

# LOCAL ECONOMIC GOVERNANCE in INDONESIA



**A Survey of Businesses in 243 Regencies/ Cities  
in Indonesia, 2007**



**Komite Pemantauan Pelaksanaan Otonomi Daerah  
Regional Autonomy Watch**



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# PREFACE

This year's Local Economic Governance Survey provides a fascinating look into the dynamics of local governance and business development in Indonesia nearly a decade after regional autonomy. More than ever, citizens and businesses are pressing to know how well local governments are using their authority to provide better public services and improve their business climates.

This is the sixth survey of a research program begun in 2001 by KPPOD, with support from the Asia Foundation. Each year the scope has expanded, beginning with 90 districts (2001), then 134 districts (2002), 200 districts (2003), 214 districts (2004), 228 districts (2005) and finally 243 districts this year. With more than 12,000 respondents, the survey is the largest of its kind in Indonesia and one of the largest economic governance surveys in the world. The goal has been to help to spur competition among districts and highlight the importance of local business climates in the era of decentralization.

Since the beginning of this project, Indonesia has seen dramatic changes in the political and economic landscape, with the advent of competitive local elections and efforts by national, district and city governments to improve the investment climate. This year's survey has been revised to better reflect these changes. In particular, it now focuses on measuring the quality of local economic governance rather than a district's endowments of natural, physical or human resources. It also concentrates on those aspects of economic governance which are under the control of local governments.

The survey results are used to create the Economic Governance Index (EGI) that ranks 243 districts in 15 provinces on the quality of economic governance. The results are provocative and challenge many commonly held assumptions about what matters to business and the ability of government to respond. We hope that this report can inform policy discussions and empower the broader civil society community to advocate for more responsive local economic governance in Indonesia.

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# GLOSSARY

APBD	Local Government Revenue and Expenditure Plan ( <i>Anggaran Pendapatan dan Belanja Daerah</i> )
APINDO	Indonesian Employers' Association ( <i>Asosiasi Pengusaha Indonesia</i> )
BDS-P	Business Development Service Provider
BAPPENAS	National Development Planning Agency ( <i>Badan Perencanaan Pembangunan Nasional</i> )
BPN	National Land Agency ( <i>Badan Pertanahan Nasional</i> )
BPS	Statistics Indonesia / Central Statistical Agency ( <i>Badan Pusat Statistik</i> )
CV	Limited partnership firm ( <i>Commanditaire vennootschaap / persekutuan komanditer</i> )
DAK	Special Allocation Funds ( <i>Dana Alokasi Khusus</i> )
DAU	General Allocation Funds ( <i>Dana Alokasi Umum</i> )
DPRD	Local city or regency legislature ( <i>Dewan Perwakilan Rakyat Daerah</i> )
EGI	Economic Growth Index
HGB	Leasehold land rights for business ( <i>Hak Guna Usaha</i> )
HO	Nuisance Permit ( <i>Hinderordonnantie / Undang-Undang Gangguan</i> )
IMB	Construction Permit ( <i>Izin Mendirikan Bangunan</i> )
KADIN	Indonesian Chamber of Commerce and Industry ( <i>Kamar Dagang dan Industri</i> )
KLU	Sectoral Classification Code ( <i>Klasifikasi Lapangan Usaha</i> )
KPK	The Anti-corruption Commission ( <i>Komisi Pemberantasan Korupsi</i> )
KPPOD	Regional Autonomy Watch ( <i>Komite Pemantauan Pelaksanaan Otonomi Daerah</i> )
MOU	Memorandum of Understanding
NTB	West Nusa Tenggara ( <i>Nusa Tenggara Barat</i> )
NTT	East Nusa Tenggara ( <i>Nusa Tenggara Timur</i> )
PD	Local government's company ( <i>Perusahaan Daerah</i> )
PDAM	Indonesian state water utility ( <i>Perusahaan Daerah Air Minum</i> )
PLN	Indonesian state electricity firm ( <i>Perusahaan Listrik Negara</i> )
PO	Sole proprietorship company ( <i>Perusahaan Perorangan</i> )
PP	Government Regulation ( <i>Peraturan Pemerintah</i> )
PT	Limited liability company ( <i>Perseroan Terbatas</i> )
PT, Tbk.	Publicly listed limited liability company ( <i>Perseroan Terbatas, terbuka</i> )
SIUP	Trading License ( <i>Surat Izin Usaha Perdagangan</i> )
SMEs	Small and Medium Enterprises
TDI	Industrial Registration ( <i>Tanda Daftar Industri</i> )
TDP	Business Registration ( <i>Tanda Daftar Perusahaan</i> )
UD	Trading Firm ( <i>Usaha Dagang</i> )



# EXECUTIVE SUMMARY

**Over the past ten years, Indonesia has made a remarkable transition to become a stable and fully democratic country.** The government has initiated many reforms to simplify investment processes, combat corruption, encourage transparency and improve the business environment. Although many development challenges persist, the rate of economic growth has increased and investment rates have returned to pre-crisis levels.

**The decentralization of political authority early in the decade has brought many benefits.** Decision-making processes now involve local communities and direct local elections have brought a higher level of accountability to check the powers of local government. Decentralization has also allowed local governments the freedom to innovate in the areas of public service reform, licensing and financial management.

**However, decentralization has also created new challenges for business growth, often leading to greater uncertainty for investors.** Approximately 85% of sampled local regulations in Indonesia have some kind of problem, either with their legal references, omission of required points of substance, or violations of points of principle. However, only around 10% are thought to significantly distort local economic activity. Capacity for basic government functions such as planning and budgeting, business promotion, and regulation remain weak in most of the districts in Indonesia.

**Voters and investors throughout the country are keen to know who is succeeding and failing with these critical challenges.** The Local Economic Governance Survey provides part of the solution. From December 2007 until March 2008, this

survey interviewed 12,187 enterprises - around 50 firms in each of the districts in 15 provinces - about the quality of local economic governance. This was complemented by a survey of 729 business associations and a review of almost 1000 local regulations affecting the business climate.

**The survey results form the basis of the Economic Governance Index (EGI), which measures local government performance across nine sub-indices.** These sub-indices are chosen to reflect key aspects of governance including: Land Access and Security of Tenure; Business Licensing; Local Government and Business Interaction; Business Development Programs; Capacity and Integrity of Mayor/Regent; Local Infrastructure; Local Taxes, User Charges and other Transaction Costs; Security and Conflict Resolution; and Local Regulations.

**Unlike some other investment climate rankings, it is specifically tailored to Indonesia's context and focuses on indicators which local governments can affect.** It measures economic governance, not endowments, so any district is potentially competitive. The survey is representative at the district level and relies on firms' experiences, rather than expert opinion or laws. In order to support advocacy efforts, the EGI rankings are relative to other districts, not arbitrary external standards.

## Key Findings

### Land Access and Security of Tenure

Although most businesses own their land, the certification process is lengthy, and in some places can exceed six months. There are dramatic differences among districts in terms of the ease of land registration. Similarly, land tenure is



generally secure, but there are some areas, including major cities, where there are particularly severe problems with security of tenure. For this sub-index, the Regency of Timor Tengah Utara in NTT was the best performer, while the City of Surabaya was the worst overall.

### **Business Licensing**

Only about half of the surveyed firms possess a business registration permit, even though this is required by law. Compliance rates are much worse for other basic business licenses. By law, the registration should take no longer than seven days, but usually requires 14 days in practice. Despite a ministerial decree two years ago mandating the establishment of district One Stop Service (OSS) centers for business licensing, only 7% of firms had used them to obtain their current registration permit. The best performer in this sub-index, the City of Blitar in East Java, has a well-known OSS. The worst district was the Regency of Lombok Tengah in NTB. But overall, despite often taking longer and costing more than it should, most businesses claim that they are not particularly burdened by licensing issues.

### **Local Government and Business Interaction**

Fewer than 30% of businesses believe that there is a *Forum Komunikasi* in their districts, but with wide variations. Generally businesses have a moderately positive view of local government attempts to support them. Districts in South Sumatra dominate the top ten for this sub-index, with the best being the Regency of Musi Rawas, while the worst ranking district was the Regency of Banyumas in Central Java. Most firms believe governments are reasonably equitable in their treatment of businesses and do not create additional uncertainty for their businesses. However, they also say that government policies have little influence on them in practice.

### **Business Development Programs**

Less than 20% of firms say that there are business development programs run by the local

government, such as management and staff training, product promotion and help in accessing credit. And access also depends on size – for example, only 6% of small firms receive assistance for local product promotion, while 18% of large firms do. Partly as a result of low awareness and participation, relatively few firms say that business development programs have had a significant impact on their firm. The best district for this sub-index was the Regency of Bantul in Yogyakarta, while the worst was the Regency of Kediri in East Java.

### **Capacity and Integrity of the Mayor/Regent**

Around a third of firms believe that district leaders are involved in corrupt activities that benefit themselves. However, there are significant district variations. The best districts were mostly in South Sulawesi and South Sumatra, with the best being the Regency of Soppeng in South Sulawesi. The worst performer in this sub-index was the Regency of Nias Selatan in North Sumatra. However, most firms feel that they are not significantly affected by the capacity and integrity of the mayor.

### **Local Taxes, User Charges and other Transaction Costs**

Generally local user charges and taxes are not perceived to be a significant burden. More than 92% of all firms say that such costs do not burden them, or trouble them very little. Large businesses are more frequently required to make security payments to police, military and government agencies, but do not see these payments as a significant burden. However, there is significant variation among districts in the taxes and user charges that they pay, as well as in which government and non-government groups extract unofficial payments. The best performer for this sub-index was the Regency of Tabanan in Bali, while the worst was the Regency of Bima in NTB.

### **Local Infrastructure**

Infrastructure is the primary concern of businesses



at the district level. Approximately 35% of firms stated this as their number one constraint on doing business. Poor quality roads and frequent power outages are the main problems with 75% of firms saying that there has been no improvement in infrastructure since 2006. But there are dramatic differences in the responsiveness of local governments to fixing infrastructure problems when they occur. Businesses in East Java districts were the most positive, giving the Regency of Taban the top score for this sub-index, while the worst performer was the Regency of Labuhan Batu in North Sumatra.

### **Security and Conflict Resolution**

Most firms report a relatively low incidence of crime and say that issues of security and conflict resolution have little impact on them. They also report reasonably positive opinions of the police (although these are sensitive questions which may lead to a positive bias). By far the most common mechanism for resolving disputes is the *musyawarah mufakat*, a community dispute resolution process. Less than 1% of businesses have ever used other government services, arbitration or the court system. The best district for this sub-index was the Regency of Pamekasan in East Java, while the worst was the Regency of Langkat in North Sumatra.

### **Local Regulations**

Overall, 85% of all regulations are problematic in terms of either legal compliance, missing points of substance, or matters of principle. This can lead to inconsistent interpretation and implementation

of policy. However, 13 districts, mostly from East Java and NTB, had perfect scores for the regulations sampled from those areas, while the worst districts were dispersed throughout the country. Only about 10% of regulations are clearly distortionary or problematic for economic development. Of these, the most common regulatory problems are constraints on the free movement of goods around the country and restrictions on non-local labor.

**Overall, the Local Economic Governance Survey challenges many commonly held assumptions about the role of local economic governance in business development.** In many districts, it appears that local government policies and programs matter very little to businesses. The licensing and regulatory environment is unnecessarily complex, but generally not too burdensome for firms currently operating in Indonesia. User charges and local taxes are regarded as a nuisance but do not generally represent a heavy burden. And most firms are not aware of, and do not use, local business development programs. However, the poor provision of basic infrastructure, such as roads, water and electricity, and irregular maintenance, remain a significant hindrance to business activities as are difficulties in accessing land. This suggests that both central and local government need to do more to ensure that their activities are relevant and useful to the business community and to place a greater focus on addressing their main concerns.



# INTRODUCTION

**Indonesia is now at a critical stage in its economic development process.** In a short span of time, it has established a robust democracy, strengthened its national institutions, and taken a number of important initiatives to improve the business environment. The Government of Indonesia has sought to simplify investment rules, stabilized its macro-economic policies, and made slow, but steady progress in eradicating corruption. However, the decentralization of political power to the regions has created new challenges for driving business growth, in many cases leading to greater uncertainty and a profusion of new regulations.

**Today, the country contains more than 480 districts, up from 292 in 1998, and the number is still growing.** While central government remains a key part of the overall story, local governments now have a major role in allocating public spending and establishing the regulatory environment. The rules and procedures that govern business licensing, registration, permits, user charges, and some taxes, have largely been devolved to local governments.

**Decentralization has brought many benefits, as decision-making processes are now closer to citizens and more relevant to local communities.** Direct local elections have also brought a higher level of accountability to check the powers of local government. Access to local program budgets is now in the hands of district governments, allowing citizens to be more directly involved in budgeting for their priorities. Decentralization has also allowed local governments the freedom to introduce economic innovations, such as One Stop Shops for business licensing reform.

**While some local governments have used this new freedom to create dynamic business climates, others have struggled with financial management, legal uncertainty and poor strategic planning.** The power shift has also led to concerns about economic governance and the alleged corruption of some “little kings” - the mayors and leaders of cities and districts. Approximately 85% of sampled local regulations in Indonesia are either incomplete, inconsistent, or distort local economic activity. Capacity for basic government functions such as planning and budgeting management, business promotion and regulation remain weak in most of the districts in Indonesia.

**Under decentralization, elected local officials are eager to be seen as successfully promoting their region for investment and jobs, while voters and investors are keen to know who is succeeding and failing with these critical challenges.** Measuring performance in these areas is difficult, because standards must be relevant and comparable, while also within the short-term control of governments. Most existing methods focus on outcomes which are not under the local government’s direct control, such as the percentage of the labor force that is employed, the Human Development Index and the economic growth rate. The challenge is to find an effective and reliable tool for measuring the quality of economic governance among districts.

**The Local Economic Governance Survey provides part of the solution.** It is specifically tailored to Indonesia’s context and focuses on indicators which local governments can affect. The survey forms the basis of the Economic Governance Index (EGI), which measures the quality of economic governance and enables

comparisons across districts. The survey is based on actual practice and business perceptions, rather than official legal frameworks. Typically, investment climate surveys measure key infrastructure endowments, such as road and sea logistics, which are not easily altered by local government. The Local Economic Governance Survey controls for these factors and focuses on how well local leaders manage the delivery of business services and take initiative to improve their business climates.

**KPPOD has been implementing a survey and ranking of economic governance and business climates in Indonesia since 2001.** The first of its kind in Indonesia, the ranking gradually increased its coverage from 90 districts in its first year, to 243 in 2007. The original KPPOD survey helped to spur competition between districts and highlight the importance of local economic governance in the era of decentralization. The KPPOD data has shown that regional performance has been mixed. Since 2001, infrastructure investment has faltered and there has been a proliferation of new fees, regulations, and corrupt practices as local governments exercise their new rights – often unaware of the potentially negative impacts on business development.

**This year, the Asia Foundation has worked together with KPPOD to develop a comprehensive new survey and index methodology.** The 2007 survey covers all 243 cities and regencies within 15 provinces, making it the largest of its kind in Indonesia (and one of the largest in the world.) An international survey firm, The Nielsen Company, implemented the new

survey in late 2007 and early 2008. This survey polled approximately 12,000 businesses and more than 700 business associations across Indonesia and delves into key aspects of local economic governance. All districts in the remaining half of the country are planned to be surveyed in a second stage later this year.

**This survey differs from the previous KPPOD investment climate surveys in a number of ways.** It is broader in coverage than previous surveys and includes all districts within selected provinces. The new EGI focuses on economic governance, not investment attractiveness. Earlier indices also tended to conflate indicators measuring process (i.e. local institutions and policies) and outcomes (per capita GDP and labor productivity), limiting the coherence of the index, while the new EGI separates short-term policy indicators from control and outcome variables.

**The EGI does not aim to explain the drivers of economic growth, but instead focuses on governance issues.** The results show which governments are increasing their chances of success, and which are unnecessarily impeding their growth potential through poor governance. Thus, the EGI emphasizes factors such as transparency, quality of policy, capacity and integrity of the mayor, as well as local initiatives. In the previous index, endowment variables such as infrastructural assets and economic potential ensured that cities came out ahead, while the new survey highlights effective local governments regardless of size or wealth.

# METHODOLOGY

## Firm Survey

The Local Economic Governance Survey 2007 focuses on obtaining information about the quality of local economic governance directly from private sector firms. It achieves this by fielding one of the largest surveys of local economic governance in the world. Between December 2007 and March 2008, around 50 firms were sampled randomly from each of 243 districts across the country, a total sample of 12,187 firms.<sup>1</sup> The 243 districts consisted of all regencies and cities in 15 provinces, thereby facilitating comparison at the provincial level between all the districts in the chosen provinces. The provinces chosen are shown in Figure 1.

The survey is representative of all non-primary sector private sector firms with 10 employees or more. Firms whose principal activity was

farming, forestry or fishing were excluded because including them would have made the sampling frame far too large and because the nature of the governance issues faced in these primary sectors may be different than those faced in other sectors. However, only primary sector activities in these sectors were excluded; firms that processed agricultural, forestry or fishery products were included. Similarly, government owned firms were excluded (since their perspective of local governance is likely to be very different from that of the private sector), as were public education entities, health services and other government institutions.<sup>2</sup> Finally, the sample was restricted to firms with 10 employees or more because, during piloting, it was discovered that firms smaller than this level had virtually no interaction with the government and were therefore often unable to answer many of the questions. Each sampled firm was subject to a face-to-face interview which

Figure 1: Map Of Provinces Covered By The Local Economic Governance Survey 2007 (In Red)



1 All data gathered refers to 2007.

2 Private education services such as tutoring pupils were also excluded.

lasted approximately one hour. The Firm Survey asked questions about eight major aspects of local economic governance, while the Local Regulations aspect was covered in a secondary review (see Secondary Data section).

**Box 1: Key Aspects Of Local Economic Governance Survey Covered In The Survey**

- Access to Land and Security of Tenure
- Business Licensing
- Local Government and Business Interaction
- Business Development Programs
- Capacity and Integrity of the Mayor/Regent
- Local Taxes, User Charges and Other Transaction Costs
- Local Infrastructure
- Security and Conflict Resolution
- Local Regulations

**These aspects of local economic governance were chosen to be consistent with theories of how local economic governance should influence local economic performance.** They therefore represent a clear set of analytical concepts making it easy to identify the link between these concepts and economic performance. For example:

*Access to Land and Security of Tenure* affects investment since firms will not be willing to make new investments unless they can access land and existing firms' investments will be influenced by the extent to which they feel that their current tenure is secure.

