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# Doing Business 2016

## Measuring Regulatory Quality and Efficiency

### Economy Profile 2016

### Indonesia

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COMPARING BUSINESS REGULATION FOR DOMESTIC FIRMS IN 189 ECONOMIES



WORLD BANK GROUP

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## 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. *Doing Business 2016* does not present rankings of economies on labor market regulation indicators or include the topic in the aggregate distance to frontier score or ranking on the ease of doing business.

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, 25 in Eastern Europe and Central Asia, 20 in the Middle East and North Africa and 8 in South Asia, as well as 32 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, 2015 (except for the paying taxes indicators, which cover the period January–December 2014).

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 2016* presents the indicators, analyzes their relationship with economic outcomes and presents business regulatory reforms. The data, along with information on ordering *Doing Business 2016*, are available on the *Doing Business* website at <http://www.doingbusiness.org>.



## CHANGES IN *DOING BUSINESS 2016*

As part of a two-year update in methodology, *Doing Business 2016* expands the focus of five indicator sets (dealing with construction permits, getting electricity, registering property, enforcing contracts and labor market regulation), substantially revises the methodology for one indicator set (trading across borders) and implements small updates to the methodology for another (protecting minority investors).

The indicators on dealing with construction permits now include an index of the quality of building regulation and its implementation. The getting electricity indicators now include a measure of the price of electricity consumption and an index of the reliability of electricity supply and transparency of tariffs. Starting this year, the registering property indicators include an index of the quality of the land administration system in each economy in addition to the indicators on the number of procedures and the time and cost to transfer property. And for enforcing contracts an index of the quality and efficiency of judicial processes has been added while the indicator on the number of procedures to enforce a contract has been dropped.

The scope of the labor market regulation indicator set has also been expanded, to include more areas capturing aspects of job quality. The labor market regulation indicators continue to be excluded from the aggregate distance to frontier score and ranking on the ease of doing business.

The case study underlying the trading across borders indicators has been changed to increase its relevance. For each economy the export product and partner are now determined on the basis of the economy's comparative advantage, the import product is auto parts, and the import partner is selected on the basis of which economy has the highest trade value in that product. The indicators continue to measure the time and cost to export and import.

Beyond these changes there is one other update in methodology, for the protecting minority investors indicators. A few points for the extent of shareholder governance index have been fine-tuned, and the index now also measures aspects of the regulations applicable to limited companies rather than privately held joint stock companies.

For more details on the changes, see the "What is changing in *Doing Business*?" chapter starting on page 27 of the *Doing Business 2016* report. For more details on the data and methodology, please see the "Data Notes" chapter starting on page 119 of the *Doing Business 2016* 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. *Doing Business* 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 scores, rounded to two decimals. 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 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.

The 10 topics included in the ranking in *Doing Business 2016*: 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 are not included in this year's aggregate ease of doing business ranking, but the data are presented in this year's economy profile.

### ECONOMY OVERVIEW

Region: East Asia & Pacific

Income category: Lower middle income

Population: 252,812,245

GNI per capita (US\$): 3,650

DB2016 rank: 109

DB2015 rank: 120\*

Change in rank: 11

DB 2016 DTF: 58.12

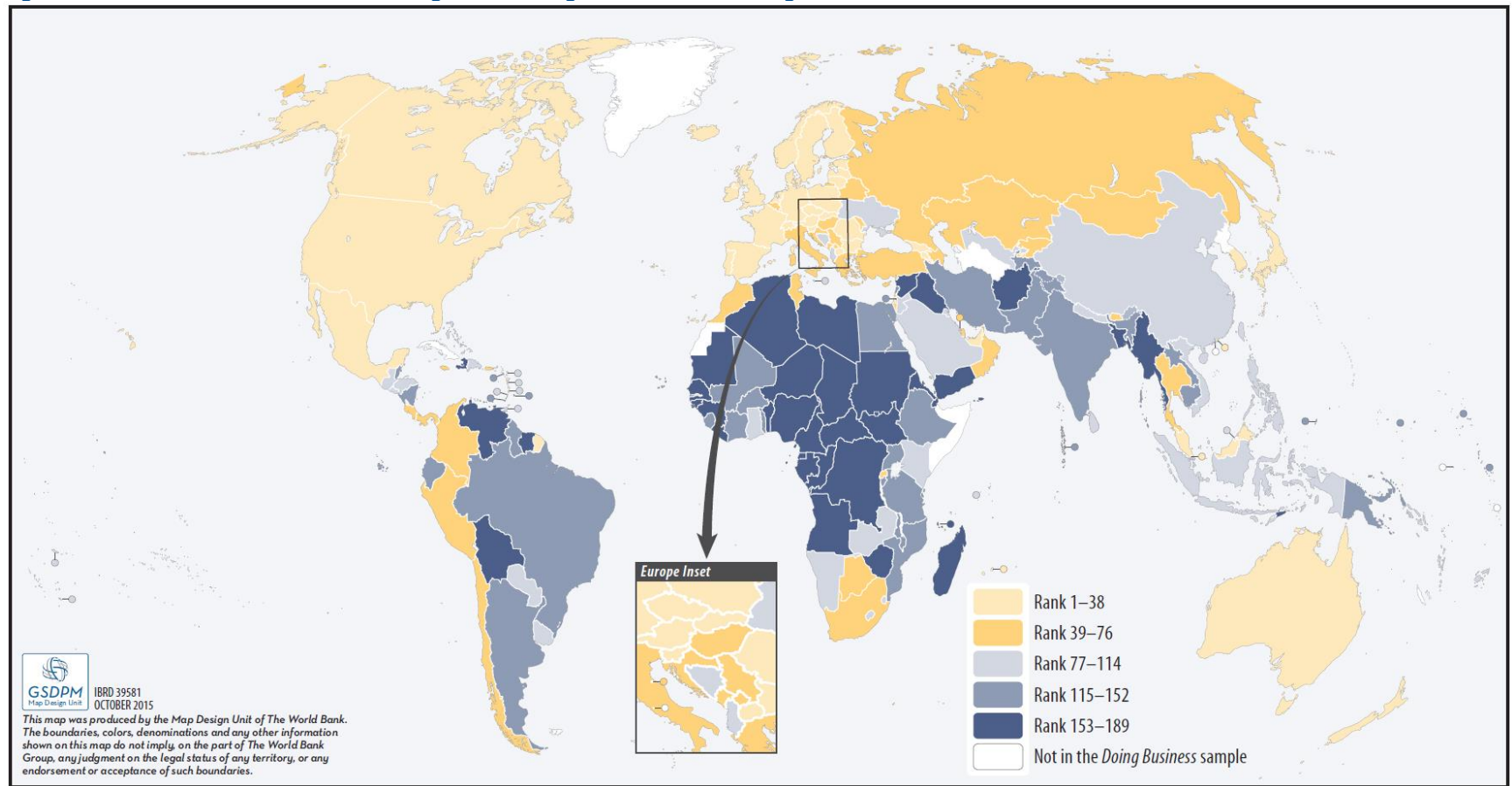
DB 2015 DTF: 56.73

Change in DTF: 1.39

\* DB2015 ranking shown is not last year's published ranking but a comparable ranking for DB2015 that captures the effects of such factors as data revisions and the changes in methodology. See the data notes starting on page 119 of the *Doing Business 2016* report for sources and definitions.

## THE BUSINESS ENVIRONMENT

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



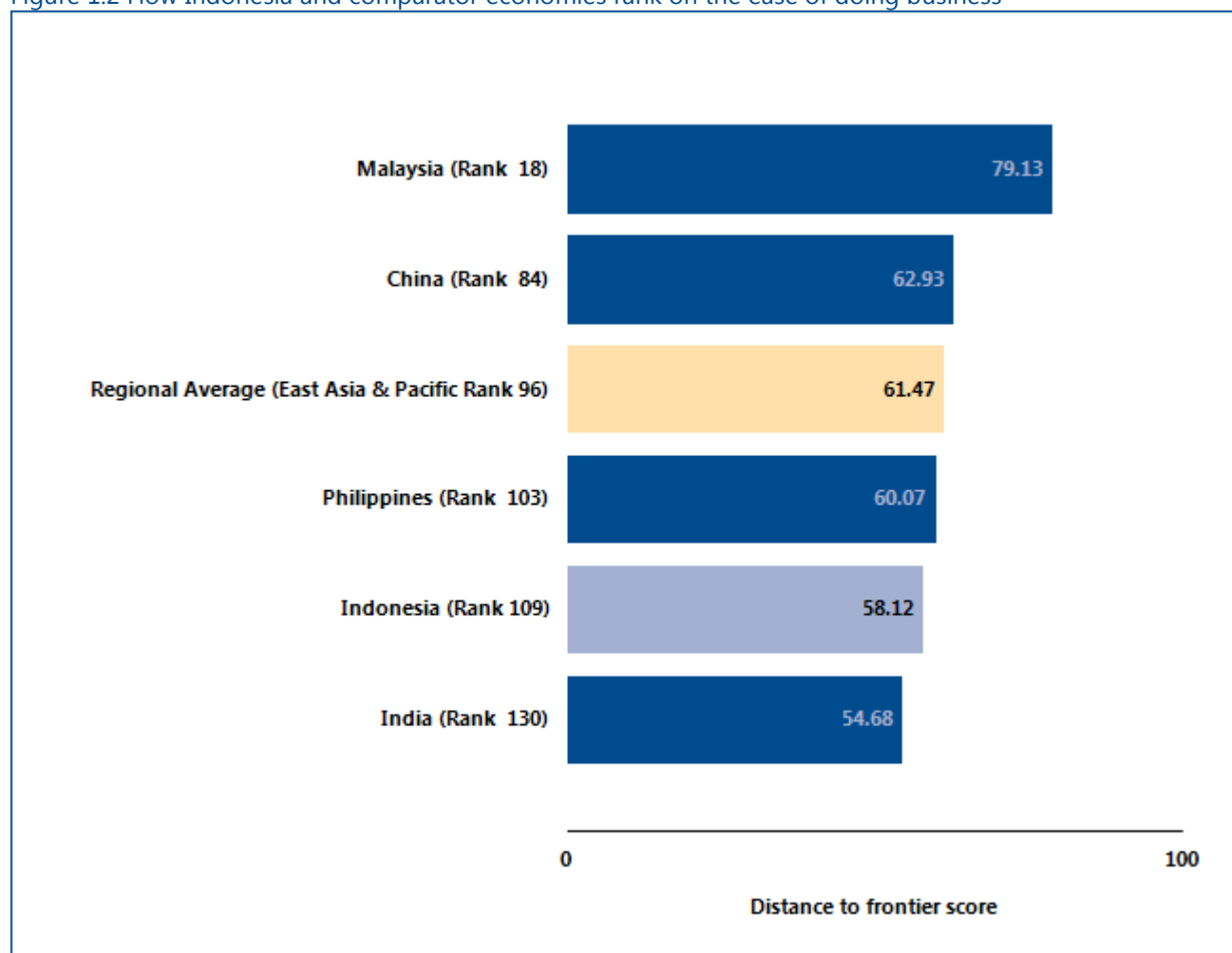
Source: *Doing Business* database.

## 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 2015 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)

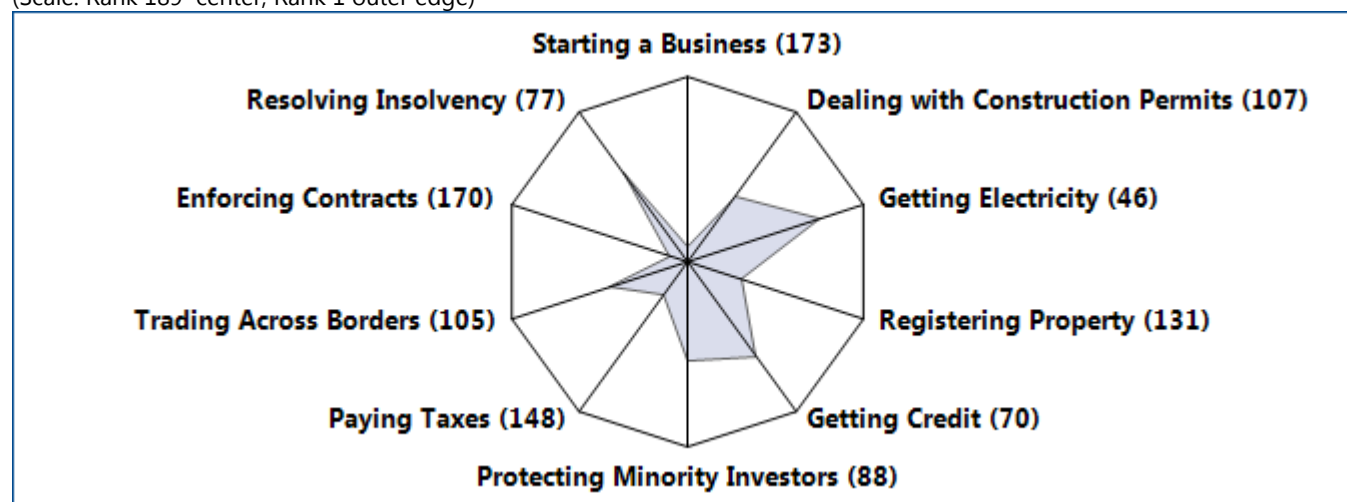
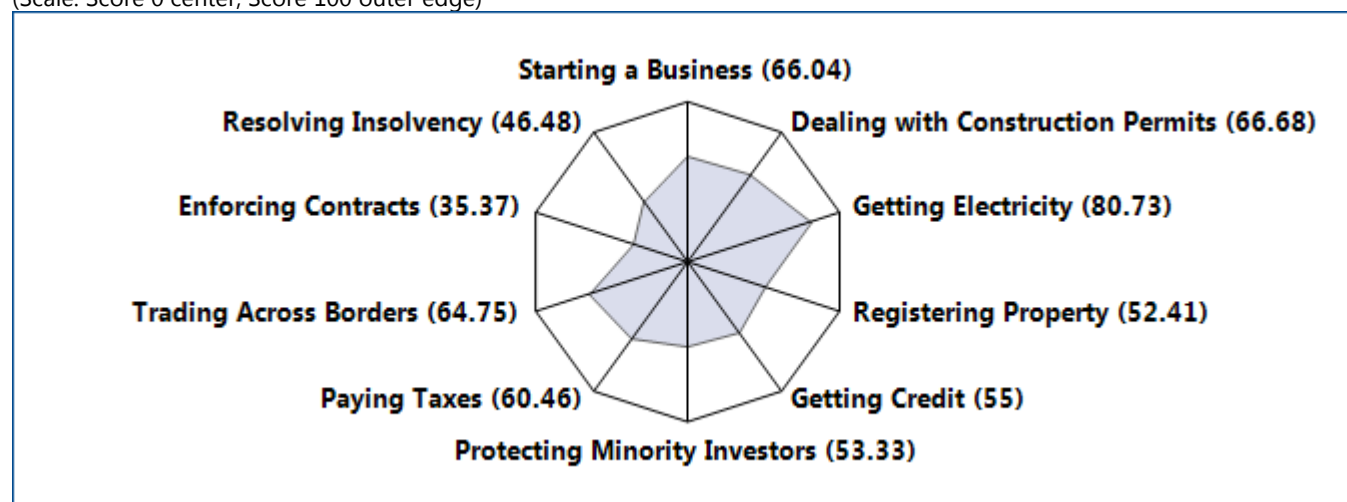


Figure 1.4 Distance to frontier scores on *Doing Business* topics - Indonesia

(Scale: Score 0 center, Score 100 outer edge)



Source: *Doing Business* database.

Note: The rankings are benchmarked to June 2015 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.

## THE BUSINESS ENVIRONMENT

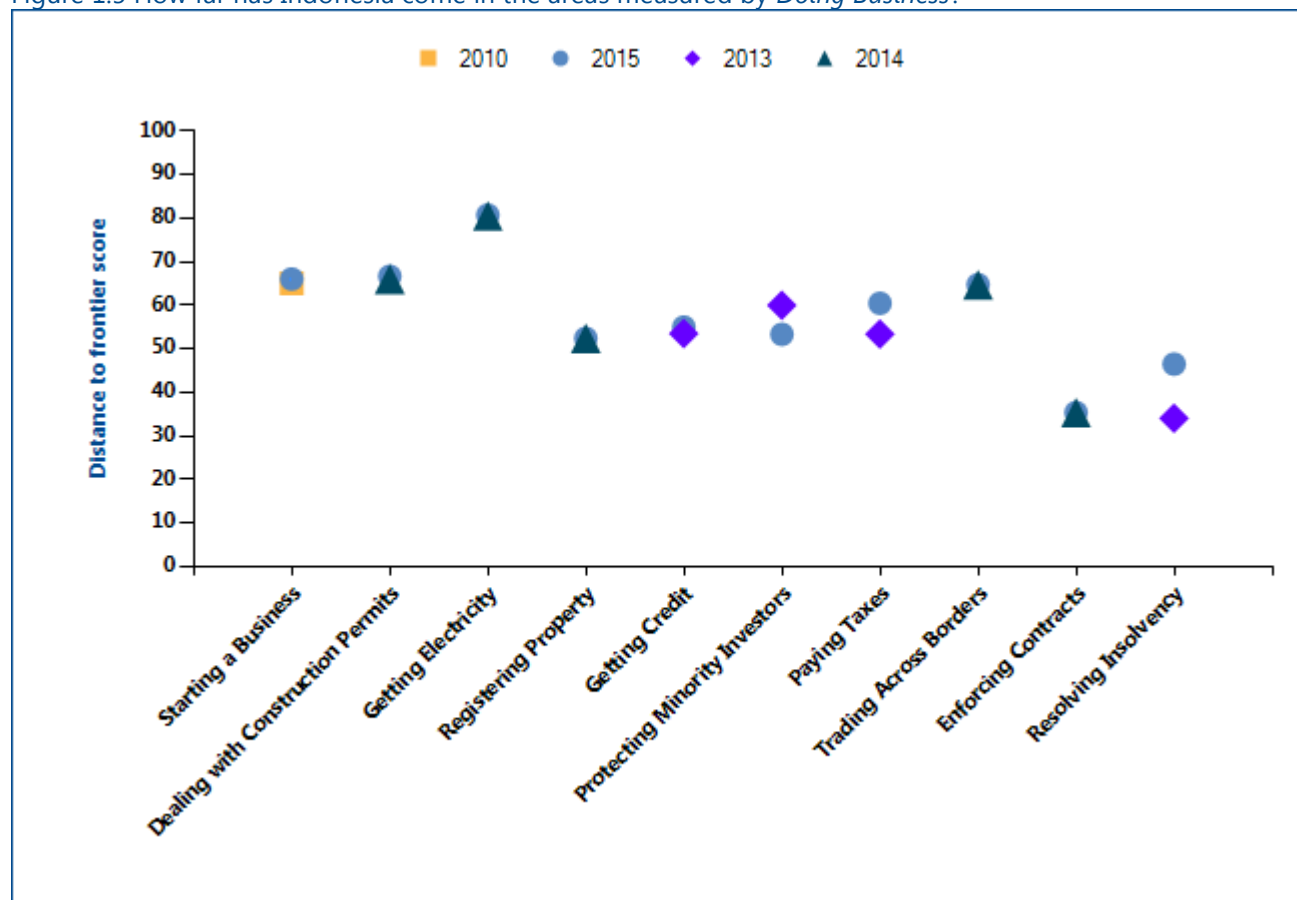
Just as the overall ranking on the ease of doing business tells only part of the story, so do changes in that ranking. Yearly movements in rankings can provide some indication of changes in an economy's regulatory environment for firms, but they are always relative.

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. Starting a business is comparable to 2010. Getting credit, protecting minority investors, paying taxes and resolving insolvency had methodology changes in 2014 and thus are only comparable to 2013. Dealing with construction permits, registering property, trading across borders, enforcing contracts and getting electricity had methodology changes in 2015 and thus are only comparable to 2014. 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 119 of the *Doing Business 2016* 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 DB2016	Indonesia DB2015	Jakarta DB2016	Surabaya DB2016	China DB2016	India DB2016	Malaysia DB2016	Philippines DB2016	Best performer globally DB2016
<b>Starting a Business (rank)</b>	173	163	--	--	136	155	14	165	New Zealand (1)
<b>Starting a Business (DTF Score)</b>	66.04	64.43	66.43	64.63	77.46	73.59	95.34	68.56	New Zealand (99.96)
<b>Procedures (number)</b>	13.0	13.0	13.0	13.0	11.0	12.9	3.0	16.0	New Zealand (1.00)*
<b>Time (days)</b>	47.8	52.5	46.5	52.5	31.4	29.0	4.0	29.0	New Zealand (0.50)
<b>Cost (% of income per capita)</b>	19.9	21.1	19.4	21.8	0.7	13.5	6.7	16.1	Slovenia (0.00)
<b>Paid-in min. capital (% of income per capita)</b>	31.0	35.5	31.0	31.0	0.0	0.0	0.0	3.3	105 Economies (0.00)*
<b>Dealing with Construction Permits (rank)</b>	107	110	--	--	176	183	15	99	Singapore (1)
<b>Dealing with Construction Permits (DTF Score)</b>	66.68	66	66.68	66.71	48.29	32.47	81.1	67.71	Singapore (92.97)
<b>Procedures (number)</b>	17.0	17.0	17.0	17.0	22.0	33.6	15.0	24.0	5 Economies (7.00)*

Indicator	Indonesia DB2016	Indonesia DB2015	Jakarta DB2016	Surabaya DB2016	China DB2016	India DB2016	Malaysia DB2016	Philippines DB2016	Best performer globally DB2016
Time (days)	210.2	210.2	201.0	243.0	244.3	191.5	79.0	98.0	Singapore (26.00)
Cost (% of warehouse value)	3.8	4.3	4.3	1.9	7.2	26.0	1.4	1.1	Qatar (0.00)
Building quality control index (0-15)	13.0	13.0	13.0	13.0	9.0	11.0	13.0	11.0	New Zealand (15.00)
Getting Electricity (rank)	46	45	--	--	92	70	13	19	Korea, Rep. (1)
Getting Electricity (DTF Score)	80.73	80.55	80.73	80.73	68.66	74.56	90.05	86.89	Korea, Rep. (99.88)
Procedures (number)	5.0	5.0	5.0	5.0	5.5	5.0	5.0	4.0	14 Economies (3.00)*
Time (days)	79.0	81.3	79.0	79.0	143.2	90.1	32.0	42.0	Korea, Rep. (18.00)*
Cost (% of income per capita)	383.0	360.0	383.0	383.0	413.3	442.3	30.7	28.7	Japan (0.00)
Reliability of supply and transparency of tariff index (0-8)	7.0	7.0	7.0	7.0	6.0	5.5	8.0	6.0	18 Economies (8.00)*
Registering Property (rank)	131	131	--	--	43	138	38	112	New Zealand (1)
Registering Property (DTF Score)	52.41	52.45	52.7	51.36	75.02	50.29	76.32	57.53	New Zealand (94.46)
Procedures (number)	5.0	5.0	5.0	5.0	4.0	7.0	8.0	9.0	4 Economies (1.00)*
Time (days)	27.4	27.4	25.0	36.0	19.5	47.0	13.0	35.0	3 Economies (1.00)*
Cost (% of property value)	10.8	10.8	10.9	10.4	3.4	7.5	3.3	4.3	Saudi Arabia (0.00)
Quality of the land administration index (0-30)	8.3	8.3	8.5	7.5	17.0	7.0	27.5	12.5	3 Economies (28.50)*

Indicator	Indonesia DB2016	Indonesia DB2015	Jakarta DB2016	Surabaya DB2016	China DB2016	India DB2016	Malaysia DB2016	Philippines DB2016	Best performer globally DB2016
Getting Credit (rank)	70	71	--	--	79	42	28	109	New Zealand (1)
Getting Credit (DTF Score)	55	50	55	55	50	65	70	40	New Zealand (100)
Strength of legal rights index (0-12)	5.0	4.0	5.0	5.0	4.0	6.0	7.0	3.0	3 Economies (12.00)*
Depth of credit information index (0-8)	6.0	6.0	6.0	6.0	6.0	7.0	7.0	5.0	26 Economies (8.00)*
Credit registry coverage (% of adults)	48.5	46.4	48.5	48.5	89.5	0.0	57.0	0.0	Portugal (100.00)
Credit bureau coverage (% of adults)	0.0	0.0	0.0	0.0	0.0	22.0	77.1	14.0	22 Economies (100.00)*
Protecting Minority Investors (rank)	88	87	--	--	134	8	4	155	Singapore (1)*
Protecting Minority Investors (DTF Score)	53.33	53.33	53.33	53.33	43.33	73.33	78.33	38.33	Singapore (83.33)*
Strength of minority investor protection index (0-10)	5.3	5.3	5.3	5.3	4.3	7.3	7.8	3.8	3 Economies (8.30)*
Extent of conflict of interest regulation index (0-10)	5.7	5.7	5.7	5.7	5.0	6.7	8.7	4.0	Singapore (9.30)*
Extent of shareholder governance index (0-10)	5.0	5.0	5.0	5.0	3.7	8.0	7.0	3.7	4 Economies (8.00)*
Paying Taxes (rank)	148	160	--	--	132	157	31	126	United Arab Emirates (1)*
Paying Taxes (DTF Score)	60.46	53.66	60.46	60.46	64.46	56.14	84.31	66.23	United Arab Emirates (99.44)*
Payments (number per	54.0	65.0	54.0	54.0	9.0	33.0	13.0	36.0	Hong Kong SAR,



Indicator	Indonesia DB2016	Indonesia DB2015	Jakarta DB2016	Surabaya DB2016	China DB2016	India DB2016	Malaysia DB2016	Philippines DB2016	Best performer globally DB2016
year)									China (3.00)*
Time (hours per year)	234.0	253.5	234.0	234.0	261.0	243.0	118.0	193.0	Luxembourg (55.00)
Total tax rate (% of profit)	29.7	31.4	29.7	29.7	67.8	60.6	40.0	42.9	Ireland (25.90)
Trading Across Borders (rank)	105	104	--	--	96	133	49	95	Denmark (1)*
Trading Across Borders (DTF Score)	64.75	64.75	65.85	60.86	69.13	56.45	86.74	69.39	Denmark (100)*
Time to export: Border compliance (hours)	39	39	36	48	26	109	20	42	15 Economies (0.00)*
Cost to export: Border compliance (USD)	254	254	250	267	522	413	321	456	18 Economies (0.00)*
Time to export: Documentary compliance (hours)	72	72	72	72	21	41	10	72	Jordan (0.00)
Cost to export: Documentary compliance (USD)	170	170	170	170	85	102	45	53	20 Economies (0.00)*
Time to import: Border compliance (hours)	99	99	80	168	92	287	24	72	19 Economies (0.00)*
Cost to import: Border compliance (USD)	383	383	384	376	777	574	321	580	28 Economies (0.00)*
Time to import: Documentary compliance (hours)	144	144	144	144	66	63	10	96	21 Economies (1.00)*
Cost to import: Documentary compliance (USD)	160	160	160	160	171	145	60	50	30 Economies (0.00)*
Enforcing Contracts	170	170	--	--	7	178	44	140	Singapore (1)

Indicator	Indonesia DB2016	Indonesia DB2015	Jakarta DB2016	Surabaya DB2016	China DB2016	India DB2016	Malaysia DB2016	Philippines DB2016	Best performer globally DB2016
(rank)									
<b>Enforcing Contracts (DTF Score)</b>	35.37	35.37	36.08	32.86	77.56	32.41	66.61	49.24	Singapore (84.91)
<b>Time (days)</b>	471.0	471.0	460.0	510.0	452.8	1,420.0	425.0	842.0	Singapore (150.00)
<b>Cost (% of claim)</b>	115.7	115.7	118.1	107.3	16.2	39.6	37.3	31.0	Iceland (9.00)
<b>Quality of judicial processes index (0-18)</b>	6.3	6.3	6.5	5.5	14.1	7.5	12.0	7.5	3 Economies (15.50)*
<b>Resolving Insolvency (rank)</b>	77	73	--	--	55	136	45	53	Finland (1)
<b>Resolving Insolvency (DTF Score)</b>	46.48	46.75	45.82	48.83	55.43	32.59	62.49	56.81	Finland (93.81)
<b>Recovery rate (cents on the dollar)</b>	31.2	31.7	30.0	35.6	36.2	25.7	81.3	21.4	Japan (92.90)
<b>Time (years)</b>	1.9	1.9	2.0	1.5	1.7	4.3	1.0	2.7	Ireland (0.40)
<b>Cost (% of estate)</b>	21.6	21.6	22.0	20.0	22.0	9.0	10.0	32.0	Norway (1.00)
<b>Outcome (0 as piecemeal sale and 1 as going concern)</b>	0	0	0	0	0	0	1	0	
<b>Strength of insolvency framework index (0-16)</b>	9.5	9.5	9.5	9.5	11.5	6.0	6.0	14.5	4 Economies (15.00)*

Source: *Doing Business* database.

Note: DB2015 rankings shown are not last year's published rankings but comparable rankings for DB2015 that capture the effects of such factors as data revisions and changes to the methodology. The global best performer on time for paying taxes is defined as the lowest time recorded among all economies in the DB2016 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” 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>).

