

Doing Business in Indonesia

Contents

- [Opening a Business](#)
- [Business Laws](#)
- [Work Culture](#)
- [Business Barriers](#)
- [Business Trends](#)

Indonesia is a mixed economy, with both the private sector and government playing significant roles. The country is the largest economy in Southeast Asia and its estimated nominal GDP stood at \$706.73 billion in 2010.

The estimated nominal per capita GDP was \$ 3,015 and per capita GDP (in PPP terms) was \$4,394 (international dollars) in June 2011. The latest GDP figure has reached \$1 trillion and the debt- GDP ratio is 26 percent.

Opening a Business

One has to complete the following procedures before being eligible to start a business in Indonesia:

1. Firstly, one has to obtain the standard form of the Company Deed, then arrange for a notary electronically and obtain clearance for the Indonesian company's name at the Ministry of Law and Human Rights. It will take 4 days. See procedure 3 below, for attendant costs.
2. Notarize company documents before a notary public. It will take 4 days and will cost Indonesian rupia IDR 2526816.
3. Pay the State Treasury for the non-tax state revenue (PNBP) fees for legal services at a bank. It will take one day. The associated costs are: IDR 200,000 (for checking the name) plus IDR 1,580,000 non-tax state revenue (PNBP) fees for legal services.
4. Apply to the Ministry of Law and Human Rights for approval of the deed of establishment. It takes 7 days and details of costs included at procedure 3.
5. Apply at the One-stop Service for the Permanent Business Trading License (Surat Izin Usaha Perdagangan, SIUP) and the Company Registration Certificate (Tanda Daftar Perusahaan/TDP). It will take 15 days and will cost IDR 500,000.
6. Then, register with the Ministry of Manpower. It will take 14 days. But no fee is charged.
7. Apply for the Workers Social Security Program (locally called Jamsostek Program). It will need 7 days but can be taken up simultaneously with procedure 6.
8. And finally, obtain a Taxpayer Registration Number (NPWP) and a VAT Collector Number (NPPKP), which will take 1 or 2 days. But can be taken up simultaneously with the previous procedure.

Business Laws

The Indonesian legal system is basically derived from the Dutch civil law as codified in the Indonesian Civil Code and the Indonesian Commercial Code.

Commercial Laws

- **Company Law No.1 of 1995**

- **Foreign Capital Investment Law No.1 of 1967**

- Restrictions on FDI are outlined in the Presidential Decree 36/2010, commonly referred to as the Negative List.
- The 2010 iteration of the Negative List clarified that companies that are already active in Indonesia will be exempted from new regulations (through a grandfather clause) in the case of increased foreign ownership restrictions.
- In 2010, the share of foreign ownership permitted was hiked in health services, construction services and multilevel marketing, but decreased in cell towers, security services, and inspection services.
- The Investment Coordinating Board (BKPM) of Indonesia is mandated to issue investment licenses to foreign entities and the Board has taken steps to simplify the process by ensuring better institutional coordination between governmental arms.
- Although BKPM is meant to act as a one-stop service institution, investments in the mining, oil and gas, plantation, and other sectors require further licenses from related ministries and authorities.

Hierarchy of Regulations (or Laws governing various other aspects)

The new hierarchy of rules and regulation is enumerated under Law 10 of 2004, on the Formulation of Laws and Regulations. This is the official hierarchy of Indonesia legislation (from top to bottom), wherein the Constitution of Indonesia 1945, is the highest legal authority and all organs of the government must defer to it:

1. 1945 Constitution
2. Laws/Governmental Regulation in Lieu of Law
3. Governmental Regulation
4. Presidential Regulation
5. Regional Regulation (provincial/municipal/village level)

Ministerial decrees and the decrees of non-departmental chiefs do not carry the binding power as regulations. They are binding in their respective sectors as an administrative decision.

Sometimes, the ministerial decrees issued might contradict what has been said in an earlier decree.

Work Culture

The local language versions of various web portals, including the official government portal, are popular among people. Translated English versions are also provided. Indonesian, a form of Malay, is recognised as the official language. It is locally called Bahasa Indonesia.

English is widely spoken and understood in Jakarta by most business people, although much less so in other cities. Indonesian firms intending to conduct business with foreigners generally try to employ some English speakers, but it is not expected within every company.

As is the case with most group-oriented cultures, hierarchy has a prominent role in Indonesian culture. Hierarchical relationships are respected, emphasized and maintained. Use of title if any, along with the name, is appreciated.

A handshake is the most common greeting followed up with the word "Selamat". If one has to be introduced to several people, it is advised to start with the eldest or most senior person first. Business wear is generally conservative.

Business Barriers

The most problematic factors hampering business activities in Indonesia as identified by the World Economic Forum's Global Competitiveness Report through a survey of corporate executives (figures in brackets indicate the percentage responses on that indicator): Corruption (15.4 percent); Inefficient government bureaucracy (14.3); Inadequate supply of infrastructure (9.5); Policy instability (7.4); Access to financing (7.2); inadequately educated workforce (6.3).

Business Trends

- At World Economic Forum meet on East Asia, the Indonesian president has said Indonesia will be in the top ten countries with a strongest economy, within the next decade.
- Vague and conflicting regulations, poor infrastructure, and corruption in Indonesia continue to be significant concerns for foreign investors. Some foreign investors even complain of lack of ministerial coordination and a body empowered to act as a final authority in the case of regulatory uncertainty.
- Indonesian provinces enjoy significant regional autonomy. The country is located on the world's major trade routes.
- More than 60 million low-income Indonesian workers are projected to join the middle class in the coming decade, significantly increasing the already robust consumer demand.
- Indonesia is ranked at 128 out of 183 countries, in terms of the Ease of Doing Business 2012 Survey by the World Bank.
- It takes 8 procedures and 45 days, to start a business up in Indonesia.
- Indonesian infrastructure and service networks have not been well developed or maintained in tune with the booming economy, driven by domestic demand. This has resulted in multiple transaction costs and inefficiencies that hamper exporters and investors.

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