*Business Licensing* can encourage firm start-ups if procedures are simple and cheap, or discourage market entry if they are complex and difficult.

*Local Government and Business Interaction* is essential to ensure that policies and public investments meet the needs of investors. Conversely, a lack of effective mechanisms for interaction between the local government and business can result in the implementation of policies that are harmful to business growth.

*Business Development Programs* run by local governments can be an effective mechanism for

introducing management and other skills to the local workforce and to connect local businesses to outside markets. But if these programs are non-existent or poorly run their benefits can be limited.

The *Capacity and Integrity of the Mayor/Regent* is essential for the implementation of effective local government policies. Honest and competent local leaders are more likely to pursue investment friendly policies and programs.

*Local Taxes, User Charges and other Transaction Costs* can be burdensome to local firms if they are simply used as a mechanism of extracting money from the community. However, they may not be burdensome if they are reasonable, well implemented, and used to fund the delivery of appropriate services.

*Local Infrastructure* – notably good quality local roads, electricity supply, street lighting, water supply and telecommunications – is vital for businesses to function effectively. Conversely, poor quality infrastructure can dramatically raise costs and hamper the ability of businesses to invest and grow.

*Security and Conflict Resolution* mechanisms are a critical part of the investment climate. It is extremely difficult for businesses to prosper if there is frequent civil unrest. Similarly, having access to effective mechanisms for the resolution of business disputes enables firms to enter into contracts with greater confidence that they will be honored.

*Local Regulations* reflect on the local regulatory environment. Complex and confusing local regulations can constrain local businesses by creating uncertainty and by limiting trade and access to markets.

**These aspects of local economic governance were also chosen because they are directly under the**



**control of the local government.** One of the problems with other measures of the investment climate at the district level is that they tend to focus on the assets or “endowments” of the district such as its natural resources and proximity to major markets. However, these are not characteristics which a district government can influence – it would therefore be unreasonable to use such characteristics to assess a district government’s performance. The EGI by contrast measures performance on aspects of governance over which all district governments have control.

**The data gathered from the questionnaire include both “hard” (numerical) data and “soft” (perception) data.** For example, when assessing the quality of infrastructure business people are asked for hard data on how often their electricity is cut off each week and whether they have a generator. But they are also asked to give their perceptions about the quality of electricity infrastructure. Both forms of data are useful: hard data can be helpful in quantifying the scale of the problem (days to get a license, amount paid in user charges); but perception data can also be invaluable for assessing issues for which few easily available quantitative measures exist (e.g. the capacity and integrity of the district head). Moreover, where both types of data are available on an issue, they are generally consistent. For example, districts in which the electricity is cut off more often, tend to report worse perceptions about the quality of electricity infrastructure.

**The sampling method was chosen to make the results representative at the district level.** Since the principal aim of the survey was to enable comparisons in performance between districts, roughly the same sample size was chosen in each district to maximize the accuracy of comparisons between districts. Within each district, small (10-

19 employees), medium (20-99) and large (100+) firms were sampled roughly in proportion to their presence in the district.<sup>3</sup> Within each size class, firms were sampled from three aggregate sectors – production, trade, and services<sup>4</sup> – again in proportion to their presence in the local economy.

## **Business Association Survey**

**In addition to the firm survey, The Local Economic Governance Survey included interviews with representatives from three business associations in each district.** Sometimes business associations are more aware of particular problems associated with local economic governance than individual entrepreneurs. Hence soliciting their views can be very helpful in providing a more detailed understanding of the problems faced by the local business community. Overall, 729 business associations were interviewed.

**The business associations interviewed included KADIN and APINDO.** These are the two national, non-sectoral business associations which are found in most locations. However, in addition, one sectoral business association was interviewed. The choice of sector depended on the nature of the local economy. Typically the association was associated with the sector with the largest share in the local economy.

**The business association data provides information about the nature of the interaction between the local government and the business community.** This includes detailed information about the ways in which local governments consult businesses and how often they do so, as well as the assessment of business associations of the quality of these processes. It also includes information about the frequency and quality of

<sup>3</sup> The sample frame was the Economic Census 2006 list of firms with some omissions. The sample was roughly “probability proportional to size” where the size was the number of firms in the population within each size, sector strata. A minimum of 5% of firms sampled were large, and a minimum of 45% of firms were medium to ensure adequate representation of the larger size classes - for details of the sampling methodology please contact KPPOD or The Asia Foundation.

<sup>4</sup> Production includes the BPS KLU classifications for mining, manufacturing, electricity gas and water, and construction; Trade includes the KLU classification for trade; Services includes all remaining KLU classifications.

business development programs run by the local government.

## Secondary Data

**In addition to primary data from firms and business associations, this survey also uses secondary data from a number of sources.** The secondary data collected includes information on local taxes and user charges. It also includes regional budget data, particularly the ratio of the budget used for various public services and business development programs. The team also collected macro-economic indicators, including employment figures, inflation levels and local GDP.

**The survey team also conducted a review of local government regulations from all 243 districts in the survey sample.** The regulatory review was incorporated into the overall rankings as one of the sub-indices. The team reviewed 932 local regulations in order to categorize regulations and identify problem areas. The analyzed regulations were restricted to economic regulations relating to licensing, the transport of goods and services, and labor issues. These were categorized according to three performance metrics: legality, substance and principle (See section on Local Regulations for further information).

## Construction of the Economic Governance Index

**Constructing an index of local economic governance is controversial.** It is therefore important that the methodology used in its construction is transparent and complies with international best practices in index construction. In constructing the current index, KPPOD has consulted a wide range of other approaches to index construction, including national level

indices such as the Doing Business Index from the International Finance Corporation/World Bank (and its sub-national counterparts), as well as the Worldwide Governance Indicators and the sub-national economic governance indices supported by The Asia Foundation in Vietnam, Philippines, Cambodia, and Sri Lanka.<sup>5</sup>

**In order to be able to assess the performance of a district one needs to have a comparator.** Some other international indices use “international best practice” as the benchmark and assess country or region performance based upon this. For example, one might assess the speed of licensing processes, using as a benchmark the best performance globally on licensing. Other indices score countries and regions on the procedures laid down in the law of the country as the benchmark. In this case, the speed of licensing would be the official time required if one were to follow all the necessary procedures one by one. Another approach is to draw on expert opinion, such as those of notaries or law firms, about the length of time that firms in practice take to obtain licenses.

**All of these approaches have their strengths. But in the Indonesian context they also have important weaknesses.** Comparing Indonesian districts against “international best practice” might create an impossibly high standard for some poor districts in Indonesia. Using the procedures laid down in law to assess performance is useful (and we do this in our analysis of local regulations) – but there is often a marked discrepancy between reality and what is written in the law and so it is important to measure the reality too. And while using expert opinions about that reality is much cheaper than doing a firm survey, it relies on those experts being able to provide a truly representative picture for the entire business community.

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<sup>5</sup> The Philippines Cities' Competitiveness Ranking Project (PCCRP), 2005; Provincial Competitiveness Index (PCI), Vietnam, 2006, 2007; Economic Governance Index, Sri Lanka, 2007; Provincial Business Environment Scorecard, Cambodia, 2006



**The EGI therefore uses within country comparisons of best and worst practice as its key benchmarks.** As noted above, the EGI relies primarily on a firm survey ensuring that results reflect the reality faced by firms rather than the views of selected experts or the statements in local regulations. Moreover, it uses the best and worst performance in the country as its benchmark. That is, district performance is measured against a scale that is determined by the best and worst performance of other districts in Indonesia. For example, the speed of licensing for each district is measured against the fastest and slowest licensing procedures of other districts in Indonesia. Using current best and worst practice to define the benchmark ensures that districts are compared against a standard that is relevant for Indonesia and achievable (because it has actually been achieved by other districts).

Given this choice of benchmarks, the EGI is constructed using the following simple four step process:

**1. Determine the variables chosen to represent each sub-index and calculate a district level mean for each variable**

Each sub-index represents a particular concept, as shown in Box 1. The variables used in constructing each sub-index must therefore reflect that concept. In addition, to ensure that meaningful comparisons can be made across different districts, the response rate in each district must be sufficiently high that we can have confidence in the average value calculated.

As a concrete example, the variables used in the Land Access and Security of Tenure sub-index are:

- Time taken to obtain a land certificate
- Perceived ease of obtaining land
- Frequency of evictions in the region
- Perceived frequency of land conflicts

- Overall assessment of the significance of land problems

The time taken to obtain a land certificate and the perceived ease of obtaining land, are useful variables for assessing the ease of accessing land, while the frequency of evictions and the frequency of land conflicts are useful indications of the level of insecurity about land tenure. For all sub-indices derived from the firm survey, firms were also asked to give their overall assessment of the extent to which that issue was a constraint on their activities – this is the overall assessment variable.

The “hard” data on the time to obtain a land certificate is measured in weeks. Perception data on the other typically used a simple 4 point scale. For example, when firms were asked about the ease of obtaining land they were given the choice of: very difficult (1), difficult (2), easy (3), and very easy (4). Similarly when firms were asked about the likelihood of eviction they chose between extremely likely, likely, unlikely, and very unlikely. To obtain a general picture, the average values of each of these variables were calculated for the district.<sup>6</sup>

**2. Normalize the average values by calculating a t-score**

Once district average values have been calculated for each variable in a sub-index, it is necessary to normalize these values so that they can be compared. Without some mechanism for standardizing or normalizing the variables, it is impossible to combine a mean value of, say, 20 days to obtain a land certificate, with a mean score of, say, 3.2 of perceptions about the likelihood of eviction, simply because these variables use different scales of measurement. Fortunately we can use a simple normalization to put all the variables into the same scale. This is achieved by

<sup>6</sup> Throughout this report, the word “average” refers to the mean

putting all variables on a scale from 0 to 100, where 0 is the worst district (for that variable) and 100 indicates the best district for that variable. The normalization used to calculate the t value for each variable is:

$$t = 100 \times \frac{x - x_{\min}}{x_{\max} - x_{\min}}$$

Where  $x$  is the average value of the variable for the district;  $x_{\min}$  is the lowest average value of the variable across all the districts; and  $x_{\max}$  is the highest average value across all the districts. This generates for every variable, a value between 0 and 100 indicating where the district lies on the scale of worst to best districts for that variable.

*Example: The t-score for the time to obtain a land certificate in the City of Bima*

The average time reported by firms to obtain a land certificate in the City of Bima is 19.3 days. But the minimum time across all 243 districts is found in Regency of Timor Tengah Timur in Nusa Tenggara Barat where it only takes 4.17 days to obtain a certificate. By contrast, the longest process can be found in the City of Cimahi in West Java where it takes 42 days on average to obtain a land certificate. The t-score for the City of Bima for the “time to obtain a land certificate” variable is therefore  $t = (19.3 - 4.17)/(42 - 4.17) = 40.05$

*Reversing the scale*

The variables in the index are constructed so that a higher score indicates better performance. However, for some variables, larger numbers indicate worse performance. For example, a longer time to obtain a land certificate makes access to land more difficult rather than easier. For such variables, the t-scores are reversed simply by calculating  $t_{rev} = 100 - t$ . Thus, for the Bima example the final t-score is  $t_{rev} = 100 - 40.05 = 59.9$ . This indicates that the City of Bima is 60% along the scale that runs from the worst

performing district to the best performing district.

### 3. Average the t scores for the variables in the sub-index

Once the t-scores have been calculated for all variables in a sub-index (and reversed when appropriate to ensure that larger scores correspond to better performance), they can be simply averaged to obtain an overall score for the sub-index.

*Example: the Land Access and Legal Certainty Sub-index for the City of Bima*

The t-scores for each of the variables in the land sub-index for the City of Bima are shown below:

Variable	t-score
Time taken to obtain a land certificate*	59.9
Perceived ease of obtaining land	35.7
Frequency of evictions in the region*	48.9
Perceived frequency of land conflicts*	44.3
Overall assessment of the significance of land problems	18.7
Land Access and Legal Certainty Sub-index for City of Bima	41.5

\*These variables have had their t-scores reversed.

### 4. Construct the final Economic Governance Index by weighting the individual sub-indices by their importance

The individual sub-indices are perhaps the most useful indicators for policy, since they each refer to clear concepts and issues which local governments can address. However, it is natural to want to combine the scores for the sub-indices into an overall score for economic governance in each district. There are a number of different ways in which the sub-indices might be combined. For example, if we believe that each of the sub-index areas are of equal importance, then the final index could be calculated as a simple average of all the sub-indices. However, it is highly unlikely that each of these aspects of local economic governance is of the same importance to businesses. Another approach might be to use expert weighting of the

relative importance of the issues, but such assessments do not necessarily correspond to the weightings which firms themselves put on these different problems.

Fortunately, the survey itself provides an elegant solution to this problem. Firms were asked explicitly to state what they felt was the most important constraint that they face in their activities. We therefore use the share of firms, across all 243 districts, that identify each of the sub-index areas as the most important constraint as our weights in constructing the final index. Thus 35% of firms stated that local infrastructure was the most important constraint that they face, so was used a weight of 0.35 on the Local Infrastructure Sub-index was used. The full set of

weights is shown in the Economic Governance Index section.

It is of course true that a different choice of weights might give a different overall ranking of districts. It is for this reason that there is a focus on the presentation of the sub-index results in detail, since these are the results which are directly relevant to the evaluation and improvement of local economic policies and programs.

Nonetheless the belief is that, using firms' own statements about the relative importance of these issues on their activities is a reasonable and defensible approach to the construction of a meaningful ranking of local economic governance across all 243 districts covered in the survey.



# CHARACTERISTICS OF FIRMS AND BUSINESS ASSOCIATIONS

## Firm Sample and Characteristics

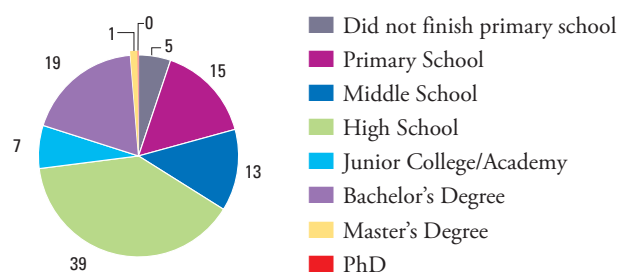
The sample was representative of non-farm businesses at the district level with 10 employees or more. The sample for this study consisted of 51% small businesses (10-19 employees), 43% medium-scale businesses (20-99 employees), and 6% large businesses (100+ employees). In terms of business sector, the sample comprised 43% in the production sector, 21% in the trade sector, and 36% in the services sector.

This survey interviewed those who make the key decisions in companies. Of the 12,187 companies surveyed, 59% were business owners, while 21% were managers (of the remaining 20%, 14% were commissioners of the company and 6% were directors).

As owners and managers of the firm, most respondents were relatively well educated. Figure 2 shows the educational level of the respondents: 20% of respondents had first university degrees or higher, 7% had academy/junior college training, and 39% were high school graduates. The fact

that two-thirds of the respondents had a high school education gives us some confidence in the quality of the information obtained from the respondents. Only around 5% of the respondents had not completed primary school.

Figure 2: Percentages Of Respondents By Education



Half of the companies in this survey were individual enterprises (PO). A further 14% of the total were legal entities in the form of limited companies (PT), 11% were private foundations, 11% legal entities in the form of limited partnerships (CV), 9% legal entities in the form of cooperatives, and 3% legal entities in the form of trading businesses (UD) (see Table 1).

Table 1: Percentages Of Firm Sample By Legal Status And Firm Size And Sector

Legal Form	Small	Medium	Large	Production	Services	Trade	Total
PT. Tbk	0	1	4	1	1	1	1
PT	7	16	55	13	16	13	14
CV	10	13	9	16	9	6	11
PD	1	1	0	1	2	0	1
Firma	0	0	0	0	0	0	0
Cooperatives	8	9	7	2	5	19	9
PO	57	46	15	54	43	49	50
Private Foundations	2	4	5	0	0	8	3
UD	14	10	4	12	23	3	11
	100%	100%	100%	100%	100%	100%	100%
Total No. of Firms	6,214	5,259	714	5,322	2,526	4,339	12,187

Unsurprisingly, PTs are much more common among large firms – more than half of the large firms surveyed had this form, compared to only 7% of small firms. Conversely 57% of small firms were POs compared to only 15% of large firms.

**The type of legal form firms took depended on the sector.** CVs were more prevalent among production firms, with 16% of production firms taking this form. Private foundations, on the other hand, tended to be in the trade sector, while UD were concentrated in the service sector (see Table 1).

**The average age of the firms surveyed was 14 years.** However, a quarter of firms were 6 years old or less, while another quarter were 19 years old or older. The oldest firm surveyed was 166 years old. The average age varied little by sector, but large firms tended to be slightly older (on average 18 years), while small and medium firms were slightly younger (14 and 15 years respectively). The typical level of experience of the firms surveyed makes it more likely that they have a good understanding of the problems of the business community and some knowledge of the policies of their local government.

**Large firms had far higher sales per worker than small firms.** The average annual turnover of small businesses was Rp 1.5 billion; for medium businesses, the average turnover was Rp 3.16 billion; while for large companies, it averaged Rp 56.14 billion. When examined in terms of business sector, the average turnover for the production sector was Rp 6.6 billion, for the trade sector the average was Rp 4 billion, and in the services sector it came to Rp 2.3 billion. Dividing this by the average number of employees for each group gives us a measure of labor productivity.<sup>7</sup> Labor productivity was similar in small and medium sized firms, but the labor productivity of large firms was roughly double that of smaller firms, reflecting their much larger capital

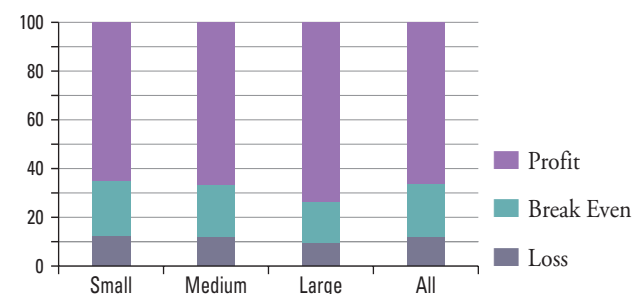
endowment. Labor productivity was higher in the trade sector relative to the production and service sectors, although this may simply reflect greater sales from trading rather than greater value added (see Table 2).