## 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* records all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. These procedures include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. 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, several assumptions about the business and the procedures are used. It is assumed that any required information is readily available and that the entrepreneur will pay no bribes. Assumptions about the business:

- Is a limited liability company (or its legal equivalent), located in the largest business city and is 100% domestically owned<sup>1</sup> with five owners, none of whom is a legal entity.
- Has at least 10 and up to 50 employees, all of them domestic nationals.
- Performs general commercial or industrial activities.

### 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 city<sup>1</sup>
- 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 or commonly used in practice

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

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

- Has a start-up capital of 10 times income per capita and a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long.
- Does not qualify for any special benefits.
- Leases the commercial plant or offices and is not a proprietor of real estate.

<sup>1</sup> For 11 economies the data are also collected for the second largest business city.

## STARTING A BUSINESS

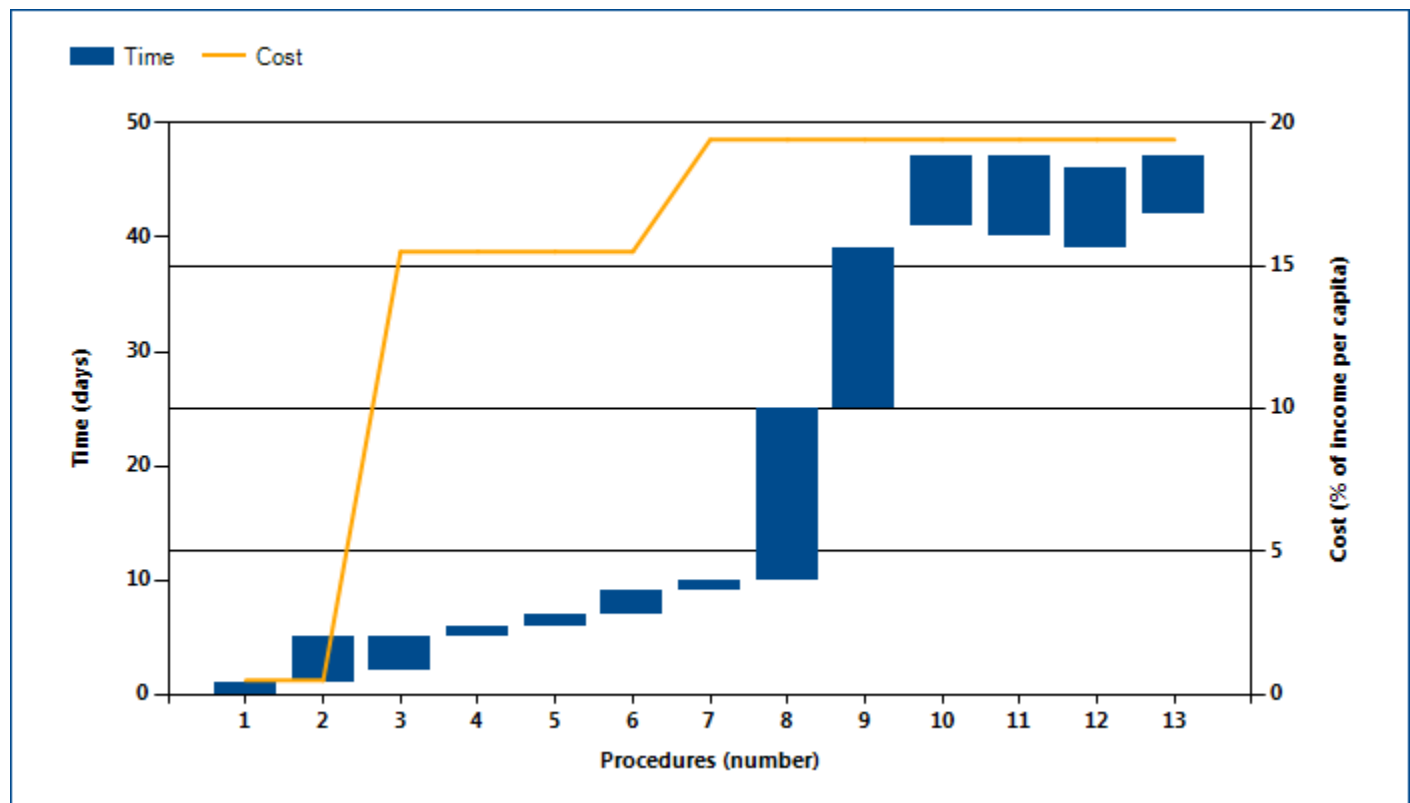
### Where does the economy stand today?

What does it take to start a business in Indonesia? According to data collected by *Doing Business*, starting a business there requires 13.00 procedures, takes 47.80 days, costs 19.90% of income per capita and requires paid-in minimum capital of 31.00% of income per capita (figure 2.1). Most indicator sets refer to a case scenario in

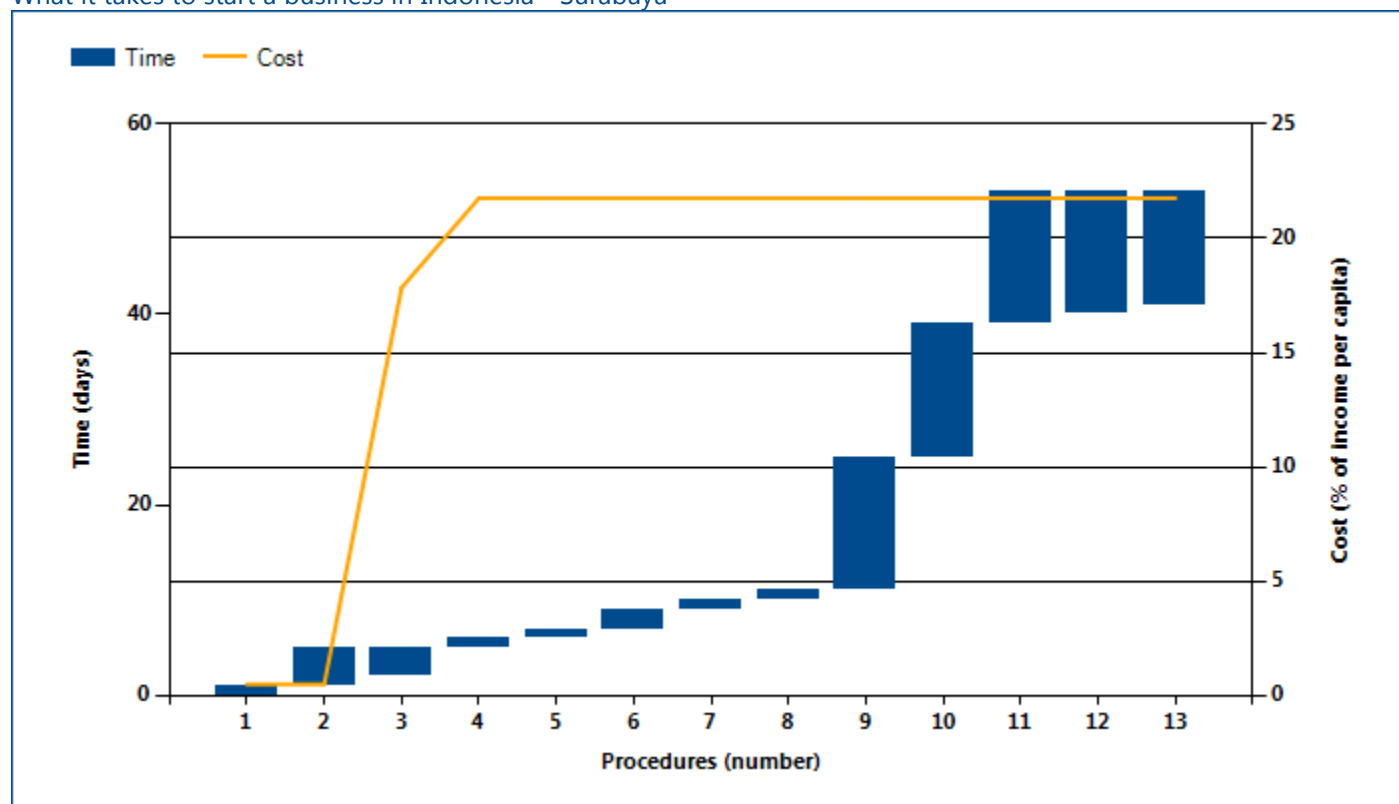
the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

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

Paid-in minimum capital (% of income per capita): 31.00



## What it takes to start a business in Indonesia - Surabaya



Source: *Doing Business* database.

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.

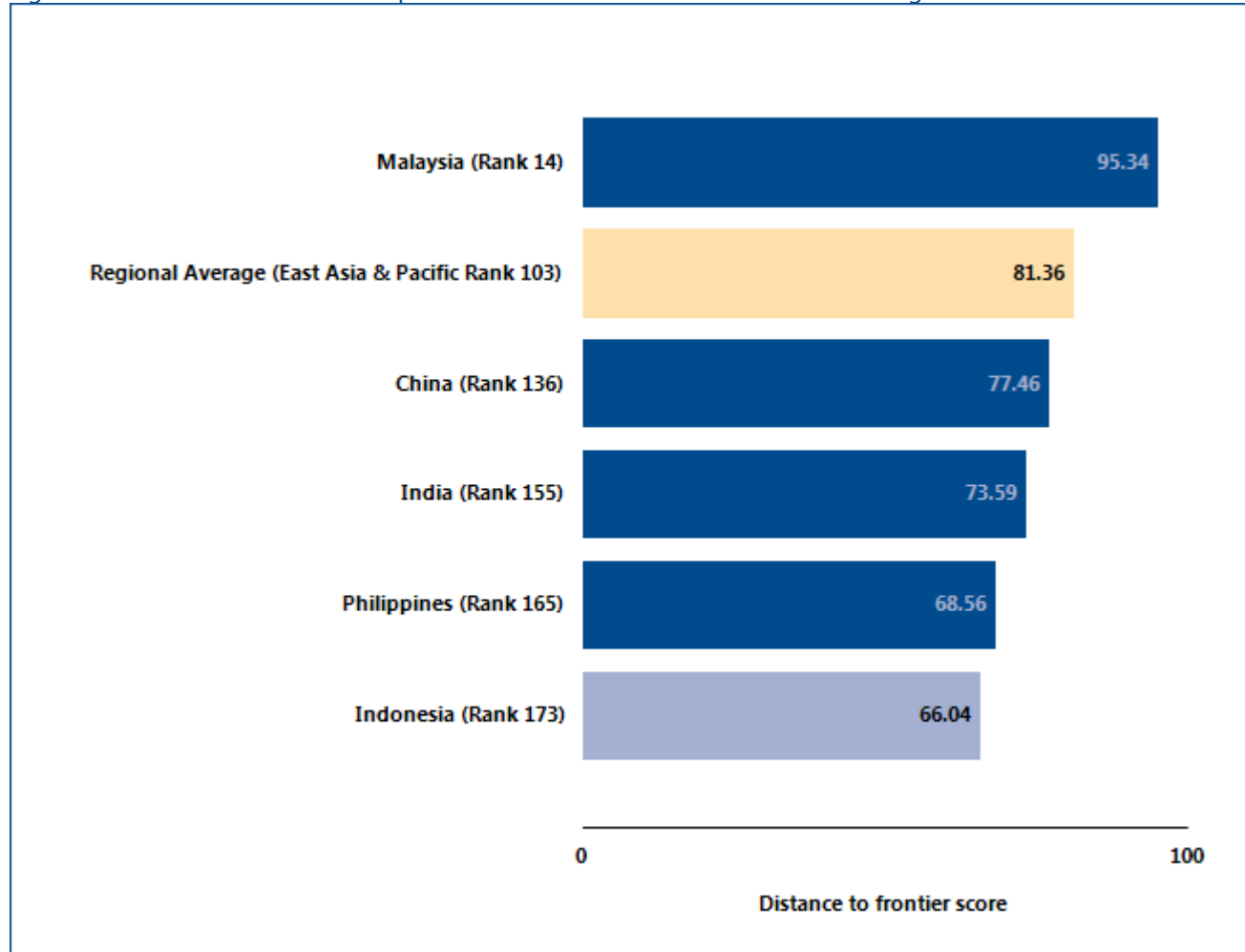


## STARTING A BUSINESS

Globally, Indonesia stands at 173 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 DB2011 to DB2016

DB year	Reform
<b>DB2011</b>	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.
<b>DB2012</b>	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.
<b>DB2015</b>	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.
<b>DB2016</b>	Indonesia made starting a business in Jakarta easier by reducing the time needed to register with the Ministry of Manpower.

Source: *Doing Business* database.

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>.

## 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><b>Pay fee for obtaining clearance of company name at a bank</b></p> <p>The process of company name clearance must be done through a computerized processing system, the reservation and clearance is most commonly done in practice 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, she/he obtains a payment receipt with a code.</p> <p><i>Agency: Notary</i></p>	1 day	IDR 200,000
2	<p><b>Arrange for a notary to obtain the standard form of the company deed and obtain clearance for the Indonesian company's name at the Ministry of Law and Human Rights</b></p> <p>The notary 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>Company must not use a name which:</p> <ul style="list-style-type: none"> <li>a. has been lawfully used by another company or is similar to the name of another company;</li> <li>b. contravenes public order and/or decency;</li> <li>c. is identical or similar to the name of a state agency, government agency, or international agency, except with their approval;</li> </ul>	4 days	included in procedure 3

No.	Procedure	Time to complete	Cost to complete
	<p>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;</p> <p>e. consists of numbers or a set of figures, a letter or a set of letters that do not form any words; or</p> <p>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>According to Article 4 of MoLHR Reg. No. 4/2014, an electronic application must be submitted for the use of the company's name to the Ministry of Law and Human Rights ("Minister of MOLHR") through Legal Entity Administration System / Sistem Administrasi Badan Hukum ("SABH"). Such application shall be performed by filing the Company's Name Application Form which at least contains of the following information:</p> <p>a. payment number of the approval of the use of the company's name from bank; and</p> <p>b. booked name of the company.</p> <p>The approval of the company's name by the Minister of MOLHR shall be given electronically, as regulated under Article 7 of MoLHR Reg. No.4/2014, which at least contains of the following information:</p> <p>a. booking number of the name of the company;</p> <p>b. name of the company which may be used;</p> <p>c. date of booking;</p> <p>d. expiry date; and</p> <p>e. payment code.</p> <p><i>Agency: Notary</i></p>		
3	<p><b>* Notarize company documents</b></p> <p>Government Regulation No. 43 of 2011 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><i>Agency: Notary</i></p>	1 day,(simultaneous with previous procedure)	See procedure details

No.	Procedure	Time to complete	Cost to complete
4	<p><b>Apply to the Ministry of Law and Human Rights for approval of the deed of establishment</b></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"> <li>• The application should be filled at the latest 60 days since the date of establishment deed;</li> <li>• 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;</li> <li>• in 30 days since the date of no objection by Ministry of Law, the applicant should submit the original application and supporting documents;</li> <li>• 14 days after fulfillment of above requirements, Ministry of Law will issue the legalization on the establishment of the company;</li> <li>• 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.</li> <li>• The Ministry of Law will announce the establishment of company in Supplement State Gazette (TBNRI) within 14 days of the Ministry's Approval Letter.</li> </ul> <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>	Less than one day (online procedure)	included in procedure 1
5	<p><b>Obtain the Building Management Domicile Certificate</b></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



No.	Procedure	Time to complete	Cost to complete
6	<p><b>Apply for the Certificate of Company Domicile</b></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
7	<p><b>Pay the non-tax state revenue (PNBP) fees for legal services at a bank</b></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) (<a href="http://www.sisminbakum.go.id">www.sisminbakum.go.id</a>). The obligation for the company to pay the Non Tax State Revenue/ Penerimaan Negara Bukan Pajak ("PNBP") for the legal services in relation to the establishment of the company is also stated in Article 5 of the MOLHR Reg. No.4/2014.</p> <p>The cost for the PNBP is further regulated under the Government Regulation of the Republic of Indonesia No.45 of 2014 concerning Types and Rates of Non Tax State Revenues Prevailing in the Ministry of Law and Human Rights ("GR No. 45/2014") which comes into effect on 3 June 2014.</p> <p>Cost breakdown:  1,000,000 IDR for validation of company as legal entity  30,000 IDR for publication in State Gazette  550,000 for publication in the Supplement State Gazette</p> <p><i>Agency: Notary</i></p>	1 day	See procedure details
8	<p><b>Apply at the Ministry of Trade for the permanent business trading license (Surat Izin Usaha Perdagangan, SIUP)</b></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</p>	15 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>of Trade, which issues the SIUP for a non-facility company, 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"> <li>• The articles of association (copy).</li> <li>• An attestation of location and address of the company's offices (building management domicile certificate and certificate of company domicile).</li> <li>• Identity card of the company President Director.</li> <li>• Letter of approval from the Ministry of Law and Human Rights</li> </ul> <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/12/2011. There are no changes to Article 3 under this new regulation. classified the SIUP based on the enterprises' net assets as follows:</p> <p>Article 3</p> <p>(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;</p> <p>(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;</p> <p>(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 Trade</i></p>		
9	<p><b>Obtain company registration certificate (Tanda Daftar Perusahaan/TDP) from the Local Government Office</b></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>	14 days	no charge

No.	Procedure	Time to complete	Cost to complete
10	<p><b>Register with the Ministry of Manpower</b></p> <p>Pursuant to Article 6 of the Law No.7 of 1981 concerning Mandatory Labor Affairs Report ("Law No.7/1981"), the company shall be obliged to submit a manpower report in the company to the Ministry of Manpower and Transmigration ("Minister of Manpower") or the appointed officer within a period of no more than 30 days as of the establishment of the company. Such report shall contain the following information:</p> <ul style="list-style-type: none"> <li>a. company identification;</li> <li>b. manpower relation;</li> <li>c. manpower protection; and</li> <li>d. employment opportunity.</li> </ul> <p>The provision regarding the manpower report in the company is further governed under the Regulation of the Ministry of Manpower and Transmigration of the Republic of Indonesia No.PER.14/2006 concerning the Guidelines for the Manpower Report in the Company ("MoMTR No.14/2006"). Pursuant to Article 2 of the MoMTR No.14/2006, the manpower report must be submitted in the form of electronic data compiled in the Company's Manpower Database in the Information System on Company's Manpower Mandatory Reports / Sistem Informasi Wajib Lapo Ketenagakerjaan di Perusahaan ("SINLAPNAKER"). The company which make a use of the Sinlapnaker shall be given an Identity Card from the Directorate General of Development of Labor Supervision.</p> <p>In the event that the region of the company has not yet installed SINLAPNAKER, the report must be submitted in writing and delivered by hand or by registered mail to the government institution having tasks and responsibility in the field of manpower in the Municipality/City where the company is located in accordance with the procedure as stated in Article 5 of the MoMTR No.14/2006. Further, in order to increase the service of the implementation of mandatory labor affairs report, the Minister of Manpower issues the Circular Letter of the Ministry of Manpower and Transmigration of the Republic of Indonesia No.SE.3/MEN/III/2014 concerning the Implementation of Mandatory Labor Affairs Report in the Company ("MoMTCL No.3/2014").</p> <p>Time: ratification of the registration of mandatory labor affairs report in the company shall be performed within a period of 1 working day as of the receipt of complete application (signed which has been filled in complete and signed with the company stamp (MoMTCL No. 3/2014).</p> <p>Cost: the registration of the mandatory labor affairs report shall not be subject to any fee(s) (MoMTCL No.3/2014).</p> <p><i>Agency: Ministry of Manpower</i></p>	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
11	<p><b>* Apply for the Workers Social Security Program (BPJS Ketenagakerjaan)</b></p> <p>The Presidential Regulation No. 109 of 2013 on Membership Phasing of Social Security Program regulates that BPJS Ketenagakerjaan covers occupational accident security, old age security, pension security, as well as death security. Under this regulation, every employers have the obligation to register their workers to BPJS Ketenagakerjaan based on their business scale starting from 1 July 2015, which are as follows:</p> <ol style="list-style-type: none"> <li>1. Big and medium business scale to participate on programs including occupational accident security, old age security, pension security, and death security program;</li> <li>2. Small business scale to participate on programs including occupational accident security, old age security, and death security program; and</li> <li>3. Micro business scale to participate on programs including occupational accident security and death security.</li> </ol> <p>The company shall obtain application forms (form 1 for data and form 1A for employees' data) at the nearest BPJS Ketenagakerjaan office (list of BPJS Ketenagakerjaan in DKI Jakarta: <a href="http://www.bpjsketenagakerjaan.go.id/kanwil/903/KANWIL-DKI-JAKARTA.html">http://www.bpjsketenagakerjaan.go.id/kanwil/903/KANWIL-DKI-JAKARTA.html</a>). The application forms shall be submitted to the BPJS Ketenagakerjaan at the latest 30 (thirty) days after obtaining application forms with following attachments: receipt of first contribution payment, SIUP, company's NPWP, Deed of Establishment, and employees' National Identity Card, Photograph, and Family Registration Card. After 7 (seven) days of the submission, BPJS Ketenagakerjaan will issue the membership card and certificate of registration. If there is any changes on the company's address, business activity, and the amount of employees, as well as employee's wages, at the latest 7(seven) days following to such changes, the employer is obliged to convey it to BPJS Ketenagakerjaan.</p> <p><i>Agency: Social Security Administrative Bodies (BPJS Ketenagakerjaan)</i></p>	<p>7 days (simultaneous with previous procedure)</p>	<p>no charge</p>
12	<p><b>* Apply for healthcare insurance with BPJS (Badan Penyelenggara Jaminan Sosial) Kesehatan</b></p> <p>Manual registration is performed by completing the registration form and providing the data of future participants to BPJS Health or through appointed third parties, and then completing the form and submitting the personal data of the participant candidates.</p> <p>During application, the employer must provide at least the following personal data of the candidate participants:</p> <ul style="list-style-type: none"> <li>- Name;</li> </ul>	<p>7 days (simultaneous with previous procedure)</p>	<p>no charge</p>

No.	Procedure	Time to complete	Cost to complete
	<ul style="list-style-type: none"> <li>- Date of birth;</li> <li>- Name of the health service provider selected by the employee; and</li> <li>- Other personal information, including:               <ul style="list-style-type: none"> <li>• Employee and his/her family member(s), who will be covered by the health insurance program;</li> <li>• Employee's salary information;</li> <li>• Information on participation status</li> </ul> </li> </ul> <p>Agency: Social Security Administrative Bodies (BPJS Kesehatan)</p>		
13	<p><b>* Obtain a taxpayer registration number (NPWP) and a VAT collector number (NPPKP)</b></p> <p>Regulation of Directorate General of Taxation No. Per- 38/PJ/2013 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.</p> <p>The person/entity can apply for NPWP in the relevant tax office where the company is located or can apply it online through <a href="http://www.pajak.go.id">http://www.pajak.go.id</a>, choose e-registration to make account as a taxpayer and then follow the procedures therein, by filling the form and attaching copies of the following</p> <ul style="list-style-type: none"> <li>- Deed of establishment</li> <li>- Identity card/KTP of one of active Director</li> <li>- Statement letter regarding confirmation on place of business from one of the active Director (form is provided),</li> <li>- POA and identity card/KTP of the authorized.</li> </ul> <p>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>Agency: Tax Office</p>	<p>1 day (simultaneous with previous procedure)</p>	no charge

\* Takes place simultaneously with another procedure.

Source: Doing Business database.

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

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

No.	Procedure	Time to complete	Cost to complete
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No.	Procedure	Time to complete	Cost to complete
1	<p><b>Pay fee for obtaining clearance of company name at a bank</b></p> <p>The process of company name clearance must be done through a computerized processing system, the reservation and clearance is most commonly done in practice 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, she/he obtains a payment receipt with a code.</p> <p><i>Agency: Notary</i></p>	1 day	IDR 200,000
2	<p><b>Arrange for a notary to obtain the standard form of the company deed and obtain clearance for the Indonesian company's name at the Ministry of Law and Human Rights</b></p> <p>The notary 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>Government Regulation No. 43 of 2011 on the same matter ("GR 43/2011") Limited Liability Companies, company must not use a name which:</p> <ul style="list-style-type: none"> <li>a. has been lawfully used by another company or is similar to the name of another company;</li> <li>b. contravenes public order and/or decency;</li> <li>c. is identical or similar to the name of a state agency, government agency, or international agency, except with their approval;</li> <li>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;</li> <li>e. consists of numbers or a set of figures, a letter or a set of letters that do not form any words; or</li> <li>f. means a Company, a legal entity, or a civil enterprise (persekutuan perdata).</li> </ul> <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><i>Agency: Notary</i></p>	4 days	included in procedure 3
3	<p><b>* Notarize company documents</b></p> <p>Once the notary gets the company name approval from the Ministry of Law and Human Rights, the founders can sign the deed of establishment. Standard articles of association are available at the notary office.</p>	1 day (simultaneous with previous procedure)	see procedure details

No.	Procedure	Time to complete	Cost to complete
	<p>The notary fees associated with this procedure cover the following services:</p> <ul style="list-style-type: none"> <li>- Name check</li> <li>- Deed drafting and approval</li> </ul> <p>Commonly, local notary associations set the scale of notary fees. In practice, the fee depends on the agreement between notary and client. The average notary fee for Surabaya is IDR 7,000,000.</p> <p><i>Agency: Notary</i></p>		
4	<p><b>Pay the non-tax state revenue (PNBP) fees for legal services at a bank</b></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) (<a href="http://www.sisminbakum.go.id">www.sisminbakum.go.id</a>). The obligation for the company to pay the Non Tax State Revenue/ Penerimaan Negara Bukan Pajak ("PNBP") for the legal services in relation to the establishment of the company is also stated in Article 5 of the MOLHR Reg. No.4/2014.</p> <p>The cost for the PNBP is further regulated under the Government Regulation of the Republic of Indonesia No.45 of 2014 concerning Types and Rates of Non Tax State Revenues Prevailing in the Ministry of Law and Human Rights ("GR No. 45/2014") which comes into effect on 3 June 2014.</p> <p>Cost breakdown:  1,000,000 IDR for validation of company as legal entity  30,000 IDR for publication in State Gazette  550,000 for publication in the Supplement State Gazette</p> <p><i>Agency: Notary</i></p>	1 day	see procedure details
5	<p><b>Obtain the Building Management Domicile Certificate</b></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

No.	Procedure	Time to complete	Cost to complete
6	<p><b>Apply for the Certificate of Company Domicile</b></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
7	<p><b>Apply to the Ministry of Law and Human Rights for approval of the deed of establishment</b></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"> <li>• The application should be filled at the latest 60 days since the date of establishment deed;</li> <li>• 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;</li> <li>• in 30 days since the date of no objection by Ministry of Law, the applicant should submit the original application and supporting documents;</li> <li>• 14 days after fulfillment of above requirements, Ministry of Law will issue the legalization on the establishment of the company;</li> <li>• 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.</li> <li>• The Ministry of Law will announce the establishment of company in Supplement State Gazette (TBNRI) within 14 days of the Ministry's Approval Letter.</li> </ul> <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 45 of 2014 concerning Types and Tariffs on Non-Tax State Revenues Applied for in the Department of Law and Human Rights which comes into effect on 30 May 2014.</p> <p><i>Agency: Ministry of Law and Human Rights</i></p>	Less than one day (online procedure)	included in procedure 1

No.	Procedure	Time to complete	Cost to complete
8	<p><b>Obtain a taxpayer registration number (NPWP) and a Value Added Tax (VAT) collector number (NPPKP) from the local Tax Office</b></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 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>	1 day	no charge
9	<p><b>Apply for the permanent business trading license (Surat Izin Usaha Perdagangan, SIUP) at the One Stop Shop (UPTSA)</b></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> <ul style="list-style-type: none"> <li>a. Copy of ID Card;</li> <li>b. An attestation from the applicant (stamp duty IDR 6,000) regarding the business area;</li> <li>c. Copy of the deed of company establishment;</li> <li>d. Passport photo size 3 x 4 cm (2 pieces);</li> <li>e. Copy of NPWP.</li> </ul> <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
10	<p><b>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</b></p> <p>TDP cannot be applied for at the same time as SIUP because SIUP is a pre-requisite for TDP.</p>	14 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>The following documents should be attached:</p> <ul style="list-style-type: none"> <li>a. Copy of deed of establishment;</li> <li>b. Copy of ID Card;</li> <li>c. Copy of technical permit related the business;</li> <li>d. Copy of NPWP;</li> <li>e. Copy of SIUP.</li> </ul> <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>		
11	<p><b>Register with the Ministry of Manpower at the local Manpower Office</b></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
12	<p><b>* Apply for the Workers Social Security Program (BPJS Ketenagakerjaan)</b></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

No.	Procedure	Time to complete	Cost to complete
13	<p><b>* Apply for healthcare insurance with BPJS (Badan Penyelenggara Jaminan Sosial) Kesehatan</b></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. BPJS health maintenance membership is compulsory starting from 1 July 2015.</p> <p><i>Agency: Social Security Administrative Bodies (BPJS Kesehatan)</i></p>	<p>7 days (simultaneous with previous procedure)</p>	<p>no charge</p>

\* 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 all procedures required for a business in the construction industry to build a warehouse along with the time and cost to complete each procedure. In addition, this year *Doing Business* introduces a new measure, the building quality control index, evaluating the quality of building regulations, the strength of quality control and safety mechanisms, liability and insurance regimes, and professional certification requirements.

