

February 2013

# Private Sector Development



## Business Licensing: A Key to Investment Climate Reform

### Summary

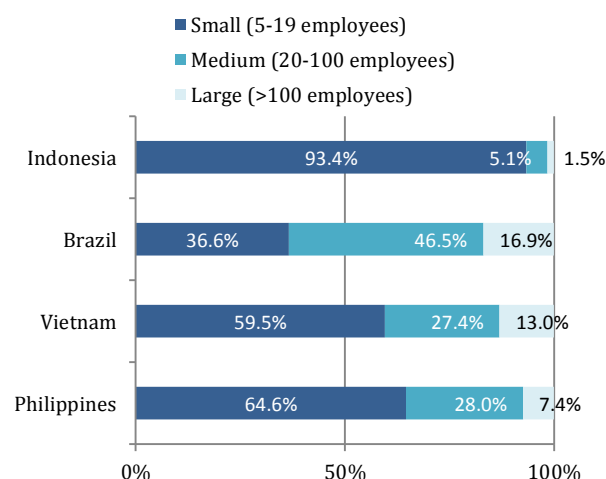
Reforming business licensing is a key starting point for improving the investment climate. Complex licensing procedures may encourage firms to remain unregistered, giving rise to difficulties later in accessing finance from formal financial institutions and constraining productivity and expansion. Across sectors, this can suppress the establishment of new firms and therefore the creation of new jobs, dragging down overall economic growth. Improving and reforming business licensing can significantly increase the number of businesses and thus help to nurture employment creation. Several quick-win interventions are possible. First, there is a need to improve the quality of the business licensing website and help desk. Second, business licensing should be simplified by limiting licenses to those that serve their objective and cutting unnecessary licenses. Third, full implementation of electronic application and payment systems for business licensing should be fostered. Fourth, non-fiscal incentives for firms to become registered should be promoted. Fifth, the transparency of the system should be improved to show the progress of each business application, together with a recorded evaluation system in which users can provide feedback as a means of improving the system. Finally, efforts in the medium term should focus on improving coordination among government agencies and clarifying the roles of central and local regulations horizontally and vertically.

### 1. Context

In Indonesia, 93 percent of firms are categorized as small, of which more than 30 percent of the sample firms were unregistered.<sup>1</sup> One of the findings to come out of the World Bank's economic sector work conducted on Indonesia's manufacturing sector is that, comparing plant size distribution between Indonesia and other emerging countries, there is a striking feature of missing medium-size firms in Indonesia, or a so-called *missing middle* (World Bank, 2012). The World Bank Enterprise Survey 2009 illustrates that the percentage of small firms, defined as firms with 5 to 19 employees, is larger in Indonesia, at 93 percent vs 37 percent in Brazil (Figure 1). Small firms in Vietnam and the Philippines constitute about 60 percent of total firms. Meanwhile, the medium-size firms or firms employing 20 to 100 workers constitute only 5 percent of all manufacturing firms in Indonesia, compared with 47, 27 and 28 percent in Brazil, Vietnam and the Philippines, respectively.

There seem to be several reasons why some firms prefer to remain small, one of which could be related to the desire to evade taxation and inspections, while another could be that the costs of being registered outweigh the benefits.<sup>2</sup> De Soto (1989) argues that excessive regulation and licensing is a factor in keeping firms small and informal. The idea is supported by a number of studies that argue that large informal sectors are a consequence of excessive taxation, overregulation and weak government institutions

Figure 1. Distribution of manufacturing firms by size



Source: World Bank Enterprise Survey, 2009.

(Loayza, 1997; Auriol and Walter, 2004).<sup>3</sup> In the case of Indonesia, while licenses such as company registrations (TDP) and/or trade licenses (SIUP) are often used to obtain financing from financial institutions, this fails to explain why many firms prefer to remain unregistered. It has long been argued that simplifying business licensing has a positive effect on investment. However, very few studies provide evidence of how effective business licensing can positively impact investment.

<sup>1</sup> It is thought that the number of unregistered firms may even reach more than 60 percent.