Table 2: Sales And Labor Productivity By Size And Sector

Size	Average sales 2007 (Rp million)	Average No. of employees	Labor productivity (Rp million/employee)
Small	1,551	14	107
Medium	3,158	34	92
Large	56,138	298	188
<b>Sector</b>			
Production	6,576	54	121
Trade	4,002	24	166
Services	2,291	31	74
All	4,526	40	114

**In 2007, relatively more large firms were profitable than small and medium sized firms.** Of the 12,187 companies, 66% said that they made a profit in 2007, 22% said that they just broke-even, and 12% claimed they made a loss (see Figure 3). However, less than 10% of large firms said that they made a loss, while over 70% said that they were profitable. Similarly slightly more trading firms claimed to be profitable than production and service firms.

Figure 3: Percentage Of Firms Claiming To Make A Profit, Break Even Or Make A Loss

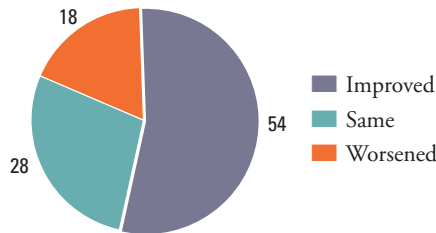


**Most businesses believe that their performance has improved since 2005.** 54% of the 12,187 companies claimed their companies' performance had improved, 28% said their business was

<sup>7</sup> A better measure would be value-added per worker rather than sales per worker, but unfortunately information on firm costs is not available.

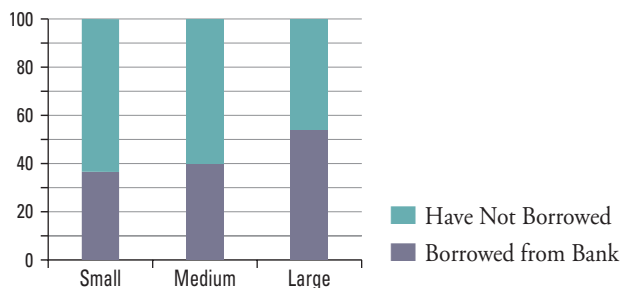
stagnant, and 18% said their business had deteriorated (see Figure 4). However, there are significant differences in these perceptions across provinces, with less than half of businesses in North Sumatra and Centra Java saying that things had improved, and less than 40% in West Java.

**Figure 4: Percentage Of Firms That Say Their Performance Has Improved Or Deteriorated Since 2005**



A majority of firms were not connected to the formal banking sector. More than 60% of firms did not have any bank loans. Generally, firms relied on capital from individuals, relatives, and other investors. However, through easier access to collateral and compliance with other lending requirements, larger businesses tended to use bank credit more often than smaller firms, 54% versus 37% (see Figure 5), while the production and trading sectors were likewise more likely to use bank loans than the service sector. Use of bank loans also varied greatly by region, with 59% of firms in DI Yogyakarta reporting using them, while only 23% of firms did so in NTT.

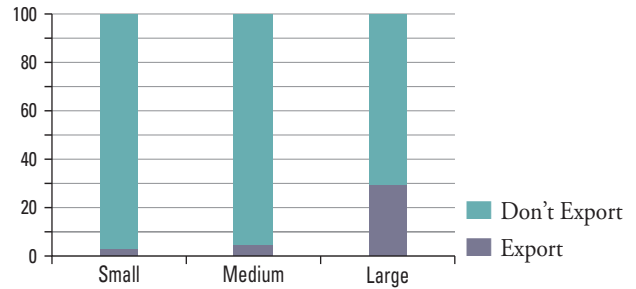
**Figure 5: Percentages Of Companies That Have Ever Borrowed From A Bank, By Scale Of Business**



Only 5% of surveyed companies exported their products abroad. In terms of scale of business, 30% of large companies reported exporting their products, while less than 5% of small and

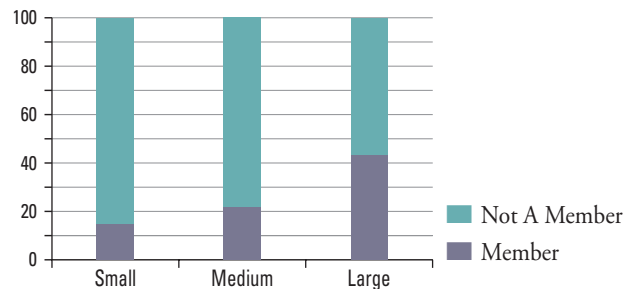
medium size firms did so (see Figure 6). Export activity also varies across regions, with the highest concentrations in DI Yogyakarta and Riau Islands, which, with 15% of firms exporting, were three times the average.

**Figure 6: Percentages Of Companies That Export Their Products By Firm Size**



The vast majority of firms were not members of any business associations. Only 20% of the sample said they were association members. In terms of scale of business, large businesses were more likely to be members of business associations (see Figure 7). Businesses in the trading business sector were less likely to join business associations than companies in the production and service sectors. Association activity varied greatly by region, with average membership rates ranging from less than 10% to over 40% of sampled firms.

**Figure 7: Percentages Of Companies That Are Association Members By Scale Of Business**



## Business Association Sample and Characteristics

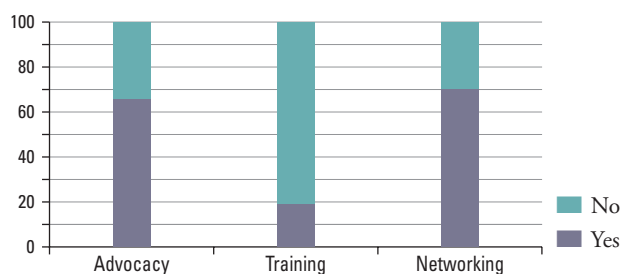
The business association sample in this survey consisted of 729 associations, with an average of three business associations in each district. Most



of the associations interviewed were regency/city Kadin (Chamber of Commerce and Industry), Apindo, Aspekindo, and Gapensi. The associations had been established for an average of 16 years. Most of the association respondents held positions in management as Chairman of the Board (59%), followed by Secretary General or as other officers of the business associations.

**Most business associations exist to provide networking opportunities for members.** Nearly three quarters of firms indicated that their business association's main activity is networking, followed by engaging in advocacy (66%). Only 20% said it was to provide training to members of the association (see Figure 8).

Figure 8: Primary Activities Of Business Associations, By Percentage



**There is enormous variation in the size of business associations across provinces.** On average, each association has around 150 member businesses, although this figure varies between

regions. In NTB, for example, one association has 7,300 members, while in NTT, North Sumatra and South Sumatra, there were associations with as few as four businesses as members (see Table 3).

Table 3: Minimum, Average, And Maximum Values For Numbers Of Members In Each Association

Province	Association Membership		
	Min	Average	Max
North Sumatra	4	85	700
Riau	5	104	999
South Sumatra	4	91	992
Kepulauan Riau	12	107	400
West Java	7	233	4200
Central Java	9	119	2500
DI Yogyakarta	27	243	2000
East Java	5	113	999
Bali	8	167	1006
NTB	20	594	7300
NTT	4	214	3000
East Kalimantan	6	179	3000
North Sulawesi	15	76	296
South Sulawesi	8	118	999
Gorontalo	14	68	167
All	4	152	7300

**In general, business associations have high levels of active members and are dominated by firms from the construction industry.** Associations reported an average of 83% active members, and this level of participation was consistent across regions. More than half of all member firms were also from the construction industry, with some regions, such as Gorontalo reporting 74% of firms participating from that sector (see Table 4).



Table 4: Percentages Of Business Sectors Of Association Members

Province	Agriculture	Mining	Manu- facturing	Electricity, Gas, and Water	Cons- truction	Hotels and Restaurants	Transporta- tion and Communi- cations	Finance Leasing, Business Services	Services	All
North Sumatra	7	1	2	4	71	5	6	2	2	100
Riau	1	10	1	4	60	4	10	2	10	100
South Sumatra	10	3	2	6	61	6	1	8	3	100
Kepulauan Riau	13	2	3	1	30	27	9	4	10	100
West Java	7	1	25	2	37	17	4	2	5	100
Central Java	7	1	19	2	42	17	5	3	5	100
DI Yogyakarta	2	0	17	1	27	38	2	10	4	100
East Java	9	4	11	11	41	14	3	3	4	100
Bali	8	1	1	1	48	35	4	3	0	100
NTB	7	1	0	3	60	15	4	0	10	100
NTT	2	1	3	1	68	19	1	2	2	100
East Kalimantan	10	11	6	4	49	8	3	4	6	100
North Sulawesi	13	2	6	5	37	22	3	9	4	100
South Sulawesi	9	3	2	8	59	11	2	5	3	100
Gorontalo	8	0	0	4	74	1	0	1	13	100
All	8	3	9	5	51	14	4	3	4	100



# FINDINGS

The findings section focuses on nine major dimensions of local economic governance: Access to Land and Security of Tenure; Business Licensing; Local Government and Business Interaction; Business Development Programs; Mayor/Regent Capacity and Integrity; Local Taxes, User Charges and other Transaction Costs; Local Infrastructure; Security and Conflict Resolution and Local Regulations. These aspects of local economic governance were chosen because they are pertinent to sound development principles and under the direct control of local governments.

Each aspect is measured in sub-indices that are combined to form the overall Economic Governance Index (EGI). Each sub-index section includes background on the issues, a results section, a description of the key variables used, and a summary of the sub-index rankings. The data relies primarily on the Firm Survey, ensuring that the index reflects real conditions rather than the views of experts or official data alone. District performance is measured using current best and worst practice in Indonesia to define the benchmark. This ensures that for each dimension, from land access to security, districts are compared against a standard that is achievable and relevant for Indonesia.

## Land Access and Security of Tenure

### Background

**Access to land is one of the most important aspects of the investment climate for all businesses.** Almost all business require land in order to operate, whether it be for manufacturing facilities, trading depots, or simply land for offices

or shops. Thus a policy environment in which it is easy to access land is more likely to give rise to significant investment than one in which access to land is difficult. But security of tenure for existing land rights is also extremely important. If tenure is secure, whether because of secure ownership or because of a strong rental contract, then firms are more likely to invest. By contrast, if there are overlapping land certificates and competing claims to land, or if rental contracts are insecure and can be subject to sudden arbitrary changes, then firms are much less likely to invest.

### **Complex land laws, high certification costs, and difficult administration procedures make access to land a challenge for many businesses.**

Indonesia lacks clear land planning procedures, and ownership rights are poorly documented or enforced. This situation has led to informal ownership, particularly by the poor but also by middle-class residents and business owners. Informal land ownership, often held by smaller, informal businesses, makes these firms more vulnerable and in danger of eviction.

**Indonesian land use was theoretically streamlined through the Basic Agrarian Law of 1960, or the UUPA, but in practice the legal system remains overly complex.** The UUPA law brought all land registration under the administration of the National Land Agency (BPN), and cancelled all previous Dutch colonial land laws. However, in practice, the 1960 law never streamlined or clarified the system of land administration and regulation. The current legal system is administered by several agencies rather than one: the Ministry of Forestry, the National Land Agency (BPN), the National Development Planning Agency (BAPPENAS), and the Ministry of Home Affairs, as well as local governments, all

play a role. The system still accounts for former colonial and traditional *adat* community land rights. Indonesia's current legal system includes more than 2000 pieces of legislation and directives on land use.<sup>8</sup>

**Overall, there are three main categories of land rights: formal rights registered with BPN, quasi-legal traditional rights of ownership, and holdover rights.** Formal legal land rights include five legal classifications: right of ownership, right of building, right of use, right to cultivate and right of management. *Hak milik*, or right of ownership, is the only legal category which does not have a fixed period of time. *Hak guna usaha* (HGB), or leasehold, is a right to exploit for a certain period, for example, to hold livestock or for a plantation. *Hak guna bangunan*, building rights, is the right to erect a structure for a certain period. *Hak pakai* is the right to use or extract products from land that is directly controlled by the state or another party. In the second category are unregistered rights known as *girik* based on traditional ownership, such as colonial or *adat* laws. The last category, the *garapan* classification, is one of quasi-legal ownership; these rights are holdover rights which allow owners to apply for formal ownership, but the state must first release the rights of the land.

**Land registration includes two components: registration of land that did not previously have a certificate and transfer/upgrading of rights.** Obtaining a land registration certificate requires collection and presentation of physical data and juridical data upgrading of land rights includes registration of the transfer and encumbrance of rights, and registration of other changes to land registration.

**The administrative costs of land certification act as a deterrent, particularly for the poor.**

Government regulation PP 46 from 2002 includes

a formula for determining the cost of land certification, but in practice the registration process is unpredictable and costs vary by agency and can become very high. As an example, the land certification process in outer Jakarta is estimated to cost at least \$1,000.<sup>9</sup> Many firms and individuals choose to pay a notary to complete the process more quickly. This leads to a bias towards formal ownership by larger, wealthier firms, rather than Small Medium-sized enterprises (SMEs).

**The World Bank estimates that only 17 million (21%) of Indonesia's 80 million land parcels are formally registered.**<sup>10</sup> This affects the investment climate because it leaves a large percentage of businesses without legal protection and subject to eviction. They are unable to use land as an asset for loan collateral in order to invest in their businesses.

**The Local Economic Governance Survey allows us to assess firms's perceptions of the impact of Land Access and Security of Tenure.** This sub-index includes an assessment of the time taken to obtain a land certificate in a district. It is a measure of business firms' perceptions regarding the ease of obtaining land. It also indicates the frequency of evictions and perceived likelihood of eviction in specific districts. Lastly, the sub-index includes an overall assessment of the significance of land problems according to local governments.

## Results

**The vast majority of firms own the land they use.**

Around 80% of firms surveyed owned the land that they used (17% rented, with the remainder borrowing the land). This proportion does not vary much by firm size, although large firms are slightly more likely to own land. However, manufacturing firms are much more likely to own their land than firms in the trade or service sector (see Table 5).

<sup>8</sup> Human Rights Watch, 2006

<sup>9</sup> Mercy Corps Bulletin: Summary of Land Tenure Research Findings, March 2008

<sup>10</sup> Land Policy, Management and Administration, World Bank Policy Brief, January 2005

Table 5: Percentage Of Firms That Own, Rent Or Borrow Land

	Small	Medium	Large	Production	Trade	Service	Total
Owned	79	80	82	88	76	72	80
Rented	18	16	14	10	21	22	17
Borrowed	3	4	4	2	2	7	4

*Access to land*

We measure access to land in two ways. First, we calculate the amount of time that it takes to obtain a land certificate in each district; and secondly, firms give their perceptions about how easy or difficult it is to obtain land.

because of land certification is necessarily more complex in larger cities. Other cities perform much better. City of Kupang processes land certificates in 6 weeks; City of Makassar takes 9 weeks. Thus better performance is possible. Tables 7 and 8 show the ten best and worst districts in terms of time to obtain a land certificate.

Table 6: Access To Land

	Small	Medium	Large	Production	Trade	Service	Total
% of firms that say they received a land certificate in 4 weeks or less	41	38	36	37	42	40	39
Average number of weeks to obtain a land certificate (mean)	12	13	13	13	11	12	12
% of firms that say it is very easy or easy to get land	1	1	1	1	1	1	1

**The typical firm takes around two months to obtain a land certificate.** Around 39% of firms obtain their land certificate in four weeks or less. Thus obtaining a land certificate does not appear to be particularly onerous for most firms, although a small number of firms do take much longer to obtain certification, so that the mean time for land certification is around 12 weeks. This pattern is similar across different sizes of firm and sectors (see Table 6), with larger firms taking slightly longer.

**But a few districts have much longer processes for obtaining a land certificate.** In 12 of the 243 districts surveyed the average time to obtain a certificate is more than 6 months. Interestingly, these include some important districts: the cities of Surakarta (26 weeks), Bogor (27), Surabaya (36), and worst of all Cimahi, where the average time spent by firms obtaining the land certificate was 42 weeks.

**But some districts and cities perform very well.** The poor performance of some cities is not

Table 7: Best Ten Districts For Land Certification

Province	District	Weeks to obtain a land certificate
NTT	Rgcy Timor Tengah Utara	4
South Sulawesi	Rgcy Pinrang	4
Riau	Rgcy Pelalawan	5
NTT	Rgcy Timor Tengah Selatan	5
North Sumatra	City Tanjung Balai	5
NTB	Rgcy Lombok Tengah	5
NTT	Rgcy Alor	5
Riau	Rgcy Rokan Hilir	5
North Sumatra	Rgcy Mandailing Natal	5
North Sulawesi	Rgcy Kepulauan Sangihe	5

**It takes much longer to process a land certificate on Java/Bali than other islands.** Table 9 shows the breakdown of time to obtain a land certificate by province. It typically takes twice as long to obtain a land certificate on Regencies/Cities in Java and Bali than elsewhere (with the exception of Riau and Gorontalo which also have longer times). This undoubtedly reflects the much higher population density on Java, but the difference is large, suggesting that policymakers on

Java may be able to learn from the approaches to certification outside the island.

**Table 8: Worst Ten Districts For Land Certification**

Province	District	Weeks to obtain a land certificate
East Java	Rgcy Sumenep	27
West Java	City Bogor	27
Central Java	Rgcy Kudus	28
East Java	Rgcy Sidoarjo	30
Central Java	Rgcy Demak	31
East Java	Rgcy Sampang	32
DI Yogyakarta	Rgcy Kulon Progo	32
East Java	City Surabaya	36
Bali	Rgcy Bangli	39
West Java	City Cimahi	42

**Accessing land is particularly difficult in North Sumatra and Gorontalo.** Table 9 also shows firm perceptions about access to land at the provincial level. The percentage of firms reporting that access to land is difficult is particularly high in North Sumatra (62%), Gorontalo (54%) and South Sumatra (51%). Indeed, six of the bottom ten districts ranked by firms perceptions about the ease of getting land are in North Sumatra.

