax	1		0	1%	vehicle market value	0.1	
Stamp duty	1		0	Rp 6,000	fixed fee	0	
Value added tax (VAT)	12		90	10%	value added	0	not included
Employee paid - Social security contributions	0	paid jointly	0	2%	gross salaries	0	withheld

Jakarta: Tax or mandatory contribution	Payments (number)	Notes on payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on total tax rate
Employee paid - Payroll tax on employee	12		0	5% - 30%	gross salaries	0	withheld
Totals	65.0		253.5			31.4	

Surabaya: Tax or mandatory contribution	Payments (number)	Notes on payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on total tax rate
Corporate income tax	13		75	**12.5% - 25%	taxable profit	16.7	
Employer paid - Health insurance contributions	12		0	6%	gross salaries	6.6	
Employer paid - Social security contributions	12		89	4.24%	gross salaries	4.8	
Capital gains tax	1		0	5%	price of sale	3	
Property tax	1		0	0.2%	property sales value	0.3	
Vehicle registration tax	1		0	1%	vehicle market value	0.1	
Stamp duty	1		0	Rp 6,000	fixed fee	0	
Value added tax (VAT)	12		90	10%	value added	0	not included
Employee paid - Social security contributions	0	paid jointly	0	2%	gross salaries	0	withheld
Employee paid - Payroll tax on employee	12		0	5% - 30%	gross salaries	0	withheld
Totals	65.0		253.5			31.4	

Source: Doing Business database.

TRADING ACROSS BORDERS

In today's globalized world, making trade between economies easier is increasingly important for business. Excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential. Research shows that exporters in developing countries gain more from a 10% drop in their trading costs than from a similar reduction in the tariffs applied to their products in global markets.

What do the indicators cover?

Doing Business measures the time and cost (excluding tariffs and the time and cost for sea transport) associated with exporting and importing a standard shipment of goods by sea transport, and the number of documents necessary to complete the transaction. The indicators cover predefined stages such as documentation requirements and procedures at customs and other regulatory agencies as well as at the port. They also cover trade logistics, including the time and cost of inland transport to the largest business city. The ranking of economies on the ease of trading across borders is determined by sorting their distance to frontier scores for trading across borders. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the traded goods.

The business:

- Is located in the economy's largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added.
- Is a private, limited liability company, domestically owned and does not operate with special export or import privileges.
- Conducts export and import activities, but does not have any special accreditation such as an authorized economic operator status.

WHAT THE TRADING ACROSS BORDERS INDICATORS MEASURE

Documents required to export and import (number)

- Bank documents
- Customs clearance documents
- Port and terminal handling documents
- Transport documents

Time required to export and import (days)

- Obtaining, filling out and submitting all the documents
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Does not include sea transport time

Cost required to export and import (US\$ per container)

- All documentation
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Official costs only, no bribes

The traded product:

- Is not hazardous nor includes military items.
- Does not require refrigeration or any other special environment.
- Do not require any special phytosanitary or environmental safety standards other than accepted international standards.
- Is one of the economy's leading export or import products.
- Is transported in a dry-cargo, 20-foot full container load.

TRADING ACROSS BORDERS

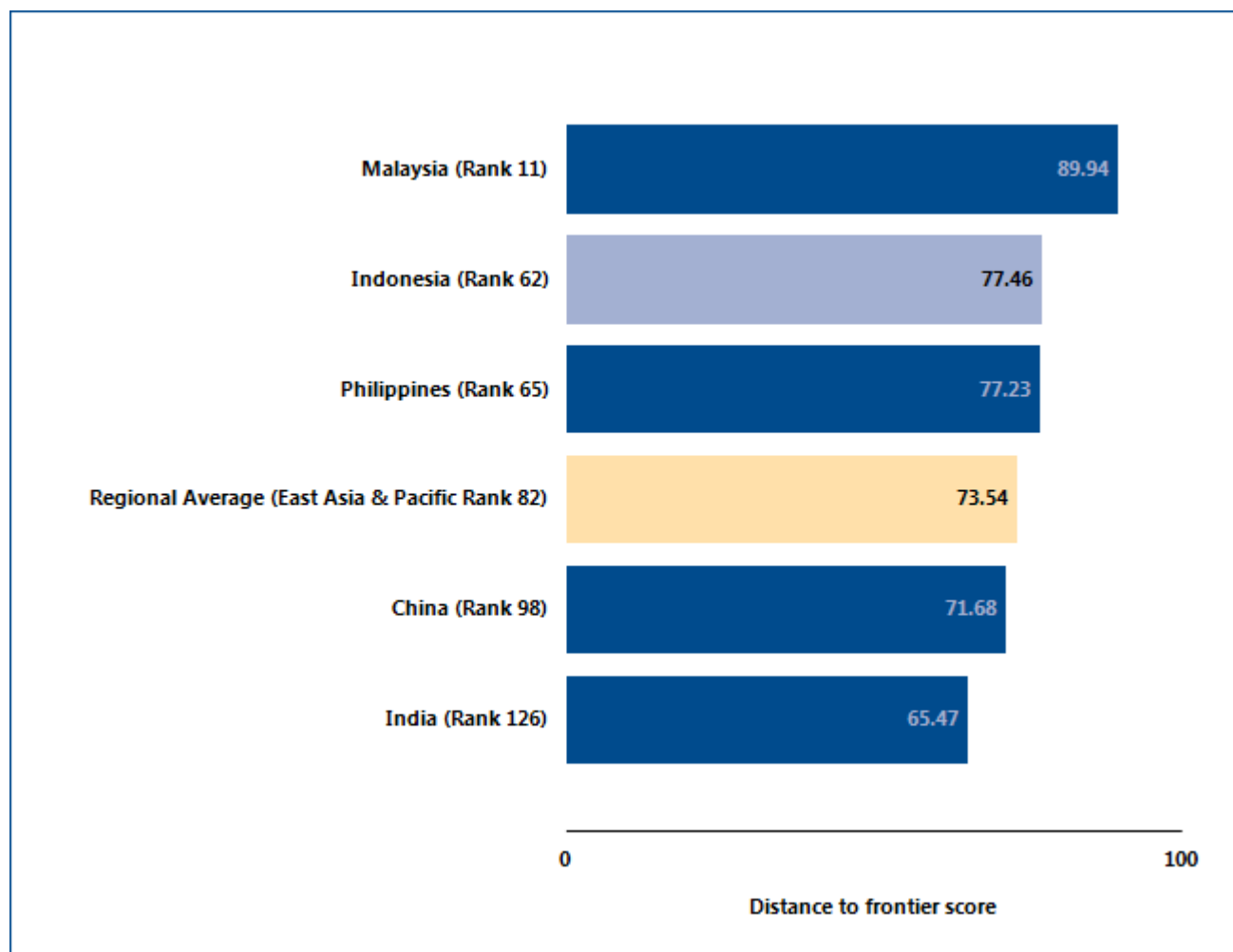
Where does the economy stand today?