<sup>2</sup> The costs are referred to in marginal terms.

<sup>3</sup> Excessive regulation encourages firms to engage in negotiations if the burden is sufficiently high or if the marginal effectiveness of bribes after taking into account uncertainty in regulations and procedures exceeds the marginal cost of the bribes. The empirical results in Indonesia show that uncertainty in procedures such as business licensing, fire safety inspections, compliance with environmental regulations, building permits and employment contract inspections, significantly affect the bribe level (Kuncoro, 2006).

## 2. Business Licensing

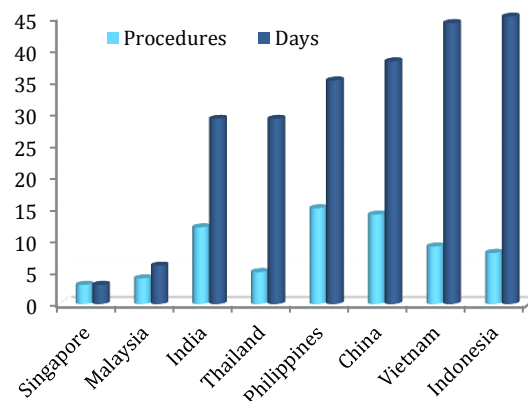
### 2.a. Complex business licensing and the adverse consequences for an economy

**Complex licensing procedures have been identified as an important factor underlying Indonesia's poor business climate** (Asia Foundation, 2007).<sup>4</sup> Starting a new business in Indonesia is relatively more difficult than doing so in peer countries in the region. It took about 45 days for 8 procedures to start up a new business in Indonesia, while it took only 38 days for 7 procedures in the Asia Pacific region in 2011 (Figure 2). Likewise, a business expansion takes about the same number of procedures and a similar length of time.

**Complex licensing procedures may keep firms unregistered, thus creating difficulties in their accessing finance from formal financial institutions and constraining their productivity.** As in other countries, in Indonesia some licenses for company registration, such as TDP and/or SIUP are necessary in order to apply for and to obtain financial institution loans (KPPOD and the Asia Foundation, 2011:34).<sup>5</sup> Difficulties in accessing finance have the potential to reduce firms' productivity. Lack of access to finance is one of main factors limiting growth opportunities for SMEs. For smaller companies access to credit is an important source of productivity, growth and expansion. It is estimated that difficulties in accessing finance reduce productivity by 6 percent in Indonesia's manufacturing sector (World Bank, 2012). It is also argued that a poor investment climate often hits smaller and informal firms the hardest (World Bank, 2005).

**Complex business licensing may also suppress firm and job creation, thus having significant implications for overall economic growth.** It is argued that excessive regulation and licensing may keep firms small and informal. In addition, the complex procedures could be particularly detrimental to domestic, micro, small and medium scale enterprises, which represent more than 90 percent of Indonesian enterprises and absorb about 70 percent of the workforce (Asia Foundation, 2007; Census Industry, 2008). More than 30 percent in these categories are unregistered or without legal status.<sup>6</sup> In the period after decentralization in Indonesia, from 2000 to mid-2005, the vast majority of the new revenue instruments appear to be license-user charges (LPEM, 2005). The burdens relating to poor licensing policy have become a major issue for businesses across Indonesia,

Figure 2. Starting up a new business



Source: Doing Business, 2012.

either forcing them to remain informal or to deal with the costs of compliance (Asia Foundation, 2007).

**Among licenses and permits, businesses claim that building construction permits and nuisance permits are the most onerous.** Although some licenses are processed at the national level, most are processed at the local level, especially those relating to physical permits, sectoral licenses and business registrations. Among licenses and permits, construction permits (IMB) and nuisance permits (UUG) are mentioned as being the most onerous for businesses. In order to acquire these permits, a series of other permits, such as the Land Usage Permit (SIPPT) and Environmental Permit (AMDAL/UKL, UPL and SPPL) must be obtained first. The prerequisite requirements do not only include blueprints of buildings, but also attestations by village and sub-district heads, plans for building use and neighbors' approval (Asia Foundation, 2007).