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, several assumptions about the construction company, the warehouse project and the utility connections are used.

### Assumptions about the construction company

The construction company (BuildCo):

- Is a limited liability company (or its legal equivalent).
- Operates in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is 100% domestically and privately owned.
- Has five owners, none of whom is a legal entity.
- Is fully licensed and insured to carry out construction projects, such as building warehouses.

### 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 and selling the warehouse after its completion

#### 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

#### Building quality control index (0-15)

Sum of the scores of six component indices:

Quality of building regulations (0-2)

Quality control before construction (0-1)

Quality control during construction (0-3)

Quality control after construction (0-3)

Liability and insurance regimes (0-2)

Professional certifications (0-4)

The construction company (BuildCo) (*continued*):

- Has 60 builders and other employees, all of them nationals with the technical expertise and professional experience necessary to obtain construction permits and approvals.
- Has at least one employee who is a licensed architect or engineer and registered with the local association of architects or engineers. BuildCo is not assumed to have any other employees who are technical or licensed experts, such as geological or topographical experts.
- Has paid all taxes and taken out all necessary insurance applicable to its general business activity (for example, accidental insurance for construction workers and third-person liability).
- Owns the land on which the warehouse will be built and will sell the warehouse upon its completion.
- Is valued at 50 times income per capita.

#### **Assumptions about the warehouse**

The warehouse:

- Will be used for general storage activities, such as storage of books or stationery. The warehouse will not be used for any goods requiring special conditions, such as food, chemicals or pharmaceuticals.
- Will have two stories, both above ground, with a total constructed area of approximately 1,300.6 square meters (14,000 square feet). Each floor will be 3 meters (9 feet, 10 inches) high.
- Will have road access and be located in the periurban area of the economy's largest business city (that is, on the fringes of the city but still within its official limits). For 11 economies the data are also collected for the second largest business city.
- Will not be located in a special economic or industrial zone. Will be located on a land plot of approximately 929 square meters (10,000 square feet) that is 100% owned by BuildCo and is accurately registered in the cadastre and land registry.

- Will be a new construction (there was no previous construction on the land), with no trees, natural water sources, natural reserves or historical monuments of any kind on the plot.
- Will have complete architectural and technical plans prepared by a licensed architect. If preparation of the plans requires such steps as obtaining further documentation or getting prior approvals from external agencies, these are counted as procedures.
- Will include all technical equipment required to be fully operational.
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

#### **Assumptions about the utility connections**

The water and sewerage connections:

- Will be 150 meters (492 feet) from the existing water source and sewer tap. If there is no water delivery infrastructure in the economy, a borehole will be dug. If there is no sewerage infrastructure, a septic tank in the smallest size available will be installed or built.
- Will not require water for fire protection reasons; a fire extinguishing system (dry system) will be used instead. If a wet fire protection system is required by law, it is assumed that the water demand specified below also covers the water needed for fire protection.
- Will have an average water use of 662 liters (175 gallons) a day and an average wastewater flow of 568 liters (150 gallons) a day. Will have a peak water use of 1,325 liters (350 gallons) a day and a peak wastewater flow of 1,136 liters (300 gallons) a day.
- Will have a constant level of water demand and wastewater flow throughout the year.
- Will be 1 inch in diameter for the water connection and 4 inches in diameter for the sewerage connection.



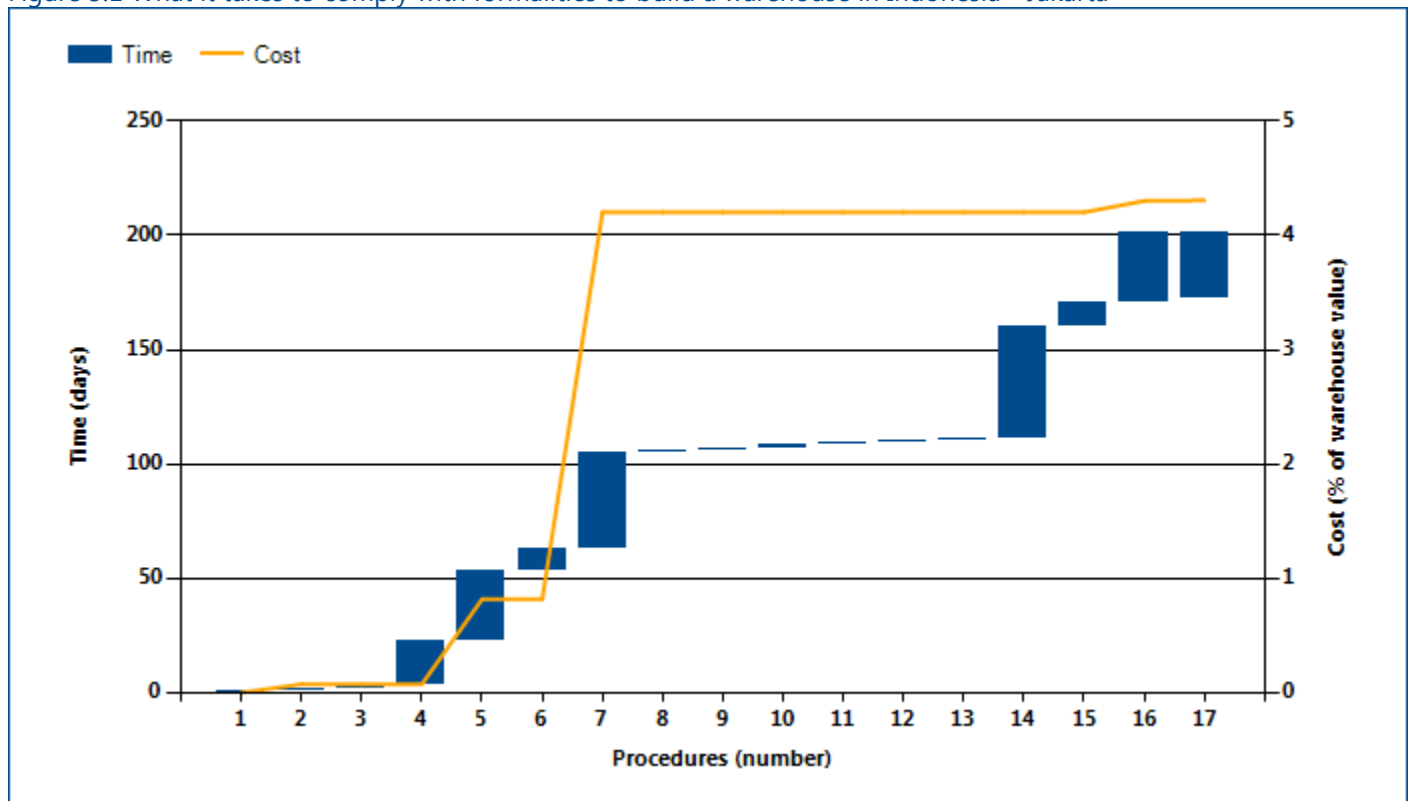
## DEALING WITH CONSTRUCTION PERMITS

### Where does the economy stand today?

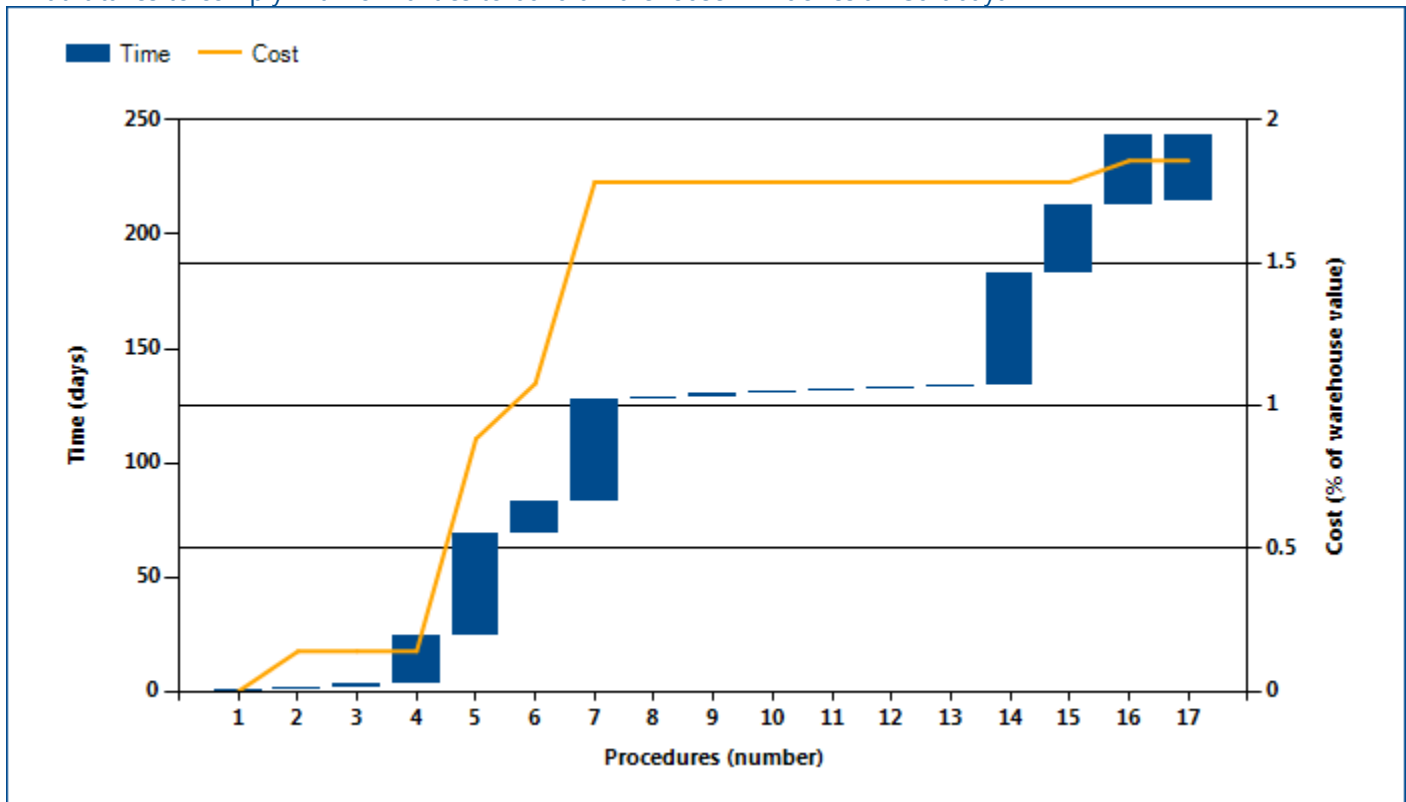
What does it take to comply with the formalities to build a warehouse in Indonesia? According to data collected by *Doing Business*, dealing with construction permits there requires 17.00 procedures, takes 210.20 days and costs 3.80% of the warehouse value (figure 3.1). Most indicator sets refer to a 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



Source: *Doing Business* database.

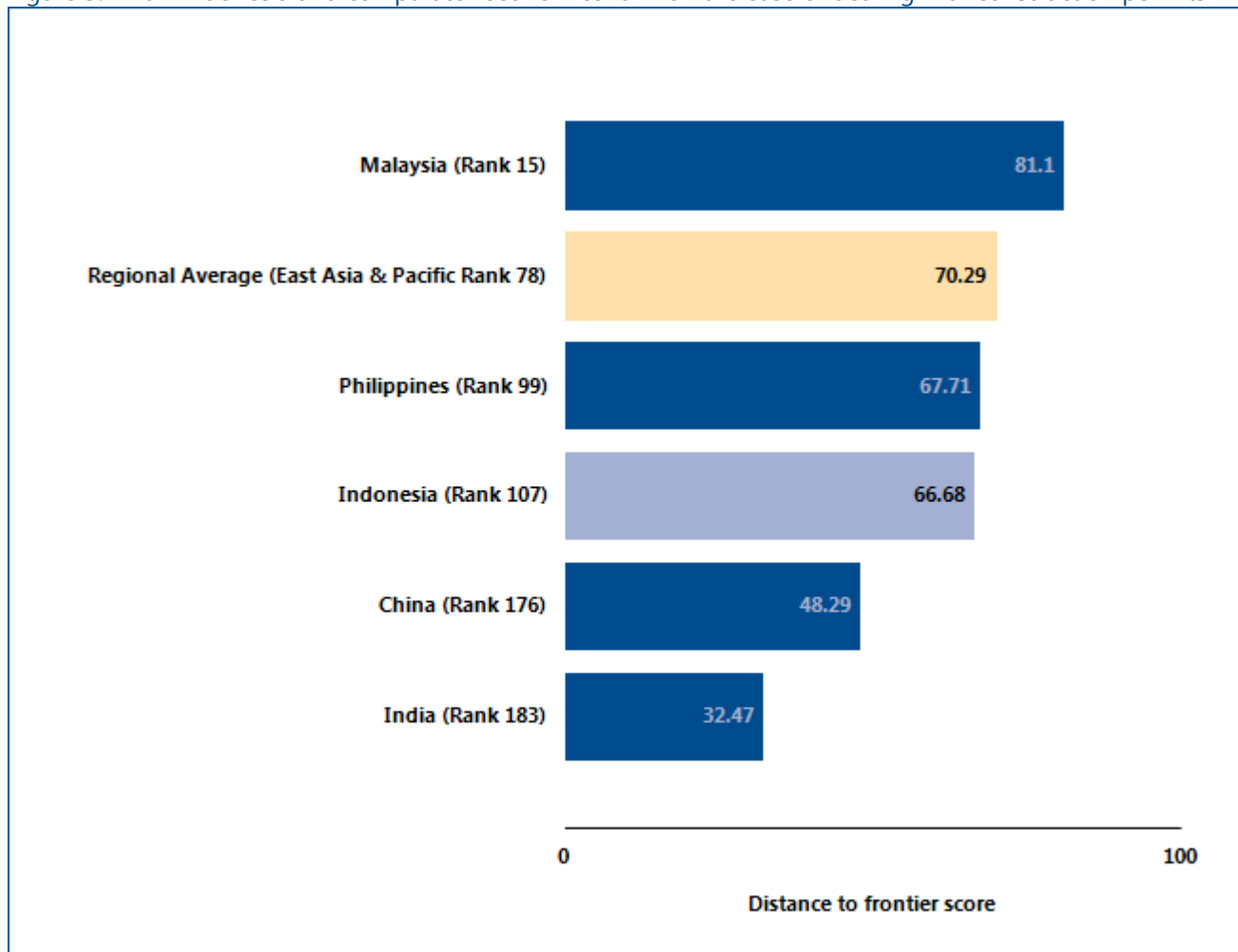
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the dealing with construction permits indicators, see the *Doing Business* website (<http://www.doingbusiness.org>).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

## DEALING WITH CONSTRUCTION PERMITS

Globally, Indonesia stands at 107 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 value of warehouse :** **IDR 2,017,666,027**

**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><b>Request and obtain notarized copy of land ownership certificate</b></p> <p>BuildCo must notarize a copy of the land ownership certificate before applying for the building permit.</p> <p><i>Agency: Notary</i></p>	1 day	IDR 25,000
2	<p><b>Request city planning permit (KRK) and building site plan (RTLb) from City Planning Office</b></p> <p>BuildCo must submit a completed application form, along with the following documentation to the City Planning Office at the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP) in order to obtain the city planning permit (KRK):</p> <ol style="list-style-type: none"> <li>1. A copy of land ownership certificate (which has been notarized);</li> <li>2. A copy of the latest payment receipt for land and building tax;</li> <li>3. A copy of the identity card (KTP/Driving License) of the authorized representative of the applicant;</li> <li>4. A copy of the deed of establishment of BuildCo and its amendment (if any);</li> <li>5. A power of attorney (as necessary).</li> </ol> <p>The city planning official at the BPTSP will examine the application and will conduct a land situation measurement (the procedural details of which are elaborated in the next section below).]</p> <p>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</p>	1 day	IDR 1,482,000

No.	Procedure	Time to complete	Cost to complete
	<p>map covers information on:</p> <ol style="list-style-type: none"> <li>Building setback (GSB) - the borders within which BuildCo is allowed to construct the building</li> <li>Road border lines (GSJ) - the borders of the front yard or block borders or road control borders</li> <li>Land use plan - explanation about the benefits of the land</li> <li>Type of building</li> <li>Height of building in terms of floors/storey</li> <li>Floor area ratio (FAR/KLB) - the multiplication figure used to calculate the total area of building that is permitted</li> <li>Building coverage (KDB)</li> <li>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</li> </ol> <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 information (some of which is already contained on the city planning map previously):</p> <ol style="list-style-type: none"> <li>Building setback (GSB) - the borders within which BuildCo is allowed to construct the building</li> <li>Road border lines (GSJ) - the borders of the front yard or block borders or road control borders</li> <li>Building trace form and location</li> <li>Building usage</li> <li>Height of building, including KDB (building coverage) and KLB (floor area)</li> <li>Building cuts</li> <li>Parking lot</li> <li>Kelzar circulation/entry of vehicles</li> </ol> <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"> <li>Land measurement (based on the land certificate, namely 500 - 1,000 sq. m.) a retribution of IDR 750,000.00</li> <li>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</li> <li>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</li> <li>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</li> <li>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</li> </ul>		

No.	Procedure	Time to complete	Cost to complete
	<i>Agency: Local Administrative Building Office - City Planning Office within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</i>		
3	<p><b>Receive inspection from City Planning Office</b></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 within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</i></p>	1 day	no charge
4	<p><b>Obtain KRK and RTLB from City Planning Office</b></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 and will prepare the land measurement letter. When the internal procedure is completed, the builder is notified (by 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 within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</i></p>	20 days	no charge
5	<p><b>Request and obtain the preparation of the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)</b></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 relevant mayor or regent, governor of the DKI Jakarta province, or the Minister of Environment, depending on the location of the activities, to obtain a UKL-UPL recommendation.</p> <p><i>Agency: External Consultant</i></p>	30 days	IDR 15,000,000
6	<p><b>Request and obtain the approval of the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)</b></p> <p>The legal basis for this procedure is:</p> <ul style="list-style-type: none"> <li>• Law No. 32 of 2009 regarding the Environment</li> <li>• Decision of the Minister of the Environment No 86 of 2002 on</li> </ul>	10 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>Implementation of UKL and UPL</p> <p><i>Agency: Regional Environmental Control Agency (BPLHD)</i></p>		
7	<p><b>Request and obtain building construction permit (IMB)</b></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"> <li>• Regulation of the Head of the Local Building Supervision and Control (P2B) Office No. 21 Year 2009, Annex I point I.b</li> <li>• The legal basis for the time to complete this step is 15 days working days pursuant to Regulation 129 of 2012.</li> </ul> <p>The supporting documents required are:</p> <ul style="list-style-type: none"> <li>• Photocopy of the ID Card</li> <li>• Photocopy of the Land Certificate (notarized)</li> <li>• Land use permit (SIPPT)</li> <li>• KRK and RTLB (description and map of the city, including the complete plan of the building) obtained from the City Planning Office</li> <li>• Architectural, structural, mechanical and electrical as-built drawings (4 sets)</li> <li>• Results of soil investigation (4 sets)</li> <li>• Photocopy of the license to operate as a Building Planner</li> <li>• Photocopy of the license of the supervising director</li> <li>• Photocopy of the license of the architect, the structural engineer, the mechanical engineer and the electrical engineer who prepare the drawings</li> <li>• Statement of uncontested ownership of the land for which IMB is applied</li> <li>• Company's Deed of Establishment</li> <li>• Company's tax ID (NPWP)</li> <li>• Completed Application Form</li> <li>• Receipt of UKL-UPL or UKL-UPL •Recommendation from the BPLHD</li> <li>• Copy of evidence of tax payment for the most current year</li> <li>• Budget plan (if required)</li> </ul> <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>	42 days	IDR 68,281,500

No.	Procedure	Time to complete	Cost to complete
	<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"> <li>L = area of the building (1,300.6 sq. m)</li> <li>It = index that is calculated as follows:  <math>Ikg \times If \times Ik \times Iw \times Ipt</math> where <math>Ikg = 1</math> (for a new building); <math>If = 3</math> (for commercial buildings); <math>Ik = 0.7</math>; <math>Iw = 1</math> (for permanent buildings); <math>Ipt = 1</math> (if the building does not have a basement).            Therefore, <math>It = 1 \times 3 \times 0.7 \times 1 \times 1 = 2.1</math></li> <li>HSbg = IDR 25,000 / sq. m.</li> </ul> <p>Agency: Local Administrative Building Office - Supervision and Control Office (P2B) within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</p>		
8	<p><b>Receive inspection upon completion of foundation</b></p> <p>According to the building regulations, the Supervision and Control Office must inspect during the various phases of construction.</p> <p>Agency: Local Administrative Building Office - Supervision and Control Office (P2B) within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</p>	1 day	no charge
9	<p><b>Receive inspection upon completion of the structure</b></p> <p>According to the building regulations, the Supervision and Control Office must inspect during the various phases of construction.</p> <p>Agency: Local Administrative Building Office - Supervision and Control Office (P2B) within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</p>	1 day	no charge
10	<p><b>Receive inspection upon completion of roofing</b></p> <p>According to the building regulations, the Supervision and Control Office must inspect during the various phases of construction.</p> <p>Agency: Local Administrative Building Office - Supervision and Control Office (P2B) within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</p>	1 day	no charge



No.	Procedure	Time to complete	Cost to complete
11	<p><b>Submit building completion report to Supervision and Control Office</b></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. For the Doing Business case study, the supervising director would most likely be in-house.</p> <p><i>Agency: Local Administrative Building Office - Supervision and Control Office (P2B) within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</i></p>	1 day	no charge
12	<p><b>Receive final inspection from the Fire Department</b></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><b>* Receive final inspection from the Supervision and Control Office</b></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) within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</i></p>	1 day	no charge
14	<p><b>Obtain SLF (certificate of proper functioning) from the Supervision Office</b></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>	49 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<ul style="list-style-type: none"> <li>- Construction completion report from the supervising directors/consultant appointed by BuildCo</li> <li>- Application form</li> <li>- Copy of applicant's ID card</li> <li>- Copy of notarized proof of land ownership</li> <li>- Copy of the building permit (IMB)</li> <li>- Architectural, structural and mechanical as-built drawings</li> <li>- Map and city plans (which are appended to the IMB)</li> <li>- Photo of the completed building (showing at least 3 sides of the building)</li> <li>- Notarized copy of the license of the supervising engineer, the architect, the structural engineer and mechanical engineer</li> <li>- Insurance of supervising engineer</li> </ul> <p><i>Agency: Local Administrative Building Office – Supervision and Control Office (P2B) within the One-Stop Integrated Service Agency (Badan Pelayanan Terpadu Satu Pintu/BPTSP)</i></p>		
15	<p><b>Register the warehouse with the Regional Tax Services Unit</b></p> <p>After the warehouse is built BuildCo must update its records at the Regional Tax Services Unit. 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>According to the Governor of DKI Jakarta Regulation No. 202 of 2012 on the Registration and Report Procedure as well as the Data Collection of Land and Building Tax for Rural and Urban Area ("Regulation 202/2012"), Regional Regulation of DKI Jakarta No. 16 of 2011 on Land and Building Tax for Rural and Urban Area ("Regulation 16/2011"), the following documents must be submitted by the BuildCo in order to register the warehouse:</p> <ol style="list-style-type: none"> <li>1. The completed application form;</li> <li>2. A copy of identity card of the BuildCo's director who signed the application form or a power of attorney from the director of the BuildCo (if required);</li> <li>3. A copy of the BuildCo's deed of establishment and its amendments (if any);</li> <li>4. A copy of the land and/or building certificate of the BuildCo;</li> <li>5. A copy of building permit (IMB) of the BuildCo;</li> <li>6. A photo of the building.</li> </ol> <p><i>Agency: Regional Tax Services Unit (Unit Pelayanan Pajak Daerah or UPPD) in the relevant Regional Government Office</i></p>	11 days	no charge

No.	Procedure	Time to complete	Cost to complete
16	<p><b>Obtain water and sewerage connection</b></p> <p>The application to obtain water and sewerage connection shall be submitted to PAM Jaya through its designated providers, which are PT AETRA Air Jakarta for warehouses located in the North and East regions of Jakarta, and PT PAM Lyonnaise Jaya (PALYJA) for warehouses located in the South, Central, and West regions of Jakarta.</p> <p>The application should be submitted along with the following documents:</p> <ol style="list-style-type: none"> <li>1. A copy of land and building tax documents;</li> <li>2. A copy of the KTP (the identity card) of BuildCo's director or the applicant;</li> <li>3. A copy of business license of BuildCo;</li> <li>4. The prediction on water needs.</li> </ol> <p><i>Agency: PAM Jaya</i></p>	30 days	IDR 2,000,000
17	<p><b>* Register the warehouse with the Regional Office of the Ministry of Trade</b></p> <p>In order to register the warehouse with the Ministry of Trade and obtain a warehouse registration certificate (Tanda Daftar Gudang or "TDG"), BuildCo must submit the following documents:</p> <ol style="list-style-type: none"> <li>1. A copy of the identity card (KTP) of the owner of or person responsible for BuildCo;</li> <li>2. A copy of the deed of establishment of BuildCo and its amendments (if any);</li> <li>3. A copy of building permit (IMB) of the warehouse; and</li> <li>4. Two photos of the owner of or person responsible for BuildCo with the size 4x6cm.</li> </ol> <p>During the submission of the above documents, the applicant must show the original documents to the officer. The holder of warehouse registration certificate is obliged to re-register the certificate every 5 years.</p> <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> <p><i>Agency: Ministry of Trade (Regional Office)</i></p>	9 days	IDR 100,000

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

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

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

No.	Procedure	Time to complete	Cost to complete
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No.	Procedure	Time to complete	Cost to complete
1	<p><b>Request and obtain notarized copy of land ownership certificate</b></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><b>Request city planning permit (SKRK) from Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</b></p> <p>In order to obtain the city planning permit (SKRK), BuildCo must submit the following documents:</p> <ul style="list-style-type: none"> <li>a. Application form (available at Surabaya one-stop shop);</li> <li>b. Copy of identity card of the applicants;</li> <li>c. Copy of property tax invoice and receipt;</li> <li>d. Legalized copy of land ownership certificate.</li> <li>e. BuildCo's deed of establishment</li> <li>f. License of supervising engineer</li> </ul> <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 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"> <li>a. Local Regulation No. 7 of 2010 on Buildings</li> <li>b. Local Regulation No. 5 of 2012 On City Maps</li> <li>c. Major Regulation No. 39 of 2012 on Guidelines and Technical Standards of Land Use</li> </ul> <p><i>Agency: Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</i></p>	1 day	IDR 2,822,000

No.	Procedure	Time to complete	Cost to complete
3	<p><b>Receive inspection from City Planning Agency (Dinas Cipta Karya dan Tata Ruang)</b></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><b>Obtain city planning permit (SKRK) from Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</b></p> <p><i>Agency: Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap - UPTSA)</i></p>	21 days	no charge
5	<p><b>Request and obtain the preparation of the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)</b></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><b>Request and obtain the approval (HO – ijin gangguan) for the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)</b></p> <p>The legal basis for this procedure is:</p> <ul style="list-style-type: none"> <li>a. Bylaw No. 4 of 2011 on the HO</li> <li>b. Mayor Regulation No. 74 of 2011 on Implementation of Regional Regulation No. 4 of 2011</li> </ul> <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>	14 days	IDR 3,901,800

No.	Procedure	Time to complete	Cost to complete
7	<p><b>Request and obtain building construction permit (IMB)</b></p> <p>The supporting documents required to apply for a building permit (IMB) are:</p> <ul style="list-style-type: none"> <li>a. Application form and statement letter of construction requirement adherence;</li> <li>b. Copy of ID card of BuildCo's director;</li> <li>c. Copy of property tax receipt;</li> <li>d. Copy of land ownership certificate;</li> <li>e. City planning permit (SKRK);</li> <li>f. Construction accountability statement, prepared by BuildCo's architect;</li> <li>g. Picture of the site and building plans, prepared by BuildCo's architect.</li> <li>h. Design drawings (3 copies):               <ul style="list-style-type: none"> <li>- Landscaping (scale 1:1000/1:5000),</li> <li>- Lay out (scale 1:100),</li> <li>- Foundation base, roof, sanitation (1:100);</li> </ul> </li> <li>i. Structural drawings.</li> <li>j. Copy of UKL / UPL</li> </ul> <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><b>Receive inspection upon completion of foundation</b></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
9	<p><b>Receive inspection upon completion of the structure</b></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

No.	Procedure	Time to complete	Cost to complete
10	<p><b>Receive inspection upon completion of roofing</b></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><b>Submit building completion report to the one-stop shop</b></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><b>Receive final inspection from the Fire Department</b></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><b>* Receive final inspection from the Local Administrative Building Office</b></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 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>	1 day	no charge
14	<p><b>Obtain SLF (certificate of proper functioning) from the Local Administrative Building Office</b></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>	49 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<i>Agency: Local Administrative Building Office</i>		
15	<p><b>Register warehouse with the Land and Building Tax Office (PBB)</b></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><b>Obtain water and sewerage connection</b></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
17	<p><b>* Register the warehouse with Surabaya One-Stop Shop (Unit Pelayanan Terpadu Satu Atap)</b></p> <p>In order to register the warehouse with the one-stop shop, BuildCo must submit the following documents:</p> <ul style="list-style-type: none"> <li>a. Copy of ID Card;</li> <li>b. Copy of building permit (IMB);</li> <li>c. Copy of certificate of land ownership;</li> <li>d. Copy of business trading license (SIUP) and company registration (TDP);</li> <li>e. BuildCo's director's pictures (2 copies - size 4x6 cm)</li> </ul> <p>The legal basis for this procedure is:</p> <ul style="list-style-type: none"> <li>a. Local Regulation No. 1/2010, regarding warehouse registration charges</li> <li>b. Mayor Regulation No. 35/2010, regarding warehouse registration procedures.</li> </ul> <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

\* Takes place simultaneously with another procedure.

