Micro-, small-, and medium-scale enterprises account for 99% of all enterprises in Indonesia and employ nearly 79% of the workforce. The vast majority are in the informal sector and remain unregistered. These firms are often unable to access bank finance, to sell to large buyers, or to export. Being in the informal sector is most likely to hurt small firms that generate the greatest number of new jobs. Since the costs of registering a new business are very high in Indonesia, business owners must consciously weigh whether the value of being registered offsets the time and expense of going through the process.

The difficulty of entering the formal sector stems from two problems: the quantity of licenses required by law, which is much higher than in most countries, and high levels of inefficiency and corruption, which makes obtaining these licenses slow and costly. These issues are further complicated by a decentralization process that has put business licensing authority in the hands of 467 local governments.

STREAMLINING LICENSES AND PERMITS

The Asia Foundation has worked to streamline business licensing by establishing One Stop Shop (OSS) licensing centers. These centers are physical offices where permit and license issuance is consolidated, simplifying processes and reducing the number of contact points between applicants and officials. To date, the

ONLY 30% of districts in Indonesia have established a One Stop Shop to date.

OSS consolidate and simplify licensing administration, reducing time, costs and requirements for businesses.
Foundation has provided technical assistance to 55 local governments, primarily in Aceh, Java, Sumatera and Sulawesi. The Government of Indonesia has mandated the creation of One Stop Shops in all 467 districts. However, only an estimated 30% of districts have opened a One Stop Shop thus far. Many OSS are ineffective because local governments have only established a front office where licensing applications are accepted and licenses are picked up; none of the processing is performed there.

The Foundation’s technical assistance helps local governments to establish OSS that can accept, process, and approve licenses so that business owners no longer have to approach the technical departments directly. The program focuses on general licenses that are required by all businesses (e.g., trade license, building permit, etc.) rather than sectoral licenses that require specific approvals (e.g., food safety and environmental clearances). In addition, the Foundation often incorporates information technology to allow for better management, performance monitoring and customer service for businesses.

BUSINESS ENVIRONMENT IMPACT

The Foundation’s research indicates that One Stop Shops have made it easier for businesses to obtain legal status. Processing time for four basic licenses is up to 60% faster and the average cost of licenses is reduced by up to 30%. The number of registered businesses increased every year following the establishment of One Stop Shops. These improvements reflect the increased authority of the OSS and the improvements in service standards.

LICENSING REFORM MOMENTUM

The Foundation has helped create momentum for the establishment of OSS throughout Indonesia by providing technical assistance to the Ministry of Home Affairs for the drafting of a regulation released in July 2006 mandating the creation of OSS in all districts. A Foundation partner also assisted the government with preparing national guidelines on establishing and improving OSS. In order to assess the impact of OSS, the Foundation has also developed the OSS Performance Index.*

With the national government’s emphasis on One Stop Shops, and the broader interest of local governments in improving their business climates, there is growing demand for technical support in this crucial area of economic reform. The Foundation continues to strengthen local governments’ capacity to improve licensing services.

*For further information, see The Asia Foundation “Measuring One Stop Shop Performance in Indonesia” one-page brief and “Making Sense of Business Licensing in Indonesia: A Review of Business Licensing Policy and Survey of One Stop Shop Licensing Centers,” The Asia Foundation, July 2007, Jakarta

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