**There are two main reasons for complexity in business licensing in Indonesia:** First, there are so many regulations referring to buildings, nuisance and the environment that this creates overlapping rules and confusion in implementing them; and second, there are limited technical standards for building construction and site safety, and this often leads to negotiations with officers over standards (Elliot, 2008 and 2009; SENADA, 2009).

<sup>4</sup> The definition of business licensing in this note includes licenses and permits. The definition of a license is that it is used as a tool to assure that operators have the qualifications necessary to carry out an activity in a way that safeguards public welfare and/or to allocate limited resources. Meanwhile, a permit is used to assure that structures and operations comply with standards that protect public health, safety and the environment. The differences between the two are that a license is used as an authorization for a core and continuous business activity issued by the central government and it requires periodic renewal, whereas a permit is used as an authorization to complete a single instance of an activity issued by the local/municipal authority (although national level permits may be appropriate for specific or sensitive activities) and it is only effective once per instance of activity (World Bank, 2006b).

<sup>5</sup> A recent study undertaken in Sri Lanka claims that there is no significant effect on formalizing the relationships with the financial sector – applying for business or personal loans or having a business bank account; or on relationships with the government – having an electricity connection in a business's name, applying for a government contract, making sales to the government, or participating in a government SME program (de Mel, et al., 2011). Nonetheless, in Indonesia and most developing countries, some business licenses are required to obtain loans from formal financial institutions.

<sup>6</sup> The World Bank Enterprise Survey records that 36 percent of 1,176 manufacturing firms remained unregistered (Enterprise Survey, 2009).

## 2.b. Business Licensing Reforms in Indonesia

The Government has taken steps to improve transparency on investment regulations and also improve the coordination process. The introduction of a new investment law (Law No. 25/2007) marked a new phase in Indonesia's investment regime. At the same time, Indonesia's Investment Coordinating Board (BKPM) also introduced measures to simplify investment procedures. The introduction of One-Stop Shops (OSS) (Pelayanan Terpadu Satu Pintu (PTSP)) in Indonesia has reduced the time needed for arranging basic permits. OSS were first introduced into Indonesia in 1999 and then expanded in 2006. They have been lauded for significantly reducing the time and costs of obtaining business licenses. The time needed and the costs to obtain basic permits (i.e., the building permit (IMB), the business location license (SITU/HO), the trading business license (SIUP), and the company registration certificate (TDP)) over one year have been reduced by 47 percent and 44 percent, respectively (Asia Foundation, 2007).

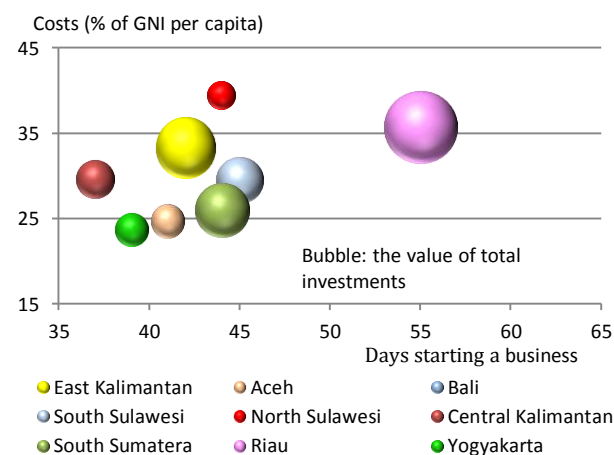
The reforms suggest that there could be a positive relationship between quicker and less costly procedures to obtain business licenses and the number of firms being established. There has long been a debate over whether business licensing reforms and simplification have an impact on investment. There is still no consensus in Indonesia on the issue. The significant investment reforms since 2005 and the development of an OSS system have had an inconclusive impact on the total value of investment at the sub-national level in Indonesia. The business climate ranks fourth as a determinant in affecting decisions on the location of investment (FDI Intelligence, 2012).<sup>7</sup> However, while the value of investment may not be affected by business licensing (Figure 3), relatively less costly and faster procedures to obtain business licenses indicate a positive relationship with the number of firms being established and on employment creation, as illustrated in Figures 4 and 5.<sup>8</sup> Relatively rich natural resource regions, such as Riau and East Kalimantan, still have relatively higher investment values despite the fact that starting a business in these regions takes relatively longer and costs more compared with other regions. However, regions such as Yogyakarta, Aceh, South Sumatra, Bali and South Sulawesi, where it is

