

SUMMARY

Investment climate monitoring survey round VI (2014)

Introduction

The 6th Investment Climate Monitoring Survey was commissioned by AIPEG for the Vice President's Office and BKPM and took place between August and December 2014. The Contractor was LPEM FEUI.

The main objective is to survey the investment climate in Indonesia and compare the findings for the manufacturing and services sectors in 2014 with those of previous surveys conducted by LPEM FEUI, especially the 5th Investment Climate Monitoring Survey that was conducted in 2010.

The survey also includes an assessment of investment climate measures introduced by the Government of Indonesia (GOI) in October 2013 (the October package). From eight major investment measures included in the October Package, the survey observes the implementation of four of them, as agreed with BKPM. These four measures relate to starting a business, getting electricity, registering property and dealing with construction permits.

Methodology

Three separate surveys were conducted with: (i) manufacturing firms; (ii) services firms, and; (iii) notary offices. All three surveys were conducted in six major metropolitan areas of Indonesia – these being Medan, Greater Jakarta, Bandung, Semarang, Surabaya and Makassar.

- Manufacturing Survey - includes 345 manufacturing firms. The sample set included manufacturing firms with 100 or more employees drawn from Indonesia Manufacturing Statistics 2010 (BPS).
- Services Survey - includes 187 services firms. The sample set included services firms with 25 or more employees drawn from the Indonesia Economic Census 2006 (BPS).
- Notary Survey - includes 59 notary offices. The sample set for the notary survey was taken from the notary directory/registry at the Ministry of Law. Notary respondents were selected based on whether they have experience in assisting clients establish a new company in Indonesia.

Obstacles to doing business were obtained from firms' perception of the business climate. The survey employs 25 indicators that aim to measure the general condition of the business climate. The indicators used in 2014 were broadly the same as those used in the survey in 2010. There were some limited new indicators employed in the 2014 survey but these were adjusted to be compatible with the 2010 survey. The indicators were measured for manufacturing and services firms.

Key findings

Top five obstacles to doing business in 2014 (Manufacturing)

As can be seen in the Figure 1, the five factors that are perceived as the main obstacles to doing business by manufacturing firms in 2014 are:

- **macroeconomic instability**
- **transportation**
- **electricity**
- **licenses and permits from local government**
- **economic policy and regulatory uncertainty**

The factors are similar to those in the 2010 survey. In 2010, the top five factors were transportation, macroeconomic instability, electricity, cost of finance and labour skill and education.

Obstacles to doing business that improved and deteriorated

The majority of obstacles to doing business for manufacturing firms are perceived to have deteriorated. Compared to the 2010 survey, 21 out of the 25 obstacles surveyed are perceived to have deteriorated. More manufacturing firms now view these 21 obstacles as moderate, severe or very severe than they did in 2010. The indicators that deteriorated the most (more than 10 percentage point change in number of respondents) were:

