



## REDUCING BARRIERS TO MARKET ENTRY AND BUSINESS OPERATION (PROMIS: Program Memperbaiki Iklim Investasi)

JUNE 2008

### PROJECT OBJECTIVES:

1. Reducing the cost and complexity of business licensing and permitting, resulting in higher numbers of businesses entering the formal sector and faster licensing for investors;
2. Improving the formulation of business regulation so that local governments issue fewer distortionary regulations; and
3. Creating strong incentives for local governments to implement business-friendly policies, resulting in higher numbers of local governments implementing market reforms and adopting best practice.

### CONTACT INFORMATION

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### BACKGROUND

Indonesia consistently ranks as one of the most difficult countries in the region in which to do business. The World Bank Doing Business 2008 report indicates Indonesia ranks 123 out of 178 on ease of doing business. Indonesia ranks lowest in the region in terms of time and cost required to start a business. The licensing and registration processes that govern entry into the formal market in Indonesia represent an area of particular concern to business owners. Once registered, businesses continue to confront challenging and costly regulations governing market transactions. Decentralization appears to have exacerbated this situation, as some local governments, under pressure to raise revenues, are using their new authority to increase taxes and user fees. Thus, local governments' short-term interest in raising revenue has the unintended consequence of dissuading investors and dampening growth.

The PROMIS Project is a three year USAID funded Cooperative Agreement with The Asia Foundation to improve the Indonesian business climate. PROMIS helps local governments to: (1) Streamline business licensing; (2) Improve the formulation of Small and Medium Enterprise (SME) regulations; and (3) Rank local governments according to their business investment climate. The PROMIS project will be extended until October 2008 in order to allow for further innovations in economic development programming.

### RECENT ACCOMPLISHMENTS

#### 1. One Stop Shops (OSS): Streamlining Business Licensing

- Technical assistance has been completed or is currently ongoing in 33 OSS sites in 9 provinces.
- The Foundation implemented a mass licensing program in April 2008 in 18 cities/districts in Indonesia, providing more than 12,000 licenses to businesses. This program enabled more than 6,100 businesses to formalize.
- All districts in Central Java have established One Stop Shops, including the provincial government.
- With PROMIS assistance, Ministry of Home Affairs (MOHA) issued a Ministerial Decree on One Stop Services that mandates OSS in all districts. Accompanying OSS guidelines for local governments were officially released in May 2007.
- In December 2007, the PROMIS-supported One Stop Shop in Yogyakarta was recognized as the best facility in Indonesia at the Presidential Investment Awards.
- The Asia Foundation has developed an OSS Performance Index which has been adopted by provincial governments in West and



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Central Java. Currently, the Central Java performance index is being implemented in all 35 districts in Central Java.

- Requirements and processing time have been reduced at many OSS sites; eight OSS have been elevated to Dinas level (which is the highest level of authority for OSS); complaint processing systems have been implemented.
- Seven OSS e-government initiatives are being implemented in Yogyakarta, North Sumatra, Aceh and East Java, including establishment of IT systems and OSS staff technical training.
- A new OSS procurement center in West Java was launched in May 2008. The procurement reform team also launched an OSS governor's decree on procurement.

## **2. Regulatory Impact Assessments (RIA): Improving Formulation of SME Regulations**

- RIA programs have been completed in 18 districts in Java and Sumatra, with two programs to be completed in East Java by the end of the PROMIS program.
- PROMIS and its local partner developed a methodology to map local regulations and provide a selection mechanism for regulations to be reviewed by RIA process.
- 10 regulatory decrees revised through the RIA process have been submitted to local parliaments (DPRD).
- PROMIS is cooperating with the Ministry of Trade to increase the policy and regulation making capacity of Ministry's staff and to improve the quality of trade regulations through the RIA approach.
- The Foundation is helping to make the RIA process sustainable by institutionalizing it. The RIA team in Sumatra produced a mayoral decree in April to institutionalize RIA by integrating it into the local regulation-making process.

## **3. National and Provincial Level Investment Climate Research and Advocacy**

- The Asia Foundation has worked together with Regional Autonomy Watch (KPPOD) and AC Nielsen to develop a comprehensive new Indonesian economic governance survey covering all 243 cities and regencies within 15 provinces. International survey firm AC Nielsen has completed the field survey of nearly 12,000 businesses, and data entry should be completed in early May. The Foundation anticipates a final report and launch in July 2008.
- The Foundation and its partners conducted a review of nuisance permit regulations in Sulawesi and Java and have lobbied for nuisance permit reform within the Ministry of Home Affairs. The team has drafted a ministerial decree with guidelines on how to simplify the nuisance permit process at the local level.