relatively easier to start a business, tend to see a higher number of firms being established, as well as a higher level of employment creation compared with East Kalimantan, North Sulawesi and Riau. The high number of firms being established is largely driven by the growing number of SMEs.

This is consistent with the finding that there is a correlation between the number of SMEs per 1,000 inhabitants and the cost of starting a business.<sup>9</sup> However, this does not necessarily mean that a decrease in cost will automatically lead to more SMEs and job creation. The reasons could be that large and foreign firm investors, particularly in natural-resource-based products, may not be sensitive to the costs of obtaining business licenses, and therefore the value of investment may not be significantly affected by business licensing procedures and costs, particularly in natural-resource-abundant regions. Moreover, simplified business licensing is only one element in the overall business environment for starting up a business. In some cases, simplified business licensing may not necessarily spur further private sector development or the formalization of existing enterprises, as taxes may remain too high and complicated, or land acquisition and property registration may be a more onerous process.

*While starting a business is not necessarily correlated with the value of investment, it may correlate with the number of firms being established and total employment creation.*

**Figure 3. Starting a business and the value of investment, 2010**

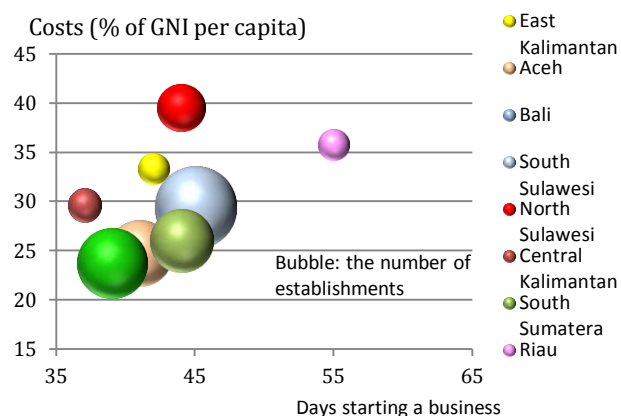


<sup>7</sup> FDI investors rank domestic market growth potential in terms of proximity to consumers, availability of skilled workers, business climate, infrastructure and logistics as the first to fifth main determinants in FDI location selection, respectively, from 2003-10 (FDI intelligence, 2010).

<sup>8</sup> Due to limited data on starting a business at the sub-national level, there are no formal correlation estimations for observing the relationship between starting a business and the number of firms being established and employment creation. One may argue that the relatively higher number of firms being established could be correlated to infrastructure, availability of skilled labor, land acquisition, tax administration, property registration, and/or other variables. If there were data on starting a business at the sub-national level for at least three years, the correlation between starting a business and measures of investment (e.g. the value of total investment or the number of firms being established) could be tested by estimating changes in starting a business and the investment variables, controlling for other independent variables.

<sup>9</sup> <http://rru.worldbank.org/Themes/SmallMediumEnterprises/> quoted in de Sa, 2005.

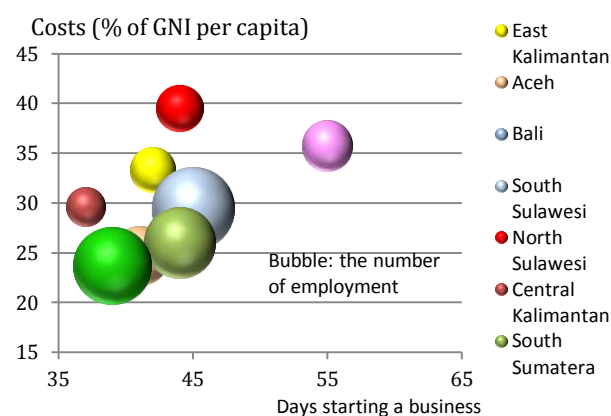
**Figure 4. Starting a business and the number of firms being established, 2010**



Note: The choice of the area is based on availability of ease of doing business sub nationals 2010 and data on census industry on the value of investment and the number of total establishments. Jakarta, West Java, Central Java and East Java are excluded in these figures as they are outliers in terms on the value of investment, the number of firms being established and employment creation. Bali is at the back of South Sulawesi.