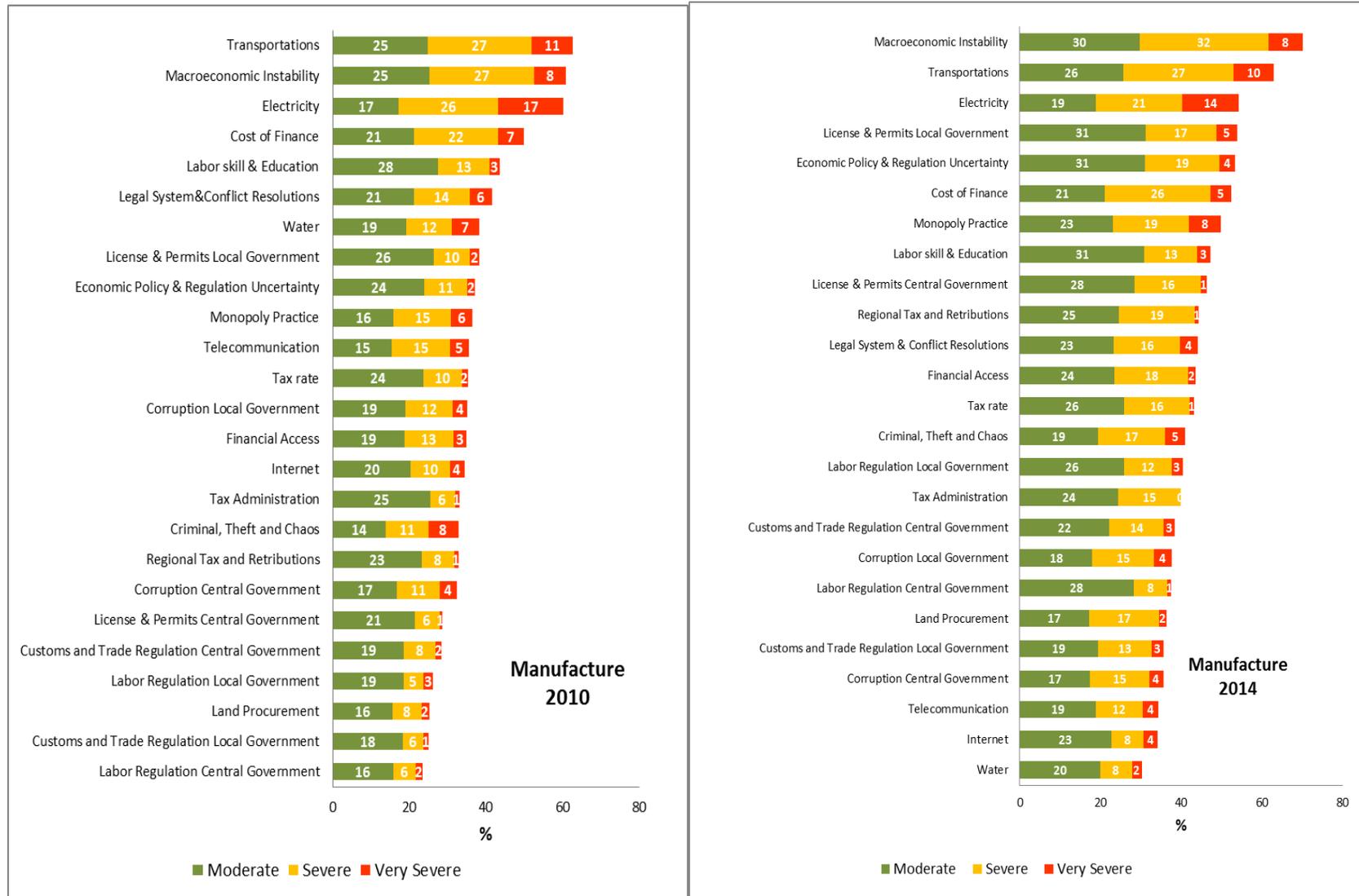
- **licenses and permits by central government**
- **economic policy and regulatory uncertainty**
- **license and permits by local government**
- **labour regulation by central and local government**

The four aspects of the business climate that improved for manufacturing firms between 2010 and 2014 were:

- **water services**
- **electricity services**
- **telecommunication services**
- **internet services**

(Note, for telecommunication and internet services, the percentage improvement was very small).

Figure 1: Obstacles to Doing Business for Manufacturing Firms: 2010-2014(% of Respondents)



Top five obstacles to doing business in 2014 (Services)

The five factors that are perceived as the main obstacles to doing business by services firms in 2014 are:

- **electricity**
- **transportation**
- **macroeconomic instability**
- **cost of finance**
- **licenses and permits from local government**

The factors are almost the same as the survey in 2010. In 2010, the top five factors were transportation, electricity, macroeconomic instability, cost of finance and criminal, theft and chaos.

Obstacles to doing business that improved and deteriorated

Marginally more obstacles to doing business for services firms were perceived as having improved rather than having deteriorated. Compared to the 2010 survey, 13 indicators improved and 12 indicators deteriorated. The five indicators for services firms that deteriorated the most were:

- **cost of finance**
- **licenses and permits of local government**
- **economic policy and uncertainty**
- **financial access**
- **licenses and permits of central government**

The aspects of the business climate that were most improved for services firms between 2010 and 2014 were:

- **regional taxes and retributions**
- **tax administration**
- **corruption in central government**
- **corruption in local government**

Selective further findings

Indicators	Direction of change since 2010	Notes/Justification
Business Licensing (processing times)	Mixed	<ul style="list-style-type: none"> • Reduced time for manufacturing firms to obtain main licenses from 15 to 33 days to 12 to 23 working days (depending on license). • Increased time for services firms to obtain main license from around 9 to 18 days to 10 to 25 days (depending on license).
PT (Company) Legalization	Positive	<ul style="list-style-type: none"> • Processing time for PT Legalization has decreased from 28 working days in 2010 to 11 working days in 2014.
Infrastructure services	Mixed	<ul style="list-style-type: none"> • In general, connection times for utilities have deteriorated. For services firms, connection times have deteriorated for electricity, telephone lines, water and gas connections. For manufacturing firms, connection times for gas have significantly deteriorated and marginally deteriorated for water. For electricity and telephone connections, connection times are perceived to be quicker in 2014 than in 2010. • Service delivery of the utilities is generally better in 2014 than it was in 2010. Manufacturing firms experience less frequent disruption for all gas, electricity and water services but more frequent disruption for phone services. Services firms face a more mixed situation with regards to the frequency of service disruption and higher frequency disruption than manufacturing firms for all services provided.
Customs processes	Mixed	<ul style="list-style-type: none"> • Import clearance times have improved marginally. • The frequency of unofficial payments at customs has decreased. • However, firms' perception on overall customs processes (time, complexity and cost) has deteriorated.
Tax administration	Positive	<ul style="list-style-type: none"> • Shorter processing times for tax refunds. • Higher refund values as a proportion of amount requested. • Lower number of firms making unofficial payments. • Less time spent on tax administration. • Less staff allocated to dealing with tax issues.