What does it take to export or import in Indonesia? According to data collected by *Doing Business*, exporting a standard container of goods requires 4 documents, takes 17.0 days and costs \$571.8. Importing the same container of goods requires 8 documents, takes 26.0 days and costs \$646.8 (see the summary of four predefined stages and documents at the end of this chapter for details). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a

population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Globally, Indonesia stands at 62 in the ranking of 189 economies on the ease of trading across borders (figure 9.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for a business in Indonesia to export and import goods.

Figure 9.1 How Indonesia and comparator economies rank on the ease of trading across borders



Source: *Doing Business* database.

TRADING ACROSS BORDERS

In economies around the world, trading across borders as measured by *Doing Business* has become faster and easier over the years. Governments have introduced tools to facilitate trade—including single windows, risk-based inspections and electronic data interchange

systems. These changes help improve the trading environment and boost firms' international competitiveness. What trade reforms has *Doing Business* recorded in Indonesia (table 9.1)?

Table 9.1 How has Indonesia made trading across borders easier—or not?
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2011	Indonesia reduced the time to export by launching a single-window service.
DB2015	In Indonesia trading across borders became more difficult because of insufficient infrastructure at the Tanjung Priok Port Jakarta. This change applies to both Jakarta and Surabaya.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

TRADING ACROSS BORDERS

What are the details?

The indicators reported here for Indonesia are based on a set of specific predefined stages for trading a standard shipment of goods by ocean transport (see the section in this chapter on what the indicators cover). Information on the required documents and the time and cost to complete export and import is collected from local freight forwarders, shipping lines, customs brokers, port officials and banks.

LOCATION OF STANDARDIZED COMPANY

Port Name - Jakarta: Tanjung Priok

Port Name - Surabaya: Tanjung Priok

City: Jakarta, Surabaya

The predefined stages, and the associated time and cost, for exporting and importing a standard shipment of goods are listed in the summary below, along with the required documents.

Stages to export	Jakarta		Surabaya	
	Time (days)	Cost (US\$)	Time (days)	Cost (US\$)
Customs clearance and inspections	1	125	1	125
Documents preparation	11	135	11	135
Inland transportation and handling	3	160	3	100
Ports and terminal handling	2	165	2	165
Totals	17	585	17	525

Stages to import	Jakarta		Surabaya	
	Time (days)	Cost (US\$)	Time (days)	Cost (US\$)
Customs clearance and inspections	4	125	4	125
Documents preparation	13	210	13	210
Inland transportation and handling	2	160	2	100
Ports and terminal handling	7	165	7	165
Totals	26	660	26	600

Documents to export

Bill of lading
Commercial Invoice
Packing list
PEB (export declaration form)

Documents to import

Bill of lading
Cargo release order (SPPB)
Commercial invoice
Customs import declaration (PIB)
Insurance documentation
Packing list
Proof of payments of customs, excise and taxation (SSPCP)
Terminal handling receipts

Source: *Doing Business* database.

ENFORCING CONTRACTS

Effective commercial dispute resolution has many benefits. Courts are essential for entrepreneurs because they interpret the rules of the market and protect economic rights. Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay. Speedy trials are essential for small enterprises, which may lack the resources to stay in business while awaiting the outcome of a long court dispute.

What do the indicators cover?

Doing Business measures the efficiency of the judicial system in resolving a commercial dispute before local courts. Following the step-by-step evolution of a standardized case study, it collects data relating to the time, cost and procedural complexity of resolving a commercial lawsuit. The ranking on the ease of enforcing contracts is the simple average of the percentile rankings on its component indicators: procedures, time and cost.

The dispute in the case study involves the breach of a sales contract between 2 domestic businesses. The case study assumes that the court hears an expert on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement. To make the data comparable across economies, *Doing Business* uses several assumptions about the case:

- The seller and buyer are located in the economy's largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added.
- The buyer orders custom-made goods, then fails to pay.
- The seller sues the buyer before a competent court.
- The value of the claim is 200% of the income per capita or the equivalent in local currency of USD 5,000, whichever is greater.

WHAT THE ENFORCING CONTRACTS

INDICATORS MEASURE

Procedures to enforce a contract through the courts (number)

- Steps to file and serve the case
- Steps for trial and judgment
- Steps to enforce the judgment

Time required to complete procedures (calendar days)

- Time to file and serve the case
- Time for trial and obtaining judgment
- Time to enforce the judgment

Cost required to complete procedures (% of claim)

- Average attorney fees
- Court costs
- Enforcement costs

- The seller requests a pretrial attachment to secure the claim.
- The dispute on the quality of the goods requires an expert opinion.
- The judge decides in favor of the seller; there is no appeal.
- The seller enforces the judgment through a public sale of the buyer's movable assets.