Source: Doing Business database.

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



## DEALING WITH CONSTRUCTION PERMITS

### Building Quality Control Index

The building quality control index is the sum of the scores on the quality of building regulations, quality control before construction, quality control during construction, quality control after construction, liability and insurance regimes, and professional certifications indices.

The index ranges from 0 to 15, with higher values indicating better quality control and safety mechanisms in the construction permitting system.

The indicator is based on the same case study assumptions as the measures of efficiency.

Source: Doing Business database.

Table 3.3 Summary of time quality control and safety mechanisms in Indonesia

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Building quality control index (0-15)		13.00		13.00
Quality of building regulations index (0-2)		1.00		1.00
In what way are the building regulations (including the building code) or any regulations dealing with construction permits made available? (0-1)	Available online.	1.0	Available online.	1.0
Which requirements for obtaining a building permit are clearly specified by the building regulations or by any accessible website, brochure or pamphlet? (0-1)	List of required documents; Fees to be paid.	0.0	List of required documents; Fees to be paid.	0.0
Quality control before construction index (0-1)		1.00		1.00
Who is part of the committee or team that reviews and approves building permit applications in the relevant permit-issuing agency? (0-1)	Licensed architect; Licensed engineer.	1.0	Licensed architect; Licensed engineer.	1.0
Quality control during construction index (0-3)		2.00		2.00
What types of inspections (if any) are required by law to be carried out during construction? (0-2)	Inspections by in-house engineer; Inspections at various phases.	1.0	Inspections by in-house engineer; Inspections at various phases.	1.0
Do legally mandated inspections occur in practice during construction? (0-1)	Mandatory inspections are always done in practice.	1.0	Mandatory inspections are always done in practice.	1.0
Quality control after construction index (0-3)		3.00		3.00
Is there a final inspection required by law to verify that	Yes, final	2.0	Yes, final	2.0

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
the building was built in accordance with the approved plans and regulations? (0-2)	inspection is done by government agency; Yes, in-house engineer submits report for final inspection.		inspection is done by government agency; Yes, in-house engineer submits report for final inspection.	
Do legally mandated final inspections occur in practice? (0-1)	Final inspection always occurs in practice.	1.0	Final inspection always occurs in practice.	1.0
Liability and insurance regimes index (0-2)		2.00		2.00
Which parties (if any) are held liable by law for structural flaws or problems in the building once it is in use? (0-1)	Architect or engineer; Professional in charge of the supervision; Construction company.	1.0	Architect or engineer; Professional in charge of the supervision; Construction company.	1.0
Which parties (if any) are required by law to obtain an insurance policy to cover possible structural flaws or problems in the building once it is in use? (0-1)	Insurance is commonly taken in practice.	1.0	Insurance is commonly taken in practice.	1.0
Professional certifications index (0-4)		4.00		4.00
What are the qualification requirements for the professional responsible for verifying that the architectural plans or drawings are in compliance with existing building regulations? (0-2)	Minimum number of years of experience; University degree in architecture or engineering ; Being a registered architect or engineer.	2.0	Minimum number of years of experience; University degree in architecture or engineering; Being a registered architect or engineer.	2.0
What are the qualification requirements for the professional who supervises the construction on the ground? (0-2)	Minimum number of years of experience; University	2.0	Minimum number of years of experience; University	2.0

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
	degree in engineering , construction or construction management; Being a registered architect or engineer.		degree in engineering, construction or construction management; Being a registered architect or engineer.	

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. In addition, this year *Doing Business* adds two new measures: the reliability of supply and transparency of tariffs index (included in the aggregate distance to frontier score and ranking on the ease of doing business) and the price of electricity (omitted from these aggregate measures). 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.

### Assumptions about the warehouse

The warehouse:

- Is owned by a local entrepreneur.
- Is located in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is located in an area where similar warehouses are typically located. In this area a new electricity connection is not eligible for a special investment promotion regime (offering special subsidization or faster service, for example).
- Is located in an area with no physical constraints. For example, the property is not near a railway.
- Is a new construction and is being connected to electricity for the first time.

### 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

#### The reliability of supply and transparency of tariffs index

- Sum of the scores of six component indices:
  - Duration and frequency of outages
  - Tools to monitor power outages
  - Tools to restore power supply
  - Regulatory monitoring of utilities' performance
  - Financial deterrents aimed at limiting outages
  - Transparency and accessibility of tariffs

#### Price of electricity (cents per kilowatt-hour)\*

- Price based on monthly bill for commercial warehouse in case study

*\*Price of electricity is not included in the calculation of distance to frontier nor ease of doing business ranking*

The warehouse (*continued*):

- Has two stories, both above ground, with a total surface area of approximately 1,300.6 square meters (14,000 square feet). The plot of land on which it is built is 929 square meters (10,000 square feet).
- Is used for storage of goods.

#### **Assumptions about the electricity connection**

The electricity connection:

- Is a permanent one.
- Is a three-phase, four-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection (where the voltage is 120/208 V, the current would be 400 amperes; where it is 230/400 B, the current would be nearly 200 amperes).
- Is 150 meters long. The connection 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.
- Requires works that involve the crossing of a 10-meter road (such as by excavation or overhead lines) but are all carried out on public land. There is no crossing of other owners' private property because the warehouse has access to a road.
- Includes only a negligible length in the customer's private domain.
- Will supply monthly electricity consumption of 26,880 kilowatt-hours (kWh).
- Does not involve work to install the internal electrical wiring. This has already been completed, up to and including the customer's service panel or switchboard and installation of the meter base.

#### **Assumptions about the monthly consumption**

- It is assumed that the warehouse operates 8 hours a day for 30 days a month, with equipment utilized at 80% of capacity on average, and that there are no electricity cuts (assumed for simplicity). The subscribed capacity of the warehouse is 140 kVA, with a power factor of 1 (1 kVA = 1 kW). The monthly energy consumption is therefore 26,880 kWh, and the hourly consumption 112 kWh (26,880 kWh/30 days/8 hours).
- If multiple electricity suppliers exist, the warehouse is served by the cheapest supplier.
- Tariffs effective in March of the current year are used for calculation of the price of electricity for the warehouse.

## GETTING ELECTRICITY

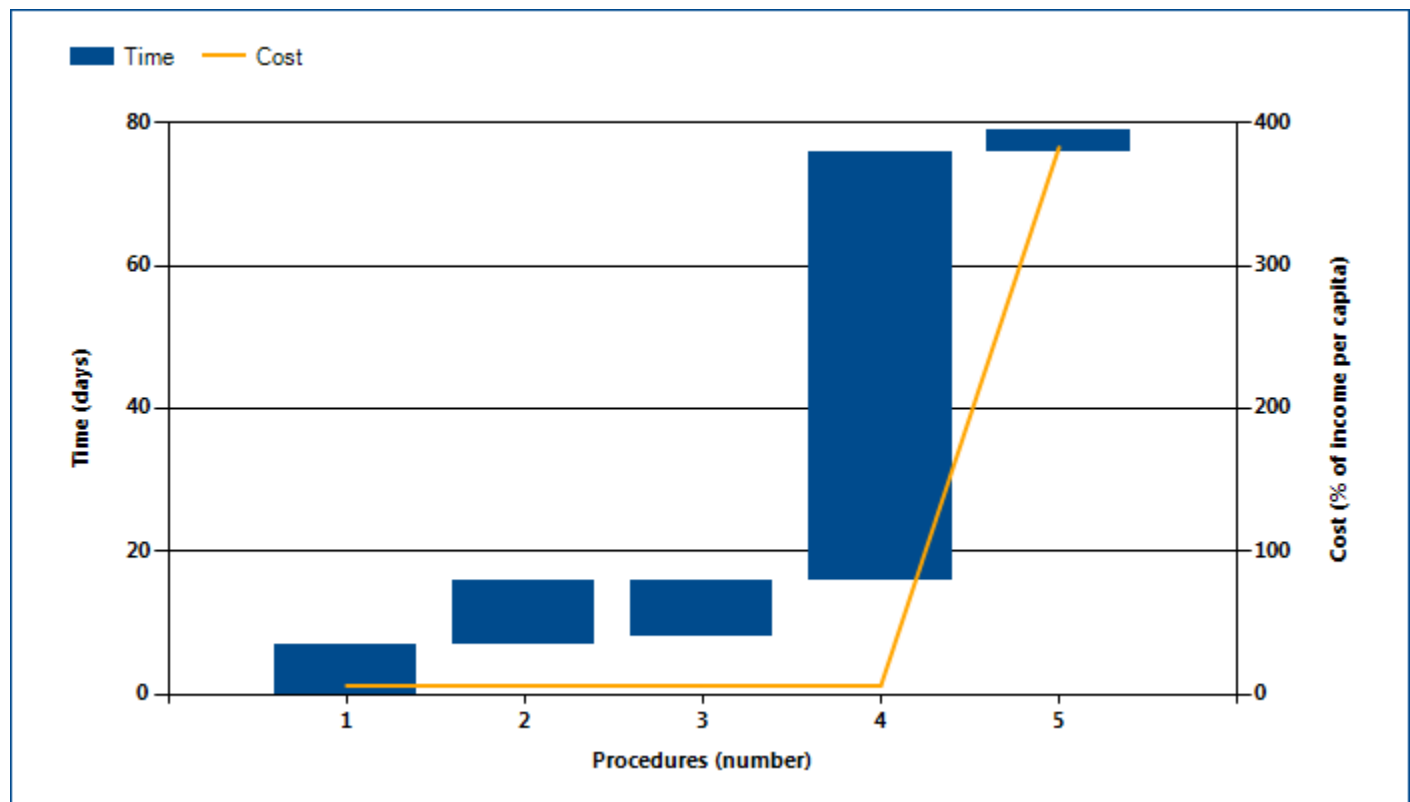
### Where does the economy stand today?

What does it take to obtain a new electricity connection in Indonesia? According to data collected by *Doing Business*, getting electricity there requires 5.00 procedures, takes 79.00 days and costs 383.00% of income per capita (figure 4.1).

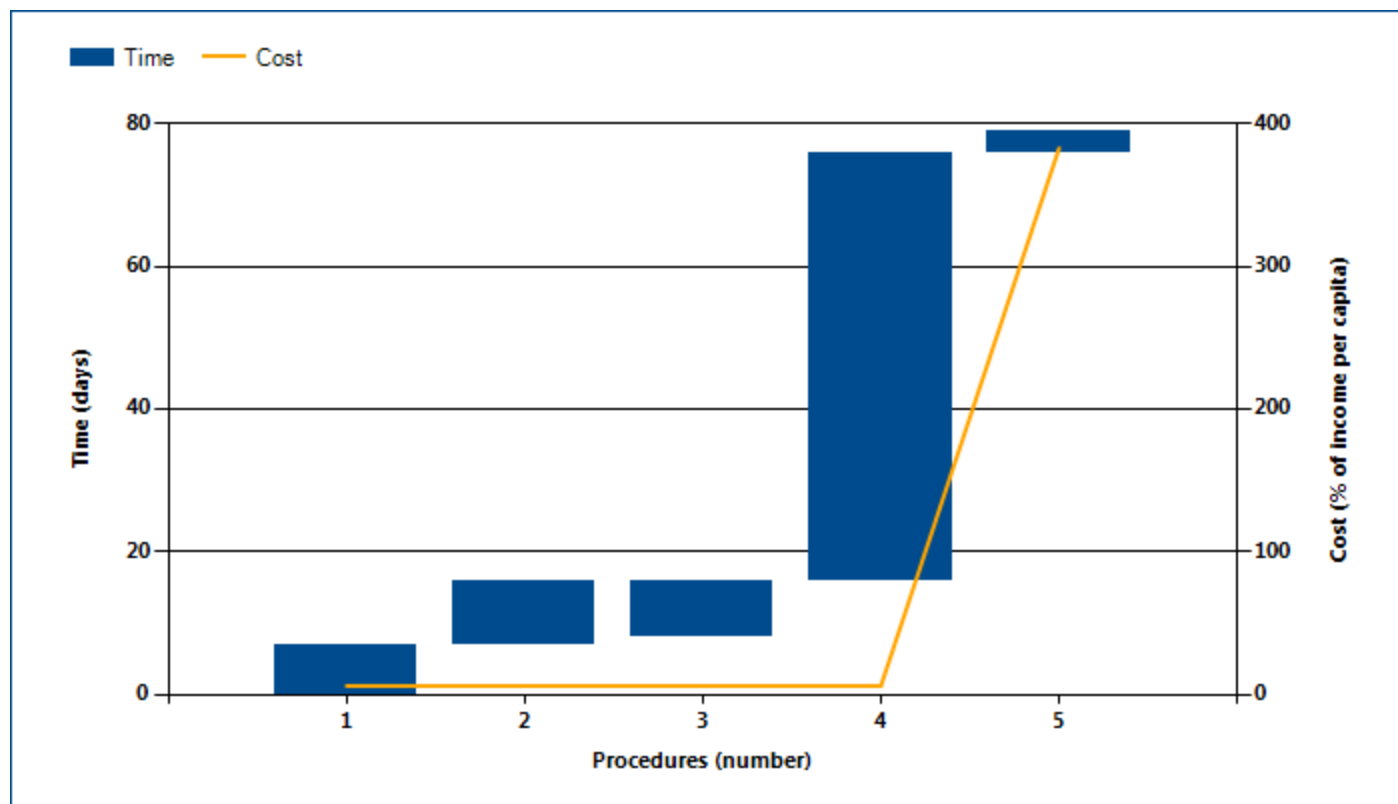
Most indicator sets refer to a case scenario in the largest

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



Source: *Doing Business* database.

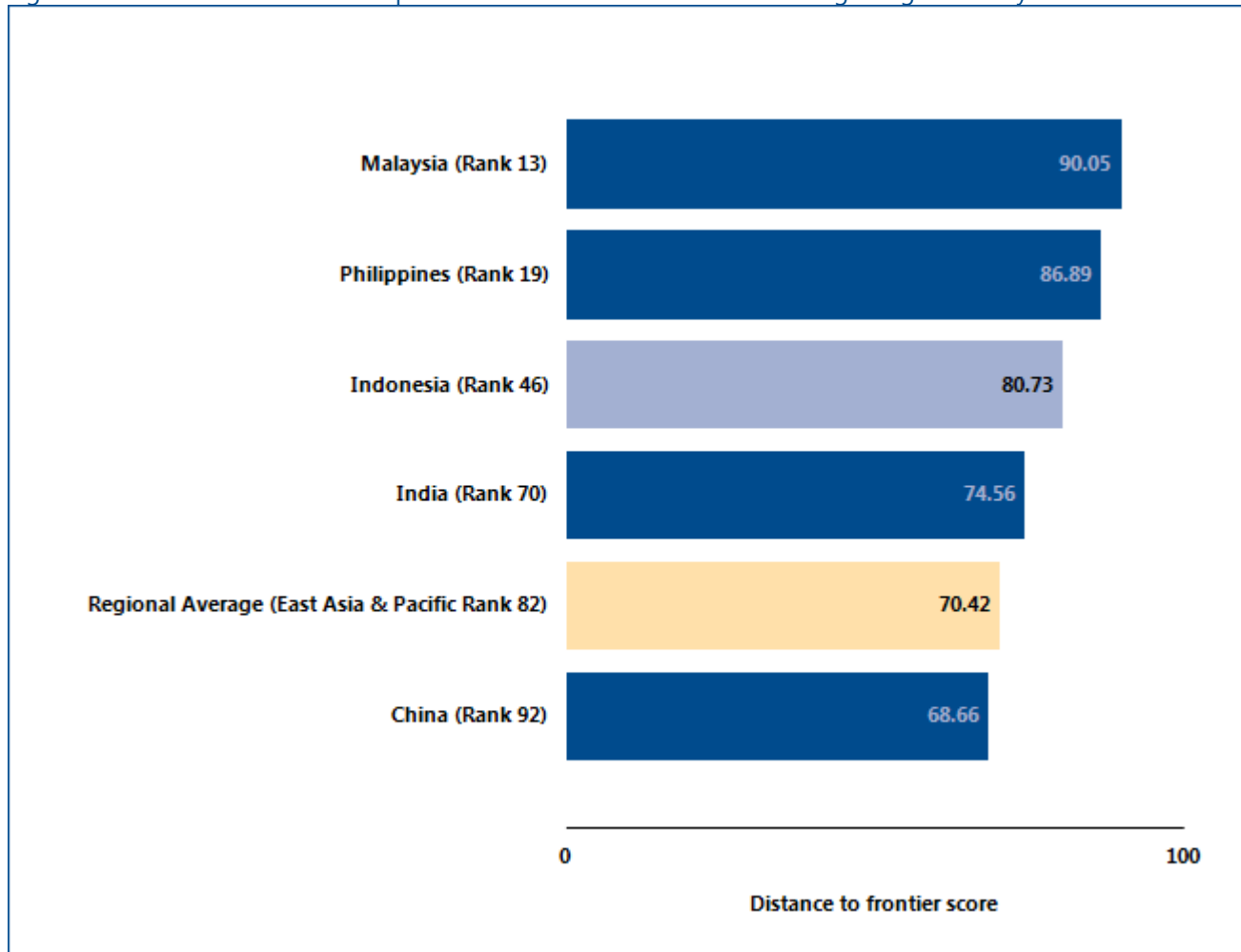
Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the getting electricity indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of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

## GETTING ELECTRICITY

Globally, Indonesia stands at 46 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 DB2011 to DB2016

DB year	Reform
<b>DB2012</b>	Indonesia made getting electricity more difficult by increasing connection fees.
<b>DB2013</b>	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.
<b>DB2015</b>	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. The utility in Jakarta and Surabaya 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.

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.

#### OBTAINING AN ELECTRICITY CONNECTION\*

<b>Name of utility - Jakarta:</b>	<b>PT PLN</b>
<b>Name of utility - Surabaya:</b>	<b>PT Perusahaan Listrik Negara (PLN)</b>
<b>Price of electricity (US cents per kWh) - Jakarta:</b>	<b>14</b>
<b>Price of electricity (US cents per kWh) - Surabaya:</b>	<b>14</b>
<b>City:</b>	<b>Jakarta, Surabaya</b>

\*Price is calculated as a monthly consumption of 26,880 kWh for business customers, based on a standardized case study adopted by the Getting Electricity methodology. *Doing Business* measures the price of electricity but does not include these data when calculating the distance to frontier score for getting electricity or the ranking on the ease of getting electricity.

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

No.	Procedure	Time to complete	Cost to complete
1	<p><b>Obtain inspection and compliance certificate for internal wiring installation</b></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 (<a href="http://www.konsuil.or.id">www.konsuil.or.id</a>) and PPILN (<a href="http://www.ppiln.or.id">www.ppiln.or.id</a>) 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"> <li>• Installation drawings</li> </ul>	7 calendar days	IDR 2,572,500

No.	Procedure	Time to complete	Cost to complete
	<ul style="list-style-type: none"> <li>List of materials used: brand, size / specs</li> </ul> <p>Agency: National Committee for Electrical Installation (KONSUIL) or Society for the Protection of National Electrical Installation (PPILN)</p>		
2	<p><b>Submit connection application to PLN and await approval and estimate</b></p> <p>The client needs to submit the following documents along with the application:</p> <ul style="list-style-type: none"> <li>-Copy of Identity Card</li> <li>-Layout of the location, and</li> <li>-Certificate of Operation Worthiness (SLO) from KONSUIL</li> </ul> <p>Agency: PT Perusahaan Listrik Negara (PLN)</p>	9 calendar days	IDR 0
3	<p><b>* Receive external inspection by PLN</b></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><b>Obtain external works from PLN's contractor</b></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 provides the main materials needed (transformer, cables).</p> <p>Agency: PT Perusahaan Listrik Negara (PLN)'s contractor</p>	60 calendar days	IDR 0
5	<p><b>Obtain final connection from PLN</b></p> <p>Client must pay security deposit and the installation needs to be checked by the medium voltage inspection body of PLN. Electricity supply is then turned on.</p> <p>Since May 31st, 2013 PLN Board Directors' issued an Official memo (PLN board of Director decree no.424.K/DIR/2013) to All PLN branches enforcing again the security deposit</p> <p>Agency: PT Perusahaan Listrik Negara (PLN)</p>	3 calendar days	IDR 151,980,860.29

No.	Procedure	Time to complete	Cost to complete

\* 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><b>Obtain inspection and compliance certificate for internal wiring installation</b></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 (<a href="http://www.konsuil.or.id">www.konsuil.or.id</a>) and PPILN (<a href="http://www.ppiln.or.id">www.ppiln.or.id</a>) 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"> <li>• Installation drawings</li> <li>• List of materials used: brand, size / specs</li> </ul> <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><b>Submit connection application to PLN and await approval and estimate</b></p> <p>The client needs to submit the following documents along with the application:</p> <ul style="list-style-type: none"> <li>-Copy of Identity Card</li> <li>-Layout of the location</li> <li>-Guaranteed Electrical Installation Certificate (JIL), and</li> <li>-Certificate of Operation Worthiness (SLO) from KONSUIL</li> </ul> <p><i>Agency: PT Perusahaan Listrik Negara (PLN)</i></p>	9 calendar days	IDR 0

No.	Procedure	Time to complete	Cost to complete
3	<p><b>* Receive external inspection by PLN</b></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><b>Obtain external works from PLN's contractor</b></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 provides the main materials needed (transformer, cables).</p> <p>Agency: PT Perusahaan Listrik Negara (PLN) 's contractor</p>	60 calendar days	IDR 0
5	<p><b>Obtain final connection from PLN</b></p> <p>Client must pay security deposit and the installation needs to be checked by the medium voltage inspection body of PLN. Electricity supply is then turned on.</p> <p>Since May 31st, 2013 PLN Board Directors' issued an Official memo (PLN board of Director decree no.424.K/DIR/2013) to All PLN branches enforcing again the security deposit</p> <p>Agency: PT Perusahaan Listrik Negara (PLN)</p>	3 calendar days	IDR 151,980,860.29

\* Takes place simultaneously with another procedure.

Source: Doing Business database.

## GETTING ELECTRICITY

### Reliability of supply and transparency of tariffs index

The reliability of supply and transparency of tariffs index encompasses quantitative data on the duration and frequency of power outages as well as qualitative information on the mechanisms put in place by the utility for monitoring power outages and restoring power supply, the reporting relationship between the utility and the regulator for power outages, the transparency and accessibility of tariffs and whether the utility faces a financial deterrent aimed at limiting outages (such as a requirement to compensate customers or pay fines when outages exceed a certain cap).

The index ranges from 0 to 8, with higher values indicating greater reliability of electricity supply and greater transparency of tariffs.

*Doing Business* uses the system average interruption duration index (SAIDI) and the system average interruption frequency index (SAIFI) to measure the duration and frequency of power outages in the largest business city of each economy (for 11 economies the data are also collected for the second largest business city). SAIDI is the average total duration of outages over the course of a year for each customer served, while SAIFI is the average number of service interruptions experienced by a customer in a year. Annual data (covering the calendar year) are collected from distribution utility companies and national regulators on SAIDI and SAIFI. Both SAIDI and SAIFI estimates include load shedding.

Table 4.3 Reliability of Supply and Transparency of Tariff Index in Indonesia

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Reliability of supply and transparency of tariff index (0-8)		7.00		7.00
Total duration and frequency of outages per customer a year (0-3)		2.00		2.00
System average interruption duration index (SAIDI)	3.9		2.4	
System average interruption frequency index (SAIFI)	2.5		2.4	
Mechanisms for monitoring outages (0-1)		1.0		1.0
Does the distribution utility use automated tools to monitor outages?	Yes		Yes	
Mechanisms for restoring service (0-1)		1.0		1.0
Does the distribution utility use automated tools to restore service?	Yes		Yes	
Regulatory monitoring (0-1)		1.00		1.00
Does a regulator—that is, an entity separate from the utility—monitor the utility's performance on reliability of supply?	Yes		Yes	

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Financial deterrents aimed at limiting outages (0-1)		1.00		1.00
Does the utility either pay compensation to customers or face fines by the regulator (or both) if outages exceed a certain cap?	Yes		Yes	
Communication of tariffs and tariff changes (0-1)		1.00		1.00
Are effective tariffs available online?	Yes		Yes	
Link to the website, if available online	<a href="http://www.pln.co.id/dataweb/ttl2014/permen_esdm_ttl_2014.pdf">http://www.pln.co.id/dataweb/ttl2014/permen_esdm_ttl_2014.pdf</a>		<a href="http://www.pln.co.id/blog/tarif-tenaga-listrik">www.pln.co.id/blog/tarif-tenaga-listrik</a>	
Are customers notified of a change in tariff ahead of the billing cycle?	Yes		Yes	

Source: *Doing Business* database.

Note: If data on power outages is not collected or if the SAIFI index or SAIDI index are above the threshold of 100, the economy is not eligible to obtain a score in the Reliability of Supply and Transparency of Tariff Index. If SAIDI and SAIFI are 12 (equivalent to an outage of one hour each month) or below, a score of 1 is assigned. If SAIDI and SAIFI are 4 (equivalent to an outage of one hour each quarter) or below, 1 additional point is assigned. Finally, if SAIDI and SAIFI are 1 (equivalent to an outage of one hour per year) or below, 1 more point is assigned. *Doing Business* measures the price of electricity but does not include these data when calculating the distance to frontier score for getting electricity or the ranking on the ease of getting electricity. The price of electricity is measured in cents per kilowatt-hour. On the basis of the assumptions about monthly consumption, a monthly bill for a commercial warehouse in the largest business city of the economy is computed for the month of March (for 11 economies the data are also collected for the second largest business city). As noted, the warehouse uses electricity 30 days a month, from 9:00 a.m. to 5:00 p.m., so different tariff schedules may apply if a time-of-use tariff is available.

## 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. In addition, this year *Doing Business* adds a new measure to the set of registering property indicators, an index of the quality of the land administration system in each economy. 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 and are located in the economy's largest business city<sup>2</sup>.
- 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 and entire property will be transferred.
- Is registered in the land registry or cadastral, or both, and is free of title disputes.

### 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 city<sup>2</sup>

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

#### Quality of land administration index (0-30)

- 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.