Source: Authors' calculations based on Doing Business sub nationals, 2010; CEIC Database, 2011; and Statistics Indonesia, 2010

**Figure 5. Starting a business and employment creation, 2010**



While rolling out of One-Stop Shops (PTSPs) is well underway, they are still far from being fully effective. Based on Regulation No. 25/2007 on Investment, Ministry of Home Affairs Regulation No. 24/2006 manages arrangements for the implementation of PTSPs at the local level and also authorizes PTSPs to act as institutions with the responsibility to issue a number of business licenses. Other than this, Presidential Decree No. 27/2009 authorizes BKPM to implement PTSPs. Based on a Ministry of Home Affairs survey conducted in 2011 more districts have implemented PTSPs, indicated by the increasing number of PTSPs, from 105 in 2009 to 196 in 2011 across 252 districts in Indonesia. However, more than half of the PTSPs claim that they have authority to issue fewer than 20 business licenses out of over 100 licenses in total (Asia Foundation, 2012). As a result, PTSPs are still often perceived by the private sector as being inefficient due to the still lengthy process of obtaining licenses and because the costs continue to exceed those stated in the regulations (KPPOD and Asia Foundation, 2011:33, 102).

**NSWi has been developed, but its implementation is still not nationwide.** To facilitate the OSS system even further, based on Presidential Decree No. 27/2009 and BKPM Regulation No. 14/2009, the National Single Window for Investment (NSWi) and Electronic Investment Licensing and Information Service System (Sistem Pelayanan Informasi dan Perizinan Investasi Secara Elektronik, or SPIPISE) were developed.<sup>10</sup> The system was first launched in January 2010 in the Free Trade Zone of Batam. To date, SPIPISE has been adopted in 99 districts across 32 provinces out of a total of 497 districts in 33 provinces in Indonesia. Despite this roll-out, the system has still not been fully implemented and has yet to become fully effective.<sup>11</sup>

**Box 1. A review of the implementation of One-Door One-Stop (PTSPs) services and electronic investment licensing and the information service system (SPIPISE)<sup>12</sup>**

*Bandung, West Java*

Bandung is the capital of the province of West Java, one of leading cities in the implementation of PTSPs and SPIPISE in Indonesia. This was evidenced by the fact that Bandung received an investment award in 2009. Bandung has developed its PTSPs relatively well in terms the delegation of issuing business licensing (30 licenses and permits out of around 100 licenses and permits), as well as its electronic system for business licensing. Bandung had the highest level of implementation of SPIPISE, with 19 out of 26 offices using the system by 2011. Yet at the same time, Bandung has its own electronic business licensing system. Our discussions with local officials indicated that one of the problems holding the system back is that it has a unit that is a division of the national planning agency (Bappeda Investment Unit). This unit still deals with investment, but it is not integrated into the overall business licensing system. The unit acts as a local BKPM and produces a letter of recommendation for business applicants. Our discussions revealed that many local officials felt that this unit should become part of the integrated PTSP system.

One of the main highlights of the system in Bandung is its well-designed electronic business licensing system that has been operational since 2009. An applicant can track the current status of his application, including the division and the individuals in charge of issuing licenses or permits. Another highlight of the system is that it allows users to provide feedback and evaluation on the system. In addition, definitions on how to calculate costs of licenses or permits are posted at the front office and clearly defined and transparent.