ENFORCING CONTRACTS

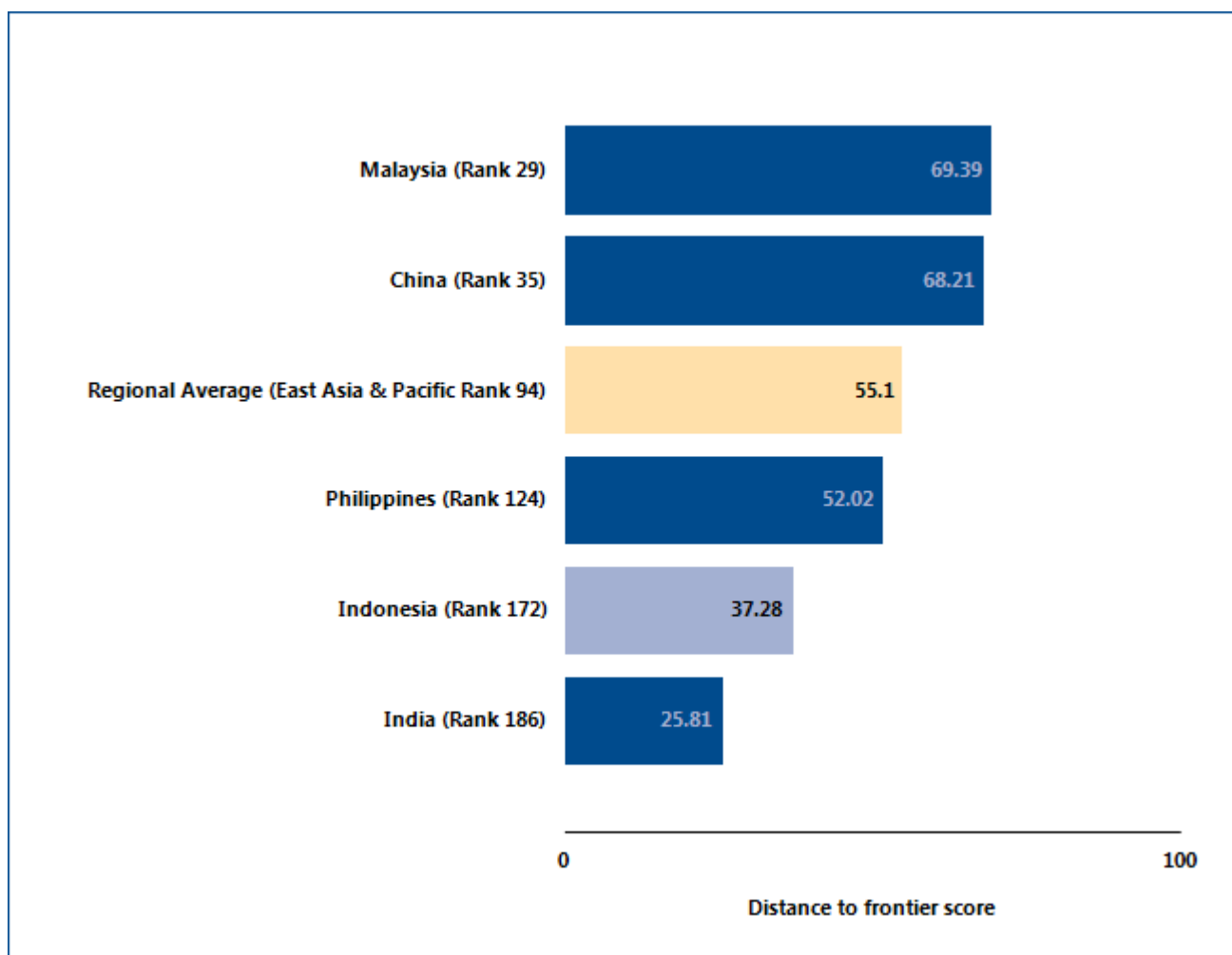
Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Indonesia? According to data collected by *Doing Business*, contract enforcement takes 471.0 days, costs 115.7% of the value of the claim and requires 40.0 procedures (see the summary at the end of this chapter for details). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest

business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Globally, Indonesia stands at 172 in the ranking of 189 economies on the ease of enforcing contracts (figure 10.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of contract enforcement in Indonesia.

Figure 10.1 How Indonesia and comparator economies rank on the ease of enforcing contracts



Source: *Doing Business* database.

ENFORCING CONTRACTS

What are the details?

The indicators reported here for Indonesia are based on a set of specific procedural steps required to resolve a standardized commercial dispute through the courts (see the section in this chapter on what the indicators cover). These procedures, and the time and cost of completing them, are identified through study of the codes of civil procedure and other court regulations, as well as through questionnaires completed by local litigation lawyers (and, in a quarter of the economies covered by *Doing Business*, by judges as well).

COURT NAME	
Claim value - Jakarta:	IDR 64,856,379
Claim value - Surabaya:	IDR 64,856,379
Court name - Jakarta:	Jakarta District Court
Court name - Surabaya:	Surabaya District Court
City:	Jakarta, Surabaya

Table 10.2 Summary of time, cost and procedures for enforcing a contract in Indonesia

Indicator	Jakarta	Surabaya	East Asia & Pacific average
Time (days)	460	510	554
Filing and service	60	60	
Trial and judgment	220	180	
Enforcement of judgment	180	270	
Cost (% of claim)	118.1	107.3	48.6
Attorney cost (% of claim)	90	75	
Court cost (% of claim)	3.1	2.3	
Enforcement Cost (% of claim)	25	30	
Procedures (number)	40	40	37
Number of procedures (without bonus points)	40	40	
Total number of procedures (including bonus points)	40	40	

No.	Jakarta Procedures
	Filing and service:
1	Plaintiff requests payment: Plaintiff or his lawyer asks Defendant orally or in writing to comply with the contract.
2	Mandatory conciliation or mediation: Plaintiff and Defendant attempt to settle the dispute prior to initiating the lawsuit. Conciliation or mediation is unsuccessful. Attempts at settlement are recorded and the judge is informed of same.
3	Plaintiff hires a lawyer: Plaintiff hires a lawyer.
*	Plaintiff files a summons and complaint: Plaintiff files a summons and complaint with the court (orally or in writing).
*	Plaintiff pays court fees: Plaintiff pays court fees (e.g. court duties, stamp duties, or any other type of court fees). Answer 'yes' even if Plaintiff recovers these costs.
4	Registration of court case: Registration of court case by the court administration (this can include assigning a reference number to the case).
*	Assignment of court case to a judge: Assignment of court case to a judge (through a random procedure, automated system, ruling of an administrative judge, court officer, etc).
5	Judicial scrutiny of summons and complaint: Judge examines Plaintiff's summons and complaint for formal requirements as a matter of law or standard practice.
6	Delivery of summons and complaint to person authorized to perform service of process on Defendant: The judge or a court officer delivers the summons to a summoning office, officer, or authorized person (including Plaintiff), for service of process on Defendant.
7	Attempt at physical delivery: An attempt to physically deliver summons and complaint to Defendant is made.
*	Application for pre-judgment attachment: Plaintiff submits an application in writing for the attachment of Defendant's property prior to judgment.
*	Decision on pre-judgment attachment: Judge decides whether to grant Plaintiff's request for pre-judgment attachment of Defendant's property and notifies Plaintiff and Defendant of the decision.
8	Pre-judgment attachment order: Defendant's property is attached prior to judgment. Attachment order either involves physical attachment, or is achieved by freezing, registering, marking, or otherwise separating and restricting Defendant's movement of specific moveable assets.
9	Custody of assets attached prior to judgment: If physical attachment is ordered, Defendant's attached assets are placed in the custody or control of an enforcement officer or private bailiff.
10	Hearing on pre-judgment attachment: A hearing takes place as a matter of law or standard practice to resolve the question of whether Defendant's assets can be attached prior to judgment. This process may include the submission of separate summons and petitions.
	Trial and judgment:

No.	Jakarta Procedures
*	Defendant files preliminary objections.: Defendant presents preliminary objections to the court. (Preliminary exemptions differ from answers on the merits. Examples of preliminary motions are motions to dismiss on the basis of the statute of limitations or jurisdictional objections, etc.) Checke
*	Plaintiff's answer to preliminary motions: Plaintiff responds to preliminary motions raised by Defendant. Checked as 'yes' if preliminary motions are commonly raised (step 30) and if Plaintiff responds to them immediately.
11	Judge's resolution on preliminary objections: Judge decides on preliminary objections separately from the merits of the case. Checked as 'yes' if preliminary objections are commonly made (step 30) and if judge resolves the question before rendering his decision.
12	Defendant files an answer to Plaintiff's claim: Defendant files a written pleading which includes his answer or defense on the merits of the case (see assumption 4).
13	Deadline for Plaintiff to reply to Defendant's defense or answer: Judge sets a deadline for Plaintiff's submission of a reply to the Defendant's defense or answer.
14	Plaintiff's written reply to Defendant's answer: Plaintiff responds to Defendant's answer with a written pleading, which may or may not include witness statements or expert (witness) statements.
15	Filing of written submissions: Plaintiff and Defendant file written pleadings and submissions with the court and transmit copies of the written pleadings or submissions to one another. The pleadings may or may not include witness statements or expert (witness) statements.
16	Adjournments: Court procedure is delayed because one or both parties request and obtain an adjournment to submit written pleadings. Check as 'yes' if this commonly happens.
*	Court appointment of independent expert: Judge appoints, either at the parties' request or at his own initiative, an independent expert to decide whether the quality of the goods Plaintiff delivered to Defendant is adequate. (see assumption 5-b).
*	Delivery of expert report by court-appointed expert: The independent expert, appointed by the court, delivers his or her expert report to the court (see assumption 5-b).
*	List of (expert) witnesses: The parties file a list of (expert) witnesses with the court (see assumption 5-a).
17	Adjournments: Court proceedings are delayed because one or both parties request and obtain an adjournment to prepare for the oral hearing or trial as a matter of common practice.
18	Oral hearing (prevalent in civil law): The parties argue the merits of the case at an oral hearing before the judge. Witnesses and a court-appointed independent expert may be heard and questioned at the oral hearing.
19	Order for submission of final arguments: The judge sets a deadline for the submission of final factual and legal arguments.
*	Final arguments: The parties present their final factual and legal arguments to the court either by oral presentation or by a written submission.
20	Judgment date: The judge sets a date for delivery of the judgment.
21	Notification of judgment in court: The parties are notified of the judgment at a court hearing.

No.	Jakarta Procedures
22	Writing of judgment: The judge produces a written copy of the judgment.
23	Registration of judgment: The court office registers the judgment after receiving a written copy of the judgment.
24	Court notification of availability of the written judgment: The court notifies the parties that the written judgment is available at the courthouse.
25	Plaintiff receives a copy of the judgment: Plaintiff receives a copy of the written judgment which is 100% in favor of Plaintiff (see assumption 6).
26	Defendant is formally notified of the judgment: Plaintiff or court formally notifies the Defendant of the judgment. The appeal period starts to run from the day the Defendant is formally notified of the judgment.
27	Appeal period: By law Defendant has the opportunity to appeal the judgment during a specified period. Defendant decides not to appeal. Seller decides to start enforcing the judgment when the appeal period ends (see assumption 8).
28	Order for reimbursement by Defendant of Plaintiff's court fees: The judgment orders Defendant to reimburse Plaintiff for the court fees Plaintiff has advanced, because Defendant has lost the case.
	Enforcement of judgment:
29	Plaintiff retains an enforcement agent to enforce the judgment.: Plaintiff retains the services of a court enforcement officer such as a court bailiff or sheriff, or a private bailiff.
*	Plaintiff requests an enforcement order: Plaintiff applies to the court to obtain the enforcement order ('seal' on judgment).
30	Plaintiff advances enforcement fees: Plaintiff pays the fees related to the enforcement of the judgment.
31	Attachment of enforcement order to judgment: The judge attaches the enforcement order ('seal') to the judgment.
*	Delivery of enforcement order: The court's enforcement order is delivered to a court enforcement officer or a private bailiff.
32	Request to Defendant to comply voluntarily with judgment: Plaintiff, a court enforcement officer or a private bailiff requests Defendant to voluntarily comply with the judgment.
33	Plaintiff identifies Defendant's assets for attachment: Plaintiff identifies Defendant's assets for attachment.
34	Attachment: Defendant's movable goods are attached (physically or by registering, marking or separating assets).
35	Report on execution of attachment: A court enforcement officer or private bailiff delivers a report on the attachment of Defendant's movable goods to the judge.
36	Enforcement disputes before court: The enforcement of the judgment is delayed because Defendant opposes aspects of the enforcement process before the judge.
37	Call for public auction: Judge calls a public auction by, for example, advertising or publication in the newspapers.

No.	Jakarta Procedures
38	Sale through public auction: The Defendant's movable property is sold at public auction.
*	Direct sale: Defendant's property is sold but not through a public auction. Checked as 'yes' if the direct sale is common as an alternative to a public auction (assumption 9 is disregarded here).
39	Reimbursement of Plaintiff's enforcement fees: Defendant reimburses Plaintiff's enforcement fees which Plaintiff had advanced previously.
40	Payment: Court orders that the proceeds of the public auction or the direct sale be delivered to Plaintiff.