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



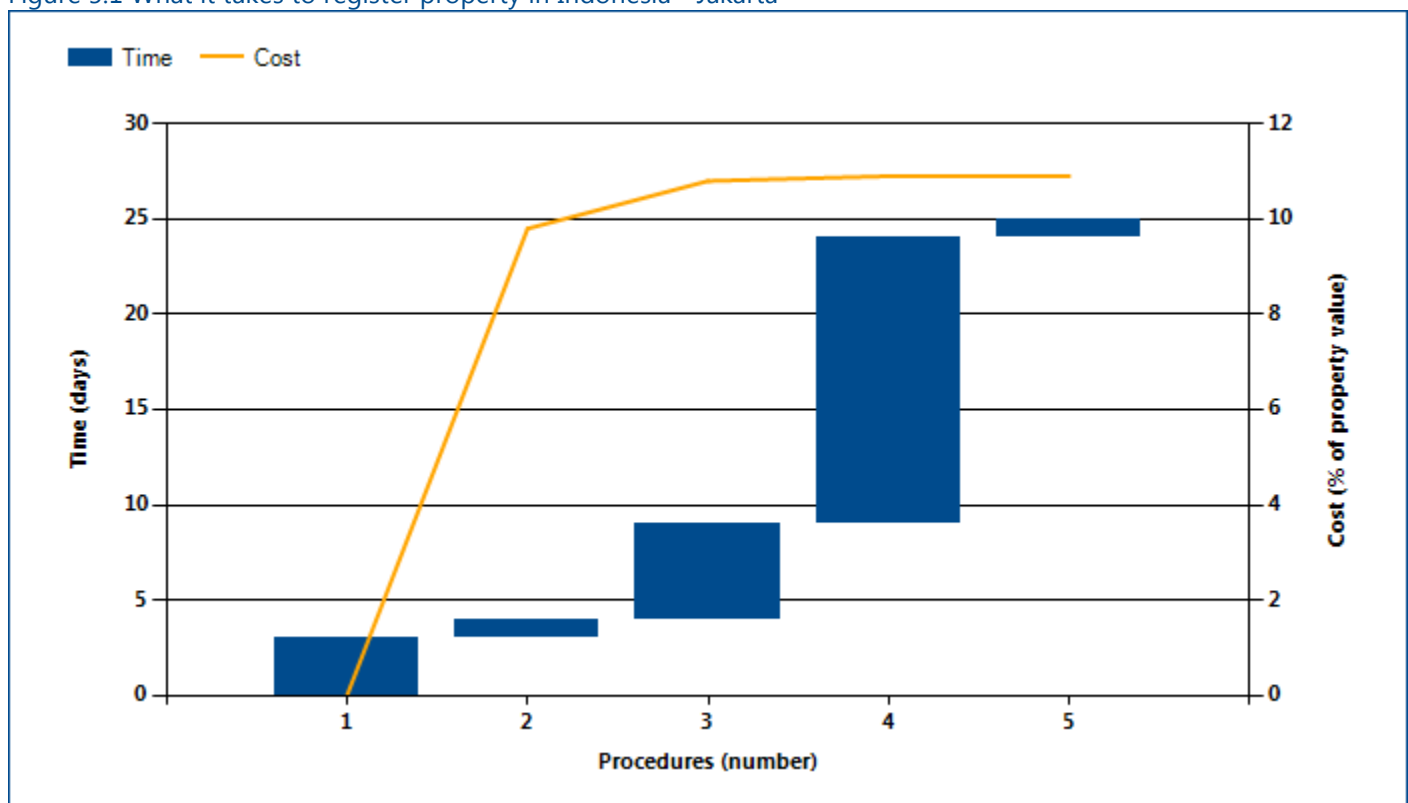
## REGISTERING PROPERTY

### Where does the economy stand today?

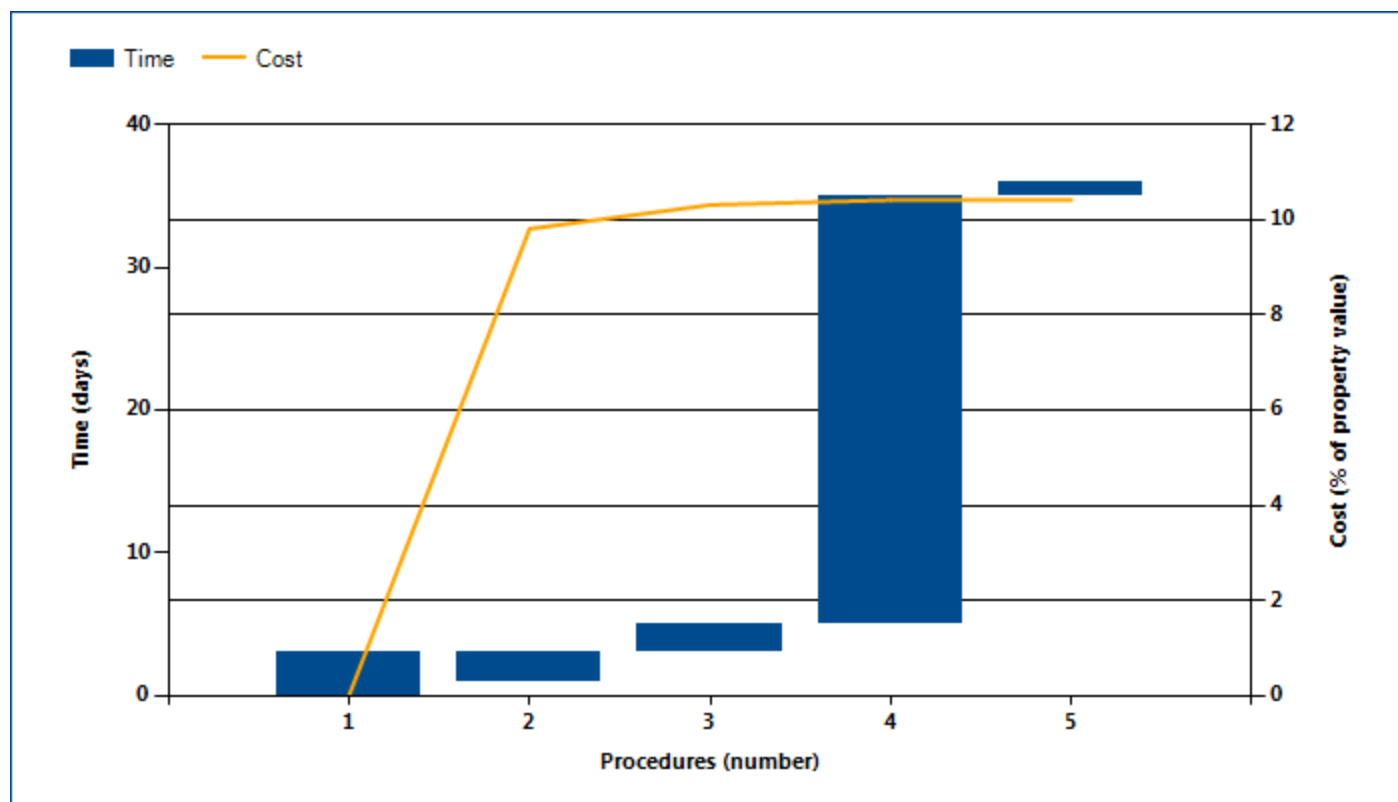
What does it take to complete a property transfer in Indonesia? According to data collected by *Doing Business*, registering property there requires 5.00 procedures, takes 27.40 days and costs 10.80% of the property value (figure 5.1).

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



Source: *Doing Business* database.

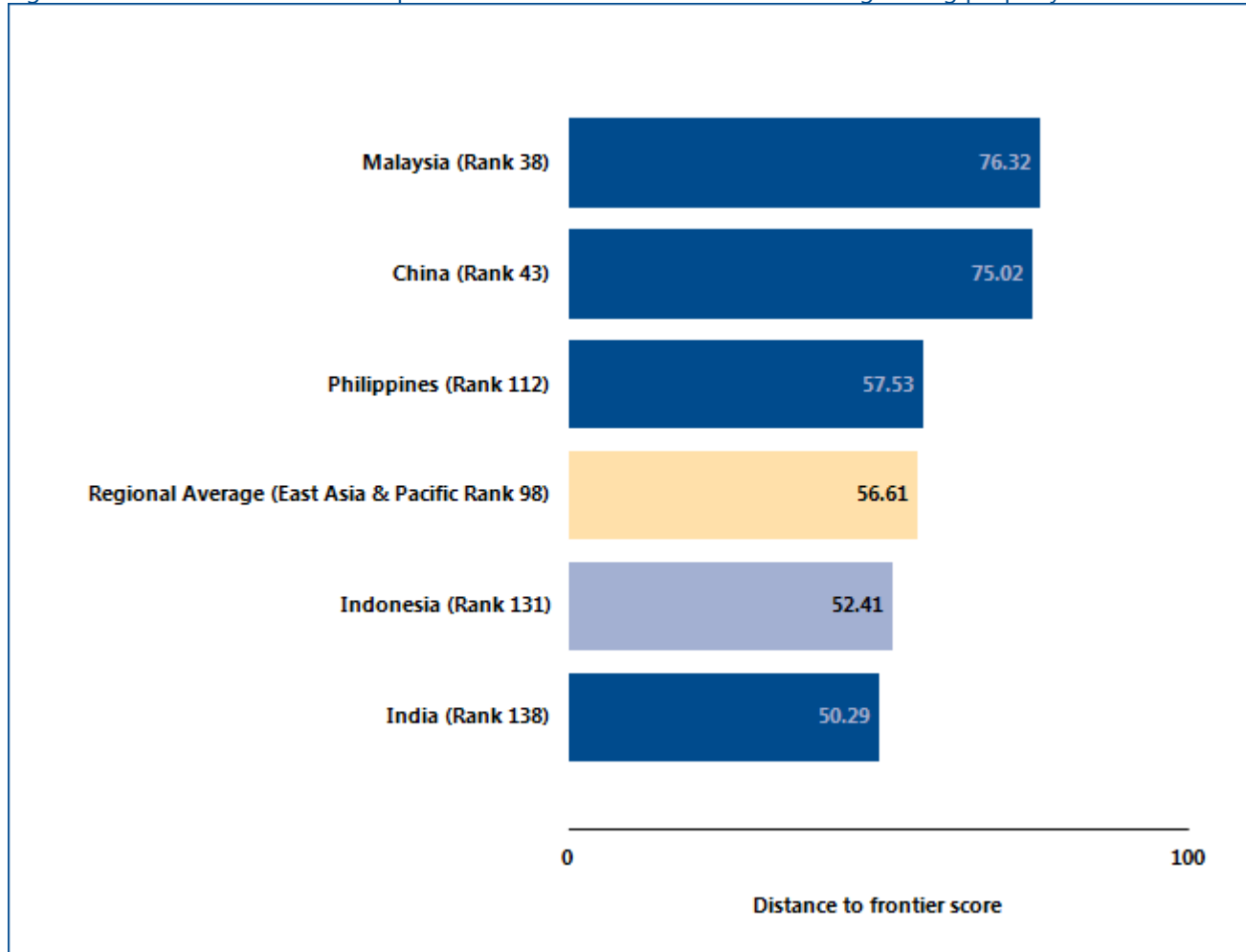
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the registering property indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For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

## REGISTERING PROPERTY

Globally, Indonesia stands at 131 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

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

#### STANDARD PROPERTY TRANSFER

**Property value:** IDR 2,017,666,027

**City:** Jakarta, Surabaya

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

No.	Procedure	Time to complete	Cost to complete
1	<p><b>Land certificate examination at the Land Office</b></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 a few hours to 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 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 pursuant to Government Regulation No. 13 of 2010 regarding Types and Tariffs of State Non Tax Income Applicable in National Land Offices. Dated January 22, 2010, the current cost is Rp. 50,000.</p> <p><i>Agency: Land Office</i></p>	3 days	Rp. 50,000
2	<p><b>Payment of the transfer and acquisition taxes</b></p> <p>The seller must pay the Transfer Tax prior to the execution of the transfer deed. The tax on Transfer of Land and Building (Transfer Tax) in the amount of 5% which is calculated on the sale or transfer value. In case the sale value is higher than the Sales Value of the Tax Object ("NJOP"), then the sale value will be used. But the sale value is higher than the NJOP, then the sale value will be used.</p> <p>The Transfer Tax is paid to a Bank Persepsi - bank appointed by the Ministry of Finance to accept tax payments. Tax to the local government is paid at the Local Government Bank (Bank Badan Usaha Milik Daerah)</p>	1 day	5% of the property price (Transfer Tax) + 5% of the property price minus Rp. 80,000,000 which is tax-free (Tax on Acquisition of Land and Building)

No.	Procedure	Time to complete	Cost to complete
	<p>and/or other private commercial bank (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.</p> <p>The buyer pays the Tax on Acquisition of Land and Building (BPHTB) in the amount of 5% of the sale value or transfer value.</p> <p>The BPHTB Formula: The buyer pays the BPHTB in the amount of 5% x Sale value or Transfer value or Nilai Perolehan Obyek Pajak or NPOP – Non-Taxable Sale Value or Nilai Perolehan Obyek Pajak Tidak Kena Pajak or NPOPTKP, which is determined regionally. (According to Article 7 of Law No. 20/2000 concerning the amendment of law No. 21/1997 concerning the Tax on Acquisition of Land and Building).</p> <p>In Jakarta, the NPOPTKP is Rp. 80,000,000 (according to Article 5 paragraph 7 of the Regional Decree of Special Province of Jakarta No. 18/2010 concerning the Tax on Acquisition of Land and Building (BPHTB).</p> <p>This tax is paid at a Bank Persepsi, appointed by the State Treasury to accept tax payments, or at a post office where the land is located.</p> <p><i>Agency: Bank</i></p>		
3	<p><b>Execution of sale and purchase of Land Deed by a PPAT official</b></p> <p>The execution of the sale and purchase of Land Deed is made before Land Officials (who are often public notaries as well) appointed by the Head of the National Land Office (PPAT) or a local Head of a District (Camat PPAT), after the taxes in Procedures 3 and 4 have been paid. For convenience, those payments are usually made by the notary three days before the execution of the sale-purchase deed.</p> <p>The documentation shall include:</p> <ul style="list-style-type: none"> <li>(i) Original land certificate</li> <li>(ii) 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.</li> <li>(iii) Evidence of payment of Tax on Transfer of Land and Building (Transfer Tax)</li> <li>(iv) Evidence of payment of the Tax on Acquisition of Land and Building (BPHTB)</li> <li>(v) Evidence of deed of Company Establishment which was already authorized by the Ministry of Justice</li> <li>(vi) Company Tax-Registration Numbers (NPWP) of the seller and the</li> </ul>	5 days	1% of the property value

No.	Procedure	Time to complete	Cost to complete
	<p>purchaser</p> <p>(vii) Deed of Establishment and its amendments of both the seller and purchaser;</p> <p>(viii) 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</p> <p>(ix) Advise Planning from the City Administration Institution</p> <p>(x) Permit for Building Establishment</p> <p><i>Agency: Land Deed/PPAT Official</i></p>		
4	<p><b>Registration of the Land Deed at the local Land Office under the name of the buyer</b></p> <p>Registration of the Land Deed at the local Land Office to have the purchaser's name registered and recorded in the land certificate. At the latest of 7 (seven) days as of the signing date of the sale and purchase of Land Deed, the notary submits such deed including its supporting documents to the Land Office, but in practice the wait is much longer because of the backlog. (Article 40 sub 1 of Government Regulation No. 24/1997 concerning the Land Registration). In theory, the registration process should be completed within the 5 days statutory time limit. 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>	15 days	<p>1/1000 of the property value + Rp. 50,000 (administrative fee) + Stamp duty of Rp. 6,000 per document (2 required)</p>
5	<p><b>Registration of the Land Deed at the Jakarta Regional Government Revenue Office under the name of a buyer</b></p> <p>In connection to the registration of the Land Deed at the Tax on Land and Building Office, the change of ownership must be registered with the Tax Office. The taxpayer should report manually to the Tax Office with regard to the transfer of land title.</p> <p><i>Agency: Jakarta Regional Government Revenue Office ("Regional Tax Office")</i></p>	1 day	no cost

\* Takes place simultaneously with another procedure.

Source: Doing Business database.

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

#### Summary of time, cost and procedures for registering property in Indonesia Surabaya

No.	Procedure	Time to complete	Cost to complete
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No.	Procedure	Time to complete	Cost to complete
1	<p><b>Land certificate examination at the local Land Office (BPN)</b></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"> <li>a. Land Ownership Certificate;</li> <li>b. Copy of the applicant's identification or its proxy;</li> <li>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.</li> </ul> <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
2	<p><b>* Payment of the transfer and acquisition tax</b></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>	1 day (simultaneous with procedure 1)	Seller pays 5% of property value and buyer pays 5% of property minus IDR 75 million, which is tax free

No.	Procedure	Time to complete	Cost to complete
3	<p><b>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</b></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"> <li>a. Original land certificate;</li> <li>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;</li> <li>c. Evidence of payment of the Tax on Transfer of Land and Building (Transfer Tax) (obtained in Procedure 2);</li> <li>d. Evidence of payment of the Tax on Acquisition of Land and Building (BPHTB) (obtained in Procedure 3);</li> <li>e. Evidence of deed of Company Establishment which was already authorized by the Ministry of Law and Human Rights;</li> <li>f. Company Tax-Registration Numbers (NPWP) of the seller and the purchaser</li> <li>g. Deed of Establishment and its amendments of both the seller and purchaser;</li> <li>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;</li> <li>i. Advise Planning from the City Administration Institution;</li> <li>j. Permit for Building Establishment. (h) Copy of buyer and seller's identification cards</li> </ul> <p><i>Agency: Land deed official</i></p>	1-3 days	0.5% of property value
4	<p><b>Registration of the Land Deed at the local Land Office (BPN) under the name of the buyer</b></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</p>	30 days	IDR 50000 + 0.1% of property value + IDR 6,000 stamp duty per document (2



No.	Procedure	Time to complete	Cost to complete
	<p>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>		required)
5	<p><b>Registration of the Land Deed at the Surabaya Regional Government Revenue Office under the name of a buyer</b></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.

## REGISTERING PROPERTY

### Quality of land administration

The quality of land administration index is the sum of the scores on the reliability of infrastructure, transparency of information, geographic coverage and land dispute resolution indices.

The index ranges from 0 to 30, with higher values indicating better quality of the land administration system.

If private sector entities were unable to register property transfers in an economy between June 2014 and June 2015, the economy receives a “no practice” mark on the procedures, time and cost indicators. A “no practice” economy receives a score of 0 on the quality of land administration index even if its legal framework includes provisions related to land administration.

Table 5.3 Summary of quality of land administration in Indonesia

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Quality of the land administration index (0-30)		8.50		7.50
Reliability of infrastructure index (0-8)		0.00		0.00
What is the institution in charge of immovable property registration?	Badan Pertanahan Nasional		Badan Pertanahan Nasional	
In what format are the majority of title or deed records kept in the largest business city—in a paper format or in a computerized format (scanned or fully digital)?	Paper	0.0	Paper	0.0
Is there an electronic database for checking for encumbrances (liens, mortgages, restrictions and the like)?	No	0.0	No	0.0
Institution in charge of the plans showing legal boundaries in the largest business city:	Land Office (Kantor Pertanahan)		Land Office (Kantor Pertanahan )	
In what format are the majority of maps of land plots kept in the largest business city—in a paper format or in a computerized format (scanned or fully digital)?	Paper	0.0	Paper	0.0
Is there an electronic database for recording boundaries, checking plans and providing cadastral information (geographic information system)?	No	0.0	No	0.0
Is the information recorded by the immovable property registration agency and the cadastral or mapping agency kept in a single database, in different but linked databases or in separate databases?	Separate databases	0.0	Separate databases	0.0

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Do the immovable property registration agency and cadastral or mapping agency use the same identification number for properties?	No	0.0	No	0.0
Transparency of information index (0–6)		3.50		3.50
Who is able to obtain information on land ownership at the agency in charge of immovable property registration in the largest business city?	Anyone who pays the official fee	1.0	Anyone who pays the official fee	1.0
Is the list of documents that are required to complete any type of property transaction made publicly available—and if so, how?	Yes, online	0.5	Yes, online	0.5
Link for online access:	<a href="http://site.bpn.go.id/o/Beranda/Layanan-Pertanahan/PELAYANAN-PEMELIHARAAN-DATA-PENDAFTARAN-TANAH/PERALIHAN-HAK-ATAS-TANAH-DAN-SATUAN-RUMAH-SUSUN/JUAL-BELI.aspx">http://site.bpn.go.id/o/Beranda/Layanan-Pertanahan/PELAYANAN-PEMELIHARAAN-DATA-PENDAFTARAN-TANAH/PERALIHAN-HAK-ATAS-TANAH-DAN-SATUAN-RUMAH-SUSUN/JUAL-BELI.aspx</a>		<a href="http://site.bpn.go.id/o/Beranda/Layanan-Pertanahan/PELAYANAN-PEMELIHARAAN-DATA-PENDAFTARAN-TANAH/PERALIHAN-HAK-ATAS-TANAH-DAN-SATUAN-RUMAH-SUSUN/JUAL-BELI.aspx">http://site.bpn.go.id/o/Beranda/Layanan-Pertanahan/PELAYANAN-PEMELIHARAAN-DATA-PENDAFTARAN-TANAH/PERALIHAN-HAK-ATAS-TANAH-DAN-SATUAN-RUMAH-SUSUN/JUAL-BELI.aspx</a>	
Is the applicable fee schedule for any property transaction at the agency in charge of immovable property registration in the largest business city made publicly available—and if so, how?	Yes, online	0.5	Yes, online	0.5
Link for online access:	<a href="http://www.bpn.go.id/Layanan-Publik/Standard-Layanan">http://www.bpn.go.id/Layanan-Publik/Standard-Layanan</a>		<a href="http://www.bpn.go.id/Layanan-Publik/Standard-Layanan">http://www.bpn.go.id/Layanan-Publik/Standard-Layanan</a>	

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
			Layanan	
Does the agency in charge of immovable property registration commit to delivering a legally binding document that proves property ownership within a specific time frame—and if so, how does it communicate the service standard?	Yes, online	0.5	Yes, online	0.5
Link for online access:	<a href="http://www.bpn.go.id/Publikasi/Inovasi/Layanan-Cepat-Quick-Service">http://www.bpn.go.id/Publikasi/Inovasi/Layanan-Cepat-Quick-Service</a> and <a href="http://www.bpn.go.id/Publikasi/Inovasi/Layanan-1-Hari-Selesai-One-Day-Service">http://www.bpn.go.id/Publikasi/Inovasi/Layanan-1-Hari-Selesai-One-Day-Service</a>		<a href="http://www.bpn.go.id/Publikasi/Inovasi/Layanan-Cepat-Quick-Service">http://www.bpn.go.id/Publikasi/Inovasi/Layanan-Cepat-Quick-Service</a> and <a href="http://www.bpn.go.id/Publikasi/Inovasi/Layanan-1-Hari-Selesai-One-Day-Service">http://www.bpn.go.id/Publikasi/Inovasi/Layanan-1-Hari-Selesai-One-Day-Service</a>	
Is there a specific and separate mechanism for filing complaints about a problem that occurred at the agency in charge of immovable property registration?	No	0.0	No	0.0
Contact information:				
Are there publicly available official statistics tracking the number of transactions at the immovable property registration agency?	No	0.0	No	0.0
Number of property transfers in the largest business city in 2014:				
Who is able to consult maps of land plots in the largest business city?	Only intermediaries and interested parties	0.0	Only intermediaries and interested parties	0.0
Is the applicable fee schedule for accessing maps of land plots made publicly available—and if so, how?	Yes, online	0.5	Yes, online	0.5
Link for online access:	<a href="http://site.bpn.go.id/o/Beranda/Layanan-">http://site.bpn.go.id/o/Beranda/Layanan-</a>		<a href="http://site.bpn.go.id/o/Beranda/Layanan-">http://site.bpn.go.id/o/Beranda/Layanan-</a>	

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
	Pertanahan/P ELAYANAN- PENCATATAN -DAN- INFORMASI- PERTANAH AN/INFORMAS I- PERTANAH AN/INFORMAS I-PETA.aspx		Pertanahan /PELAYANA N- PENCATAT AN-DAN- INFORMASI - PERTANAH AN/INFOR MASI- PERTANAH AN/INFOR MASI- PETA.aspx	
Does the cadastral or mapping agency commit to delivering an updated map within a specific time frame—and if so, how does it communicate the service standard?	Yes, online	0.5	Yes, online	0.5
Link for online access:	<a href="http://site.bpn.go.id/o/Beranda/Layanan-Pertanahan/PELAYANAN-PEMELIHARAAN-DATA-PENDAFTARAN-TANAH/PERALIHAN-HAK-ATAS-TANAH-DAN-SATUAN-RUMAH-SUSUN/JUAL-BELI.aspx">http://site.bpn.go.id/o/Beranda/Layanan-Pertanahan/PELAYANAN-PEMELIHARAAN-DATA-PENDAFTARAN-TANAH/PERALIHAN-HAK-ATAS-TANAH-DAN-SATUAN-RUMAH-SUSUN/JUAL-BELI.aspx</a>		<a href="http://site.bpn.go.id/o/Beranda/Layanan-Pertanahan/PELAYANAN-PEMELIHARAAN-DATA-PENDAFTARAN-TANAH/PERALIHAN-HAK-ATAS-TANAH-DAN-SATUAN-RUMAH-SUSUN/JUAL-BELI.aspx">http://site.bpn.go.id/o/Beranda/Layanan-Pertanahan/PELAYANAN-PEMELIHARAAN-DATA-PENDAFTARAN-TANAH/PERALIHAN-HAK-ATAS-TANAH-DAN-SATUAN-RUMAH-SUSUN/JUAL-BELI.aspx</a>	
Is there a specific and separate mechanism for filing complaints about a problem that occurred at the cadastral or mapping agency?	No	0.0	No	0.0

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Contact information:				
Geographic coverage index (0–8)		0.00		0.00
Are all privately held land plots in the economy formally registered at the immovable property registry?	No	0.0	No	0.0
Are all privately held land plots in the largest business city formally registered at the immovable property registry?	No	0.0	No	0.0
Are all privately held land plots in the economy mapped?	No	0.0	No	0.0
Are all privately held land plots in the largest business city mapped?	No	0.0	No	0.0
Land dispute resolution index (0–8)		5.00		4.00
Does the law require that all property sale transactions be registered at the immovable property registry to make them opposable to third parties?	Yes	1.5	Yes	1.5
Is the system of immovable property registration subject to a state or private guarantee?	Yes	0.5	Yes	0.5
Is there a specific compensation mechanism to cover for losses incurred by parties who engaged in good faith in a property transaction based on erroneous information certified by the immovable property registry?	No	0.0	No	0.0
Does the legal system require a control of legality of the documents necessary for a property transaction (e.g., checking the compliance of contracts with requirements of the law)?	Yes	0.5	Yes	0.5
If yes, who is responsible for checking the legality of the documents?	Registrar; Notary.		Registrar; Notary; Interested parties.	
Does the legal system require verification of the identity of the parties to a property transaction?	Yes	0.5	Yes	0.5
If yes, who is responsible for verifying the identity of the parties?	Registrar; Notary; Interested parties.		Registrar; Notary; Interested parties.	
Is there a national database to verify the accuracy of	Yes	1.0	Yes	1.0

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
identity documents?				
For a standard land dispute between two local businesses over tenure rights of a property worth 50 times gross national income (GNI) per capita and located in the largest business city, what court would be in charge of the case in the first instance?	District Court and State Administrative Court		District Court and State Administrative Court	
How long does it take on average to obtain a decision from the first-instance court for such a case (without appeal)?	Between 2 and 3 years	1.0	More than 3 years	0.0
Are there any statistics on the number of land disputes in the first instance?	No	0.0	No	0.0
Number of land disputes in the largest business city in 2014:				

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 2016* 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)

Rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

#### Depth of credit information index (0–8)

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.



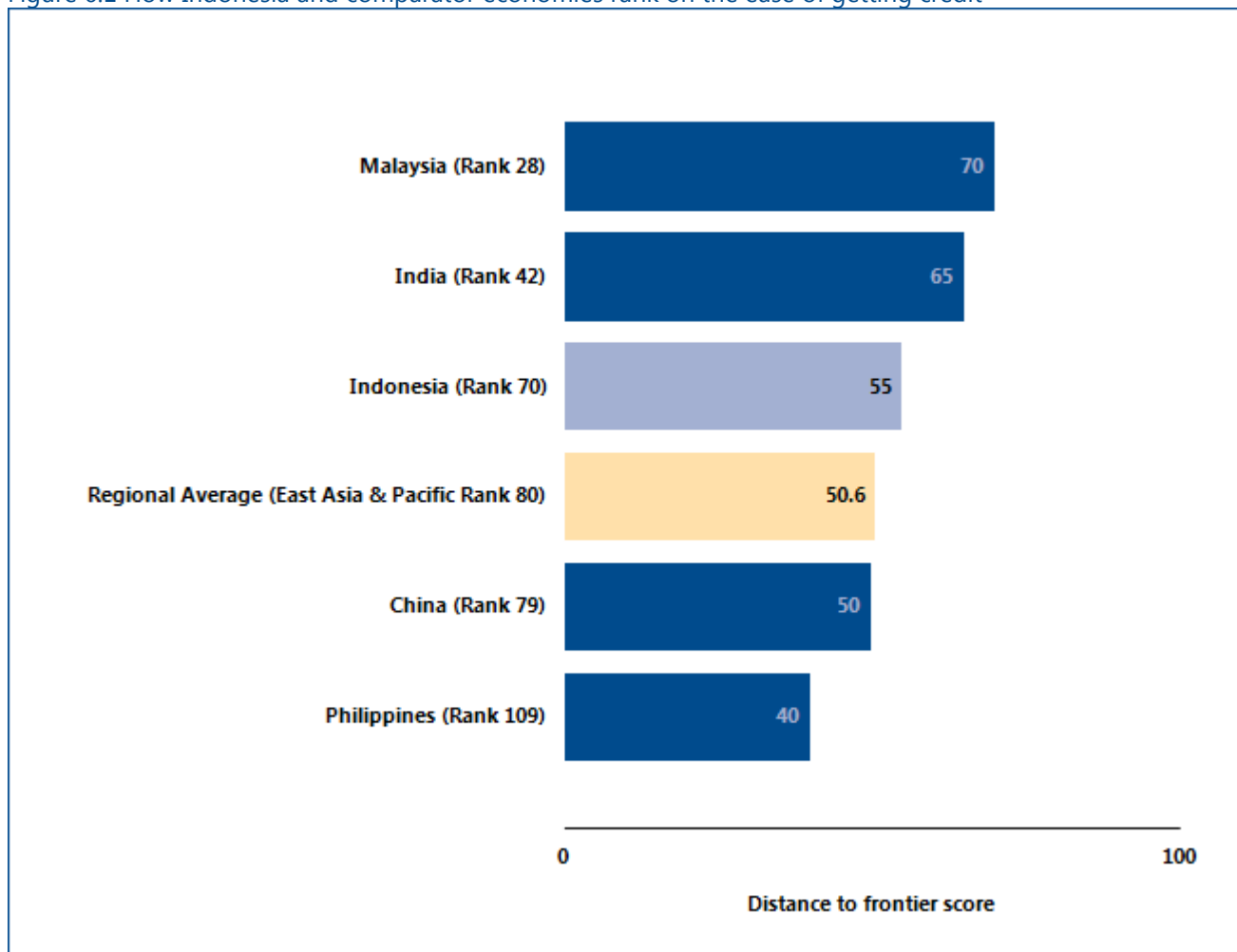
## GETTING CREDIT

### 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 6.00 on the depth of credit information index and a score of 5.00 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 70 in the ranking of 189 economies on the ease of getting credit (figure 6.1). The rankings for comparator economies provide 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.