**Table 9: Access To Land By Province**

Province	Average number of weeks to obtain a land certificate (mean)	Average number of weeks to obtain a land certificate (median)	% of firms that say it is difficult to obtain land
North Sumatra	9	5	62
Riau	11	5	43
South Sumatra	8	6	51
Kepulauan Riau	16	8	28
West Java	14	12	42
Central Java	16	12	45
DI Yogyakarta	20	12	45
East Java	16	12	40
Bali	17	12	42
NTB	12	6	28
NTT	9	4	37
East Kalimantan	12	6	32
North Sulawesi	8	4.5	36
South Sulawesi	8	4	46
Gorontalo	14	6	54

**Access to land does not depend on the type of land certificate.** There are three types of land certificate: an Ownership certificate (*Hak Milik*); Building Use certificate (*Hak Guna Bangunan*); and a Business Use certificate (*Hak Guna Usaha*). Since tenure is theoretically stronger with the Ownership certificate compared to the other forms of certification, one might expect that it takes longer to obtain this kind of certificate than the others. In fact, this is not the case. On average it takes 12 weeks to obtain an Ownership certificate, but 18 weeks to obtain a Building Use certificate and 13 weeks to obtain a Business Use certificate. This suggests that easier forms of licensing are not actually faster to obtain, raising questions about the process of implementation of these lesser licenses.

**Nearly half of all firms think it is difficult to obtain land.** In addition to measuring the time taken to obtain a land certificate, the survey asked firms to state how difficult or easy they felt it was to obtain land. Overall, 44% of firms said that it was very difficult or difficult to get land, with little variation across size of firm. Production firms were more likely to say that obtaining land was easier than service or trading firms.

**Firms perceptions about the ease of obtaining land clearly take into account a wider variety of issues than simply the time to get a land certificate.** In fact, the correlation between perceptions about the ease of getting land and the time for certification is very low. Thus the districts where firms regard access to land as easy are not necessarily those where the process is fastest. Interestingly, however, the best district for ease of land access and for land certification is the same - the Regency of Timor Tengah Utara in NTT. In this district, land certification takes only 4 weeks and every single one of the 50 firms surveyed in the district said that access to land is easy. By contrast, in the worst district, the Regency of Samosir in North Sumatra, only 6% of firms said that access to land was easy.

### *Security of tenure*

As noted above, access to land is only one part of the story. Another key factor is the level of uncertainty about tenure. The survey measured this by asking firms about the frequency of evictions in their area. In addition, firms were asked to assess overall how significant they felt land problems were.

**Overall, firms say that evictions are rare.** When asked about the frequency of evictions in their area, 98% of firms said that evictions take place rarely or never. Inevitably this figure will be biased upwards since some firms may be reluctant to report evictions as this is a sensitive issue. There is no significant difference between this figure for firms of different size or from different sectors or across provinces.

**However, evictions are much more common in large cities.** Although the overwhelming majority of respondents say that evictions are rare – there are significant variations between different districts. In particular, in five large cities, more than 20% of firms say that evictions are common or very common – Batam, Surabaya, Semarang, Manado and Makassar.

**A significant minority of firms express concerns that they could be subject to eviction.** Although firms generally perceive evictions to be rare, when asked about their own business, quite a few say that eviction by the local government is possible. In 47 districts, more than 20% of firms surveyed said that eviction was possible. Again, concerns are highest amongst firms in major cities. More than a quarter of firms said eviction was possible in the Cities of Cirebon, Bitung, Semarang and Surakarta; around a third of firms in the Cities of Surabaya and Medan and the Regency of Kutai Timur say eviction is possible. And a remarkable 45% of firms in the Regency of Depok, just outside Jakarta see eviction as a possibility.

**Uncertainty of tenure is a particular problem in East Kalimantan, where over a quarter of firms respond that eviction is possible.** Similarly, in Gorontalo, DI Yogyakarta, North Sulawesi and West Java, almost 20% of firms express concern about possible eviction (see Table 10). By comparison, fewer than 5% of firms expressed such concerns in NTT, NTB, and Bali.

**Table 10: Uncertainty Of Land Tenure And Significance Of Land Problems**

Province	% of firms that say it is possible or very possible that they could be evicted	% of firms that say that land problems are large or very large
North Sumatra	11	12
Riau	11	6
South Sumatra	10	4
Kepulauan Riau	11	8
West Java	18	10
Central Java	11	7
DI Yogyakarta	18	46
East Java	8	4
Bali	3	4
NTB	5	20
NTT	2	8
East Kalimantan	26	8
North Sulawesi	18	8
South Sulawesi	10	13
Gorontalo	19	11

### *Overall perception of land problems*

The survey also asked firms to what extent they felt that access to land and uncertainty of land tenure were constraints on their activities.

**Overall, around 8% of firms say that land issues are a significant problem.** This figure varies little by size or sector, but significantly by province. Table 11 also shows that the overall perception of land problems is high in DI Yogyakarta, but also in NTB – this is surprising given that NTB scores well both on uncertainty of tenure and access to land. Conversely, uncertainty of tenure was a major problem in East Kalimantan, but overall only 8% of firms believe that land problems are significant. But other scores are more consistent –



with the previous findings with land problems featuring strongly perceptions of businesses in North Sumatra, South Sulawesi and Gorontalo.

**A minority of districts have severe land problems.** In nearly half of all the districts surveyed, the number of firms regarding land problems as large is less than 5%. But in a small minority of districts it is clear that there are severe land problems. Table 11 shows the districts where a large share of firms claimed that there are large or very large problems with access to land and insecurity of tenure. The two worst districts are the Regency of Kulon Progo and the Regency of Sleman in DI Yogyakarta, where a remarkable 71% and 67% of firms, respectively, said that there were major land problems.

Table 11: Districts With Severe Land Problems

Province	District	% of firms saying that there are some land problems
DI Yogyakarta	Rgcy Kulon Progo	71
DI Yogyakarta	Rgcy Sleman	67
NTB	City Bima	53
NTB	Rgcy Bima	43
DI Yogyakarta	City Yogyakarta	38
North Sumatra	Rgcy Tapanuli Utara	35
NTT	Rgcy Sumba Barat	35
South Sulawesi	Rgcy Luwu Timur	34
North Sumatra	Rgcy Samosir	29
South Sulawesi	Rgcy Pangkajene Kepulauan	27

## Land Access and Security of Tenure Sub-index

To try and assess the overall quality of economic governance regarding land issues at the district

### Box 2: Variables In The Land Access And Legal Certainty Sub-Index

- Time taken to obtain a land certificate\*
- Perceived ease of obtaining land
- Frequency of evictions in the region\*
- Overall assessment of the significance of land problems

\* To ensure that a higher index number always refers to better performance, the direction of these variables was reversed in calculating the index

level, we combine four of the above measures into a single sub-index as shown in Box 2.

**East Java, Bali and NTT feature strongly in the best districts.** All of the top 10 districts for the governance of land issues come from these three provinces. The top slot goes to the Regency of Timor Tengah Utara in NTT (see Table 12).

Table 12: Best Ten Districts For Land Access And Security Of Tenure Sub-Index

Province	District	Sub-index score
NTT	Rgcy Timor Tengah Utara	99.4
NTT	Rgcy Lembata	95.8
Bali	Rgcy Buleleng	94
East Java	Rgcy Situbondo	93.9
Bali	Rgcy Tabanan	93.4
East Java	Rgcy Tuban	92.6
East Java	Rgcy Banyuwangi	92.1
Bali	Rgcy Jembrana	92.1
East Java	Rgcy Kediri	90.4
NTB	Rgcy Lombok Timur	89.6

**Some major economic centers are at the bottom of the list.** The results of this index are striking (see Table 13). At the bottom of the land sub-index come some major economic centres. The Cities of Surabaya, Yogyakarta, Cimahi, Pekanbaru, Surakarta, and Makassar are all in the bottom ten positions, with the City of Surabaya occupying the bottom place nationally.

**There are large differences in performance both within and between provinces.** Table 14 shows the average land sub-index score for the districts in each province, along with the minimum and maximum scores in each province. NTT, Bali, East Java and South Sumatra have the best overall scores. By contrast DI Yogyakarta lies clearly at the bottom of the provincial league table. But the differences within provinces are even more stark. Most telling is East Java, where districts generally score well on land management issues, but the average for the province is pulled down by the extremely poor performance of the city of Surabaya. The same is true for NTB, where the Regency of Bima pulls down the provincial



**Table 13: Worst Ten Districts For Land Access And Security Of Tenure Sub-Index**

Province	District	Sub-index score
East Java	City Surabaya	39.7
East Kalimantan	City Samarinda	40.9
NTB	City Bima	41.5
South Sulawesi	City Makassar	43.2
DI Yogyakarta	Rgcy Sleman	44.4
Riau	City Pekanbaru	45.9
Central Java	City Surakarta	46.6
West Java	City Cimahi	47.5
NTT	Rgcy Sumba Barat	48.2
DI Yogyakarta	City Yogyakarta	48.9

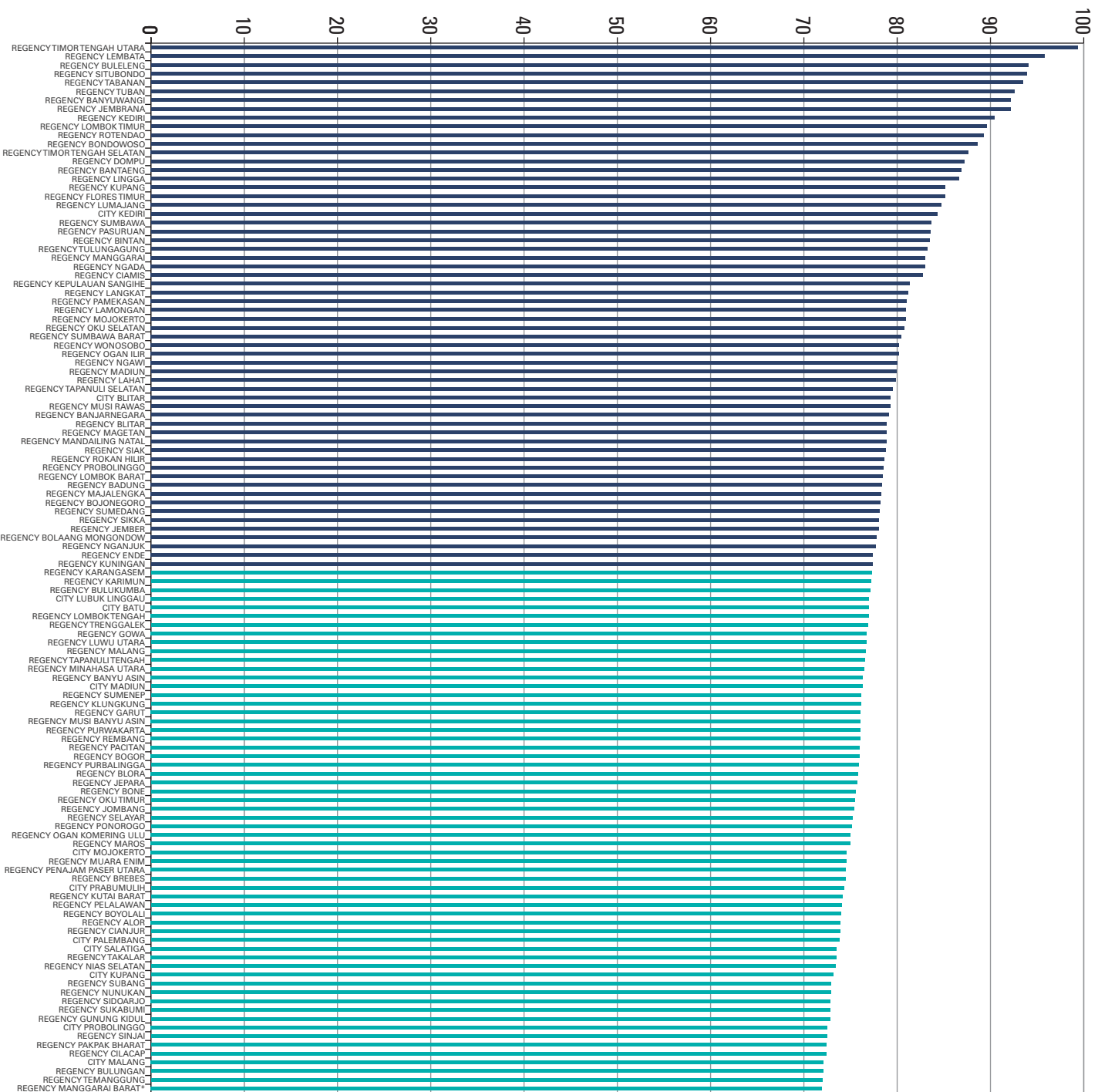
average, and of South Sulawesi, which is affected by the poor performance of the City of Makassar.

**Table 14: Best And Worst District By Province For Land Access And Security Of Tenure Sub-Index**

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	68.2	Rgcy Samosir	57.7	Rgcy Langkat	81.2
Riau	65.9	City Pekanbaru	45.9	Rgcy Siak	78.8
South Sumatra	75.4	City Pagar Alam	65.5	Rgcy Oku Selatan	80.7
Kepulauan Riau	71.3	City Batam	51.4	Rgcy Lingga	86.7
West Java	67.6	City Cimahi	47.5	Rgcy Ciamis	82.8
Central Java	68.8	City Surakarta	46.6	Rgcy Wonosobo	80.2
DI Yogyakarta	57.5	Rgcy Sleman	44.4	Rgcy Gunung Kidul	72.8
East Java	80	City Surabaya	39.7	Rgcy Situbondo	93.9
Bali	79.7	Rgcy Bangli	66.9	Rgcy Buleleng	94
NTB	73.8	City Bima	41.5	Rgcy Lombok Timur	89.6
NTT	79.2	Rgcy Sumba Barat	48.2	Rgcy Timor Tengah Utara	99.4
East Kalimantan	67.7	City Samarinda	40.9	Rgcy Penajam Paser Utara	74.5
North Sulawesi	69.2	City Manado	52.5	Rgcy Kepulauan Sangihe	81.3
South Sulawesi	68.6	City Makassar	43.2	Rgcy Bantaeng	86.9
Gorontalo	65.2	Rgcy Pohuwato	51.6	Rgcy Bone Bolango	70.3

Figure 9 shows the rankings of all surveyed districts for the Land Access And Security Of Tenure Sub-index.

Figure 9: Land Access And Security Of Tenure Sub-index For All Districts





## Business Licensing

### Background

**Business licensing in Indonesia is costly, lengthy, and complicated.** Indonesia has a large number of business licenses and a complex system for administration and enforcement. At the Ministry of Trade alone, there are as many as 122 types of business permits. According to the World Bank 2008 Doing Business report, to start a new business in Jakarta, a business person has to go through 12 procedures, taking 105 working days, and costing as much as 80% of income per capita. These problems can stifle commercial activities, hamper the growth of small firms, discourage the establishment of new businesses and dissuade entrepreneurs from formalizing their businesses.

**This study surveys five of the most common business licenses from a long and diverse list of licenses issued by local governments.** These are the business registration certificate (*TDP*), the industrial registration/permit (*TDI*), the trading permit (*SIUP*), the nuisance and the business location permits (*HO*), and the construction permit (*IMB*). These permits are administered by the district/city governments. The construction permit is one of the most complicated licenses since it combines building function, land use, road access, and safety issues. The business registration (*TDP*) serves the information collection function for the government. Only after all other physical and sectoral licenses are obtained, and the company is in operation, can a firm process the business registration. The registration is required not only for company headquarters, but also for branch offices. The industrial registration (*TDI*) serves as the major technical license for industrial activities of small and medium enterprises and provides a permission to undertake these activities. The trading license (*SIUP*) is officially required only for companies engaging in any kind of trade activities. It is considered as the main technical license for

trading activities and serves to control trading activities. The nuisance permit (*HO*) is used to assess the disturbance caused by business activities, such as traffic or noise. Usually approval by neighbors is required. The business location permit (*HO*) is used to assess whether the business location complies with the spatial plan.

**The major regulatory problem with the Indonesian licensing system is that different types of business permits have overlapping functions.** Each business license ostensibly serves a different function. However, in actual practice some of them are redundant. For example, both the trading permit and the business registration collect similar kinds of information. Moreover, the permit is a requirement for companies to take part in government tenders and to apply for bank loans, more so than the actual business registration. Also, trading, industrial, and tourism companies need to have not only trading, industrial, and tourism permits, but sometimes also activity- and product-specific permits. The actual implementation of business licenses suffers from a lack of government capacity and resources, preventing governments from providing the social protection, market control, or information collection that business licenses are supposed to afford.

**Decentralization has exacerbated the licensing problem in Indonesia by allowing governments to use licenses as an alternate means of local revenue collection.** Many local governments use business licenses to generate revenues without providing protection, control, or associated administration services, and often without fully analyzing the impact of a license on firm behavior. The result of this high cost burden is that many regulations on licensing services are accompanied by cost burdens borne by the public. Of the 712 local regulations reviewed for this survey that deal with licensing, 88% stipulate taxes or user charges. However, the charges in the licensing regulations vary: some explicitly stipulate the rate structure

and amounts; others only stipulate the fees without providing a clear philosophical (structural) basis for them; and others delegate authority to the head of the region to determine user charge rates.

**The revenues from licensing are distributed throughout the government bureaucracy.** Revenues do not just flow to the technical services/agencies, the local government elite also take their share. Since licensing is seen as a rent-seeking instrument, many licensing regulations ignore the principles of protection of the public interest, efficiency, accountability, and adequacy of fees. Consequently, protracted and complicated procedures, lack of certainty related to processing time, and high costs are common licensing problems in Indonesia.

**The division of licensing responsibilities cuts across the national, provincial, district, and sub-district governments.** Prior to regional autonomy in 2001, the issuing of licenses had already been conducted at the local level. The issuing offices, both at the district and the provincial levels, were part of the national government ministries. They were not part of the local government structure and had no freedom to cooperate with the local offices of other line ministries. After regional autonomy, these local offices of the line ministries, as well as their areas of authority, were transferred to the local governments and took the form of local departments (*dinas*).