Among business licenses in Bandung, building construction permits (IMB) and nuisance permits (HO) are perceived as being the most onerous for businesses. Other than these licenses, different regulations implemented in different areas have caused varying business licensing costs and confusion. To further improve business licensing in West Java, it would appear to be important to synchronize regulations across local jurisdictions, as well as develop an electronic payment system.

<sup>10</sup> NSWi is an electronic platform for investment that enables investors to apply for licenses and non-license services online. The introduction of a fully automated investment licensing process would significantly enhance the efficiency of licensing services.

<sup>11</sup> The only province that had still not implemented SPIPISE in 2012 is North Maluku due to lack of internet infrastructure.

<sup>12</sup> The review of the implementation of PTSP and SPIPISE is the result of focus group discussions with BKPM, Bapepam-LK, PSTPs, businesses and notaries from May to July 2012.

There are two main limitations hindering efforts to reform business licensing in Indonesia. First, efforts focus only on simplifying the process but not necessarily simplifying the licenses (i.e., dropping unnecessary licenses). While simplifying the process is helpful, it would deliver a much greater impact if it were conducted after the licenses themselves were simplified. Second, reforms have to provide greater benefits for businesses to become registered and comply with business licenses.

### 3. Lessons Learned from Business Licensing Reforms

One of the main reasons for the mushrooming of licenses is that ministries and regulatory bodies — including those at the local level — often have a direct financial interest in creating new licenses and business fees, because these revenues support staff salaries and provide increased opportunities for corruption (World Bank Group, 2010b). The situation may become even more complex where provincial and district governments have the authority — whether *de jure* or *de facto* — to introduce new regulations.

The key highlight of the reforms in these countries is that a combination of streamlining procedures and the use of technology works best. The bottom line is that simplifying business procedures should be placed uppermost on the reform agenda.

#### Singapore

Singapore started its business regulatory reform in 2003. Singapore's Accounting and Corporate Regulatory Authority (ACRA) is entrepreneurs' first stop in starting a business. The organization embarked on Bizfile, an internet-based online registration, filing, and information retrieval system. With Bizfile up and running, information is now updated within half an hour of a successful filing — down from 14 to 21 days before reform. The time to register a new business has fallen from 24 hours to 15 minutes, and the time to incorporate a company from 5 days to just 15 minutes. Likewise, costs are down too. Businesses will benefit through faster business licenses and lower registration fees. It has then developed an online business start-up system, *enterpriseone.gov.sg*, which is a comprehensive network for business start-ups. One good point about the system is that it is not only an online application system, but also provides a range of services in business, ranging from business guidelines to comprehensive information on government assistance programs, regulations and e-services for businesses.

#### Canada

Canada has one of the simplest and fastest business entry procedures.<sup>13</sup> The reforms to simplify business start-up procedures were part of a comprehensive reform package to support SMEs, guided by

#### Batam, Riau

Batam is a Special Economic Zone in Riau. It was the first location to implement SPIPISE in Indonesia, in January 2009. However, the level of implementation and the degree use of SPIPISE are still relatively low, as indicated by our interviews with local notaries and businesses. They claim that this is partly due to the fact that Batam is a small island and they therefore prefer to submit applications manually.

Despite this low level of use of SPIPISE, all business licenses in Batam have been managed by the One-Stop Service (Unit Pelayanan Investasi Terpadu, or UPIT), which later merged into a PTSP in July 2006. To further improve services at the PTSP, our interviews suggested empowering the PTSP with clear delegated authorities. Our interviews indicated that efforts to simplify business licensing significantly increase the willingness of SMEs to become registered, as they also receive certain advantages by being registered.

The highlight of the current business licensing reform is that Trade Licenses (SIUP) and Business Registrations (TDP) can be obtained at zero cost since January 2012, and obtaining each of them takes a maximum two days. Our interviews indicated that among business licenses in Batam, building construction permits (IMB) and nuisance permits (HO) were the most onerous for businesses. In addition, to start up a business in a number of sectors also required an endorsement from the business association, which was claimed to be one of the hurdles in starting up a new business. Our interviews suggested that while joining a business association may provide a number of benefits, it should not be a requirement for starting up a new business.