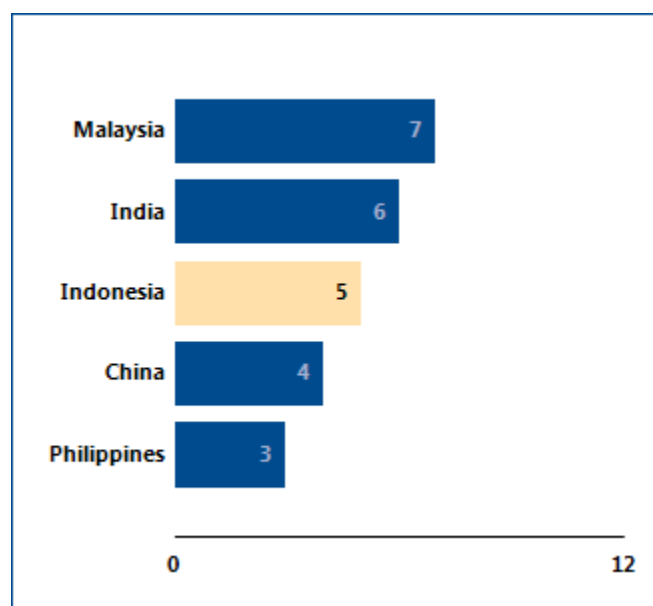
## GETTING CREDIT

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

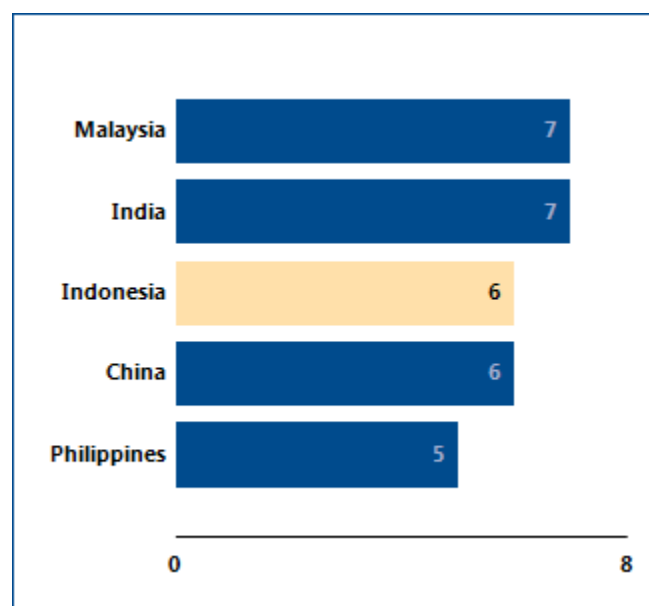


Source: *Doing Business* database.

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

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

Economy scores on depth of credit information index



Source: *Doing Business* database.

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.

## 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 DB2011 to DB2016

DB year	Reform
<b>DB2014</b>	Indonesia improved its credit information system through a new regulation setting up a legal framework for establishing credit bureaus.
<b>DB2016</b>	Indonesia improved access to credit by enabling searches of the collateral registry by the debtor's name. This reform applies to both Jakarta and Surabaya.

Source: *Doing Business* database.

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>.

## 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.

<b>Strength of legal rights index (0–12)</b>	<b>Jakarta Index score: 5.00</b>	<b>Surabaya Index score: 5.00</b>
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?	Yes	Yes
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
Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	No	No

<b>Strength of legal rights index (0–12)</b>	<b>Jakarta Index score: 5.00</b>	<b>Surabaya Index score: 5.00</b>
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

<b>Depth of credit information index (0–8)</b>	<b>Credit bureau</b>	<b>Credit registry</b>	<b>Index score: 6.00</b>
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:* 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	Credit registry
Number of firms	0	559,453
Number of individuals	0	80,676,652
Total	0	81,236,105
Total percentage of adult population	0.00	48.50

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)

Simple average of the extent of disclosure, extent of director liability and ease of shareholder indices

#### Extent of shareholder rights index (0–10)

Shareholders' rights and role in major corporate decisions

#### Extent of ownership and control index (0–10)

Governance safeguards protecting shareholders from undue board control and entrenchment

#### Extent of corporate transparency index (0–10)

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

#### Extent of shareholder governance index (0–10)

Simple average of the extent of shareholders rights, extent of ownership and control and extent of corporate transparency indices

#### 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

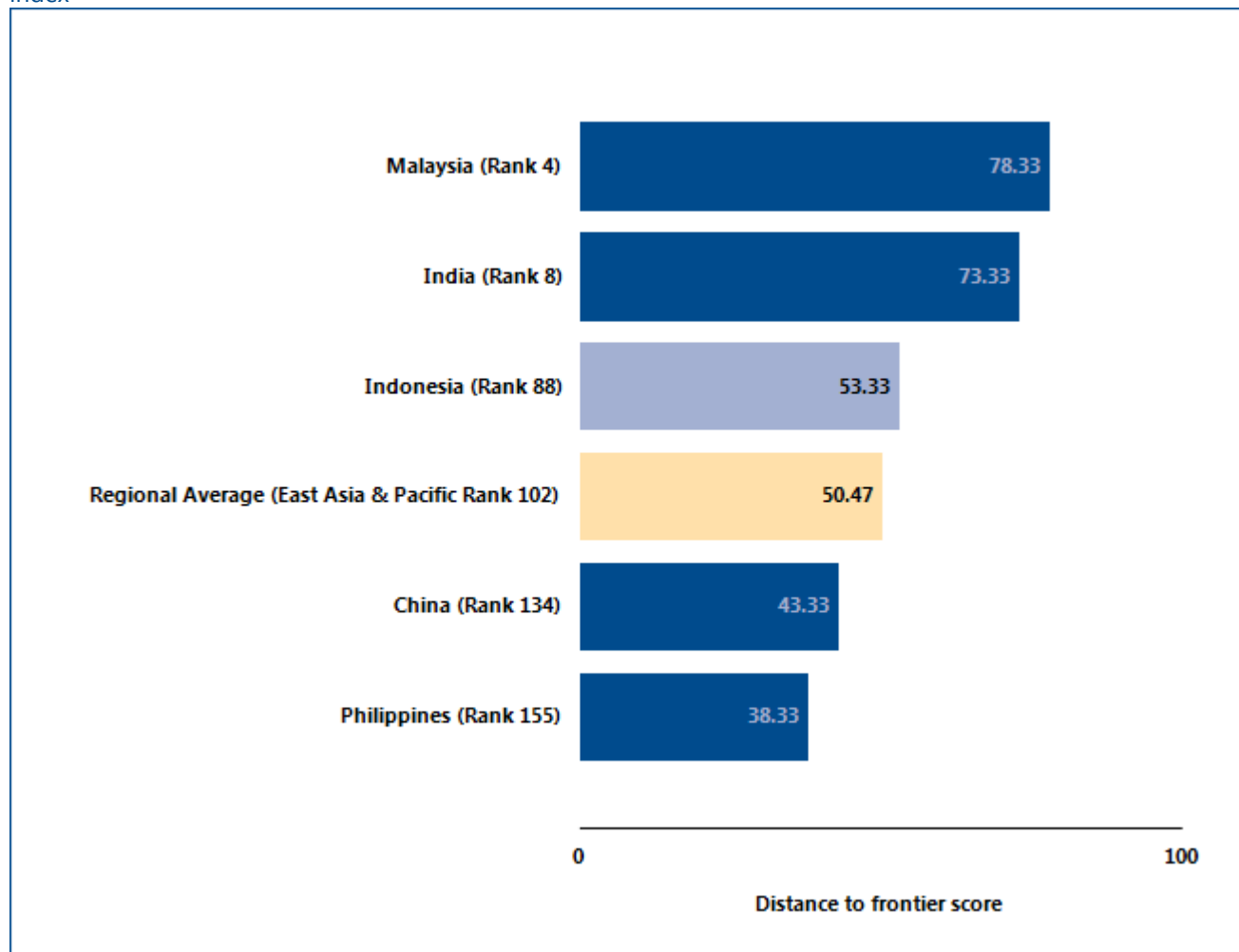
### Where does the economy stand today?

How strong are minority investor protections against self-dealing in Indonesia? The economy has a score of 5.30 on the strength of minority investor protection index, with a higher score indicating stronger protections.

Globally, Indonesia stands at 88 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.

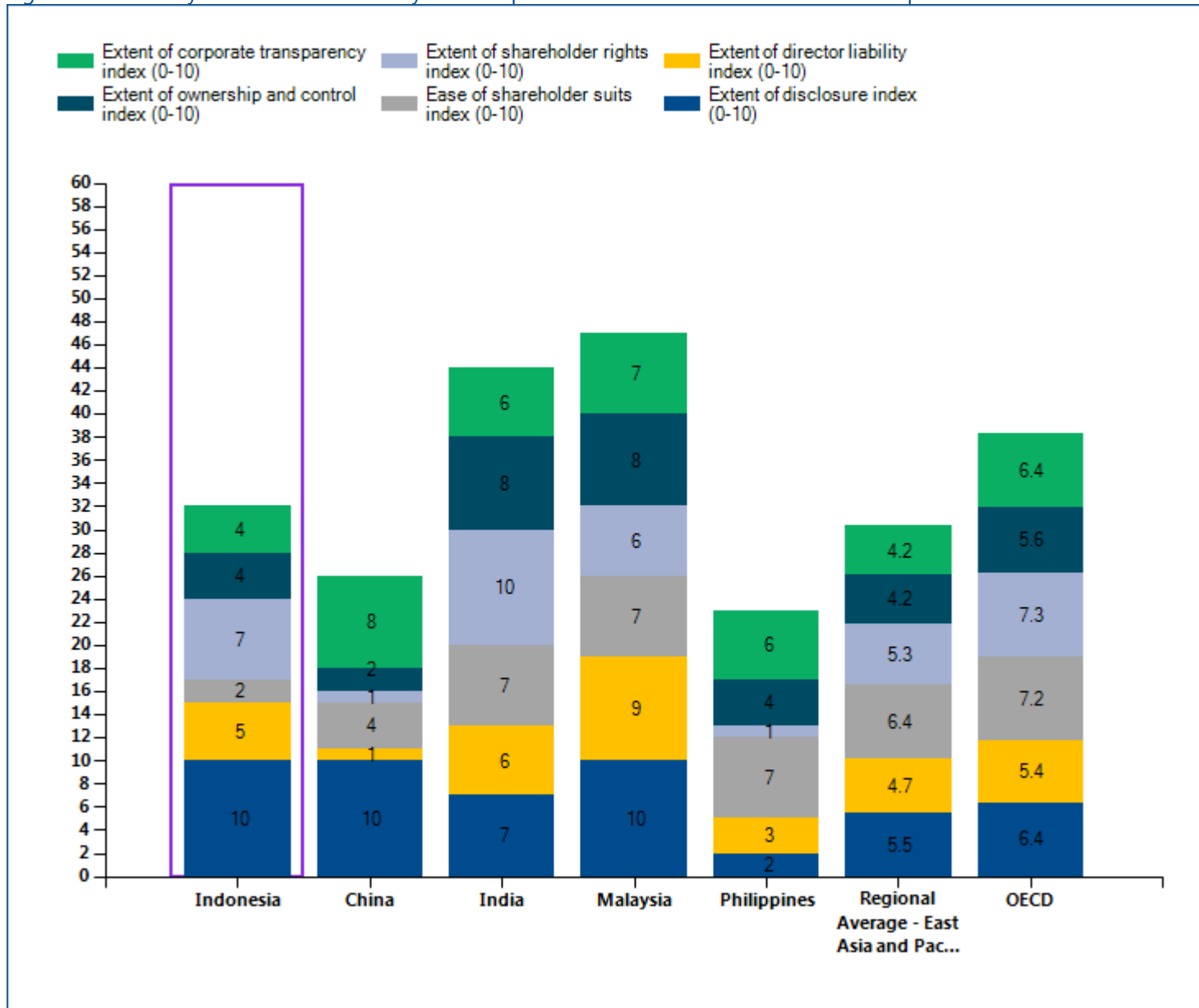


## PROTECTING MINORITY INVESTORS

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. Figure 7.2 highlights the scores on the various minority investor protection indices for Indonesia.

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 Summary of the various minority investor protection indices for Indonesia and comparator economies.



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, ownership and control and corporate transparency in a standard case study (for more details, see the Data Notes section of the *Doing Business 2016* 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)
<b>Strength of minority investor protection index (0-10)</b>		5.30		5.30
<b>Extent of conflict of interest regulation index (0-10)</b>		5.70		5.70
<b>Extent of disclosure index (0-10)</b>		10.00		10.00
Which corporate body can provide legally sufficient approval for the Buyer-Seller transaction? (0-3)	Shareholders excluding interested parties	3.0	Shareholders excluding interested parties	3.0
Is disclosure by the interested director to the board of directors required? (0-2)	Full disclosure of all material facts	2.0	Full disclosure of all material facts	2.0
Is disclosure of the transaction in published periodic filings (annual reports) required? (0-2)	Disclosure on the transaction and on the conflict of interest	2.0	Disclosure on the transaction and on the conflict of interest	2.0
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	2.0	Disclosure on the transaction and on the conflict of interest	2.0
Must an external body review the terms of the transaction before it takes place? (0-1)	Yes	1.0	Yes	1.0
<b>Extent of director liability index (0-10)</b>		5.00		5.00
Can shareholders sue directly or derivatively for the damage caused by the Buyer-Seller transaction to the company? (0-1)	Yes	1.0	Yes	1.0
Can shareholders hold the interested director liable for the damage caused by the transaction to the company? (0-2)	Liable if negligent	1.0	Liable if negligent	1.0
Can shareholders hold members of the approving body liable for the damage caused by the transaction to the company? (0-2)	Not liable	0.0	Not liable	0.0
Must the interested director pay damages for the harm caused to the company upon a successful claim by a shareholder plaintiff? (0-1)	Yes	1.0	Yes	1.0
Must the interested director repay profits made from the transaction upon a successful claim by a shareholder	No	0.0	No	0.0

plaintiff? (0-1)				
Is the interested director fined and imprisoned or disqualified upon a successful claim by the shareholder plaintiff? (0-1)	No	0.0	No	0.0
Can a court void the transaction upon a successful claim by a shareholder plaintiff? (0-2)	Voidable if unfair or prejudicial	2.0	Voidable if unfair or prejudicial	2.0
<b>Ease of shareholder suits index (0-10)</b>		2.00		2.00
Before filing suit, can shareholders owning 10% of the company's share capital inspect the transaction documents? (0-1)	Yes	1.0	Yes	1.0
Can the plaintiff obtain any documents from the defendant and witnesses during trial? (0-3)	No	0.0	No	0.0
Can the plaintiff request categories of documents from the defendant without identifying specific ones? (0-1)	No	0.0	No	0.0
Can the plaintiff directly question the defendant and witnesses during trial? (0-2)	No	1.0	No	1.0
Is the level of proof required for civil suits lower than that of criminal cases? (0-1)	No	0.0	No	0.0
Can shareholder plaintiffs recover their legal expenses from the company? (0-2)	At the discretion of the court	0.0	At the discretion of the court	0.0
<b>Extent of shareholder governance index (0-10)</b>		5.00		5.00
<b>Extent of shareholder rights index (0-10)</b>		7.00		7.00
Does the sale of 51% of Buyer's assets require shareholder approval?	Yes	1.0	Yes	1.0
Can shareholders representing 10% of Buyer's share capital call for an extraordinary meeting of shareholders?	Yes	1.0	Yes	1.0
Must Buyer obtain its shareholders' approval every time it issues new shares?	Yes	1.0	Yes	1.0
Do shareholders automatically receive preemption rights every time Buyer issues new shares?	No	0.0	No	0.0
Must shareholders approve the election and dismissal of the external auditor?	No	0.0	No	0.0
Must changes to the voting rights of a class of shares be approved only by the holders of the affected shares?	No	0.0	No	0.0
Assuming that Buyer is a limited company, does the sale of 51% of Buyer's assets requires shareholder approval?	Yes	1.0	Yes	1.0
Assuming that Buyer is a limited company, can shareholders representing 10% of Buyer's share capital call for an extraordinary meeting of shareholders?	Yes	1.0	Yes	1.0
Assuming that Buyer is a limited company, must Buyer obtain its shareholders' approval every time it issues new shares?	Yes	1.0	Yes	1.0
Assuming that Buyer is a limited company, do shareholders automatically receive preemption rights every time Buyer issues new shares?	Yes	1.0	Yes	1.0
<b>Extent of ownership and control index (0-10)</b>		4.00		4.00
Is the CEO prohibited from also being chair of the board of directors?	No	0.0	No	0.0
Must the board of directors include independent and nonexecutive board members?	No	0.0	No	0.0

Can shareholders remove members of Buyer's board of directors without cause before the end of their term?	Yes	1.0	Yes	1.0
Must Buyer's board of directors include a separate audit committee?	No	0.0	No	0.0
Must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer?	No	0.0	No	0.0
Must Buyer pay dividends within a maximum period set by law after the declaration date?	Yes	1.0	Yes	1.0
Is a subsidiary prohibited from acquiring shares issued by its parent company?	Yes	1.0	Yes	1.0
Assuming that Buyer is a limited company, can shareholders remove members of Buyer's board of directors without cause before the end of their term?	Yes	1.0	Yes	1.0
Assuming that Buyer is a limited company, must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer?	No	0.0	No	0.0
Assuming that Buyer is a limited company, must Buyer pay dividends within a maximum period set by law after the declaration date?	No	0.0	No	0.0
<b>Extent of corporate transparency index (0-10)</b>		<b>4.00</b>		<b>4.00</b>
Must Buyer disclose direct and indirect beneficial ownership stakes representing 5%?	No	0.0	No	0.0
Must Buyer disclose information about board members' other directorships as well as basic information on their primary employment?	Yes	1.0	Yes	1.0
Must Buyer disclose the compensation of individual managers?	Yes	1.0	Yes	1.0
Must a detailed notice of general meeting be sent 30 days before the meeting?	No	0.0	No	0.0
Can shareholders representing 5% of Buyer's share capital put items on the agenda for the general meeting?	No	0.0	No	0.0
Must Buyer's annual financial statements be audited by an external auditor?	Yes	1.0	Yes	1.0
Must Buyer disclose its audit reports to the public.	Yes	1.0	Yes	1.0
Assuming that Buyer is a limited company, must a detailed notice of general meeting be sent 30 days before the meeting?	No	0.0	No	0.0
Assuming that Buyer is a limited company, can shareholders representing 5% of Buyer's share capital put items on the agenda for the general meeting?	No	0.0	No	0.0
Assuming that Buyer is a limited company, must Buyer's annual financial statements be audited by an external auditor?	No	0.0	No	0.0

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* records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as measures of 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 rate<sup>3</sup>. All financial statement variables are proportional to 2012 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, 2013.
- 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.

### WHAT THE PAYING TAXES INDICATORS MEASURE

#### Tax payments for a manufacturing company in 2014 (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.

<sup>3</sup> 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 up to and including *Doing Business 2015*, which is 26.1%. All economies with a total tax rate below this threshold receive the same score as the economy at the threshold.

## PAYING TAXES

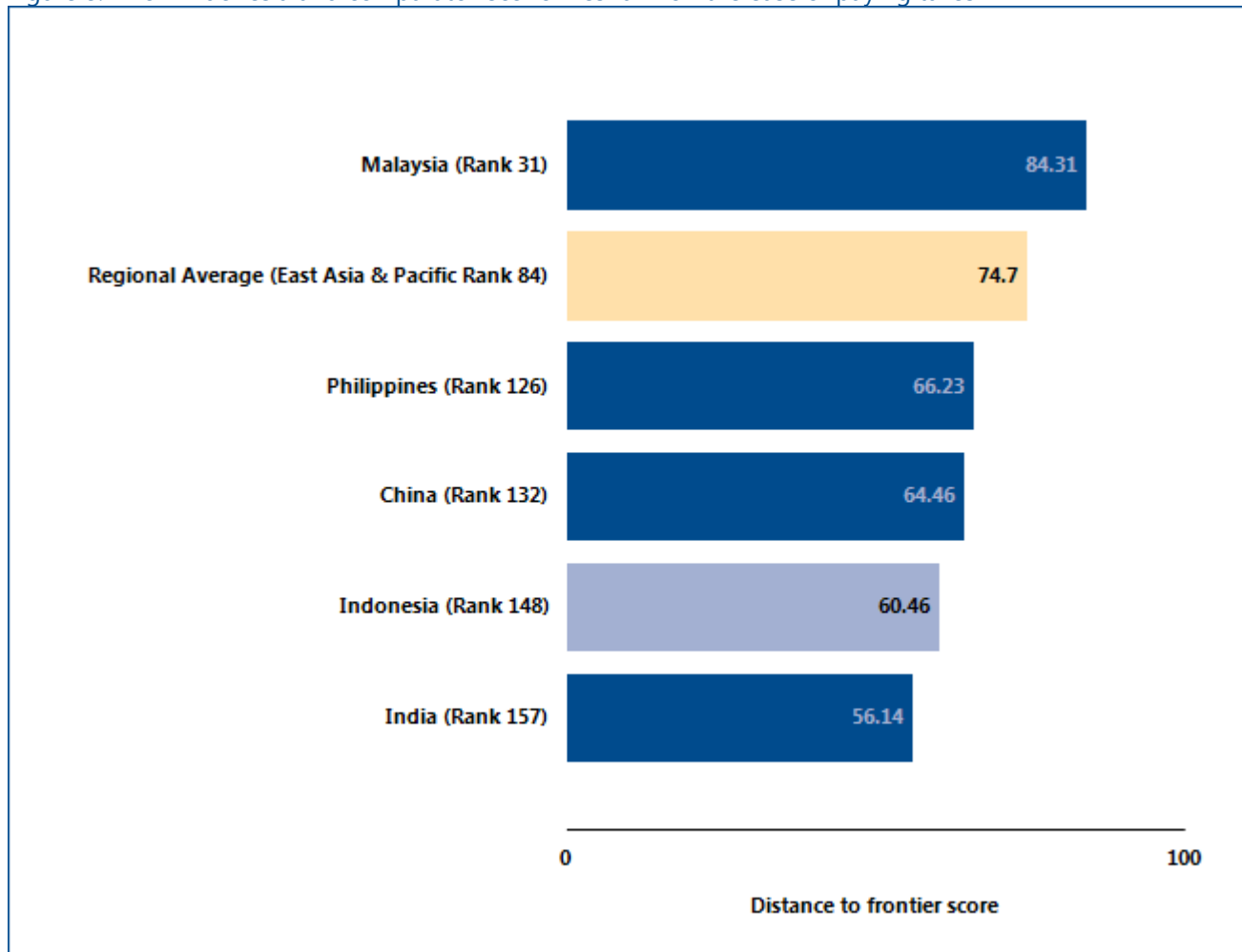
### Where does the economy stand today?

What is the administrative burden of complying with taxes in Indonesia—and how much do firms pay in taxes? On average, firms make 54.00 tax payments a year, spend 234.00 hours a year filing, preparing and paying taxes and pay total taxes amounting to 29.70% 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 148 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, easier and less costly for businesses—such as by consolidating payments and filings of taxes, offering electronic systems for filing and payment, establishing taxpayer service centers or allowing for more deductions

and exemptions. 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 DB2011 to DB2016

DB year	Reform
<b>DB2011</b>	Indonesia reduced its corporate income tax rate.
<b>DB2015</b>	Indonesia made paying taxes less costly for companies by reducing employers' health insurance contribution rate. This reform applies to both Jakarta and Surabaya.
<b>DB2016</b>	Indonesia made paying taxes easier and less costly for companies by introducing an online system for paying social security contributions and by reducing both the rate paid by employers and the ceiling for the contributions. This reform applies to both Jakarta and Surabaya.

Source: *Doing Business* database.

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>.

## 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 income	17.16	
Employer paid - Social security contributions	1	Online	69	0.0424	gross salary	4.78	
Employer paid - Health insurance contributions	12			0.04	gross salary	4.38	
Capital gains tax	1			0.05	proceed	3.03	
Property tax	1			0.002	value of the land and building determined by the government	0.29	
Vehicle registration tax	1			0.01	sales price and weight	0.08	
Stamp duty	1			Rp 6,000	fixed fee	0	



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 - Social security contributions	0	Jointly		0.02	gross salary	0	withheld
Employee paid - Payroll tax on employee	12			5% - 30%	gross salary	0	withheld
Employee paid - Health Care contributions	0	Jointly		0.005	gross salary	0	withheld
Value added tax (VAT)	12		90	0.1	transaction value	0	not included
Totals	54.00		234.00			29.70	

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 income	17.16	
Employer paid - Social security contributions	1	online	69	0.0424	gross salary	4.78	
Employer paid - Health insurance contributions	12			0.04	gross salary	4.38	
Capital gains tax	1			0.05	proceed	3.03	
Property tax	1			0.002	value of the land and building determined by the government	0.29	
Vehicle registration tax	1			0.01	sales price and weight	0.08	
Stamp duty	1			Rp 6,000	fixed fee	0	
Employee paid - Social security contributions	0	Joint		0.02	gross salary	0	withheld
Employee paid - Payroll tax on employee	12			5% - 30%	gross salary	0	withheld
Employee paid - Health Care contributions	0	Joint		0.005	gross salary	0	withheld

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
Value added tax (VAT)	12		90	0.1	transaction value	0	not included
Totals	54.00		234.00			29.70	

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.

### What do the indicators cover?

*Doing Business* records the time and cost associated with the logistical process of exporting and importing goods. Under the new methodology introduced this year, *Doing Business* measures the time and cost (excluding tariffs) associated with three sets of procedures—documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods. 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 the time and cost for documentary compliance and border compliance to export and import.

To make the data comparable across economies, a few assumptions are made about the traded goods and the transactions:

### Time

- Time is measured in hours, and 1 day is 24 hours (for example, 22 days are recorded as  $22 \times 24 = 528$  hours). If customs clearance takes 7.5 hours, the data are recorded as is. Alternatively, suppose that documents are submitted to a customs agency at 8:00 a.m., are processed overnight and can be picked up at 8:00 a.m. the next day. In this case the time for customs clearance would be recorded as 24 hours because the actual procedure took 24 hours.

### WHAT THE TRADING ACROSS BORDERS

#### INDICATORS MEASURE FOR IMPORT & EXPORT

#### Documentary compliance – cost (USD) & time (hours)

Obtain, prepare and submit documents:

- During transport, clearance, inspections and port or border handling in origin economy
- Required by origin, destination and transit economies

Covers all documents by law and in practice

#### Border compliance – cost (USD) & time (hours)

Customs clearance and inspections

Inspections by other agencies

Port or border handling

Obtaining, preparing and submitting documents during clearance, inspections and port or border handling

#### Domestic transport\*

Loading and unloading of shipment

Transport between warehouse and terminal/port

Transport between terminal/port and border

Obtaining, preparing and submitting documents during domestic transport

Traffic delays and road police checks while shipment is en route

\* Although *Doing Business* collects and publishes data on the time and cost for domestic transport, it does not use these data in calculating the distance to frontier score for trading across borders or the ranking on the ease of trading across borders.

### Cost

- Insurance cost and informal payments for which no receipt is issued are excluded from the costs recorded. Costs are reported in U.S. dollars. Contributors are asked to convert local currency into U.S. dollars based on the exchange rate prevailing on the day they answer the questionnaire.

**Assumptions of the case study**

- For each of the 189 economies covered by *Doing Business*, it is assumed that a shipment travels from a warehouse in the largest business city of the exporting economy to a warehouse in the largest business city of the importing economy. For 11 economies the data are also collected, under the same case study assumptions, for the second largest business city.
- The import and export case studies assume different traded products. It is assumed that each economy imports a standardized shipment of 15 metric tons of containerized auto parts (HS 8708) from its natural import partner—the economy from which it imports the largest value (price times quantity) of auto parts. It is assumed that each economy exports the product of its comparative advantage (defined by the largest export value) to its natural export partner—the economy that is the largest purchaser of this product. Precious metal and gems, live animals and pharmaceuticals are excluded from the list of possible export products, however, and the second largest product category is considered as needed.
- To identify the trading partners and export product for each economy, *Doing Business* collected data on trade flows for the most recent four-year period from international databases such as the United Nations Commodity Trade Statistics Database (UN Comtrade). For economies for which trade flow data were not available, data from ancillary government sources (various ministries and departments) and World Bank Group country offices were used to identify the export product and natural trading partners.
- A shipment is a unit of trade. Export shipments do not necessarily need to be containerized, while import shipments of auto parts are assumed to be containerized.
- Shipping cost based on weight is assumed to be greater than shipping cost based on volume.
- If government fees are determined by the value of the shipment, the value is assumed to be \$50,000.
- The product is new, not secondhand or used merchandise.
- The exporting firm is responsible for hiring and paying for a freight forwarder or customs broker (or both) and pays for all costs related to international shipping, domestic transport, clearance and mandatory inspections by customs and other government agencies, port or border handling, documentary compliance fees and the like for exports. The importing firm is responsible for the above costs for imports.
- The mode of transport is the one most widely used for the chosen export or import product and the trading partner, as is the seaport, airport or land border crossing.
- All electronic submissions of information requested by any government agency in connection with the shipment are considered to be documents obtained, prepared and submitted during the export or import process.
- A port or border is defined as a place (seaport, airport or land border crossing) where merchandise can enter or leave an economy.
- Government agencies considered relevant are agencies such as customs, port authorities, road police, border guards, standardization agencies, ministries or departments of agriculture or industry, national security agencies and any other government authorities.

