

# Ease of Doing Business in East Indonesian Region: Starting a Business Study in North Sulawesi Province SMEs

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**Abstract**—A study conducted by the World Bank on Ease of Doing Business for starting a business shows that the business environment in Indonesia is still not conducive to the growth of the trade and industry sector because of the high cost of starting and operating a business. This is because Indonesia faces many problems of formality and complicated procedures that need to be passed, especially in starting a new business. The research objective is to conduct an empirical study of ease doing business, especially starting a business in small and medium enterprises (SMEs) in the Eastern Indonesia Region. The study was conducted in 12 districts/cities in North Sulawesi Province. The research method used is descriptive and qualitative method to several businesses in the form of interviews. The results show that there has been a positive change in ease of doing business especially starting a business in this region.

**Keywords**—*ease of doing business; east Indonesian region; North Sulawesi Province; SMEs*

## I. INTRODUCTION

Small and medium enterprises (SMEs) including small and medium industries (SMIs) have a good level of competition in times of economic crisis especially compared to large businesses or industries [1]. For this reason, SMEs need to get the main attention, especially in creating the independence of the Indonesian people which is associated with Nawa Cita [2] of Indonesia's development echoed by the elected President of 2015-2019 Ir. Joko Widodo. For this reason, it is necessary to apply business strategies based on small and medium sized (SMEs). The strategy to improve economic performance which is synergized by SMEs and large industries will lead to an increase in economic growth and equity in all corners of Indonesia that strengthens the fifth principle of Pancasila, which is related to social justice.

Over the past four years, when Indonesia was under the leadership of Indonesian President Ir. Jokowi, Indonesia climbed in the World Bank's Doing Business ranking from number 114 in 2014, to number 109 in 2015, 91st in 2016, to 72nd in the 2017 edition. This positive development is primarily attributed to the Indonesian government's efforts to implement reforms in order to improve the business and investment climate, hence attract more private investment. Indeed, over the same period, both domestic and foreign investment has risen accordingly [3].

The World Bank report mentioned several important reforms that were implemented over the past year [3]: (a) Starting a business was made less costly due to a reduction in business start-up fees to 10.9 percent of income per capita, from 19.4 percent previously; (b) Getting electricity was made less costly by reducing connection and internal wiring certification fees; (c) The cost to obtain an electricity connection is now 276 percent of income per capita, down from 357 percent last year; Access to credit was improved with the establishment of a new credit bureau; (d) Trading across borders was facilitated by improving an electronic billing system for tax, customs and excise as well as non-tax revenue. As a result, the time for obtaining, preparing, processing, presenting and submitting documents when importing decreased from 133 hours to 119 hours; (e) Registering property was made less costly by a reduction of transfer tax, reducing the total cost from 10.8 percent to 8.3 percent of the property value; (f) Minority shareholder rights were strengthened by increasing minority shareholder rights, their role in major corporate decisions, and enhancing corporate transparency.

One of the obstacles faced by small businesses is the level of ease of starting a business and the ease of formalizing small businesses in North Sulawesi. The level of ease of starting a business in Indonesia known as Ease of Doing Business (EODB) [3] including the ease of institutionalizing a business.

The study conducted by the World Bank (2010-2018) on Doing Business for 10 EODB indicators shows that the business environment in Indonesia is still not conducive to the growth of the industrial sector. This is because of the high cost to start and institutionalize businesses, especially small industries. This is related to the long and expensive procedures in starting a business formally which has become a challenge for the growth and productivity of the private sector. This World Bank research shows that economic regulatory reforms that aim to facilitate domestic businesses in starting a business and operating it are key to the realization of a business climate conducive to economic growth [4].

Various studies conducted found that Indonesia faced problems such as the large number of "red tape" or complicated procedures and procedures that needed to be passed, especially in starting a new business [5]. There were 5 procedures in average and 5 days needed to establish a corporate entity

(Perseroan Terbatas or Limited Liability) as in the United States, while in Indonesia requires 9 procedures and 47 days for the same thing [6].

The problems and questions raised are how easy it is to start a business in Eastern Indonesia Region, especially in the districts/cities in this region. Are there improvements and reforms in recent years in this area.

This study will specifically examine empirically the ease of starting a business in Eastern Indonesia Region, especially SMEs in districts/cities in North Sulawesi with qualitative descriptive methods.

## II. THEORETICAL FRAMEWORK

### A. *Small and Medium Enterprises (SMEs)*

Small and medium-sized enterprises (SMEs, also small and medium enterprises) or small and medium-sized businesses (SMBs) are businesses whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO).

SMEs and entrepreneurs play a key role in national economies around the world, generating employment and income, contributing to innovation and knowledge diffusion, responding to new or niched demands and social needs, and enhancing social inclusion. However, SMEs are often more affected by business environment conditions and structural policies than larger firms.

Small enterprises outnumber large companies by a wide margin and also employ many more people. In developing countries, smaller (micro) and informal firms, have a larger share than in developed countries. For example, in an average year in Tunisia the self-employed workers alone account for about 28% of the total non-farm employment and firms with fewer than 100 employees account for about 62% of total employment [7].