**Although the district governments are responsible for the issuance of the more common business licenses, many of the licenses for large business activities remain with the central government.** This includes major natural resource permits, such as mining and forestry, as well as company formation by the Ministry of Justice and the publication of notice in the national legal gazette. The provincial government also has an investment coordination role. This may not have a direct impact on the licensing regime at the

district level, but it requires cooperation between the province and the districts.

**The Local Economic Governance Survey allows us to assess the quality of business licensing.**

Firms report on which common businesses licenses they possess and issues related to time, costs, and procedures, as well as discrepancies between official and actual service standards. Firms also indicate to what extent licensing issues affect their operations or are an impediment to growth.

## Results

**Most businesses do not report major constraints related to business licensing.** Nearly 80% of firms reported no problems related to business license and permit processing. Of those that identified constraints, the most common were related to difficult procedures and excessive time and cost required to gain license approvals. Fewer than one percent of firms reported that lack of information about business licenses was a major constraint (see Table 15).

Table 15: Main Business Licensing Constraints Faced By Firms

Business Licensing Constraint	Frequency	%
Difficult licensing procedures	669	6
Length of time to obtain licenses	643	5
Cost of obtaining licenses	598	5
Too many types of licenses	258	2
Too many charges from the local government	238	2
Lack of available information on business licenses	71	1
No problem	9185	77
Other	284	2
Total	11946	100

However this belies the fact that remarkably few businesses have any kind of formal license. Given the legal obligation for every firm to have a TDP, it is remarkable to find that only 54% of firms have one, and only 59% have a SIUP. And these are the most common licenses. Less than half of

all the firms surveyed have an IMB, and only 18% have an industrial permit (TDI) (see Table 16). This is all the more remarkable because our survey only includes firms with 10 employees or more, and so the vast majority of micro scale firms are not included. Of course, larger firms are much more likely to have the necessary licenses – but even among the large firms, 15% claimed not to have a TDP. Similarly, firms working in a given sector were more likely to have the relevant sectoral license – 72% of trading firms have a SIUP, but astonishingly only 29% of those in the production sector (which is mostly industry) have a TDI.

access credit from banks and access larger markets. These findings indicate that more research is needed into the reasons why small businesses often remain informal.

**There are dramatic variations in compliance with licensing across the country and within provinces.** In the districts of Lombok Tengah and Lombok Barat a mere 11% of firms have a TDP; but 70% of firms in Sumbawa Barat district have a TDP in the same province. Even adjacent districts can have dramatically different rates of compliance – only 36% of firms in the Regency of Cirebon have a TDP, but 74% of those in the City

Table 16: Percentage Of Firms Holding Various Business Licenses

Type of License	Small	Medium	Large	Production	Trade	Service	Total
TDP – Business Registration Certificate	47	58	85	55	62	48	54
TDI – Industrial Registration/Permit	13	19	51	29	12	7	18
SIUP – Trading License	53	62	84	59	72	51	59
HO – Nuisance Permit	31	41	72	40	43	32	38
IMB – Construction Permit	42	52	79	46	56	47	48

**The number of unregistered businesses is highest among small firms.** Figure 10 shows that approximately 47% of small businesses have a TDP, while 58% of medium-sized firms are registered and 85% of large firms have registrations. Small businesses with fewer transactions and less interaction with formal institutions may see less of a need to be formally registered. However, it is small businesses which are most in need of formalization in order to

of Cirebon are licensed. But what is perhaps most remarkable is the uniformity of non-compliance; with the exception of the enclave of Riau Islands, no province has more than 65% of firms with a TDP.

**The firms that do have licenses say that getting them is relatively easy.** Table 17 shows that almost 90% of firms that have a license say that it was easy or very easy to obtain. Only a little over 10% describe the process as difficult. Typically, it takes around 2 working weeks to obtain most licenses, although the Building Permit (IMB) takes around 5 working weeks to obtain. Moreover, the perceptions of the ease and speed of the licensing process are similar for firms of different sizes.

**Moreover, the large majority of firms that have licenses did not consider themselves burdened by the cost of obtaining licenses.** It typically takes around Rp 4,009,000 to obtain the main five business licenses, although charges for the IMB

Figure 10: Composition Of Business Registration Ownership By Firm Size

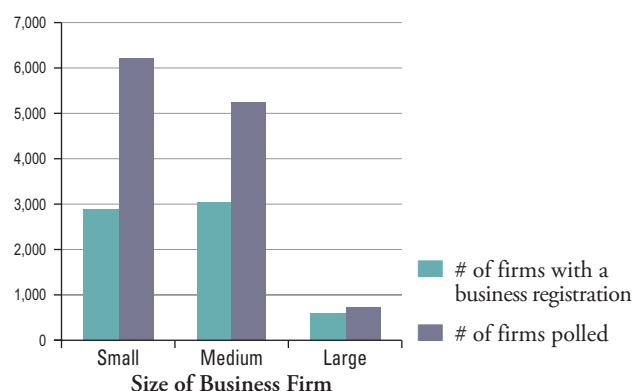


Table 17: Time To Obtain Licenses And Ease Of Obtaining Them

Average time taken to obtain the license (working days)	Small	Medium	Large	Production	Trade	Service	Total
TDP - Business Registration Certificate	14	13	15	13	13	16	14
TDI - Industrial Registration/Permit	13	13	15	13	13	15	13
SIUP - Trading License	14	14	16	14	13	16	14
HO - Nuisance Permit	15	15	18	16	14	17	16
IMB - Construction Permit	24	27	25	25	23	28	26

% of firm saying it was easy or very easy to obtain the license	Small	Medium	Large	Production	Trade	Service	Total
TDP - Business Registration Certificate	88	90	88	90	90	88	89
TDI - Industrial Registration/Permit	90	89	87	89	89	91	89
SIUP - Trading License	89	90	89	89	90	89	89
HO - Nuisance Permit	88	87	88	88	90	86	88
IMB - Construction Permit	88	88	88	89	89	87	88

comprise the largest share of this cost (see Table 18). Across all permit types, large businesses pay more than small businesses, but most firms say that these costs burdened them very little. The notable exception is the HO, where around 16% of firms found the cost burdensome.

**The time required to obtain a business permit varies widely across Indonesia.** As can be seen in Table 19, the Regency of Trenggalek in East Java requires the longest time to issue a business registration (TDP) at approximately 108 days. The second longest process is in the Regency of

Table 18: Average Cost Of Licenses And Extent To Which The Cost Burdened Firms

Type of License	Average cost of license Rp ('000)				% of firms that said the cost bothered them very little or not at all			
	Small	Medium	Large	All	Small	Medium	Large	All
TDP - Business Registration Certificate	430	526	763	500	88	89	87	88
TDI - Industrial Registration/Permit	316	694	1113	591	88	89	85	88
SIUP - Trading License	450	508	907	504	88	88	88	88
HO- Nuisance Permit	625	959	2618	970	84	85	84	84
IMB - Construction Permit	1124	1445	3415	1443	88	88	88	88
Total	2945	4132	8817	4009				

**Despite this generally positive picture, there are dramatic differences in the ease of obtaining licenses and their cost across the country.** In the Regencies of Luwu Utara and Pinrang in South Sulawesi it only takes two days to obtain most licenses. By contrast it takes 57 days to get a TDP in the Regency of Karimun in Riau, 42 days to get a SIUP in the Regency of Badung in Bali, and 47 days to get a HO in the City of Surabaya.

Karimun in Kepulauan Riau at 57 days. At the same time, the Regencies of Gorontalo, Luwu Utara and Pinrang were able to process business licensing the fastest, within approximately 2 days only. An interesting point to note here is that districts in Riau were among the most and the least efficient in processing licenses. The wide range of results indicates differences in the interpretation of national guidelines which clearly state the maximum time that should be required to obtain a business registration.



Table 19: Actual Time Required To Obtain A Business Registration Certificate (TDP)

Province	Slowest Districts	Time (days)	Province	Fastest Districts	Time (days)
East Java	Rgcy Trenggalek	108	Gorontalo	Rgcy Gorontalo	2
Kepulauan Riau	Rgcy Karimun	57	South Sulawesi	Rgcy Luwu Utara	2
Riau	Rgcy Rokan Hilir	42	South Sulawesi	Rgcy Pinrang	2
East Java	Rgcy Sampang	41	South Sulawesi	Rgcy Luwu	3
East Java	Rgcy Malang	37	Riau	Rgcy Siak	3
Bali	Rgcy Badung	36	South Sulawesi	Rgcy Luwu Timur	4
East Kalimantan	Rgcy Penajam Paser Utara	35	Kepulauan Riau	Rgcy Lingga	4
North Sumatra	Rgcy Simalungun	31	North Sumatra	Rgcy Mandailing Natal	4
West Java	Rgcy Indramayu	31	Gorontalo	Rgcy Bone Bolango	4
East Java	City Surabaya	30	NTT	Rgcy Ngada	4

This data shows a large difference between official and actual length of time required to obtain a license. The official maximum time requirement for obtaining a business registration certificate is 7 days (according to national regulation), while the average time found by this survey was double that, at 14 days. Table 20 shows the official results by city and district. These official rates were taken from local government documents, such as local regulations and official government brochures, gathered by the research team. The fastest times are still found in Sulawesi, but there is much variation between reported, official times and actual times.

The cost of licenses showed a wide variation between Java and outer islands. The top five least expensive locations to get a business registration were all in Java. The most expensive provinces, according to firms surveyed, are South Sumatra and NTB. This is interesting because there seems to be no correlation between time and cost; the fastest licensing services were all found outside of Java, primarily in Sulawesi. No assumptions can be made that the most remote locations are the most inefficient from the above results. Some of the most expensive locations, such as the cities of Surabaya and Denpasar, are

Table 20: Official Time Required To Obtain A Business Registration Certificate (TDP)

Province	Slowest Districts	Time (days)	Province	Fastest Districts	Time (days)
Central Java	Rgcy Pemalang	15	North Sulawesi	City Tomohon	2
DI Yogyakarta	Rgcy Bantul	12	North Sulawesi	Rgcy Minahasa Utara	5
West Java	City Bekasi	10	Central Java	City Surakarta	5
Bali	Rgcy Buleleng	10	Central Java	Rgcy Purworejo	5
NTB	Rgcy Bima	10	South Sulawesi	Rgcy Sinjai	5
Riau	City Pekanbaru	7	Central Java	Rgcy Kudus	5

Table 21: The Cost Of Obtaining A Business Registration Certificate

Province	Most Expensive Districts	Cost (000 Rp)	Province	Least Expensive Districts	Cost (000 Rp)
South Sumatra	Rgcy Ogan Komering Ulu	5,620	Central Java	Rgcy Klaten	60
NTB	City Mataram	4,697	East Java	Rgcy Pasuruan	75
Kepulauan Riau	Rgcy Natuna	3,074	East Java	Rgcy Pacitan	85
East Java	City Surabaya	2,714	Central Java	Rgcy Kudus	90
West Java	City Depok	2,345	DI Yogyakarta	Rgcy Kulon Progo	94
North Sulawesi	City Bitung	1,496	Central Java	Rgcy Pati	98
Bali	City Denpasar	1,445	East Java	Rgcy Madiun	100
Bali	Rgcy Badung	1,273	East Java	City Blitar	101
East Java	Rgcy Malang	1,250	East Java	Rgcy Magetan	110
West Java	Rgcy Bogor	1,214	Central Java	Rgcy Temanggung	118



far from remote. Interestingly, more of the most expensive locations are cities, while most of the least expensive are regencies (see Table 21).

**Over 70% of firms obtained licenses from various technical departments rather than business registrations offices or One Stop Shops.**

In particular, firms in North Sumatra and South Sumatra had the highest rates of obtaining licenses from technical agencies. Despite a ministerial decree encourage the establishment of One Stop Shops nationwide, only 7% of businesses obtained their licenses at One Stop Shops.<sup>11</sup> The highest percentage of firms using One Stop Shops to obtain licenses were found in provinces recognized for having districts with the highest quality OSS: Yogyakarta and East Java (see Table 22).

**Table 22 : Locations Where Licenses Were Obtained**

Province	At related technical department (%)	At business registration service office (%)	At One Stop Shop facility (%)	Notary (%)
North Sumatra	90	8	2	0
Riau	56	28	16	0
South Sumatra	91	9	0	0
Kepulauan Riau	64	22	7	7
West Java	79	16	3	2
Central Java	70	12	17	1
DI Yogyakarta	31	35	31	3
East Java	62	23	11	4
Bali	71	20	8	1
NTB	57	40	2	1
NTT	86	13	1	
East Kalimantan	76	19	4	1
North Sulawesi	84	12	3	1
South Sulawesi	77	18	5	
Gorontalo	60	23	16	1

**Firms often chose to use an intermediary to obtain their licenses in order to save time.** Half of the companies that used an intermediary to procure licenses said the reason that they do so is to save time. The second and third most cited reasons were “No one at my firm knows the procedures” and “we know the procedures but they are too complicated.”

This indicates that business licensing procedures are too complex and confusing, so firms often choose to use intermediaries rather than obtaining the licenses directly. Based on these answers, the cost of licensing is the least important factor, while the time lost is the most important factor in using a middleman to obtain licenses.

**Local government officials are the main source of licensing information for firms, followed by the mass media.**

Around 31% of firms obtain information directly from government officials, while 24% rely on local mass media (see Table 23). This indicates the importance of training government officials to accurately and succinctly provide information on business licensing procedures. The high percentage of businesses receiving their information from the mass media also indicates the need for business licensing issues to receive clear and complete coverage in the media. These results echo survey findings relating to the capacity of the mayor, which show that many firms receive their information and build their perceptions based on the local media.

**Table 23: Source Of Information On Business Licenses**

Source of Information on Business Licenses	%
Local government website	1
Local government brochure sent to businessman	9
On announcement board at local government office	11
Business licensing official at local government service office	31
At social events with local government and businessmen	4
Local Mass Media	24

**Approximately 28% of firms said that there was a complaint mechanism to address business licensing issues, but there was much variation by region.** Kepulauan Riau (57%) East Kalimantan (44%), and DI Yogyakarta (42%) were reported as having complaint mechanisms. In the case of Yogyakarta, this may be correlated to the quality of One Stop Shop services with complaint mechanisms. There are significant differences in

<sup>11</sup> According to a separate 2007 KPPD survey on OSS development in Indonesia, 164 of 440 regencies and cities have established an OSS

the sophistication of licensing services and public outreach efforts among districts, which seems to be reflected in the high variance in complaint mechanism awareness for business licensing.

### Most firms do not view business licensing as an important constraint to business operations.

Overall, approximately 91% of all firms (and 89% of registered firms) say that the constraint of licensing on their business is small or very small. Also, the constraint of business licenses appears to affect smaller businesses more than large businesses. However, there are also significant variations among provinces. 36% of businesses in Regencies/Cities in DI Yogyakarta say that licensing issues significantly hamper their operations, compared to just 7% of firms in South Sumatra (see Table 24).

Table 24: Perception Of Licensing Constraint By Province

Province	% firms that say licensing issues significantly hamper their performance
North Sumatra	16
Riau	14
South Sumatra	7
Kepulauan Riau	9
West Java	14
Central Java	10
DI Yogyakarta	36
East Java	8
Bali	11
NTB	11
NTT	15
East Kalimantan	10
North Sulawesi	15
South Sulawesi	9
Gorontalo	10
Total	11

## Business Licensing Sub-index

To measure the quality of business licensing we construct a sub-index comprising the following measures (see Box 3).

The top ten sites for business licensing services are concentrated in South Sulawesi and East Java. Four of the top cities/districts are in

### Box 3: Variables In The Business Licensing Sub-index

- The percentage of firms that have a business registration license (TDP)
- Firms perceptions of how easy it is to obtain a TDP and the average number of days it takes to obtain a TDP\*+
- The cost of the TDP and the extent to which the cost bothers firms.\*\*
- The extent to which firms agree that the licensing process is efficient, and free from illegal charges and collusion.\*
- The percentage of firms that say that there is a complaint mechanism
- Overall assessment by firms of how much issues associated with licensing constraint their business activities.

\* This variable combines the t-scores of a range of similar perception questions on this topic.

+ The t-score of the average number of days is reversed.

\*\* The t-score of the cost of the TDP is reversed.

Sulawesi, and four are in East Java. The overall top spot goes to the City of Blitar in East Java, which provides One Stop Shop licensing services. The results in South Sulawesi and East Java may in part be correlated to the existence of One Stop Shop business licensing services which allow licenses to be processed more quickly. However, it is interesting to note that one spot in the top ten goes to the City of Tarakan in East Kalimantan (see Table 25).

Table 25: Best Ten Districts For The Business Licensing Sub-index

Province	District	Sub-index score
East Java	City Blitar	84.6
South Sulawesi	City Pare-Pare	79.1
East Java	Rgcy Lumajang	78.6
East Java	Rgcy Pacitan	76.7
South Sulawe	Rgcy Barru	76.5
East Java	Rgcy Sidoarjo	76.1
South Sulawe	Rgcy Soppeng	76.1
South Sumatr	City Prabumulih	75.9
South Sulawe	Rgcy Takalar	75.1
East Kaliman	City Tarakan	74.6

The worst districts for licensing are located primarily in North Sumatra. Five out of bottom ten are in North Sumatra. It's interesting to see that some of the worst-ranked licensing services

can be found in Central and West Java, while the best services can be found in East Java. Overall, the Regency of Lombok Tengah in NTB, a poor, remote district has the worst licensing services (see Table 26).