'Growing Small Businesses' released by the Ministries of Industry and Finance in 1994. There was a huge improvement in the use of technology for the delivery of business support services, which has led to the development of a network called the Canada Business Service Centers (CBSC). The CBSC network is designed to improve services to small businesses and entrepreneurs in the start-up phase, providing a single window for information on federal and provincial/territorial government services, programs and regulatory requirements either online, in person, or by phone. The Government Online initiative was the driving force that facilitated CBSC's involvement in the development of the *BusinessGateway.ca*, Canada's business portal. One online tool developed by the CBSC network is the Business Start-up Assistant that provides links on how to register a new company. Finally, the Corporation's Canada Online Filing Center was introduced in 1999, which belongs to the Industry Canada Department headed by the Minister of Industry. Information required from the applicants was fairly simple and is in the public domain. In 2001, the fees were reduced by 50 percent, down to C\$250. Corporations Canada has been able to process 50 percent more registrations annually (de Sa, 2005). To date, Corporations Canada Online Filing Center accounts for more than 80 percent of all incorporations. One good point about the system is that it allows registered businesses to be open to public access, providing value-added for business promotion, as well as business backward and forward linkages. On-line business surveys show that companies are highly satisfied with the opportunity to incorporate their businesses on-line.

<sup>13</sup> The benchmarking takes into account the number of procedures and days to start a business, and the cost to start a business as a percentage of income per capita, as well as the minimum capital as percentage of income per capita.

## Malaysia

The Government of Malaysia set up a regulatory reform committee, which is a Special Taskforce to Facilitate Business (Pemudah), in February 2007. Pemudah consists of highly respected members from the Government and the private sector. This is a kind of public-private partnership helping to inform and monitor the implementation of the national business climate reform agenda. This taskforce reports directly to the prime minister. Every year, Pemudah has targets for improving business licensing. Between 2007 and 2010, Pemudah initiated a series of improvements in business licensing which resulted in improving Malaysia's ranking in the ease of doing business: it rose from 23rd in 2010 to 18th in 2011, largely driven by the significant improvement in starting a business, which jumped in ranking from 111<sup>st</sup> to 50<sup>th</sup> over the same period (Doing Business, 2012). Pemudah has cut the number of procedures, the length of time and costs of starting a business from 10 procedures, 37 days and 25 percent of income per capita in 2006, to 4 procedures, 6 days and 16 percent in 2011, respectively (Doing Business, 2007-12).

## Mexico

In 1989, the Government of Mexico created an Economic Deregulation Unit (UDE) within the Ministry of Trade and Industry. It was mandated to reduce red tape, particularly for business start-ups. In 1995, the President issued a decree titled the Agreement to Deregulate Business Activities. This required 12 ministries to submit lists of all business start-up formalities, including the legal basis for each. UDE determined efficiency and recommended streamlining or elimination. Along with this policy, the Government also initiated an inter-ministerial deregulation council with representatives from business, labor and the universities. The council reviews agency submissions and prepares reform proposals for each agency. Agencies negotiate a final reform package with the UDE and the Council. In 2000, the UDE became the Commission for Regulatory Improvement, an autonomous unit within the Ministry of Economy, formerly the Ministry of Trade and Industry. As a result, some licenses have been condensed. For example, before 1997, most businesses required a Sanitary License prior to beginning operations and underwent ex-ante inspections. All activities are now exempt, except for chemical, pharmaceutical and medical activities. Random inspections are held ex-post. There is a Federal Registry containing all federal business formalities, including licenses. In most cases, a government agency cannot require a formality unless it is on the list (World Bank, 2006b). Moreover, the Government has also implemented the OSS system. The implementation of OSS (Expedite Business Start-up, or SARE program) in Mexico has increased new firms registered by 5 percent and increased job creation by 2.8 percent (Bruhn, 2008).<sup>14</sup>