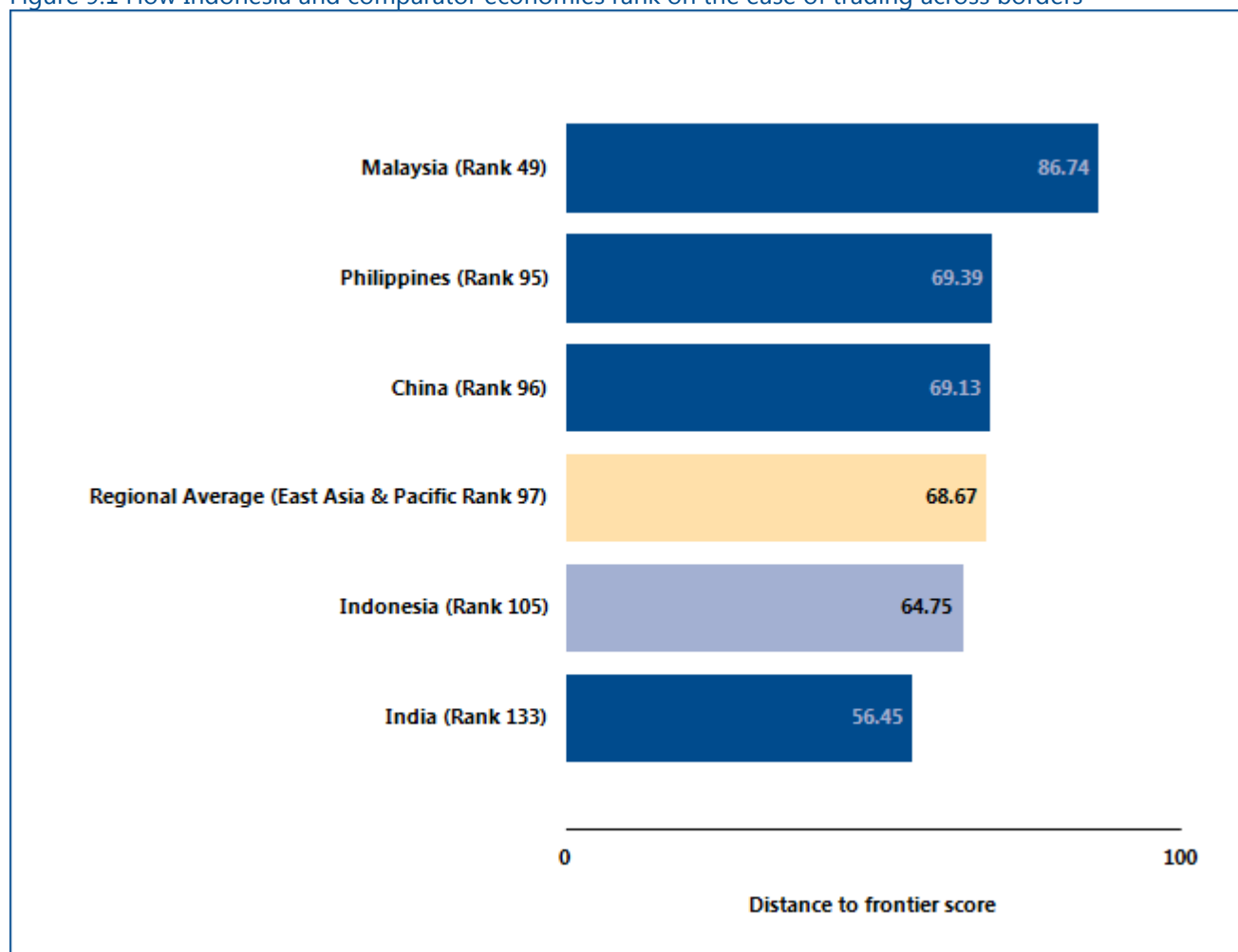
## TRADING ACROSS BORDERS

### Where does the economy stand today?

The Trading across Border indicator refers to a case study scenario of a warehouse 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) trading with the main import and export partner through the economy's main border crossing.

Globally, Indonesia stands at 105 in the ranking of 189 economies on the ease of trading across borders (figure 9.1). For more information on distance to frontier and ease of doing business ranking, please see the Distance to frontier and ease of doing business ranking chapter.

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 DB2011 to DB2016

DB year	Reform
<b>DB2011</b>	Indonesia reduced the time to export by launching a single-window service.
<b>DB2015</b>	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.

Source: *Doing Business* database.

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>.

## TRADING ACROSS BORDERS

### What are the details?

The indicators reported here for Indonesia are based on a set of specific predefined procedures for trading a shipment of goods by the most widely used mode of transport (whether sea, land, air or some combination of these). The information on the time and cost to complete export and import is collected from local freight forwarders, customs brokers and traders.

#### LOCATION OF STANDARDIZED COMPANY

**City:** Jakarta, Surabaya

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

Table 9.2 Summary of export and import time and cost for trading across borders in Indonesia

	Jakarta	Surabaya	East Asia & Pacific
Time to export: Border compliance (hours)	36	48	51
Cost to export: Border compliance (USD)	250	267	396
Time to export: Documentary compliance (hours)	72	72	75
Cost to export: Documentary compliance (USD)	170	170	167
Time to import: Border compliance (hours)	80	168	59
Cost to import: Border compliance (USD)	384	376	421
Time to import: Documentary compliance (hours)	144	144	70
Cost to import: Documentary compliance (USD)	160	160	148

Source: Doing Business database.

Table 9.3 Summary of trading details, transport time and documents for trading across borders in Indonesia

	Jakarta		Surabaya	
	Export	Import	Export	Import
Product	HS 15 : Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	HS 8708: Parts and accessories of motor vehicles	HS 15 : Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	HS 8708: Parts and accessories of motor vehicles
Trade partner	India	Japan	India	Japan
Domestic transport time (hours)	7	7	5	5
Domestic transport cost (USD)	198	198	138	138
Border	Jakarta port	Jakarta port	Surabaya port	Surabaya port
Distance (km)	21	21	15	15
Domestic transport speed (km/hour)	3.1	3.1	3.3	3.3
Domestic transport cost per distance (USD/km)	9.4	9.4	9.2	9.2

Source: Doing Business database.

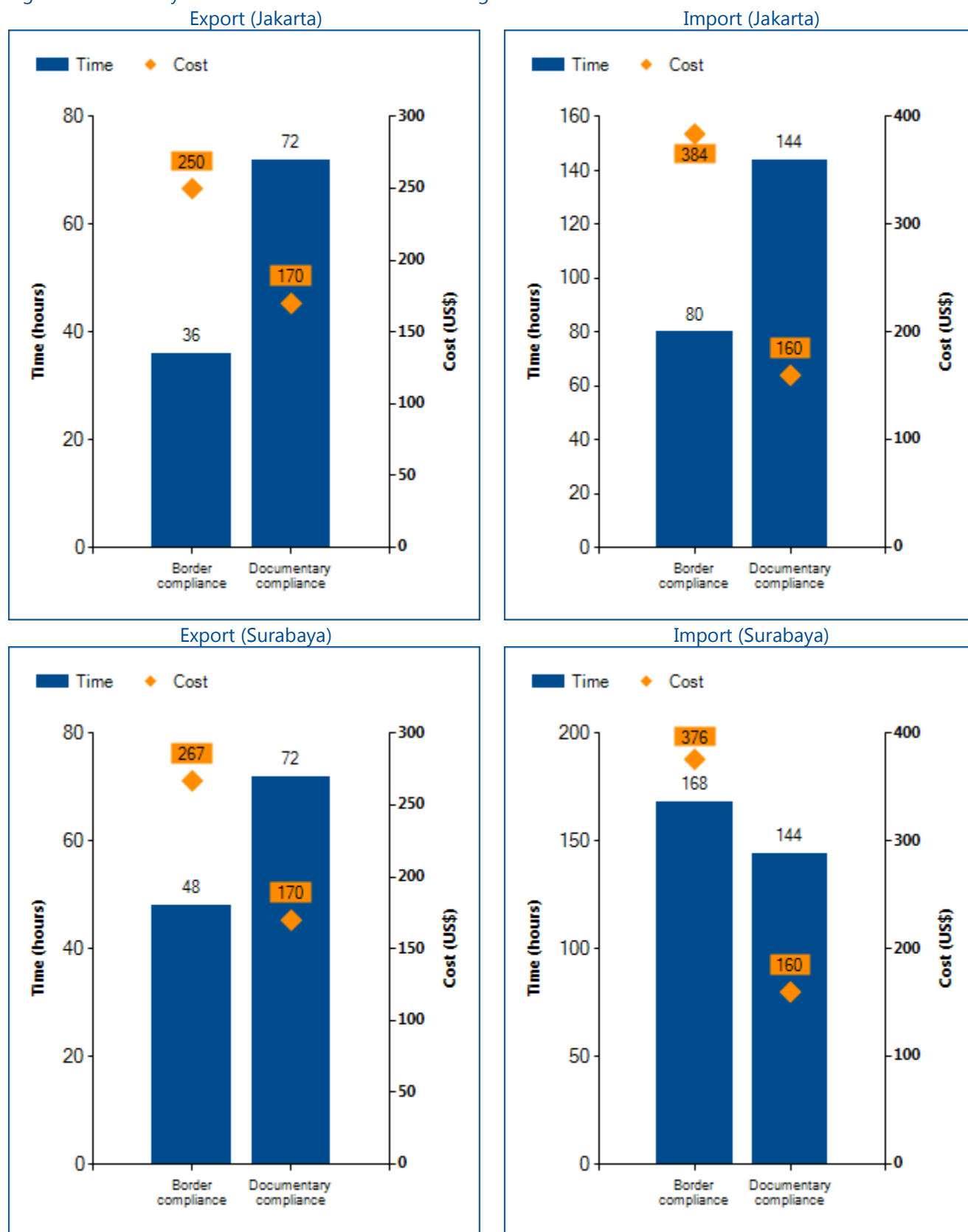
Documents to export
Bill of lading
Commercial invoice
Customs Export Declaration
Packing list
Documents to import
Bill of lading
Cargo release order (SPPB)
Commercial invoice
Customs import declaration (PIB)
Insurance documentation
Packing list
Proof of payments of Customs Excise and Taxation (SSPCP)
Terminal handling receipts



Source: *Doing Business* database.

Note: *Doing Business* continues to collect data on the number of documents needed to trade internationally. Unlike in previous years, however, these data are excluded from the calculation of the distance to frontier score and ranking. The time and cost for documentary compliance serve as better measures of the overall cost and complexity of compliance with documentary requirements than does the number of documents required.

Figure 9.2 Summary of Indonesia on the ease of trading across borders



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 time and cost for resolving a standardized commercial dispute through a local first-instance court. In addition, this year it introduces a new measure, the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system. This new index replaces the indicator on procedures, which was eliminated this year. The ranking of economies on the ease of enforcing contracts is determined by sorting their distance to frontier scores. These scores are the simple average of the distance to frontier scores for each of the component indicators.

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 dispute concerns a lawful transaction between two businesses (Seller and Buyer), both located in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- The buyer orders custom-made goods, then fails to pay.

### WHAT THE ENFORCING CONTRACTS INDICATORS MEASURE

#### Time required to enforce a contract through the courts (calendar days)

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

#### Cost required to enforce a contract through the courts (% of claim)

- Attorney fees
- Court fees
- Enforcement fees

#### Quality of judicial processes index (0-18)

- Court structure and proceedings (0-5)
- Case management (0-6)
- Court automation (0-4)
- Alternative dispute resolution (0-3)

- The value of the dispute is 200% of the income per capita or the equivalent in local currency of USD 5,000, whichever is greater.
- The seller sues the buyer before the court with jurisdiction over commercial cases worth 200% of income per capita or \$5,000.
- 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

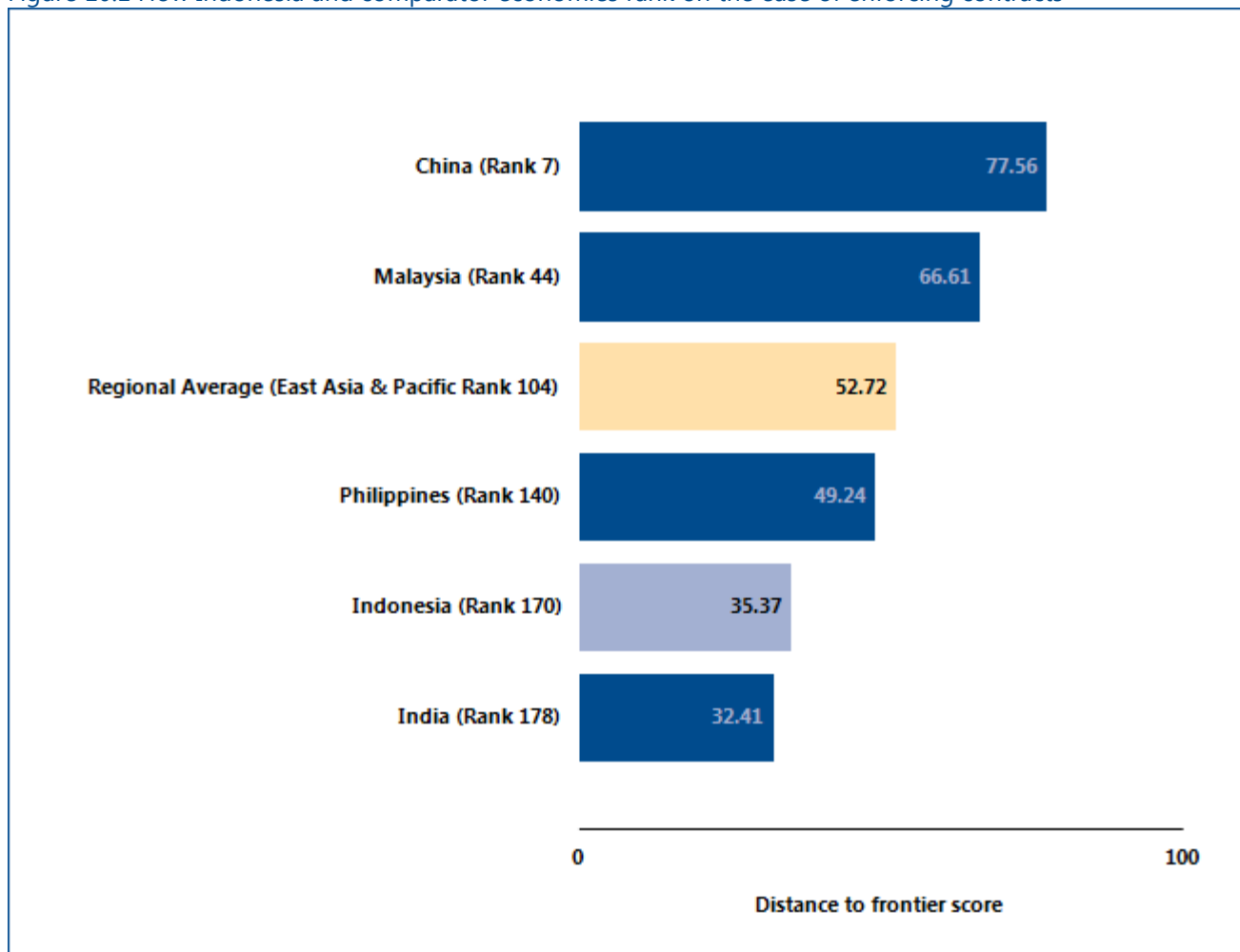
### Where does the economy stand today?

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 471.00 days and costs 115.70% of the value of the claim. Most indicator sets refer to 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 170 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

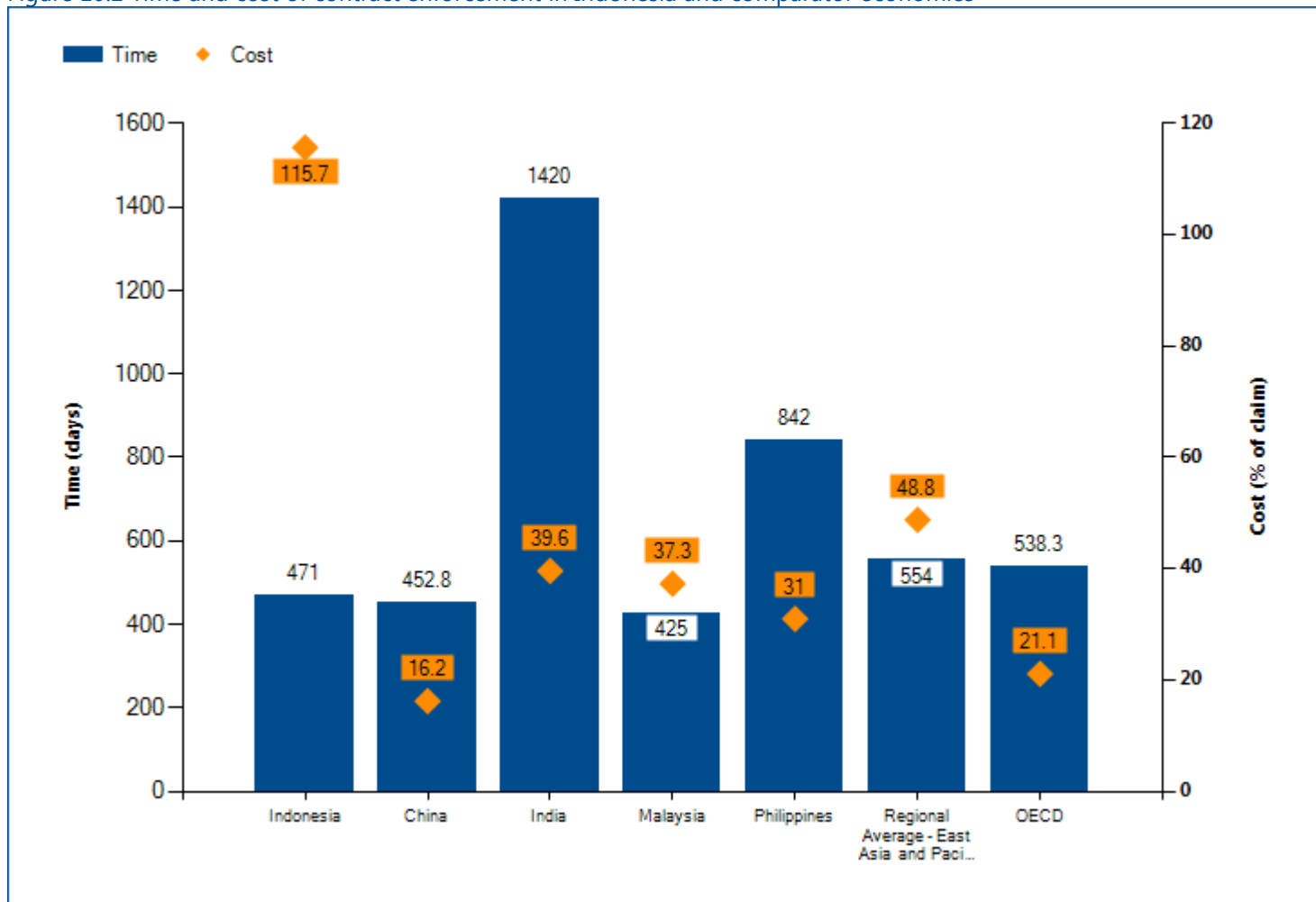
### What are the details?

The data on time and cost reported here for Indonesia are built by following the step-by-step evolution of a commercial sale dispute within the court, under the assumptions about the case described above (figure 10.2). The time and cost of resolving the standardized dispute 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).

#### ECONOMY DETAILS

<b>Court name - Jakarta:</b>	<b>Jakarta District Court</b>
<b>Court name - Surabaya:</b>	<b>Surabaya District Court</b>
<b>City:</b>	<b>Jakarta, Surabaya</b>

Figure 10.2 Time and cost of contract enforcement in Indonesia and comparator economies



Source: *Doing Business* database.

Table 10.2 Details on time and cost for enforcing contracts in Indonesia

Indicator	Jakarta	Surabaya	East Asia & Pacific average
<b>Time (days)</b>	460.00	510.00	554
Filing and service	60.0	60.0	
Trial and judgment	220.0	180.0	
Enforcement of judgment	180.0	270.0	
<b>Cost (% of claim)</b>	118.10	107.30	48.8
Attorney fees (% of claim)	90.0	75.0	
Court fees (% of claim)	3.1	2.3	
Enforcement fees (% of claim)	25.0	30.0	

Source: Doing Business database.

## ENFORCING CONTRACTS

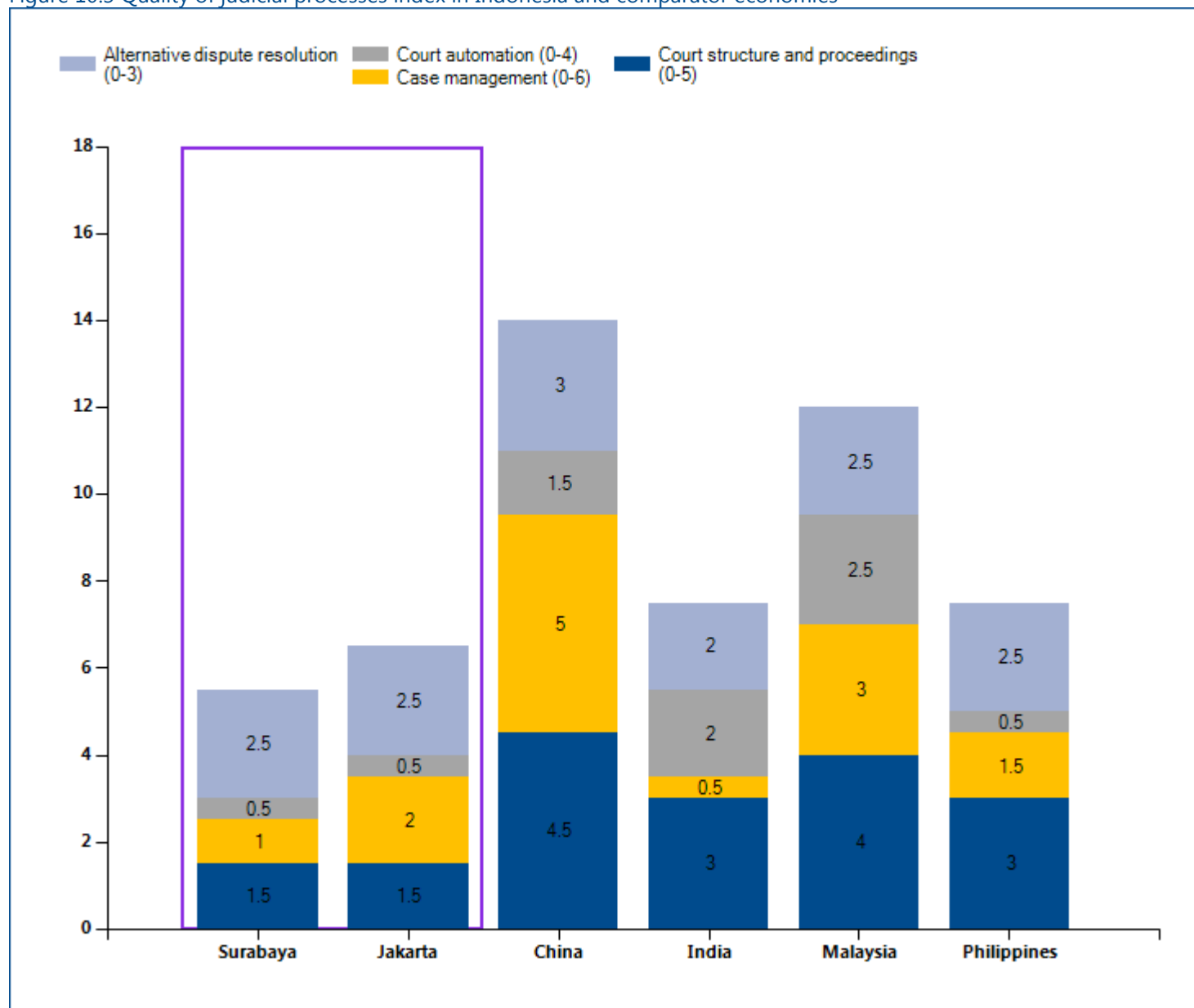
### Quality of judicial processes index

The quality of judicial processes index measures whether each economy has adopted a series of good practices in its court system in four areas: court structure and proceedings, case management, court automation and alternative dispute resolution. The score on the quality of judicial processes index is the sum of the scores on these 4 sub-components. The index ranges from 0 to 18, with higher values indicating better, more efficient judicial processes.

The scores reported here show which of these good practices are available in Indonesia.

This methodology was initially developed by Djankov and others (2003) and is adopted here with several changes. The quality of judicial processes index was introduced in *Doing Business 2016*. The good practices tested in this index were developed on the basis of internationally recognized good practices promoting judicial efficiency.

Figure 10.3 Quality of judicial processes index in Indonesia and comparator economies



Source: *Doing Business* database.

Table 10.3 Details of the quality of judicial processes index in «dsGetData.Economy\_Name»

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Quality of judicial processes index (0-18)		6.50		5.50
Court structure and proceedings (0-5)		1.5		1.5
1. Is there a court or division of a court dedicated solely to hearing commercial cases?	No	0.0	No	0.0
2. Small claims court		0.0		0.0
2.a. Is there a small claims court or a fast-track procedure for small claims?	No		No	
2.b. If yes, is self-representation allowed?	n.a.		n.a.	
3. Is pretrial attachment available?	Yes	1.0	Yes	1.0
4. Are new cases assigned randomly to judges?	Yes	0.5	Yes	0.5
Case management (0-6)		1.0		1.0
Case management (0-6)		2.0		2.0
1. Time standards		1.0		1.0
1.a. Are there laws setting overall time standards for key court events in a civil case?	Yes		Yes	
1.b. If yes, are the time standards set for at least three court events?	Yes		Yes	
1.c. Are these time standards respected in more than 50% of cases?	Yes		Yes	
2. Adjournments		0.0		0.0
2.a. Does the law regulate the maximum number of adjournments that can be granted?	No		No	
2.b. Are adjournments limited to unforeseen and exceptional circumstances?	No		No	
2.c. If rules on adjournments exist, are they respected in more than 50% of cases?	n.a.		n.a.	
3. Can two of the following four reports be generated about the competent court: (i) time to disposition report; (ii) clearance rate report; (iii) age of pending cases report; and (iv) single case progress report?	Yes	1.0	No	0.0
4. Is a pretrial conference among the case management techniques used before the competent court?	No	0.0	No	0.0



	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
5. Are there any electronic case management tools in place within the competent court for use by judges?	No	0.0	No	0.0
6. Are there any electronic case management tools in place within the competent court for use by lawyers?	No	0.0	No	0.0
Court automation (0-4)		0.5		0.5
1. Can the initial complaint be filed electronically through a dedicated platform within the competent court?	No	0.0	No	0.0
2. Is it possible to carry out service of process electronically for claims filed before the competent court?	No	0.0	No	0.0
3. Can court fees be paid electronically within the competent court?	No	0.0	No	0.0
4. Publication of judgments		0.5		0.5
4.a Are judgments rendered in commercial cases at all levels made available to the general public through publication in official gazettes, in newspapers or on the internet or court website?	No		No	
4.b. Are judgments rendered in commercial cases at the appellate and supreme court level made available to the general public through publication in official gazettes, in newspapers or on the internet or court website?	Yes		Yes	
Alternative dispute resolution (0-3)		2.5		2.5
1. Arbitration		1.5		1.5
1.a. Is domestic commercial arbitration governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all its aspects?	Yes		Yes	
1.b. Are there any commercial disputes—aside from those that deal with public order or public policy—that cannot be submitted to arbitration?	No		No	
1.c. Are valid arbitration clauses or agreements usually enforced by the courts?	Yes		Yes	
2. Mediation/Conciliation		1.0		1.0
2.a. Is voluntary mediation or conciliation available?	Yes		Yes	
2.b. Are mediation, conciliation or both governed by a consolidated law or consolidated chapter or section	Yes		Yes	

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
of the applicable code of civil procedure encompassing substantially all their aspects?				
2.c. Are there financial incentives for parties to attempt mediation or conciliation (i.e., if mediation or conciliation is successful, a refund of court filing fees, income tax credits or the like)?	No		No	

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 clarifying 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 sustainably grow the economy.