**Table 26: Worst Ten Districts For The Business Licensing Sub-Index**

Province	District	Sub-index score
NTB	Rgcy Lombok Tengah	32.2
North Sumatra	Rgcy Nias Selatan	34.5
Central Java	Rgcy Pemalang	37.6
North Sulawesi	Rgcy Kepulauan Talaud	38.7
Riau	Rgcy Rokan Hilir	39.1
North Sumatra	Rgcy Nias	40.4
North Sumatra	Rgcy Deli Serdang	40.6
West Java	Rgcy Sudistrict of Umi	42.3
North Sumatra	Rgcy Simalungun	43.9
Riau	Rgcy Bengkalis	44.7

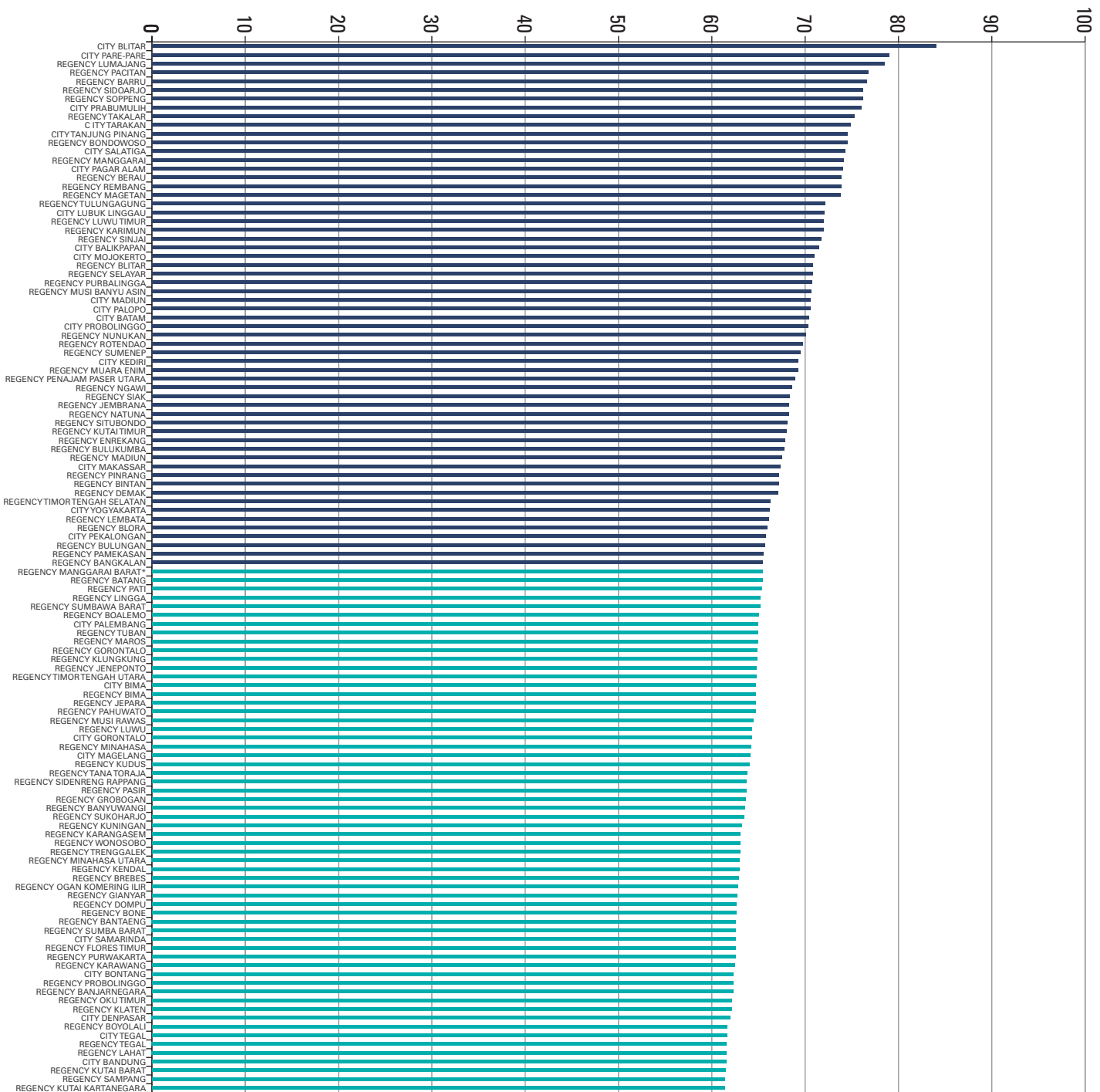
**Licensing results show relatively high variation within provinces.** Provinces in Java show the highest variations between districts, particularly in Central Java, with the Regency Pemalang among the worst and the City of Salatiga ranked highly for licensing services. The most consistency is found on Bali and Kepulauan Riau. Overall, there does not seem to be a direct relationship between remoteness of location and licensing services. For example, some of the worst licensing services are found in Central and West Java, while some of the best services are found in East Kalimantan (see Table 27).

**Table 27: Best And Worst Districts By Province For The Business Licensing Sub-Index**

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	51.0	Rgcy Nias Selatan	34.5	Rgcy Asahan	59.5
Riau	52.8	Rgcy Rokan Hilir	39.1	Rgcy Siak	67.6
South Sumatra	63.9	Rgcy Oku Selatan	54.7	City Prabumulih	75.9
Kepulauan Riau	68.9	Rgcy Lingga	64.2	City Tanjung Pinang	74.3
West Java	54.8	Rgcy Sudistrict Of Umi	42.3	Rgcy Kuningan	62.1
Central Java	60.6	Rgcy Pemalang	37.6	City Salatiga	74.0
DI Yogyakarta	55.3	Rgcy Gunung Kidul	47.5	City Yogyakarta	65.3
East Java	64.0	Rgcy Malang	46.0	City Blitar	84.6
Bali	60.5	Rgcy Badung	56.5	Rgcy Jembrana	67.5
NTB	55.6	Rgcy Lombok Tengah	32.2	Rgcy Sumbawa Barat	64.2
NTT	60.4	Rgcy Kupang	47.6	Rgcy Manggarai	73.8
East Kalimantan	65.6	Rgcy Malinau	59.4	City Tarakan	74.6
North Sulawesi	55.4	Rgcy Kepulauan Talaud	38.7	Rgcy Minahasa	63.1
South Sulawesi	66.6	Rgcy Pangkajene Kepulauan	56.8	City Pare-Pare	79.1
Gorontalo	62.2	Rgcy Bone Bolango	56.3	Rgcy Boalemo	64.0

Figure 11 shows the rankings of all surveyed districts for the Business Licensing Sub-index:

Figure 11: Business Licensing Sub-index For All Districts





## Local Government and Business Interaction

### Background

Constructive interaction between the local government and the business community can help to solve common problems and support economic development. In order to foster stronger interaction, some governments have introduced *Forum Komunikasi*, or communication forums, between the government and the private sector. The *Forum Komunikasi* is a formal mechanism used by local governments to ensure that they regularly consult with the private sector about key business and economic policy reforms.

Unfortunately, the nature of the interaction between local government and the business community is not always constructive. Businesses often complain that the local government makes policy without consulting them, sometimes giving rise to the implementation of distortionary or damaging local charges and regulations. Others assert that local government officials do not understand business problems, or, worse, are only

interested in extracting rents from business rather than supplying services. Moreover, it is sometimes claimed that local governments are biased towards particular local business groups, favoring them over other business people in the community.

The Local Economic Governance Survey allows us to assess the quality of the interaction between local governments and the business community. Firms were asked a range of questions about the existence and usefulness of the various forms of interaction with the local government, as well as their perceptions about the competence and motivation of local government officials. There were also questions aimed at determining how equitably local governments deal with business development issues and communication with their constituents.

### Results

Fewer than 30 percent of firms believe there is a *Forum Komunikasi* between the local government and local businesses. This survey shows that relatively few firms believe such fora exist. However, access to consultation is clearly better for large firms than for small – only a quarter of small firms knew

Table 28: Regional Differences In Perception Of Local Governments

Province	% of firms that feel the government provides concrete solutions	% of firms that say government is more interested in promoting investment than collecting revenue from the private sector	% of firms that feel that the local government tends to treat all firms in the same way
North Sumatra	40	57	54
Riau	52	68	52
South Sumatra	81	80	43
Kepulauan Riau	51	61	68
West Java	41	50	56
Central Java	54	68	55
DI Yogyakarta	60	72	58
East Java	53	65	51
Bali	66	77	52
NTB	60	52	33
NTT	71	77	59
East Kalimantan	74	63	58
North Sulawesi	72	69	67
South Sulawesi	72	78	58
Gorontalo	87	78	64

about the existence of a Forum Komunikasi, whereas almost half of large firms said that such a Forum existed.

**Generally firms believe that their local governments do try to solve the problems faced by the business community, but there are large regional differences.**

On average 58% of firms said that the head of the district gave concrete solutions to their problems. But the differences between districts and provinces are dramatic. In the Regency of Nias Selatan only 2% of firms agreed that the local government took concrete actions to solve their problems – in district of Musi Rawas, 98% of them did. Similar large differences exist across provinces. Table 28 shows that in North Sumatra less than 40% of firms agreed that the local government provided them with real solutions to their problems – in South Sumatra the figure was over 80%. In general, firms on Java are more pessimistic about the ability of their local governments to solve their problems than those outside Java.

investment promotion was the priority of the local government, whereas in the Regencies of Malinau, Trenggalek and Takalar all of those surveyed felt the government focused on this.

**Large firms and service firms have a more favorable view of local government services.**

Firms were asked whether the local governments understood their problems, whether they undertook public consultations about policies related to the private sector, whether they held meetings to discuss the problems that businesses faced and whether they provided facilities to support the development of the private sector. Table 29 shows the results. In general, there is consensus that local governments do understand the problems of the private sector and attempt to provide facilities to support the private sector. However, only around half of the respondents agreed that local governments consult them on policies or have meetings to discuss the problems that they face.

**Table 29: Local Government Understanding And Action On Private Sector Problems**

% firms that agree that the local government...	Small	Medium	Big	Production	Trade	Service	Total
... understands the needs of the private sector	64	65	69	60	66	70	65
... holds public consultations when formulating policies that affect the private sector	50	52	58	47	50	57	51
... has meetings with businessmen/women to discuss the problems they face	49	52	59	48	48	55	51
... provides facilities to support the development of the private sector	58	60	64	56	60	64	60

**Firms generally say that the local government is interested in promoting investment and not only in collecting revenue from the private sector.** Contrary to much qualitative evidence, most firms state that local governments are more interested in investment promotion than merely collecting their own revenue. However, as Table 28 shows, there are significant variations by province and district. In West Java, barely half of firms feel this way, whereas in South Sumatra 80% feel that the local government focuses on investment promotion. At the district level, in Regency of Tasikmalaya only 12% of firms felt that

**Most firms also believe that local governments are reasonably equitable in their treatment of firms.**

The two exceptions to this are South Sumatra and, especially, NTB, where only 33% of firms felt that the local government treats all firms in the same way (see Table 28). Looking at the district level, we can see that this result is driven by the astonishingly low performance of the City of Bima and the Regency of Sumbawa Barat, where only around 6% of firms said that they felt the local governments treated all firms equitably.



**Over 70% of firms say that local governments do not increase their costs or create additional uncertainty for their business.** This is a remarkable finding. Numerous studies point to the “high cost economy” created by burdensome local regulations and the additional uncertainty created by inconsistencies between local and national laws. Yet a large majority of firms surveyed stated that this is not a problem. Of course, there are exceptions – 70% of firms in the City of Batam say that the local government does increase the costs faced by businesses there, and 80% of firms in Regency of Banyumas claim that the local government increases the uncertainty that they face. But these are relatively unusual – for most districts the majority of firms do not appear to feel that the local government’s policies burden them unduly.

**This rosy picture arises mostly because firms believe that local government policies have little influence on them in practice.** When asked about the positive influence of local government policies, less than 20% of firms said that the influence was moderate or large and more than 40% said that there was no positive influence at all. But when asked how much the way in which local government interacts with the business community constrains their activities, 93% said that the constraint was small or very small. Indeed, when respondents elaborated on the nature of the local government-business interaction, the most common responses were that there was no interaction, or that the local government was only interested in interacting with large businesses.

**Interestingly, large firms are more likely to respond that the local government’s policies have a significant positive impact upon them than small and medium firms.** However, there is no difference in the responses of small, medium and large firms about size of the constraints that they face. Thus, although most firms do not believe that the policies of the local government have

much influence on their activities, there are clearly districts which have been successfully in fostering a constructive engagement with the private sector and others where this has barely begun.

## Local Government and Business Interaction Sub-index

To assess the extent of and the quality of interaction between the local government and the business community, we construct a sub-index comprising the following measures (see Box 4).

### Box 4: Variables In The Government-Business Interaction Sub-Index

- The percentage of firms that say that there is a *Forum Komunikasi* between the private sector and the local government
- The extent to which firms agree that local government officials provide practical solutions to their problems which meet their expectations and follow up on actions already agreed by the district leader\*
- The extent to which firms agree that the local government: understand the needs of the business community; consult on policy changes; have meetings to discuss the problems faced by businesses; and provide facilities to support the development of local businesses.\*
- Assessment by firms of whether the local government is extracting revenue from the business sector or is more interested in promoting investment in the region
- Assessment by firms of whether the local government treats all firms equally or is biased towards a small minority of firms\*\*
- The extent to which firms agree that, in practice, the policies of the local government do not increase their costs
- The extent to which firms agree that, in practice, the policies of the local government do not increase the level of uncertainty that they face
- Overall assessment by firms of how much issues associated with the interaction of the local government with the business community constraint their business activities.

\* This variable combines the t-scores of a range of similar perception questions on this topic.

\*\* The t-score of this variable is reversed to reflect the fact that larger scores are bad rather than good

The district with the strongest approval of its efforts to interact with the private sector is Regency of Musi Rawas in South Sumatra. Several other districts also performed extremely well. It is notable that six of the top 10 districts for this sub-index are in South Sumatra and most of the rest are in South Sulawesi and Gorontalo (see Table 30). Districts in these provinces appear to have institutionalized consultative mechanisms which firms find helpful.

Table 30: Best Ten Districts For Local Government - Business Interaction Sub-Index

Province	District	Sub-index score
South Sumatra	Rgcy Musi Rawas	80.1
South Sulawesi	Rgcy Soppeng	79.1
South Sumatra	City Lubuklinggau	77.3
South Sumatra	City Prabumulih	77.0
South Sumatra	Rgcy Musi Banyu Asin	76.8
South Sumatra	Rgcy Lahat	75.6
South Sulawesi	Rgcy Luwu Timur	75.3
South Sulawesi	Rgcy Barru	75.2
Gorontalo	Rgcy Boalemo	74.9
South Sumatra	City Pagar Alam	73.6

By contrast the district with the worst interaction with the private sector was Regency of Banyumas in Central Java. There is also a strong provincial concentration at the bottom as well, with four of the bottom ten from North Sumatra and the city of Medan ranked 13<sup>th</sup> from the bottom. The province

of NTB also features heavily at the bottom, including the Regencies of Lombok Timur and Dompu (see Table 31).

Table 31: Worst Ten Districts For Local Government-Business Interaction Sub-Index

Province	District	Sub-index score
Central Java	Rgcy Banyumas	26.3
North Sumatra	Rgcy Nias Selatan	27.9
West Java	Rgcy Sudistrict Of Umi	30.5
East Java	Rgcy Sumenep	30.6
North Sumatra	Rgcy Nias	32.3
NTB	Rgcy Lombok Timur	33.5
North Sumatra	Rgcy Langkat	34.2
NTT	Rgcy Alor	36.7
NTB	Rgcy Dompu	37.1
North Sumatra	Rgcy Deli Serdang	37.9

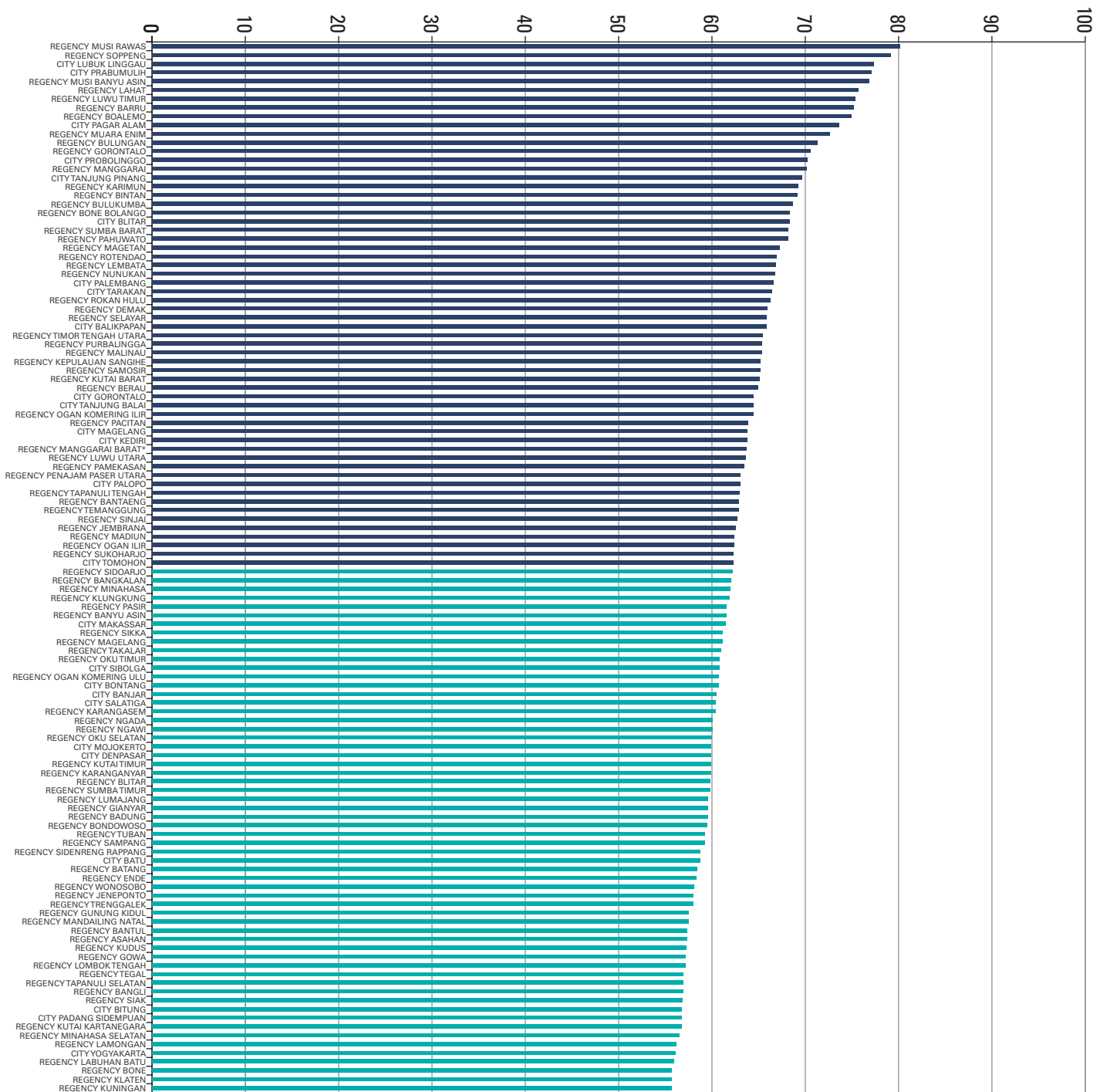
There are large differences in performance, particularly within provinces. Table 32 shows the average interaction sub-index score for the districts in each province, along with the worst and best score in each province. There are several provinces with very large differences between the best and worst in the province. For example, West Java and East Java also have very poorly performing districts (the Regencies of Sukabumi and Sumenep), while NTT has some of the worst (the Regency of Alor) and the best (the Regency of Manggarai).