No.	Surabaya Procedures
	Filing and service:

* Not counted in the total number of procedures.

Source: *Doing Business* database.

RESOLVING INSOLVENCY

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones. Fast and cheap insolvency proceedings result in the speedy return of businesses to normal operation and increase returns to creditors. By improving the expectations of creditors and debtors about the outcome of insolvency proceedings, well-functioning insolvency systems can facilitate access to finance, save more viable businesses and thereby improve growth and sustainability in the economy overall.

What do the indicators cover?

Doing Business studies the time, cost and outcome of insolvency proceedings involving domestic legal entities. These variables are used to calculate the recovery rate, which is recorded as cents on the dollar recouped by secured creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings. To determine the present value of the amount recovered by creditors, *Doing Business* uses the lending rates from the International Monetary Fund, supplemented with data from central banks and the Economist Intelligence Unit.

In addition, *Doing Business* evaluates the adequacy and integrity of the existing legal framework applicable to liquidation and reorganization proceedings through the strength of insolvency framework index. The index tests whether economies adopted internationally accepted good practices in four areas: commencement of proceedings, management of debtor's assets, reorganization proceedings and creditor participation.

The ranking of the Resolving Insolvency indicator is based on the recovery rate and the total score of the strength of insolvency framework index. The Resolving Insolvency indicator does not measure insolvency proceedings of individuals and financial institutions. The data are derived from survey responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems.

WHAT THE RESOLVING INSOLVENCY INDICATORS MEASURE

Time required to recover debt (years)

Measured in calendar years

Appeals and requests for extension are included

Cost required to recover debt (% of debtor's estate)

Measured as percentage of estate value

Court fees

Fees of insolvency administrators

Lawyers' fees

Assessors' and auctioneers' fees

Other related fees

Outcome

Whether business continues operating as a going concern or business assets are sold piecemeal

Recovery rate for creditors

Measures the cents on the dollar recovered by secured creditors

Outcome for the business (survival or not) determines the maximum value that can be recovered

Official costs of the insolvency proceedings are deducted

Depreciation of furniture is taken into account

Present value of debt recovered

Strength of insolvency framework index (0-16)

Sum of the scores of four component indices:

Commencement of proceedings index (0-3)

Management of debtor's assets index (0-6)

Reorganization proceedings index (0-3)

Creditor participation index (0-4)

RESOLVING INSOLVENCY

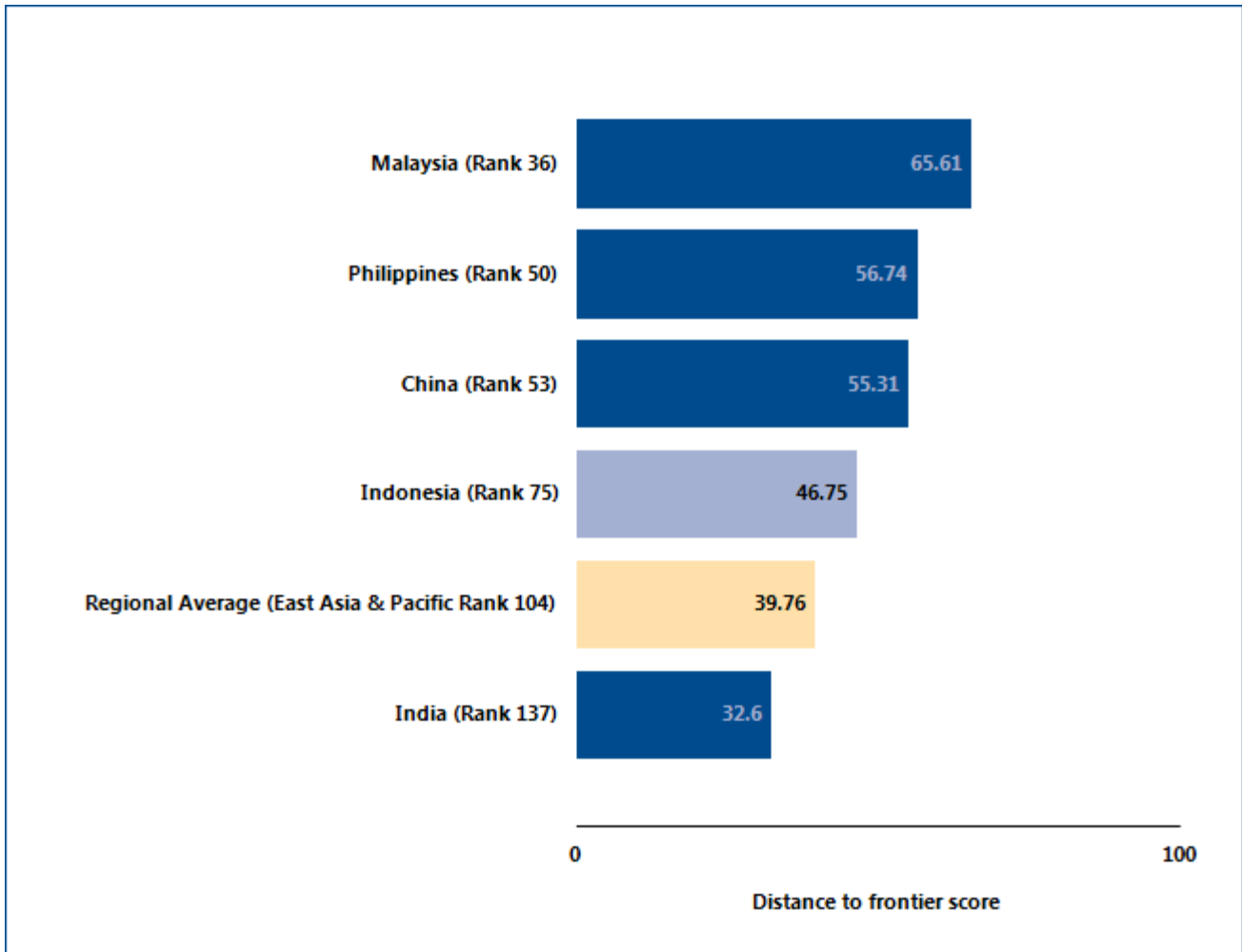
Where does the economy stand today?