SMEs are also said to be responsible for driving innovation and competition in many economic sectors. Although they create more jobs, there is also a majority of job destruction/contraction [8].

Multilateral organizations have been criticized for using one measure for all and new definitions of SME were proposed, such as the definition, based on Per Capita GNI at purchasing power parity, proposed by Gibson and Vaart in their paper "Defining SMEs: A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries" [9].

### B. *Ease of Doing Business (EODB)*

Ease of doing business is an index published by the World Bank. It is an aggregate figure that includes different parameters which define the ease of doing business in a country [4]. Doing business was originally authored by Simeon Djankov. He discussed in his study entitled "The Regulation of Entry" the indicators of Doing Business [10]. As mentioned in

the study of Klapper and Love, a methodology for measuring the effectiveness of the regulatory framework for firm registration was developed by Djankov, La Porta, Lopez-de-Silanes, & Shleifer [11]. Since 2003, the World Bank's annual Doing Business report has used this methodology to quantify the registration process in over 170 countries in its "Ease of Starting a Business" section. The choice of indicators for Doing Business has been guided by economic research and firm-level data. Leading academics joined forces in the development of the indicators, ensuring academic rigor. Eight of the background papers underlying the indicators have been.

The ease of doing business index is an index created by Simeon Djankov at the World Bank Group. The academic research for the report was done jointly with professors Oliver Hart and Andrei Shleifer [4]. Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights. Empirical research funded by the World Bank to justify their work show that the economic growth impact of improving these regulations is strong.

The ease of doing business economy ranking was originally used to measure the extent to which the regulatory environment of an economy is conducive to the operation of business in 190 countries of the world. It is a composite index based on data on ten factors that include: starting a business; dealing with licenses; employing workers; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business [12].

The ease of doing business ranking compares economies with one another and indicates how much the regulatory environment has changed relative to a parameter in other economies [13]. The ranks are generally given taking into consideration the time taken and the cost incurred by a company to complete the various legal formalities for each factor. The countries following inefficient, lengthy, cumbersome and expensive procedures in the entire business cycle get higher ranks (high numerical value). The smaller the rank, the better is the business environment. The ranks tell the position of a particular country with respect to the others and help the policy makers to suggest various measures to improve it.

### C. *Starting of a Business*

Starting Business is the process of managing various permits that need to be done to start a small and medium business. This topic of the paid-in minimum capital requirement, number of procedures, time and cost for a small to medium-sized limited liability company to start up and formally operate in economy is the largest business city.

To make the data comparable across 190 economies, Doing Business uses a standardized business that is 100% domestically owned, has start-up capital equivalent to 10 times income per capita, engages in general industrial or commercial activities and employs between 10 and 50 people one month after the commencement of operations, all of whom are domestic nationals. Starting a Business considers two types of local limited liability companies that are identical in all aspects, except that one company is owned by 5 married women and

the other by 5 married men. The distance to frontier score for each indicator is the average of the scores obtained for each of the component indicators. In Indonesia based on the World Bank Report in 2017, starting a business has 11.2 procedures, 24.9 days, and costs 19.4%, while the target in 2018 is 6 procedures, 9 days processing time, and 14.9 fees %. In addition, it was added that starting a business included licensing related to building construction, obtaining electricity [14].

### III. METHOD

#### A. Sample and Procedure

This study aims to analyze ease of doing business especially starting a business in small and medium enterprises in East Indonesian Region. The study used qualitative methods for collecting data from informant. The time span for collecting these data was from May, 2018 to July, 2018.

The researchers were deployed over a one-month period to interview authorized government official from Small and Medium Enterprises (SMEs) Departments in 12 regency and city in North Sulawesi Province also several SMEs include. In order to prepare the interview, we conducted an in depth review from World Bank Literature and original questionnaire was used in 190 countries with some modifications. The informant for this study was from 12 city and regency in North Sulawesi. City: Manado, Tomohon, Bitung, Kotamobagu, Regency: Minahasa, North Minahasa, South Minahasa, South East Minahasa, Bolaang Mongondow or Bolmong, North Bolmong, South Bolmong, and last East Bolmong. Informants are 12 government official from 12 regency and city in North Sulawesi and 24 SMEs firms from that area.

Data were analyzed using qualitative data analysis consisting of steps, which are: data reduction, data display and conclusion [15].

### IV. RESULTS AND DISCUSSION

#### A. Measurement Procedures and Results

1) *Interview with SMEs entrepreneurs:* Informants from SMEs in all cities/districts in North Sulawesi were interviewed with the following questions:

a) *Are there reforms in practice and law related to starting or establishing a business since 2016-2018:* Based on interviews with informants it was found that there had been reforms in practice and law in starting or establishing business since 2016. Where since the leadership of President Ir. Joko Widodo in Indonesia there has been a change and breakthrough for the business licenses procedures. Where illegal fees began to disappear and the costs of business licenses also removed by government.

b) *How is the practice or law reform more simplified or more difficult for the process to start and establish a business:* The informants stated that legal reform had simplified the process of starting and establishing a business in a cities/district in North Sulawesi. Even under the leadership of the Governor of North Sulawesi, Mr. Olly Dondokambey,

whose same party with the elected president, this policy continues to be maintained and strengthened, so that city districts throughout North Sulawesi apply this policy strictly. Where each city and district in North Sulawesi tries to further simplify the procedures of starting business and business establishment in their region.