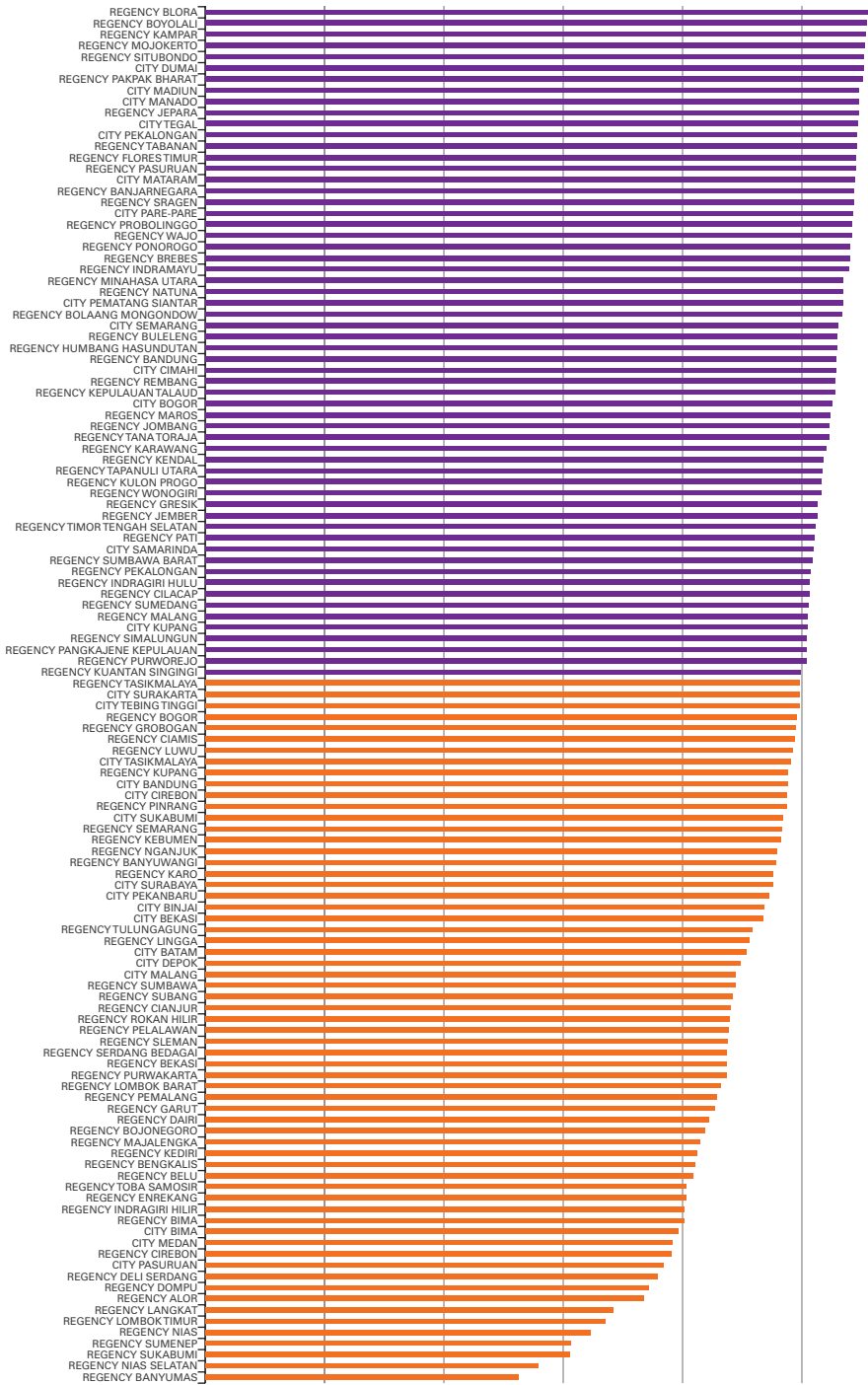
Table 32: Best And Worst District By Province For Local Government-Business Interaction Sub-Index

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	49.7	Rgcy Nias Selatan	27.9	Rgcy Samosir	65.1
Riau	50.0	Rgcy Indragiri Hilir	40.1	Rgcy Rokan Hulu	66.2
South Sumatra	69.2	Rgcy Oku Selatan	59.9	Rgcy Musi Rawas	80.1
Kepulauan Riau	58.7	City Batam	45.3	City Tanjung Pinang	69.6
West Java	47.8	Rgcy Sudistrict of Umi	30.5	City Banjar	60.4
Central Java	54.3	Rgcy Banyumas	26.3	Rgcy Demak	65.9
DI Yogyakarta	53.3	Rgcy Sleman	43.8	Rgcy Gunung Kidul	57.5
East Java	55.0	Rgcy Sumenep	30.6	City Probolinggo	70.2
Bali	58.7	Rgcy Buleleng	53.0	Rgcy Jembrana	62.5
NTB	44.5	Rgcy Lombok Timur	33.5	Rgcy Lombok Tengah	57.1
NTT	57.7	Rgcy Alor	36.7	Rgcy Manggarai	70.1
East Kalimantan	62.9	City Samarinda	50.9	Rgcy Bulongan	71.2
North Sulawesi	57.4	Rgcy Kepulauan Talaud	52.7	Rgcy Kepulauan Sangihe	65.2
South Sulawesi	59.5	Rgcy Enrekang	40.3	Rgcy Soppeng	79.1
Gorontalo	69.3	City Gorontalo	64.4	Rgcy Boalemo	74.9

Figure 12 shows the rankings of all surveyed districts for the Local Government and Business Interaction Sub-index:

Figure 12: Local Government-Business Interaction For All Districts





## Business Development Programs

### Background

Local governments offer business development programs, such as management training and product promotion, to help build the capacities of local businesses. Business development programs are typically services provided by local governments with support from local budget (APBD) funds. Thus, these activities are conducted without any levies collected from business operators by the local governments. However, in practice some governments request active funding participation from the private sector.

**These support services are usually delivered through sanctioned business development service providers.** According to Government Regulation No. 02/2008 on Empowerment of Business Development Service Providers (BDS-P), governments should use these organizations to unite various government sponsored business development programs, such as marketing consultation, consultation on production techniques, and consultation on financial management techniques. BDS-P may be funded by the central government, local governments, limited liability companies (PT), and the private sector.

**Business development programs are aimed especially at SMEs, which are the most prevalent type of business in Indonesia.** According to the 2006 Economic Census, around 99% of businesses are SMEs with between 1 and 20 staff in their work force. Typical examples of SMEs in the regions include food processing businesses and local handicrafts, which are often home-based businesses. The main problems faced by businesses in these categories are limited capital, restricted access to capital from formal financial institutions, and lack of expertise in business management.

This survey focuses on the most common types of business development activities provided for small and medium-sized business operators.

These include: business management training; training to upgrade the quality of the workforce; promotion of local products to investors (through exhibitions and trade fairs); linkages between small businesses and large, established business operators and training for SMEs in submitting loan applications.

**According to Government Regulation (PP) No 38 of 2007, local governments are obliged to empower SMEs through various support programs.** These can include things such as: providing information on funding resources, facilities, competition, partnerships, licensing, and protection for small businesses; helping small businesses in the areas of production, marketing, human resources and technology; and facilitating access to finance for SMEs at the district level by providing bank loans, venture capital, and other forms of financing.

**The Local Economic Governance Survey allows us to assess the quality and impact of business development programs.** This includes efforts made by regency and city governments to provide business development programs, and also to measure the amount of APBD funds allocated to support such programs. Two approaches are used: an analysis of the perceptions of firms about the availability and quality of business support services, and an analysis of the ratio of the local budget for development programs used for business development programs.

### Results

**Most businesses are unaware of their local governments' business development programs.**

These outreach services, such as human resources training, product promotion, small business linkages and access to credit, have the potential to help catalyze business growth, but on average

fewer than 20% of firms are aware of such programs in their areas.

However, there are important provincial variations in businesses' awareness of these training programs. For example, in the City of Pare-pare 56% of businesses say that the local government provides management training courses, compared to just 2% of firms in the Regency of Manggarai (Table 33 and 34). In Kepulauan Riau and DI Yogyakarta, 44% and 39%, respectively, of all firms say that their district governments' run business management training programs. Across East, Central and West Java, acknowledgement of the same type of programs is much lower, ranging between 13% and 15%.

Table 33: Best 10 Districts For Awareness Of Management Training Courses

Province	District	% of firms aware of Management Training Courses
South Sulawesi	City Pare-Pare	56
South Sulawesi	Rgcy Enrekang	56
Kepulauan Riau	City Batam	54
Kepulauan Riau	City Tanjung Pinang	50
East Java	City Kota Blitar	47
DI Yogyakarta	Rgcy Bantul	46
DI Yogyakarta	City Yogyakarta	44
South Sumatra	Rgcy Oku Timur	42
South Sumatra	Rgcy Muara Enim	42
South Sulawesi	City Palopo	40

There is significant district variation in the funding levels of business development programs and public services in general. Public finance data was collected on a subset of 59 districts in the survey, which showed that funding for business development programs ranged from a high of 4.7% of the local budget in the Regency of Sumedang, to less than 0.5% in the Regency of Sidoarjo. For local governments' small business credit programs, the Regency of Sragen, for example, spent 1.3% of its budget, four times the rate of the Regency of Jembrana. This wide

variation was found across all types of public services, and was not dependent on geography.

Table 34: Worst 10 Districts For Awareness Of Management Training Courses

Province	District	% of firms aware of Management Training Courses
NTT	Rgcy Manggarai	2
Riau	Rgcy Rokan Hilir	2
East Java	Rgcy Kab. Kediri	2
North Sumatra	Rgcy Nias	2
East Java	Rgcy Kab. Malang	2
North Sumatra	Rgcy Nias Selatan	2
NTT	Rgcy Rote Ndao	3
East Java	City Surabaya	4
South Sulawesi	Rgcy Bone	4
NTT	Rgcy Manggarai Barat	4

Among businesses that are aware of business development programs, there are important regional differences in participation. In North Sumatra, more than 77% of firms that are aware of business development programs have participated in them, whereas in Riau, only 45% chose to use such services. Interestingly, Yogyakarta has one of the highest awareness rates, yet one of the lowest participation rates among informed businesses. This suggests significant variability in

Table 35: Percentage Of Firms Aware Of And Participating In Business Development Programs

Province	% Aware	Of those aware, % participating
North Sumatra	11	66
Riau	13	63
South Sumatra	22	64
Kepulauan Riau	30	58
West Java	16	66
Central Java	18	57
DI Yogyakarta	38	60
East Java	16	60
Bali	20	77
NTB	17	82
NTT	16	71
East Kalimantan	26	67
North Sulawesi	21	64
South Sulawesi	21	81
Gorontalo	25	66



the attractiveness of these programs, either due to quality, design or the terms of access (see Table 35).

**Large firms have the highest participation rates in business development programs.** Although most business development is targeted at small businesses, large firms are far more involved in these programs. For example, only 6% of small businesses report receiving assistance for local product promotion, compared to 18% of large firms. The most popular business development programs are in business management and manpower training, and product promotion. Manpower training was the most frequently cited training, 16% of firms participating. However, fewer than 6% for firms participated in programs to connect SMEs and large businesses or business match making programs (see Table 36).

**There are significant differences in business development training program participation rates by province.** In DI Yogyakarta, for example, 29% of firms participate in product promotion programs, compared to fewer than 5% of firms in NTT and South Sulawesi. More than 27% of firms in East Kalimantan participated in manpower training programs, compared to below 10% in Riau (see Table 37).

**Most firms feel that business development programs can provide benefits to companies that participate in them.** On average, 86% of firms saw a benefit in business matchmaking programs, while 84% believed that programs to connect small, medium and large businesses were beneficial. This response trend was consistent across business size, sector and region.

Table 36: Participation By Types Of Business Development Programs

	Small (%)	Medium (%)	Large (%)	Production (%)	Trade (%)	Service (%)	Total (%)
Management	10	13	20	13	9	13	12
Manpower	13	18	33	17	12	18	16
Promotion	6	8	18	9	6	6	7
SME-Large Business Links	5	6	9	7	5	5	6
SME Credit	7	7	6	8	5	8	7
Matchmaking	4	5	11	6	3	4	5

Table 37: Participation By Province For Type Of Business Development Programs

Province	Management (%)	Manpower (%)	Promotion (%)	SME-Large BusinessLinks (%)	SME Credit (%)	Matchmaking (%)
North Sumatra	7	12	5	5	7	4
Riau	8	9	3	3	3	4
South Sumatra	14	26	5	6	7	3
Kepulauan Riau	17	26	9	11	9	6
West Java	11	13	9	7	8	5
Central Java	10	12	9	5	7	5
DI Yogyakarta	23	29	23	12	14	17
East Java	10	15	8	4	8	4
Bali	15	18	9	4	10	3
NTB	14	13	6	4	5	5
NTT	12	14	3	3	6	2
East Kalimantan	18	27	7	4	8	5
North Sulawesi	13	17	9	11	8	6
South Sulawesi	17	20	5	6	6	6
Gorontalo	16	23	12	10	11	5



But few firms report that business development programs have actually had an impact on the performance of their companies. On average, only 17% of firms report a very significant or significant impact from government programs. However, large businesses report a greater impact from development programs than small businesses. More than 22% of large firms report a significant impact, compared to only 15% of small firms. The assessment of business development program impact also varies greatly by region. In the province of Yogyakarta, 43% of firms report that business development programs have had a significant impact on their performance, compared to only 8% in Central Java.

## Business Development Programs Sub-index

To get an overall assessment of the existence and quality of the business development programs implemented by the local government, we construct a sub-index comprising the following measures (see Box 5).

### Box 5: Variables in the Business Development Programs Sub-index

- Average share of firms saying that six types of business development program exist (business management training; workforce training; trade promotion; connecting large and small firms; credit application training for SMEs; and business matchmaking programs)
- Average share of firms saying that they participated in these six types of business development program
- Average level of satisfaction with these programs
- Overall assessment of the impact of these programs

The best performing districts for the Business Development Programs Sub-index were mainly located in DI Yogyakarta. Four of DI Yogyakarta's five districts, the Regencies of Bantul, Gunung

Kidul, Kulon Progo, and City of Yogyakarta were in the top five performing districts in the business development program sub-index. The remaining districts in the top ten were distributed throughout six other provinces (see Table 38).

Table 38: Best Ten Districts For The Business Development Programs Sub-Index

Province	District	Sub-index score
DI Yogyakarta	Rgcy Bantul	86.5
DI Yogyakarta	Rgcy Gunung Kidul	85.0
DI Yogyakarta	Rgcy Kulon Progo	76.7
South Sumatra	City Prabumulih	75.2
DI Yogyakarta	City Yogyakarta	74.4
Kepulauan Riau	City Batam	71.9
West Java	City Banjar	69.7
Bali	Rgcy Bangli	68.3
NTB	City Bima	68.2
South Sulawesi	Rgcy Enrekang	68.1

The worst performing districts were mainly located in East Java and Riau. Of the 10 worst districts, three were located in East Java (the Regencies of Kediri, Sumenep, and Tulungagung) and two were located in Riau (the Regencies of Siak and Rokan Hilir) (see Table 39).