## 4. Conclusions and Quick-Win Interventions

**In conclusion, while Indonesia has been one of the top reformers in doing business, it still lags far behind its peer countries, such as Malaysia and Thailand, in terms of starting a business.** Indonesia ranked 155<sup>th</sup> out of 183 countries in starting a business, while Malaysia and Thailand ranked 50<sup>th</sup> and 78<sup>th</sup>, respectively, in 2011. In Malaysia, starting a business only took about 4 procedures in 6 days and cost 16 percent of income per capita and in Thailand, it took 5 procedures in 29 days and cost 6.2 percent of income per capita. Meanwhile, in Indonesia, it took 8 procedures in 45 days and cost 18 percent of income per capita (Doing Business, 2012). Therefore, there is considerable scope for improvement in Indonesia and the following are some possible quick-win interventions.

- 1. Improving the quality of the website and help desk.** Based on the Global Investment Promotion Best Practices 2012, Indonesia recorded only 11 percent on inquiry handling (GIBP, 2012). In 2011, 96 percent of inquiry handling was related to business licensing procedures (BKPM, 2012b). Therefore, one priority should be to improve the service quality of the website and help desk at investment offices. The website and help desk should act as a front line in dealing with investment regulations and policies for investors. Improvements should cover both hard and soft infrastructure of the website and help desk, including the skills and capacity of officials. It could start first by providing detailed information on business start-up requirements online, or publicly available, along with the costs of obtaining licenses and the departments that are responsible for issuing licenses, as well as the individuals in charge and their contact details. Second, the help desk and/or investment relations unit should be adequately trained to respond to basic questions relating to investment in Indonesia, investment policy and regulations, PTSPs and SPISPIE and how to start up a business.
- 2. Continuing business license simplification.** Simplifying business licensing is about limiting licenses to those that are justifiable. The first step is to compile a list of all licenses and then to cut unnecessary licenses. This could be started by setting technical standards to ensure that licenses should fulfill legitimate regulatory functions, such as safeguarding public health and safety, environmental protection, national security, or managing limited natural resources (World Bank, 2006a). Moreover, Indonesia should also foster the full implementation of One-Stop Shops (PTSP), where authority is delegated to a particular agency to issue licenses, allowing reductions in overlapping licenses as one agency can take control. One quick-win would be to issue an official announcement that joining a business association is only an option and not a requirement for starting up a new business in Indonesia.

<sup>14</sup> Most reforms in business licensing include either a number of the following reforms or all: registration simplification, online registration, cut registration fees or implement flat fees, creation/improvement of one-stop shop services, abolishment/reduction of minimum capital requirement, introduction or shortening of statutory time limits and computerization of the registry.

3. **Fostering the implementation of an online system, not only an electronic business licensing system but also an electronic payment system.** The Government should foster full implementation of an electronic application and payment system for business licensing nationwide. Currently, Indonesia has implemented a dual electronic system. SPIPISE is endorsed by BKPM and the local electronic licensing system is endorsed by local governments. Both systems have advantages and disadvantages. In the short run, the implementation of SPIPISE should become optional. SPIPISE should be implemented in areas with no local electronic business licensing system. At the same time, both SPIPISE and the local system should be integrated so that all information relating to investment can be used by firms and the public.
4. **Increasing (non-fiscal) incentives for firms to become registered.** The system should provide more incentives for firms to become registered. For example, the system should automatically act as a nationwide database linked to a database of international firms, which could act as a reliable information database of firms; the system could be automatically linked with government programs and grants; and the system could also provide basic assistance for firms such as: knowledge on marketing, book-keeping, administration and continuous business regulation updates. The system should also increase the involvement of the private sector in completion and compliance, shifting from government-regulation to self-regulation.
5. **Improving monitoring and evaluation.** The M&E system should be improved such that it can monitor and evaluate the implementation of one-door one-stop shops (PTSPs) and the SPIPISE system nationwide. Second, it should monitor the implementation of the system on the ground, measure how transparent the system is, and how efficient the process of business application is. This system should also allow the private sector to provide feedback to enable improvements to be made.
6. Efforts in the medium term should focus **on improving coordination among government agencies and clarifying the roles of central and local regulations both horizontally and vertically.**

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