Combination of quality regulations and efficient practice characterize the top-performing economies. How efficient are insolvency proceedings in Indonesia? According to data collected by *Doing Business*, resolving insolvency takes 1.9 years on average and costs 21.6% of the debtor's estate, with the most likely outcome being that the company will be sold as piecemeal sale. The average recovery rate is 31.7 cents on the dollar. Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

According to data collected by *Doing Business*, Indonesia scores 3.0 out of 3 points on the commencement of proceedings index, 5.0 out of 6 points on the management of debtor's assets index, 0.5 out of 3 points on the reorganization proceedings index, and 1.0 out of 4 points on the creditor participation index. Indonesia's total score on the strength of insolvency framework index is 9.5 out of 16.

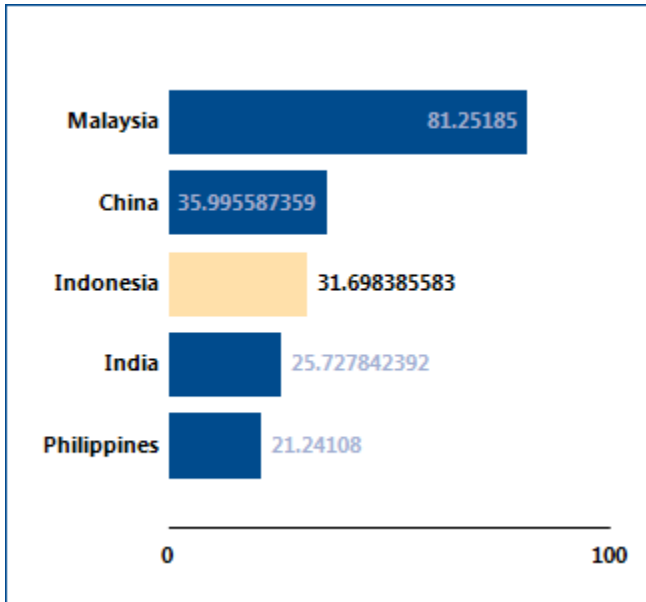
Globally, Indonesia stands at 75 in the ranking of 189 economies on the ease of resolving insolvency (figure 11.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of insolvency proceedings in Indonesia.

Figure 11.1 How Indonesia and comparator economies rank on the ease of resolving insolvency



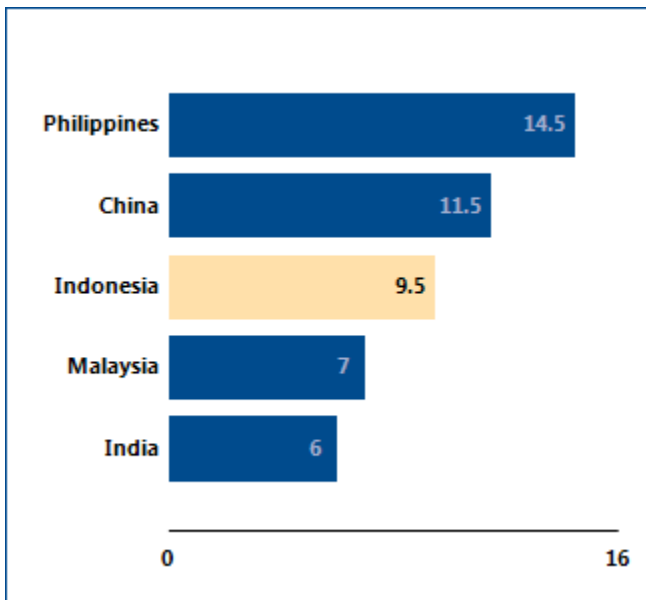
Source: Doing Business database.

Figure 11.2 Recovery Rate (0-100) - Indonesia



Source: Doing Business database.

Figure 11.3 Strength of insolvency framework index (0-16) - Indonesia



Source: Doing Business database.

LABOR MARKET REGULATION

Doing Business measures flexibility in the regulation of employment, specifically as it affects the hiring and redundancy of workers and the rigidity of working hours. This year, for the first time, the indicators measuring flexibility in labor market regulations focus on those affecting the food retail industry, using a standardized case study of a cashier in a supermarket. Also new is that *Doing Business* collects data on regulations applying to employees hired through temporary-work agencies as well as on those applying to permanent employees or employees hired on fixed-term contracts. The indicators also cover additional areas of labor market regulation, including social protection schemes and benefits as well as labor disputes.

Over the period from 2007 to 2011 improvements were made to align the methodology for the labor market regulation indicators (formerly the employing workers indicators) with the letter and spirit of the International Labour Organization (ILO) conventions. Only 6 of the 188 ILO conventions cover areas measured by *Doing Business*: employee termination, weekend work, holiday with pay, night work, protection against unemployment and medical care and sickness benefits. The *Doing Business* methodology is fully consistent with these 6 conventions. The ILO conventions covering areas related to the labor market regulation indicators do not include the ILO core labor standards—8 conventions covering the right to collective bargaining, the elimination of forced labor, the abolition of child labor and equitable treatment in employment practices.

Between 2009 and 2011 the World Bank Group worked with a consultative group—including labor lawyers, employer and employee representatives, and experts from the ILO, the Organisation for Economic Co-operation and Development (OECD), civil society and the private sector—to review the methodology for the labor market regulation indicators and explore future areas of research.

A full report with the conclusions of the consultative group is available at:
<http://www.doingbusiness.org/methodology/employing-workers>.

Doing Business 2015 presents the data for the labor market regulation indicators in an annex. The report does not present rankings of economies on these indicators nor include the topic in the aggregate distance to frontier score or ranking on the ease of doing business. Detailed data collected on labor market regulations are available on the *Doing Business* website (<http://www.doingbusiness.org>). The data on labor market regulations are based on a detailed survey of employment regulations that is completed by local lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy. To make the data comparable across economies, several assumptions about the worker and the business are used.

The worker:

- Is a cashier in a supermarket or a grocery store
- Is a full-time employee
- Is not a member of the labor union, unless membership is mandatory

The business:

- Is a limited liability company (or the equivalent in the economy) with 60 employees.
- Operates a supermarket or grocery store in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is subject to collective bargaining agreements if such agreements cover more than 50% of the food retail sector and they apply even to firms that are not party to them.
- Abides by every law and regulation but does not grant workers more benefits than those mandated by law, regulation or (if applicable) collective bargaining agreements.