c) *How many types of types of business registration have been carried out in recent years:* The type of business registration for SMEs is less and less simple and so it is not difficult for entrepreneurs to start or extend business licenses.

d) *Type of business established:* Most types of businesses registered for business licenses are individual businesses.

e) *Minimum capital required:* The minimum capital required for starting new business is mostly small and no large capital is needed for individual business licenses. Even the government currently offers assistance with soft loans and People's Business Credit (KUR) with a very low interest.

f) *The length of time to take care of business licenses and their comparison with previous years:* The time to take care of business licenses in each city district in general has been shortened with the fastest time being one day to a maximum of three to seven days. For the fastest usually found in cities like Manado, Tomohon, Bitung, Kotamobagu, this is because these areas are easy access to the city center. Whereas for those who have a long procedure time, usually because the access from the location of the entrepreneur takes care of the business permit far enough so that going back and forth to the place of business permit takes quite a long time, if the authorized officer from the permit location is outside the city it will be difficult to arrange the permit.

g) *Whether a procedure can be carried out simultaneously with procedures for managing and establishing a business:* Management of business procedures can be carried out in conjunction with other procedures so as to make it easier and faster to manage business licenses.

h) *Official fees for starting or establishing a business:* Management of business licenses in all city districts in North Sulawesi is generally free, the costs incurred are only a photocopy fee for copy the required documents and the cost of going to the place of processing a business license.

i) *Unofficial fees (if any) in starting and establishing a business:* In general, all informants stated that there are currently no unofficial fees for starting and establishing a business. This is also because the government has tightened supervision especially by carrying out a catching operation program against officials who carry out illegal detention or brokers who try to take advantage of the situation or situation, especially in managing business licenses.

j) *A third party who assists in setting up a business:* Management of business licenses is not required for third parties.

k) *Procedure for taking business registration online:* In general, only a few cities have procedures for handling

permits online. But in general it still requires the presence of entrepreneurs or prospective entrepreneurs in the registration of the business license.

l) *Obstacles take care of permits online:* There are still city districts that have low access or limited internet networks that are still not fast enough and there are blank spots so that if done online it cannot be implemented optimally and comprehensively.

m) *Additional procedures for starting a business (eg taking care of BPJS, tax registration, registration of business premises by the government / village / sub-district / city):* For additional procedures to start a business such as taking care of the BPJS, tax registration and registration of business premises can be carried out quite easily. Like BPJS can be done online and taxes are also like that.

n) *In your opinion, how easy/difficult is the level of starting or establishing a business in your district/city and can you explain and compare how to other districts / cities in North Sulawesi:* For cities in North Sulawesi, starting and establishing a business in general is easy and has never been complicated by the authorities. For districts in North Sulawesi, starting and establishing a business in general is quite easy. The only problem is the distance to the place of processing a business license.

o) *In your opinion, how easy/difficult is the level of starting or establishing a business in North Sulawesi Province and in Indonesia:* In general, all informants stated that starting a business in North Sulawesi and in Indonesia is currently easy, not complicated, free of charge, and many facilities provided by the government.

2) *Interview with government officer:* The government authorities in the city district were asked about the ease of establishing and starting a business in their respective city districts.

Based on interview results in general, every city district stated that the management of business licenses in each city district had been facilitated in the processing of permits and extension of business licenses. In addition, the time to arrange business licenses for SMEs in all city districts in North Sulawesi has been cut and accelerated only one day (for big cities) and a maximum of three to seven days (for distant districts).

The municipal district based on instructions from the President of the Republic of Indonesia has waived the cost of arranging a business license. In addition, centralization of business licenses is given to sub-districts in all districts / cities. SMEs are currently given a variety of facilities both newly established and long established by the government such as the tax rate of SMEs which is only 0.5% of the total turnover of small businesses, freeing the cost of arranging new business licenses and extensions, prohibiting various illegal fees and operating arrest of individuals who carry out illegal levies in the management of business licenses, freeing the cost of arranging property rights and copyrights related to business names, brands, products, and services. Helping free training of new entrepreneurs in terms of management, capital, products,

product design, packaging, sales, and small business exhibitions in the province and to other regions in Indonesia and even abroad.

The city district government helped create new small businesses by providing trainings and assistance to prospective new entrepreneurs to establish SMEs in each district / city in North Sulawesi. For example, in remote district areas such as North Bolmong, East Bolmong, and South Bolmong, proactive efforts must be made to register existing small businesses without going to government offices.

## V. CONCLUSION

Based on the results of empirical research with qualitative descriptive methods found that: there have been reforms in starting a business in Eastern Indonesia, especially in districts / cities in North Sulawesi. Where procedures and regulations in the establishment of businesses in the region have been simplified, shorter and faster, easier, free of charge, no unofficial fees, no brokers or third parties to assist in obtaining business licenses. Overall starting and establishing a business in the city district, North Sulawesi Province and in Indonesia is easy.

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