### 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 recovered by secured creditors through reorganization, liquidation or debt enforcement (foreclosure or receivership) 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 economies on the ease of resolving insolvency is determined by sorting their distance to frontier scores for resolving insolvency. These scores are the simple average of the distance to frontier scores for the recovery rate and 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 questionnaire 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

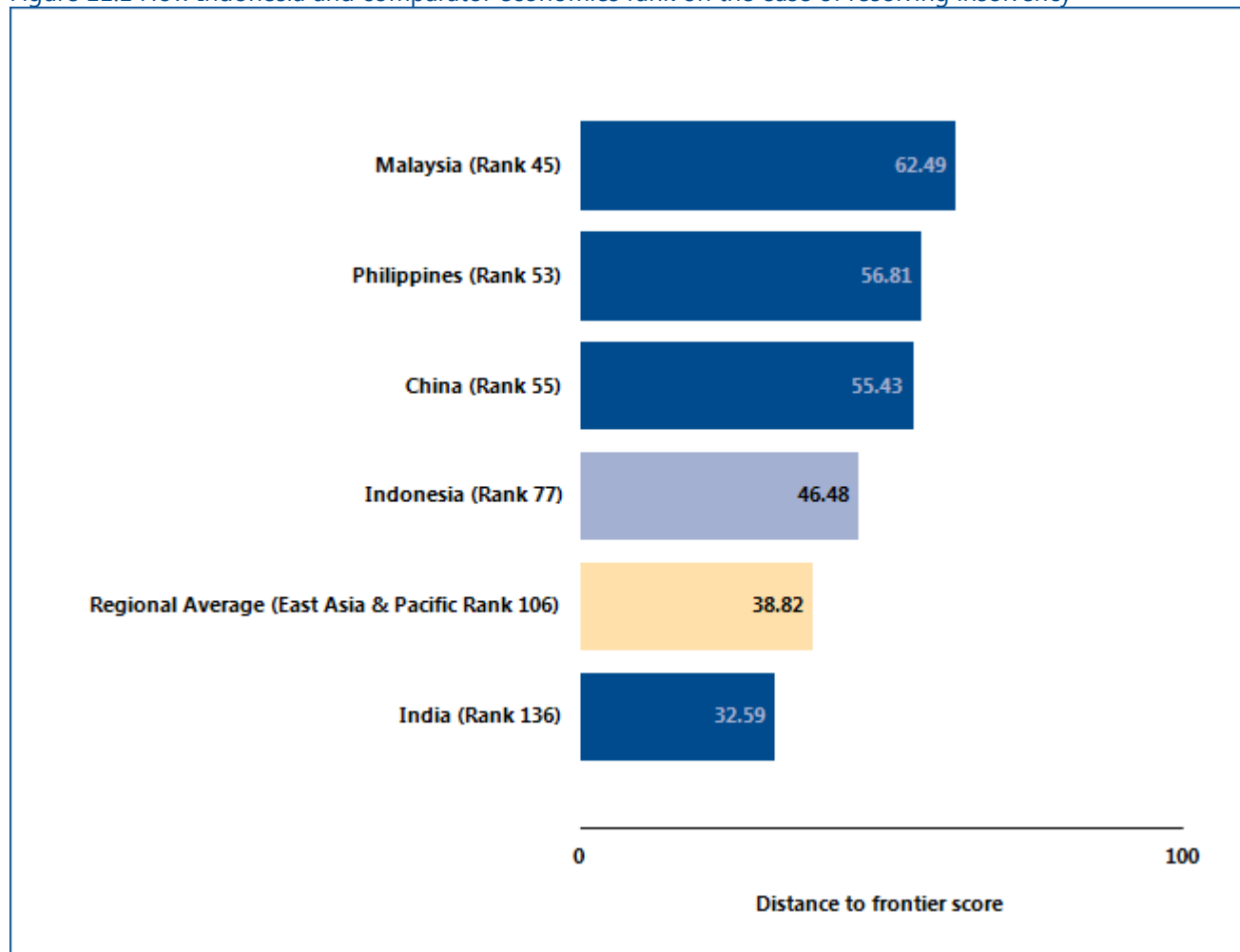
### Where does the economy stand today?

According to data collected by *Doing Business*, resolving insolvency takes 1.90 years on average and costs 21.60% of the debtor's estate. The average recovery rate is 31.20 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.

Globally, Indonesia stands at 77 in the ranking of 189 economies on the ease of resolving insolvency (figure

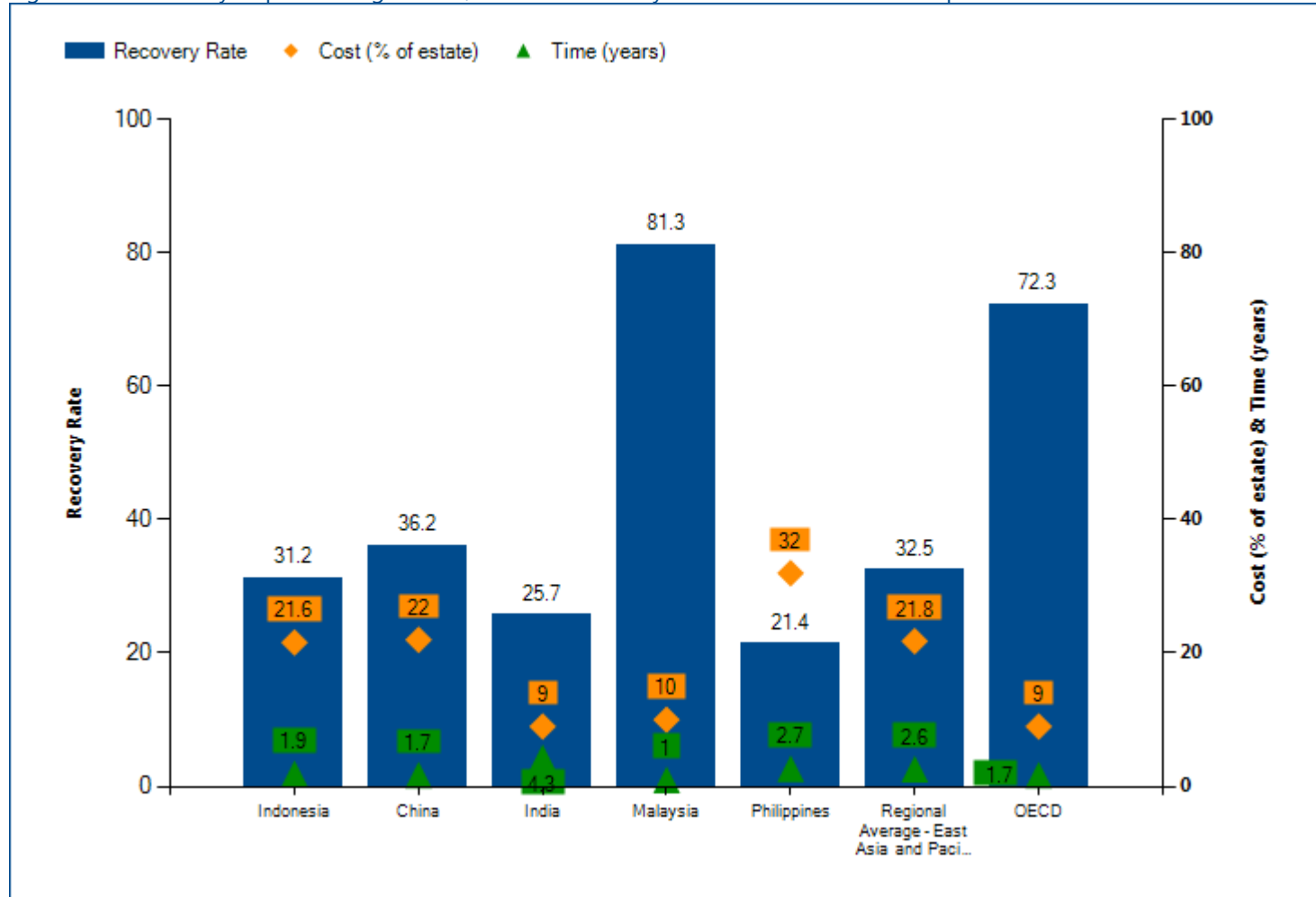
11.1). The resolving insolvency indicators are based on detailed information collected through questionnaires completed by insolvency experts, including lawyers, practitioners (administrators, trustees), accountants and judges. Data on the time, cost and outcome refer to the most likely in-court insolvency procedure applicable under specific case study assumptions. Data on provisions applicable to judicial liquidation and reorganization is based on the current law governing insolvency proceedings in each economy.

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



Source: *Doing Business* database.

Figure 11.2 Efficiency of proceedings - time, cost and recovery rate in Indonesia and comparator economies.



Source: *Doing Business* database.

Note: The recovery rate is calculated based on the time, cost and outcome of insolvency proceedings involving domestic legal entities and is recorded as cents on the dollar recovered by secured creditors. The calculation takes into account the outcome: whether the business emerges from the proceedings as a going concern or the assets are sold piecemeal. Then the costs of the proceedings are deducted. Finally, the value lost as a result of the time the money remains tied up in insolvency proceedings is taken into account. The recovery rate is the present value of the remaining proceeds, based on end-2014 lending rates.

Table 11.1 Summary of data for the strength of insolvency framework index Indonesia

		Answer	Explanation
Proceeding	Jakarta, Surabaya	foreclosure	After a maximum of 90 days since the declaration of bankruptcy is made or when the insolvency condition (rejection of the composition plan) starts, Mirage is entitled to initiate the enforcement of a deed of mortgage which is carried out through an Indonesian district court by a motion to foreclose and a court-supervised public auction conducted by the SAO (State Auction Office).
Outcome	Jakarta, Surabaya	piecemeal sale	After the suspension of payment period, BizBank would gain possession of Mirage's assets and sell them piecemeal in a public auction.
Time (in years)	Jakarta, Surabaya	2.0	The total foreclosure procedure, which will be suspended temporarily by the initiation of the bankruptcy proceedings, would take approximate 2 years in total. BizBank would initiate foreclosure after Mirage's default on payment. According to Part Six of Law No.37 of 2004 regarding Bankruptcy and Suspension of Obligation for Debt Payment, Mirage would petition to the Commercial Court for a suspension of payments. The foreclosure procedure then gets converted to reorganization. Bankruptcy cases are heard before the Commercial Court. It takes about 2 months from when the case is filed until the first hearing. The Commercial Court must then grant a provisional moratorium, and appoint a supervisory judge and an administrator or receiver to assist the debtor in managing its estate. Provisional moratorium is 90 days, but permanent moratorium, which can be granted as an extension of time is 270 days. During this time, Mirage must propose a composition plan and creditors will decide whether to accept the plan, reject it or proceed to a permanent moratorium. BizBank is likely to vote against the composition plan, which will lead to Mirage being declared bankrupt. At that time, moratorium ends, and BizBank can proceed with foreclosure proceedings.
Cost (% of estate)	Jakarta, Surabaya	22.0	The costs associated with the case would amount to approximately 22% of the value of the debtor's estate. Cost incurred during the entire insolvency process mainly include court or government agency fees (1%), attorneys' fees (up to 10%), insolvency representative's fees (up to 10%), fees of accountants, assessors, inspectors and auctioneer (up to 3%).
<b>Recovery rate, Jakarta: 30.0 cents on the dollar</b>			
<b>Recovery rate, Surabaya: 35.6 cents on the dollar</b>			

Source: Doing Business database.

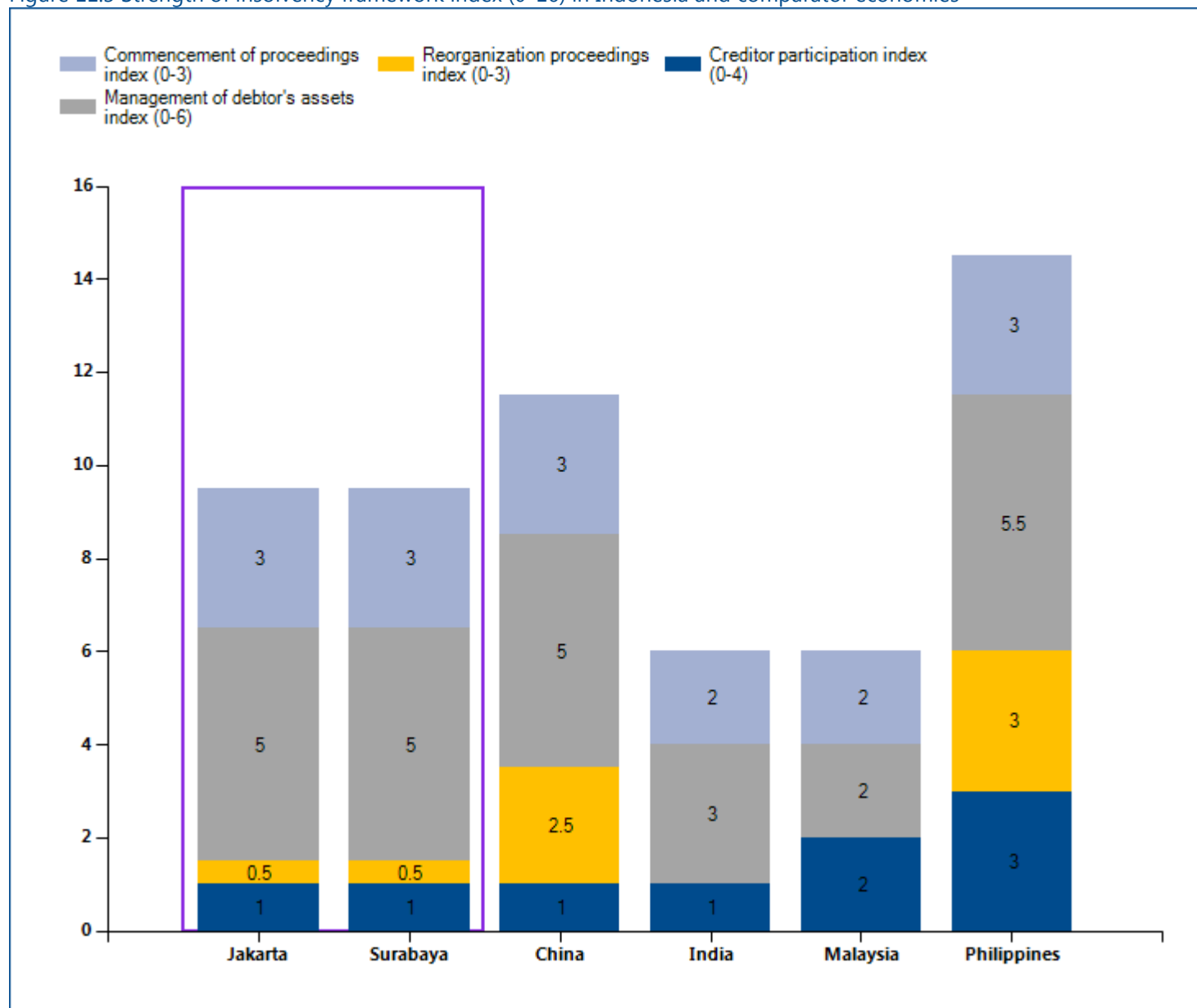
## RESOLVING INSOLVENCY

### Strength of resolving insolvency index

The strength of insolvency framework index is the sum of the scores on the commencement of proceedings index, management of debtor's assets index, reorganization proceedings index and creditor participation index. The index ranges from 0 to 16,

with higher values indicating insolvency legislation that is better designed for rehabilitating viable firms and liquidating nonviable ones. Indonesia scores 9.50 out of 16 on the strength of resolving insolvency index.

Figure 11.3 Strength of insolvency framework index (0-16) in Indonesia and comparator economies



Source: Doing Business database.

Note: Even if the economy's legal framework includes provisions related to insolvency proceedings (liquidation or reorganization), the economy receives 0 points for the strength of insolvency framework index, if time, cost and outcome indicators are recorded as "no practice".

Table 11.3 Summary of data for the strength of insolvency framework index Indonesia

	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Strength of insolvency framework index (0-16)		9.50		9.50
Commencement of proceedings index (0-3)		3.00		3.00
What procedures are available to a DEBTOR when commencing insolvency proceedings?	(a) Debtor may file for both liquidation and reorganization	1.0	(a) Debtor may file for both liquidation and reorganization	1.0
Does the insolvency framework allow a CREDITOR to file for insolvency of the debtor?	(a) Yes, a creditor may file for both liquidation and reorganization	1.0	(a) Yes, a creditor may file for both liquidation and reorganization	1.0
What basis for commencement of the insolvency proceedings is allowed under the insolvency framework?	(a) Debtor is generally unable to pay its debts as they mature	1.0	(a) Debtor is generally unable to pay its debts as they mature	1.0
Management of debtor's assets index (0-6)		5.00		5.00
Does the insolvency framework allow the continuation of contracts supplying essential goods and services to the debtor?	Yes	1.0	Yes	1.0
Does the insolvency framework allow the rejection by the debtor of overly burdensome contracts?	Yes	1.0	Yes	1.0
Does the insolvency framework allow avoidance of preferential transactions?	Yes	1.0	Yes	1.0
Does the insolvency framework allow avoidance of undervalued transactions?	Yes	1.0	Yes	1.0
Does the insolvency framework provide for the possibility of the debtor obtaining credit after commencement of insolvency proceedings?	Yes	1.0	Yes	1.0



	Answer (Jakarta)	Score (Jakarta)	Answer (Surabaya)	Score (Surabaya)
Does the insolvency framework assign priority to post-commencement credit?	(c) No priority is assigned to post-commencement creditors	0.0	(c) No priority is assigned to post-commencement creditors	0.0
Reorganization proceedings index (0-3)		0.50		0.50
Which creditors vote on the proposed reorganization plan?	(a) All creditors	0.5	(a) All creditors	0.5
Does the insolvency framework require that dissenting creditors in reorganization receive at least as much as what they would obtain in a liquidation?	No	0.0	No	0.0
Are the creditors divided into classes for the purposes of voting on the reorganization plan, does each class vote separately and are creditors in the same class treated equally?	No	0.0	No	0.0
Creditor participation index (0-4)		1.00		1.00
Does the insolvency framework require approval by the creditors for selection or appointment of the insolvency representative?	No	0.0	No	0.0
Does the insolvency framework require approval by the creditors for sale of substantial assets of the debtor?	No	0.0	No	0.0
Does the insolvency framework provide that a creditor has the right to request information from the insolvency representative?	No	0.0	No	0.0
Does the insolvency framework provide that a creditor has the right to object to decisions accepting or rejecting creditors' claims?	Yes	1.0	Yes	1.0

Source: Doing Business database.

## LABOR MARKET REGULATION

*Doing Business* has historically studied the flexibility of regulation of employment, specifically as it relates to the areas of hiring, working hours and redundancy. This year *Doing Business* has expanded the scope of the labor market regulation indicators by adding 16 new questions, most of which focus on measuring job quality.

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. Ten of the 189 ILO conventions cover areas now measured by *Doing Business* (up from four previously): employee termination, weekend work, holiday with pay, night work, protection against unemployment, sickness benefits, maternity protection, working hours, equal remuneration and labor inspections.

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, along with the methodology it proposed, is available on the *Doing Business* website at: <http://www.doingbusiness.org/methodology/labor-market-regulation>.

*Doing Business 2016* presents the data for the labor market regulation indicators in an annex. The report does not present rankings of economies on these indicators or include the topic in the aggregate distance to frontier score or ranking on the ease of doing business. Detailed data collected on labor market regulation are available on the *Doing Business* website (<http://www.doingbusiness.org>). The data on labor market regulation are based on a detailed questionnaire on 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 grocery store, age 19, with one year of work experience.
- 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).
- 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.
- Has 60 employees.
- 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.

#### Hiring

Data on hiring cover five 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 one year of work experience; (iv) the ratio of the minimum

wage to the average value added per worker (the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population), and (v) the availability of incentives for employers to hire employees under the age of 25\*.

Hiring	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)	36.0	36.0
Minimum wage applicable to the worker assumed in the case study (US\$/month)	266.9	245.1
Ratio of minimum wage to value added per worker	0.6	0.5
Incentives for employing workers under age 25?	No	No

Source: *Doing Business* database.

\*A new question introduced in the *Doing Business 2016* report for the first time.

## LABOR MARKET REGULATION

### Working hours

Data on working hours cover nine areas: i) the maximum number of working days allowed per week; (ii) the premium for night work (as a percentage of hourly pay); (iii) the premium for work on a weekly rest day (as a percentage of hourly pay); (iv) the premium for overtime work (as a percentage of hourly pay)\*; (v) whether there are restrictions on night work; (vi) whether nonpregnant

and nonnursing women can work the same night hours as men\*; (vii) whether there are restrictions on weekly holiday work; (viii) whether there are restrictions on overtime work\*; and (ix) the average paid annual leave for workers with 1 year of tenure, 5 years of tenure, and 10 years of tenure.

Working Hours	Jakarta Data	Surabaya Data
Maximum number of working days per week	6.0	6.0
Premium for night work (% of hourly pay)	0.0	0.0
Premium for work on weekly rest day (% of hourly pay)	0.0	0.0
Premium for overtime work (% of hourly pay)	75.0	75.0
Restrictions on night work?	0.0	0.0
Whether nonpregnant and nonnursing women can work the same night hours as men	Yes	Yes
Restrictions on weekly holiday?	0.0	0.0
Restrictions on overtime work?	No	No
Paid annual leave for a worker with 1 year of tenure (working days)	12.0	12.0
Paid annual leave for a worker with 5 years of tenure (working days)	12.0	12.0
Paid annual leave for a worker with 10 years of tenure (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.

\*A new question introduced in the *Doing Business 2016* report for the first time.

## LABOR MARKET REGULATION

### Redundancy rules

Data on redundancy cover nine areas: (i) the length of the maximum probationary period (in months) for permanent employees; (ii) whether redundancy is allowed as a basis for terminating workers; (iii) whether the employer needs to notify a third party (such as a government agency) to terminate one redundant worker; (iv) whether the employer needs to notify a third party to terminate a group of nine redundant workers; (v)

whether the employer needs approval from a third party to terminate one redundant worker; (vi) whether the employer needs approval from a third party to terminate a group of nine 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 one worker is dismissed?	Yes	Yes
Third-party approval if one worker is dismissed?	Yes	Yes
Third-party notification if nine workers are dismissed?	Yes	Yes
Third-party approval if nine 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 and severance payments 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.

## LABOR MARKET REGULATION

### Job quality

*Doing Business 2016* report presents, for the first time, data on 12 job quality areas: (i) whether the law mandates equal remuneration for work of equal value; (ii) whether the law mandates nondiscrimination based on gender in hiring, (iii) whether the law mandates paid or unpaid maternity leave; (iv) the minimum length of maternity leave in calendar days (minimum number of days that legally have to be paid by the government, the employer or both); (v) whether employees on maternity leave receive 100 % of wages; (vi) the availability of five fully paid days of sick leave a year; (vii) the availability of

on-the-job training at no cost to the employee; (viii) whether a worker is eligible for an unemployment protection scheme after one year of service; (ix) the minimum duration of the contribution period (in months) required for unemployment protection; (x) whether an employee can create or join a union; (xi) the availability of administrative or judicial relief in case of infringement of employees' rights; and (xii) the availability of a labor inspection system. If no maternity leave is mandated by law, parental leave is measured if applicable.

Job Quality	Jakarta Data	Surabaya Data
Equal remuneration for work of equal value?	No	No
Gender nondiscrimination in hiring?	No	No
Paid or unpaid maternity leave mandated by law?	Yes	Yes
Minimum length of maternity leave (calendar days)?	90.0	90.0
Receive 100% of wages on maternity leave?	Yes	Yes
Five fully paid days of sick leave a year?	Yes	Yes
On-the-job training?	Yes	Yes
Unemployment protection after one year of employment?	No	No
Minimum contribution period for unemployment protection (months)?	n.a.	n.a.
Can employee create or join union?	Yes	Yes
Administrative or judicial relief for infringement of employees' rights?	Yes	Yes
Labor inspection system?	Yes	Yes

Source: *Doing Business* database.

## DISTANCE TO FRONTIER AND EASE OF DOING BUSINESS RANKING

*Doing Business* presents results for two aggregate measures: the distance to frontier score and the ease of doing business ranking, which 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 36 indicators for 10 *Doing Business* topics (the labor market regulation indicators are excluded). For starting a business, for example, the former Yugoslav Republic of Macedonia 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 103 other economies have no paid-in minimum capital requirement (table 14.1 in the *Doing Business 2016* report).

#### Calculation of the distance to frontier score

Calculating the distance to frontier score for each economy involves two main steps. In the first step individual component indicators are normalized to a common unit where each of the 36 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 in which data for the indicator were collected. Both the best performance and the worst performance are established every five years based on the *Doing Business* data for the year in which they are established, and remain at that level for the five years regardless of any changes in data in interim years. Thus an economy may set the frontier for an indicator

even though it is no longer at the frontier in a subsequent year.

For scores such as those on the strength of legal rights index or the quality of land administration index, 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 up to and including *Doing Business 2015*. For the time to pay taxes the frontier is defined as the lowest time recorded among all economies that levy the three major taxes: profit tax, labor taxes and mandatory contributions, and value added tax (VAT) or sales tax. For the different times to trade across borders, the frontier is defined as 1 hour even though in many economies the time is less than that.

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 two rules were defined: the 95th percentile is used for the indicators with the most dispersed distributions (including minimum capital, number of payments to pay taxes, and the time and cost indicators), and the 99th percentile is used for number of procedures. No outlier is 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.

In the second step for calculating the distance to frontier score, the scores obtained for individual indicators for each economy 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*<sup>4</sup>. Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components<sup>5</sup>.

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 five decimals. However, indicator ranking calculations and the ease of doing business ranking calculations are based on two decimals.

The difference between an economy's distance to frontier score in any previous year and its score in 2015 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

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 had before this approach was adopted in *Doing Business 2015* (line B is smaller than line A in figure 14.2 in the *Doing Business 2016* 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 it would have had before (line D is bigger than line C in figure 14.2 in the *Doing Business 2016* 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 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 in which *Doing Business* collects data for the second largest business city as well as the largest one, the distance to frontier score is calculated as the population-weighted average of the distance to frontier scores for these two cities (table 13.1). This is done for the aggregate score, the scores for each topic and the scores for all the component indicators for each topic.

<sup>4</sup> See Djankov, Manraj and others (2005). Principal components and unobserved components methods yield a ranking nearly identical to 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.

<sup>5</sup> 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

Table 13.1 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 2014/15

*Doing Business 2016* uses a simple method to calculate which economies improved the ease of doing business the most. First, it selects the economies that in 2014/15

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. Changes making it more difficult to do business are subtracted from the total number of those making it easier to do business. Twenty-four economies meet this criterion: Armenia; Azerbaijan; Benin; Costa Rica; Côte d'Ivoire; Cyprus; Hong Kong SAR, China; Indonesia; Jamaica; Kazakhstan; Kenya; Lithuania; Madagascar; Mauritania; Morocco; Romania; the Russian Federation; Rwanda; Senegal; Togo; Uganda; the United Arab Emirates; Uzbekistan; and Vietnam. 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 three 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.

## RESOURCES ON THE *DOING BUSINESS* WEBSITE

### Current features

News on the *Doing Business* project  
<http://www.doingbusiness.org>

### Rankings

How economies rank—from 1 to 189  
<http://www.doingbusiness.org/rankings>

### Data

All the data for 189 economies—topic rankings, indicator values, lists of regulatory procedures and details underlying indicators  
<http://www.doingbusiness.org/data>

### Reports

Access to *Doing Business* reports as well as subnational and regional reports, case studies and customized economy and regional profiles  
<http://www.doingbusiness.org/reports>

### Methodology

The methodologies and research papers underlying *Doing Business*  
<http://www.doingbusiness.org/methodology>

### Research

Abstracts of papers on *Doing Business* topics and related policy issues  
<http://www.doingbusiness.org/research>

### *Doing Business* reforms

Short summaries of DB2016 business regulation reforms and lists of reforms since DB2008  
<http://www.doingbusiness.org/reforms>

### Historical data

Customized data sets since DB2004  
<http://www.doingbusiness.org/custom-query>

### Law library

Online collection of business laws and regulations relating to business  
<http://www.doingbusiness.org/law-library>

### Contributors

More than 11,400 specialists in 189 economies who participate in *Doing Business*  
<http://www.doingbusiness.org/contributors/doing-business>

### Entrepreneurship data

Data on business density (number of newly registered companies per 1,000 working-age people) for 136 economies  
<http://www.doingbusiness.org/data/exploretopics/entrepreneurship>

### Distance to frontier

Data benchmarking 189 economies to the frontier in regulatory practice and a distance to frontier calculator  
<http://www.doingbusiness.org/data/distance-to-frontier>

### Information on good practices

Showing where the many good practices identified by *Doing Business* have been adopted  
<http://www.doingbusiness.org/data/good-practice>



*Doing Business 2016* is the 13th in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. The report provides quantitative indicators covering 11 areas of the business environment in 189 economies. The goal of the *Doing Business* series is to provide objective data for use by governments in designing sound business regulatory policies and to encourage research on the important dimensions of the regulatory environment for firms.

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