LABOR MARKET REGULATION

What are the details?

The data reported here for Indonesia are based on a detailed survey of labor market regulation that is completed by local lawyers and public officials.

Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

Difficulty of hiring index

Difficulty of hiring covers 4 areas: (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; (iii) the minimum wage for a cashier, age 19, with 1 year of work experience; and (iv) the ratio of the minimum

wage to the average value added per worker. The average value added per worker is the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population.

Difficulty of hiring index	Jakarta Data	Surabaya Data
Fixed-term contracts prohibited for permanent tasks?	Yes	Yes
Maximum length of a single fixed-term contract (months)	24 Months extendable for another 12 months (Art. 59 (4))	24 Months extendable for another 12 months (Art. 59 (4))
Maximum length of fixed-term contracts, including renewals (months)	36	36
Minimum wage applicable to the worker assumed in the case study (US\$/month)	248.17	223.67
Ratio of minimum wage to value added per worker	0.55	0.49

Source: *Doing Business* database.

LABOR MARKET REGULATION

Rigidity of hours index

Rigidity of hours covers 7 areas: (i) whether the workweek can extend to 50 hours or more (including overtime) for 2 months in a year to respond to a seasonal increase in workload; (ii) the maximum number of days allowed in the workweek; (iii) the premium for night work (as a percentage of hourly pay); (iv) the premium for work on a weekly rest day (as a percentage of hourly pay); (v) whether there are restrictions on night work; (vi) whether there are restrictions on weekly holiday work; and (vii) the average paid annual leave for workers with 1 year of tenure, 5 years of tenure and 10 years of tenure.

Rigidity of hours index	Jakarta Data	Surabaya Data
50-hour workweek allowed for 2 months a year in case of a seasonal increase in workload?	Yes	Yes
Maximum working days per week	6.0	6.0
Premium for night work (% of hourly pay)	0%	0%
Premium for work on weekly rest day (% of hourly pay)	0%	0%
Major restrictions on night work?	No	No
Major restrictions on weekly holiday?	No	No
Paid annual leave for a worker with 1 year of tenure (in working days)	12.0	12.0
Paid annual leave for a worker with 5 years of tenure (in working days)	12.0	12.0
Paid annual leave for a worker with 10 years of tenure (in working days)	12.0	12.0
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	12.0	12.0

Source: Doing Business database.

LABOR MARKET REGULATION

Difficulty of redundancy index

Difficulty of redundancy index looks at 9 questions: (i) what the length is in months of the maximum probationary period; (ii) whether redundancy is disallowed as a basis for terminating workers; (iii) whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; (iv) whether the employer needs to notify a third party to terminate a group of 9 redundant workers; (v)

whether the employer needs approval from a third party to terminate 1 redundant worker; (vi) whether the employer needs approval from a third party to terminate a group of 9 redundant workers; (vii) whether the law requires the employer to reassign or retrain a worker before making the worker redundant; (viii) whether priority rules apply for redundancies; and (ix) whether priority rules apply for reemployment.

Difficulty of redundancy index	Jakarta Data	Surabaya Data
Maximum length of probationary period (months)	3.0	3.0
Dismissal due to redundancy allowed by law?	Yes	Yes
Third-party notification if 1 worker is dismissed?	Yes	Yes
Third-party approval if 1 worker is dismissed?	Yes	Yes
Third-party notification if 9 workers are dismissed?	Yes	Yes
Third-party approval if 9 workers are dismissed?	Yes	Yes
Retraining or reassignment obligation before redundancy?	Yes	Yes
Priority rules for redundancies?	No	No
Priority rules for reemployment?	No	No

Source: Doing Business database.

LABOR MARKET REGULATION

Redundancy cost

Redundancy cost measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. The average value of notice

requirements and severance payments applicable to a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is considered. One month is recorded as 4 and 1/3 weeks.

Redundancy cost indicator (in salary weeks)	Jakarta Data	Surabaya Data
Notice period for redundancy dismissal for a worker with 1 year of tenure	0.0	0.0
Notice period for redundancy dismissal for a worker with 5 years of tenure	0.0	0.0
Notice period for redundancy dismissal for a worker with 10 years of tenure	0.0	0.0
Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure)	0.0	0.0
Severance pay for redundancy dismissal for a worker with 1 year of tenure	17.3	17.3
Severance pay for redundancy dismissal for a worker with 5 years of tenure	60.7	60.7
Severance pay for redundancy dismissal for a worker with 10 years of tenure	95.3	95.3
Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure)	57.8	57.8

Source: *Doing Business* database.

Social protection schemes and benefits & Labor disputes

Doing Business collects data on the existence of unemployment protection schemes as well as data on whether employers are legally required to provide health insurance for employees with permanent contracts.

Doing Business also assesses the mechanisms available to resolve labor disputes. More specifically, it collects data on what courts would be competent to hear labor disputes and whether the competent court is specialized in resolving labor disputes.

Social protection schemes and benefits & Labor disputes indicator	Jakarta Data	Surabaya Data
Availability of unemployment protection scheme?	No	No
Health insurance existing for permanent employees?	Yes	Yes
Availability of courts or court sections specializing in labor disputes?	Yes	Yes

Source: *Doing Business* database.

DISTANCE TO FRONTIER AND EASE OF DOING BUSINESS RANKING

This year's report presents results for 2 aggregate measures: the distance to frontier score and the ease of doing business ranking, which for the first time this year is based on the distance to frontier score. The ease of doing business ranking compares economies with one another; the distance to frontier score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each *Doing Business* indicator. When compared across years, the distance to frontier score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, while the ease of doing business ranking can show only how much the regulatory environment has changed relative to that in other economies.

Distance to Frontier

The distance to frontier score captures the gap between an economy's performance and a measure of best practice across the entire sample of 31 indicators for 10 *Doing Business* topics (the labor market regulation indicators are excluded). For starting a business, for example, Canada and New Zealand have the smallest number of procedures required (1), and New Zealand the shortest time to fulfill them (0.5 days). Slovenia has the lowest cost (0.0), and Australia, Colombia and 110 other economies have no paid-in minimum capital requirement (table 15.1 in the *Doing Business 2015* report).