Indicators	Direction of change since 2010	Notes/Justification
Labour regulation and issues	Negative	<ul style="list-style-type: none"> • Labour regulation has generally become more of a problem for both manufacturing and services firms, (although some aspects of labour regulation for manufacturing firms has improved) • Minimum wage regulation stands out as the biggest problem by far and has deteriorated for both services and manufacturing firms. • More manufacturing and services firms were reporting labour problems in 2014 than in 2010. The largest problems for both manufacturing and services firms were related to demands for increased salaries/wages. • (Despite the overall deterioration, the survey finds that the cost of handling all labour problems declined both in manufacturing and service sector firms).
Certainty of Regulation	Positive	<ul style="list-style-type: none"> • For services firms, the level of regulatory certainty has generally improved, especially at the local level. For manufacturing firms the level of regulatory certainty has remained about the same at both central and local levels.
Relationship with bureaucracy	Positive	<ul style="list-style-type: none"> • Frequency of unofficial payments by both services and manufacturing firms to the bureaucracy has decreased. • Relative cost (as a proportion of total costs) of unofficial payments has dropped from 1.8% to 1.5% for manufacturing firms but marginally increased from 1% to 1.1% for services firms. • Whilst the perceptions of respondents' total time spent to meet government officers is mixed (generally less time for manufacturing firms and more time for services firms), both the average time and frequency of government officer visits to manufacturing firm or services firm premises has decreased since 2010.

Impact of October 2013 Package

Issue	Target	Findings from survey	Overall impact
	Business entity (limited liability/PT) able to be established through online system	<ul style="list-style-type: none"> The online system was established in April 2014 to legalize a limited liability company (PT). This new system significantly improves the company legalization process by shortening the required processing time from 28 working days in 2010 to 11 working days in 2014. 	Positive
Starting a Business	Simplification of process for issuance of Permanent Business License (SIUP) and Company Registration Certificate (TDP)	<ul style="list-style-type: none"> The process to issue SIUPs and TDPs are now faster. It now takes on average 15 days to obtain a SIUP, down from 20 days in the 2010 survey. Similarly, the TDP requires 15 days, down from 20 days in 2010. (Note however, these findings are still far from the target of 3 days set by BKPM). 	Positive
Getting Electricity	Simplification of procedures and reduced cost and time for electricity connection	<ul style="list-style-type: none"> Time to obtain a new electricity connection has been reduced to 24 days in 2014 from 35 days in 2010 for manufacturing firms. However, for services firms the connection time has increased from 4 days to 21 days. Frequency of PLN's electricity failures has been reduced from 3-to-6 times per six-month period for manufacturing firms but increased from 4-to- 6 times per six-month period for services firms. The potential cost/loss from electricity blackouts was estimated at 5.9 percent of total annual sales for manufacturing firms in 2014. This is marginally down from 6.0 percent in 2010. 	Mixed
Registering Property	Time reduction for land certificate examination and	<ul style="list-style-type: none"> Instruction Letter of Head of State Agrarian Agency No. 2/Ins/VI/2013 regarding Acceleration of Land Certificate Verification and Land 	Positive

Issue	Target	Findings from survey	Overall impact
	transfer of land rights	Transfer-Related Services is known by 32 percent of firms in the survey. About 38 percent of them have these have direct experience of the regulation. Approximately half of these firms that have direct experience of the regulation perceive it as beneficial or highly beneficial.	
	Building construction permit (IMB) by online	<ul style="list-style-type: none"> Decree of Head of Building Control Office DKI Jakarta No. 2/2014 is known to 13 percent of firms surveyed. 26 percent of these have direct experience of the regulation. Approximately 44 percent of those firms with direct experience of the regulation perceive it as beneficial or highly beneficial. 	Mixed
Dealing with Construction Permits	Accelerate water connection services (PDAM)	<ul style="list-style-type: none"> Time to obtain a new connection of PDAM Water increased from 15 to 17 days for manufacturing firms and from 4 to 10 days for services firm. However, frequency of PDAM water failures in manufacturing firms dropped from 4 to 2 times in six-month and from 5 to 4 times in services firms. 	Negative
	Accelerate telephone connection services (Telkom)	<ul style="list-style-type: none"> Time to obtain a new connection of Telkom's phone line reduced from 12 to 8 days for manufacturing firms but increased from 5 to 8 days for services firm. Frequency of Telkom's phone line error in manufacturing firms slightly increased from 2 to 3 times in six-month periods but reduced from 18 to 6 times in services firms. 	Mixed