Calculation of the distance to frontier score

Calculating the distance to frontier score for each economy involves 2 main steps. First, individual component indicators are normalized to a common unit where each of the 31 component indicators y (except for the total tax rate) is rescaled using the linear transformation $(\text{worst} - y)/(\text{worst} - \text{frontier})$. In this formulation the frontier represents the best performance on the indicator across all economies since 2005 or the third year after data for the indicator were collected for the first time. For legal indicators such as those on getting credit or protecting minority investors, the frontier is set at the highest possible value. For the total tax rate, consistent with the use of a threshold in calculating the rankings on this indicator, the frontier is

defined as the total tax rate at the 15th percentile of the overall distribution for all years included in the analysis. For the time to pay taxes the frontier is defined as the lowest time recorded among all economies that levy the 3 major taxes: profit tax, labor taxes and mandatory contributions, and value added tax (VAT) or sales tax. In addition, the cost to export and cost to import for each year are divided by the GDP deflator, to take the general price level into account when benchmarking these absolute-cost indicators across economies with different inflation trends. The base year for the deflator is 2013 for all economies.

In the same formulation, to mitigate the effects of extreme outliers in the distributions of the rescaled data for most component indicators (very few economies need 700 days to complete the procedures to start a business, but many need 9 days), the worst performance is calculated after the removal of outliers. The definition of outliers is based on the distribution for each component indicator. To simplify the process, 2 rules were defined: the 95th percentile is used for the indicators with the most dispersed distributions (including time, cost, minimum capital and number of payments to pay taxes), and the 99th percentile is used for number of procedures and number of documents to trade. No outlier was removed for component indicators bound by definition or construction, including legal index scores (such as the depth of credit information index, extent of conflict of interest regulation index and strength of insolvency framework index) and the recovery rate (figure 15.1 in the *Doing Business 2015* report).

Second, for each economy the scores obtained for individual indicators are aggregated through simple averaging into one distance to frontier score, first for each topic and then across all 10 topics: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. More complex aggregation methods—such as principal components and unobserved components—yield a ranking nearly identical to the simple average used by *Doing Business*⁶. Thus *Doing Business* uses the simplest

⁶ See Djankov, Manraj and others (2005). Principal components and unobserved components methods yield a ranking nearly identical to

method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components⁷.

An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. All distance to frontier calculations are based on a maximum of 5 decimals. However, indicator ranking calculations and the ease of doing business ranking calculations are based on 2 decimals. The difference between an economy's distance to frontier score in any previous year and its score in 2014 illustrates the extent to which the economy has closed the gap to the regulatory frontier over time. And in any given year the score measures how far an economy is from the best performance at that time.

Treatment of the total tax rate

This year, for the first time, the total tax rate component of the paying taxes indicator set enters the distance to frontier calculation in a different way than any other indicator. The distance to frontier score obtained for the total tax rate is transformed in a nonlinear fashion before it enters the distance to frontier score for paying taxes. As a result of the nonlinear transformation, an increase in the total tax rate has a smaller impact on the distance to frontier score for the total tax rate—and therefore on the distance to frontier score for paying taxes—for economies with a below-average total tax rate than it would have in the calculation done in previous years (line B is smaller than line A in figure 15.2 of the *Doing Business 2015* report). And for economies with an extreme total tax rate (a rate that is very high relative to the average), an increase has a greater impact on both these distance to frontier scores than before (line D is bigger than line C in figure 15.2 of the *Doing Business 2015* report).

The nonlinear transformation is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in an economy's

that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among indicators do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.

⁷ For getting credit, indicators are weighted proportionally, according to their contribution to the total score, with a weight of 60% assigned to the strength of legal rights index and 40% to the depth of credit information index. Indicators for all other topics are assigned equal weights

overall tax system. Instead, it is mainly empirical in nature. The nonlinear transformation along with the threshold reduces the bias in the indicator toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). In addition, it acknowledges the need of economies to collect taxes from firms.

Calculation of scores for economies with 2 cities covered

For each of the 11 economies for which a second city was added in this year's report, the distance to frontier score is calculated as the population-weighted average of the distance to frontier scores for the 2 cities covered (table 12.1). This is done for the aggregate score, the scores for each topic and the scores for all the component indicators for each topic.

Table 12.1 Weights used in calculating the distance to frontier scores for economies with 2 cities covered

Economy	City	Weight (%)
Bangladesh	Dhaka	78
	Chittagong	22
Brazil	São Paulo	61
	Rio de Janeiro	39
China	Shanghai	55
	Beijing	45
India	Mumbai	47
	Delhi	53
Indonesia	Jakarta	78
	Surabaya	22
Japan	Tokyo	65
	Osaka	35
Mexico	Mexico City	83
	Monterrey	17
Nigeria	Lagos	77
	Kano	23
Pakistan	Karachi	65
	Lahore	35
Russian Federation	Moscow	70
	St. Petersburg	30
United States	New York	60
	Los Angeles	40

Source: United Nations, Department of Economic and Social Affairs, Population Division, World Urbanization Prospects, 2014 Revision. <http://esa.un.org/unpd/wup/CD-ROM/Default.aspx>.

Economies that improved the most across 3 or more *Doing Business* topics in 2013/14

Doing Business 2015 uses a simple method to calculate which economies improved the ease of doing business the most. First, it selects the economies that in 2013/14 implemented regulatory reforms making it easier to do business in 3 or more of the 10 topics included in this year's aggregate distance to frontier score. Twenty-one economies meet this criterion: Azerbaijan; Benin; the Democratic Republic of Congo; Côte d'Ivoire; the Czech Republic; Greece; India; Ireland; Kazakhstan; Lithuania; the former Yugoslav Republic of Macedonia; Poland; Senegal; the Seychelles; Spain; Switzerland; Taiwan, China; Tajikistan; Togo; Trinidad and Tobago; and the United Arab Emirates. Second, *Doing Business* sorts these economies on the increase in their distance to frontier score from the previous year using comparable data.

Selecting the economies that implemented regulatory reforms in at least 3 topics and had the biggest improvements in their distance to frontier scores is intended to highlight economies with ongoing, broad-based reform programs. The improvement in the distance to frontier score is used to identify the top improvers because this allows a focus on the absolute improvement—in contrast with the relative improvement shown by a change in rankings—that economies have made in their regulatory environment for business.

Ease of *Doing Business* ranking

The ease of doing business ranking ranges from 1 to 189. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to 2 decimals.

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