Table 39: Worst Ten Districts For Business Development Programs Sub-Index

Province	District	Sub-index score
East Java	Rgcy Kediri	15.0
West Java	Rgcy Bogor	17.6
East Java	Rgcy Sumenep	17.9
Riau	Rgcy Siak	19.1
Central Java	Rgcy Kebumen	19.7
NTT	Rgcy Manggarai Barat	20.6
Riau	Rgcy Rokan Hilir	21.0
Bali	Rgcy Tabanan	21.0
South Sulawesi	Rgcy Selayar	21.4
East Java	Rgcy Tulungagung	22.2

There is significant variation in districts' business development program performance within the same provinces. Despite the exceptional performance of its four neighboring districts in DI Yogyakarta, Sleman is ranked 53<sup>th</sup>. Even East Java, which had the lowest provincial ranking, had its best district (Blitar) ranked 11<sup>th</sup>, while the worst (Kediri) was also the worst overall,

ranked 243<sup>nd</sup>. Being in a low or high performing province on this sub-index does not necessarily indicate the performance of any particular district,

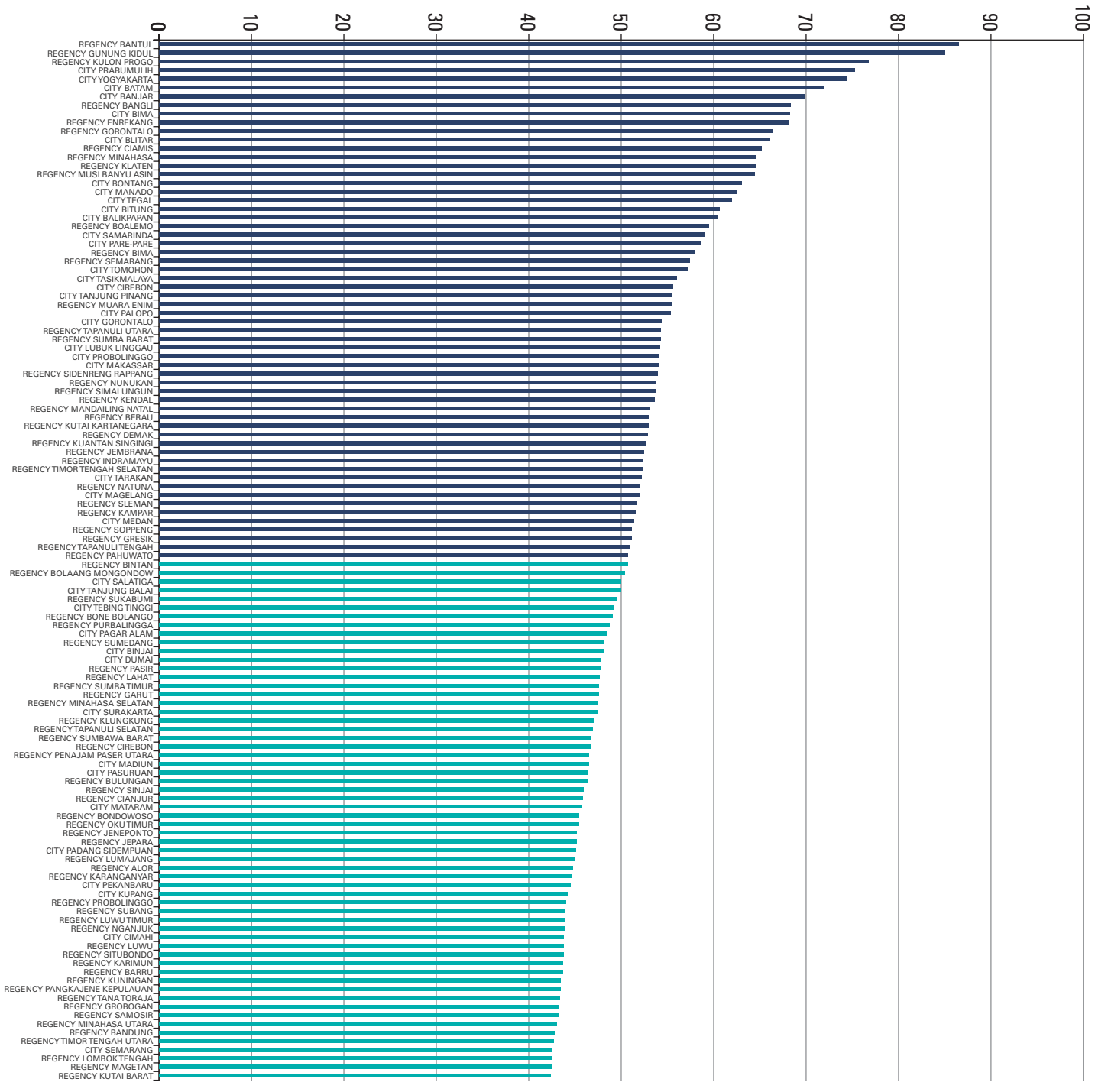
suggesting that success in this area is more dependent on the quality of local government, rather than location (see Table 40).

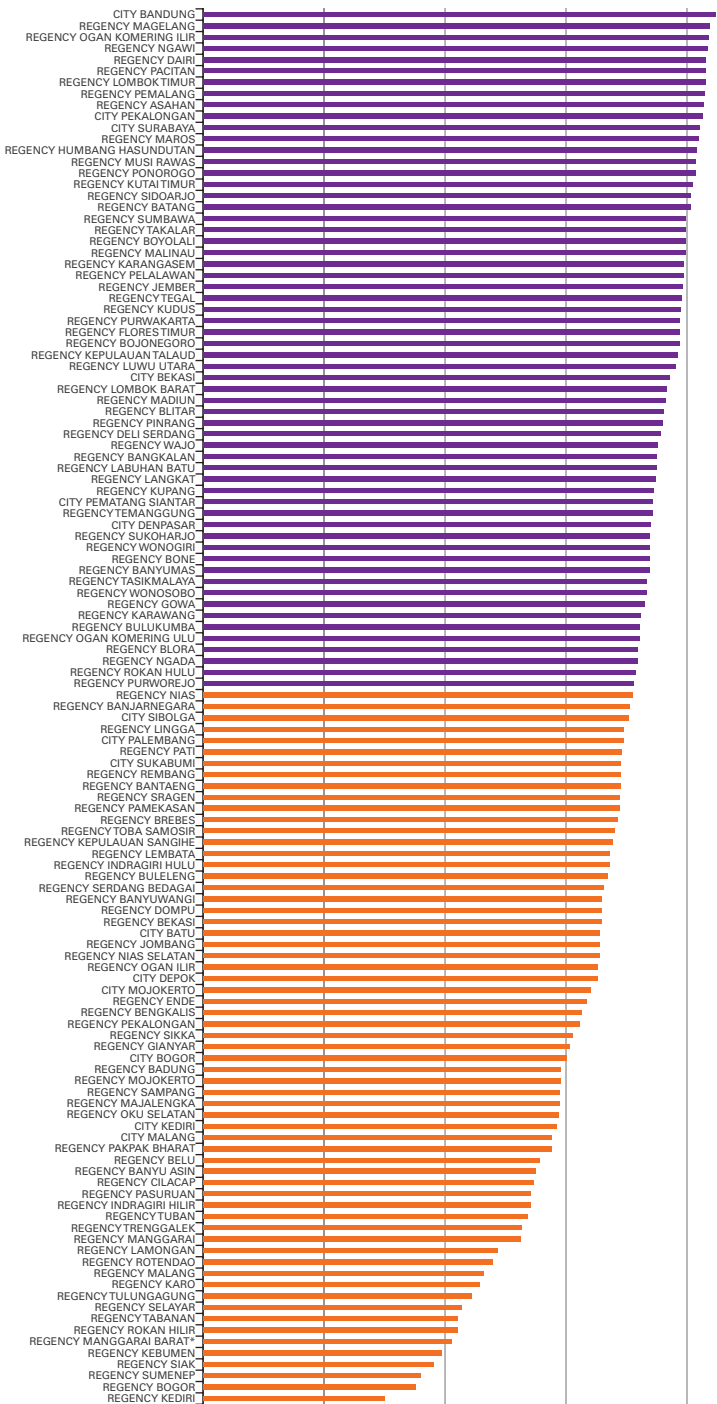
**Table 40: Best And Worst District By Province For Business Development Programs Sub-Index**

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	41.7	Rgcy Karo	22.9	Rgcy Tapanuli Utara	54.3
Riau	36.7	Rgcy Siak	19.1	Rgcy Kuantan Singingi	52.7
South Sumatra	45.2	Rgcy Banyu Asin	27.5	City Prabumulih	75.2
Kepulauan Riau	51.4	Rgcy Lingga	34.7	City Batam	71.9
West Java	43.2	Rgcy Bogor	17.6	City Banjar	69.7
Central Java	41.5	Rgcy Kebumen	19.7	Rgcy Klaten	64.5
DI Yogyakarta	74.8	Rgcy Sleman	51.6	Rgcy Bantul	86.5
East Java	36.6	Rgcy Kediri	15.0	City Blitar	66.0
Bali	39.9	Rgcy Tabanan	21.0	Rgcy Bangli	68.3
NTB	46.0	Rgcy Dompu	32.9	City Bima	68.2
NTT	37.0	Rgcy Manggarai Barat	20.6	Rgcy Sumba Barat	54.2
East Kalimantan	50.6	Rgcy Malinau	39.8	City Bontang	63.0
North Sulawesi	51.0	Rgcy Kepulauan Sangihe	33.8	Rgcy Minahasa	64.6
South Sulawesi	43.9	Rgcy Selayar	21.4	Rgcy Enrekang	68.1
Gorontalo	56.0	Rgcy Bone Bolango	49.0	Rgcy Gorontalo	66.4

Figure 13 shows the rankings of all surveyed districts for the Business Development Programs Sub-index:

Figure 13: Business Development Programs Sub-index For All Districts





## Capacity and Integrity of the Mayor/Regent

### Background

**In Indonesia, a much-publicized issue is the problem of corrupt local government heads.** Decentralization led to increased power and influence for local mayors and regents, and some have abused this power and access to resources. Rather than serving the state by creating prosperity for their people, some local government heads serve their own interests. For example, the national daily *Suara Pembaruan* has repeatedly reported on the mayors and regents who have had to face the Corruption Court (KPK). In June 2008, the Regent of Kendal was charged with embezzling over Rp 28 billion in general allocation funds (DAU).<sup>12</sup>

**The Kendal corruption case is not unusual, as several other mayors have been accused of corruption and charged in criminal cases.** A report by the World Bank stated that to date 967 local legislators (DPRD members) and 61 heads of regions have been involved in corruption crimes. In 2006 alone, there were 46 corruption cases implicating 61 provincial Governors or District Heads.<sup>13</sup> These legislators and heads of regions are currently involved in legal processes as suspects, defendants, or convicts already found guilty of crimes.

**Mayors and regents often obtain their positions because of the support of political parties and wealthy or powerful individuals.** Some heads of regions subsequently abuse their position to repay this support by meddling in public procurement processes and otherwise misdirecting public funds. Moreover, these practices are sometimes committed with the support or collusion of legislators. Clearly, this situation is not conducive to the development of governance in the broader common interest.

Currently, there are national laws in place to regulate the integrity of local government officials, but these laws could be more explicit. Law Number 32 of 2004 on Local Government, Article 80, states that state officials, structural officials, functional officials, civil servants, and village heads are prohibited from making decisions and/or taking action to benefit or harm any candidates during an election campaign. However, in practice, the law's general language has not changed regular practices of corruption.

**In some districts, the national anti-corruption commission has asked local leaders to sign Memorandums of Understanding (MOU) indicating that they will not conduct corrupt activities.** This MOU allows the KPK to easily investigate these local governments without requiring special permission. This MOU process provides a first step towards creating greater transparency and addressing the systemic problem of corruption in Indonesia.

**The Local Economic Governance Survey allows us to assess the capacity and integrity of district mayors.** Firms were asked about the responsiveness of mayors in combating corruption, their understanding of business development issues, their strength as a community leader, and, more indirectly, whether they are perceived to be corrupt. These various lenses on mayors' performance help us better understand the relationship between local political leadership and the business community.

### Results

**Over two-thirds of businesses believe that their mayor or regent has a good understanding of the problems firms face.** Positive opinions of the mayor's understanding of business were more prevalent among larger businesses and those in the service sector (see Table 41).

<sup>12</sup> *Suara Pembaruan*, June 6, 2008

<sup>13</sup> *Local Governance Corruption Study*, The World Bank Jakarta, June 2007

**Table 41: Understanding And Capacity Of The Mayor/Regent And Their Officials**

	Small (%)	Medium (%)	Large (%)	Production (%)	Trade (%)	Service (%)	Total (%)
Mayor has good knowledge of problems experienced by business	69	70	72	66	69	75	69
Mayor conducts the recruitment of government officials that deal with business activity based on their professional qualification	69	69	68	68	69	71	69

Note: Figures are the percentage that agree or strongly agree with the statement.

**More than two-thirds (69%) of respondents believe that their regent/mayor places officials in positions based on their experience and qualifications for the job.** This is encouraging, but also surprising, since it is often argued that the capacity of officials in the technical departments of local governments is low, resulting in poor quality services to the business community. Some districts, however, are attempting to tackle these problems by using a “fit and proper test” for recruiting officials, which helps to ensure that new staff have the proper background for the job.

generally associate being strong, with being corrupt (see Table 42)

**There are large regional differences in firms’ perceptions about corruption.** Tables 43 and 44 show the 10 most and least corrupt local leaders according to the perceptions of local businesses. The range is extraordinary. Not a single one of the 51 firms surveyed in the Regency of Purbalinga in Central Java felt that their Regent was corrupt (and five other districts appeared equally clean). By contrast every single one of the

**Table 42: Attitudes Towards Corruption**

	Small (%)	Medium (%)	Large (%)	Production (%)	Trade (%)	Service (%)	Total (%)
Mayor takes firm actions toward every incident of corruption	66	64	62	63	64	67	65
Mayor takes actions that benefit himself/herself (corruption)	33	33	29	32	33	32	33
Mayor is a strong leader	85	84	83	84	84	85	84

Note: Figures are the percentage that agree or strongly agree with the statement.

**A majority of firms (65 %) said that their mayor/regent took firm action against corruption.** At the same time, one third of firms agreed that their mayor/regent is involved in corrupt activities that benefit only themselves. This view does not change depending on the sector or scale of the business surveyed. A large majority of businesses (84%) believe that their mayor/regent is a strong leader. However, interestingly, firms that believe that the local leader is corrupt are less likely to think of them as a strong leader.<sup>14</sup> Firms do not

35 firms surveyed in the Regency of Sumbawa believed that their Regent was involved in corrupt activities.

**Most firms’ perceptions of the local leader are shaped by the media.** The survey explored how firms’ perceptions of local leaders are formed. This study indicates that business perceptions are not formed primarily from direct interactions with the leader. In fact, most firms (72%) report that their opinions are largely based on information

<sup>14</sup> That is, there is a statistically significant negative correlation between the share of firms that believe that the leader is corrupt and those that believe that he or she is a strong leader.

**Table 43: Regional Differences In Perception That The Mayor/Regent Is Corrupt - Best Districts**

Province	Best District	%
North Sulawesi	Rgcy Kepulauan Talaud	0%
NTB	Rgcy Dompu	0%
Central Java	Rgcy Purbalingga	0%
NTT	Rgcy Lembata	0%
Kepulauan Riau	Rgcy Natuna	0%
North Sumatra	Rgcy Mandailing Natal	0%
East Java	Rgcy Pacitan	2%
South Sulawesi	Rgcy Soppeng	3%
Kepulauan Riau	City Tanjung Pinang	3%
East Kalimantan	Rgcy Malinau	3%

Note: Figures are the percentage of firms that agree that the district leader undertakes corrupt activities that benefit themselves

**Table 44: Regional Differences In Perception That The Mayor/Regent Is Corrupt - Worst Districts**

Province	Worst District	%
Central Java	City Semarang	78%
Central Java	Rgcy Banyumas	78%
North Sumatra	City Medan	79%
West Java	Rgcy Garut	80%
East Java	Rgcy Mojokerto	81%
Central Java	Rgcy Semarang	82%
North Sumatra	Rgcy Nias Selatan	83%
West Java	Rgcy Majalengka	86%
Riau	Rgcy Pelalawan	89%
NTB	Rgcy Sumbawa	100%

Note: Figures are the percentage of firms that agree that the district leader undertakes corrupt activities that benefit themselves

they receive from the media, particularly local media reportage. The second most common source of information reported was interaction with other business operators, reported to be important to nearly one-third of respondents. Large firms are more likely to obtain their information about the Mayor/Regent from meetings with the district head and through

**Table 45: Source Of Information About The Mayor/Regent**

	Small (%)	Medium (%)	Large (%)	Production (%)	Trade (%)	Service (%)	Total (%)
Involvement in government projects	4	5	4	5	3	4	4
Meetings with Mayor	13	14	20	14	13	13	13
Interactions with business people	29	32	36	34	30	27	30
Local mass media	71	72	75	68	72	76	72
business association	4	6	14	7	3	5	6
Other	3	2	1	3	2	2	3

Note: Figure 3 are the percentage of firms that said that they obtained information about the Mayor/Regent from that source. Respondents could choose more than one source.

business associations, than small or medium sized firms (see Table 45).

**Almost all firms believe that the capacity and integrity of the district head has only a small impact on their business.** Nearly all respondents (97%) say that the capacity and integrity of the mayor/regent does not hamper their business operations. These findings do not vary by size of business, sector or province. This may reflect the fact that most businesses have relatively little direct interaction with the Mayor or Regent and may not take into account the indirect impact of the local leader's capacity and integrity on local economic policy.

## Capacity and Integrity of the Mayor/Regent Sub-index

The capacity and integrity of the district leader is one of the most difficult to measure, and yet potentially one of the most important, characteristics of a region. It is extremely difficult to obtain quantitative measures of these characteristics – the only quantitative measure available is the level of education achieved and this is not always well correlated with capacity; measuring integrity is even more difficult. Despite this, in practice the business community usually has a very good sense of the competence of the local leaders, their understanding of the issues and their personal integrity. As a result we rely on six carefully crafted perceptions questions to construct the Capacity and Integrity of the District Leader Sub-index as shown in Box 6.



**Box 6: Variables In The Capacity And Integrity Of The Mayor/Regent Sub-Index**

- Extent to which firms agree that the local leader has a good understanding of the problems facing business
- Extent to which firms agree that the appointment of bureaucrats dealing with business issues in the local government is based on their experience and is appropriate for the section in which they work
- Extent to which firms agree that the local leader takes strong action against every instance of corruption by local government officials
- Extent to which firms agree that the local leader themselves undertakes corrupt actions for his/her own benefit.\*
- Extent to which firms agree that the local leader is a strong leader.
- Firms overall assessment of the extent to which issues associated with the capacity and integrity of the local leader constrain their business activities.

\* The t-score of this variable is reversed to reflect the fact that larger scores are bad rather than good

Half of the most respected mayors/regents are based in South Sumatra. District heads outside Java are perceived to have far better capacity and integrity than those on Java. Table 46 lists the ten best mayors/regents according to survey results.

**Table 46: Best Ten Districts For Capacity And Integrity Of The Mayor/Regent Sub-Index**

Province	District	Sub-index score
South Sulawesi	Rgcy Soppeng	87.9
South Sulawesi	Rgcy Barru	84.7
South Sumatra	City Prabumulih	83.4
East Java	City Probolinggo	83.4
South Sumatra	Rgcy Musi Banyu Asin	82.2
South Sumatra	Rgcy Musi Rawas	80.7
South Sumatra	City Lubuklinggau	79.9
South Sumatra	City Pagar Alam	79.9
South Sumatra	Rgcy Lahat	79.8
Central Java	Rgcy Purbalingga	78.9

**Table 47: Worst Ten Districts For Capacity And Integrity Of The Mayor/Regent Sub-Index**

Province	District	Sub-index score
North Sumatra	Rgcy Nias Selatan	23.9
Central Java	Rgcy Banyumas	27.1
North Sumatra	Rgcy Nias	28.8
DI Yogyakarta	Rgcy Sleman	30.3
Riau	Rgcy Indragiri Hilir	30.8
East Java	Rgcy Sumenep	31.4
West Java	Rgcy Garut	32.2
Riau	Rgcy Pelalawan	33.9
Central Java	Rgcy Semarang	34.3
North Sumatra	Rgcy Serdang Bedagai	36.8

The two regencies on the island of Nias scored the worst and third worst, respectively. Table 47 lists the ten worst mayors/regents according to survey results. Riau and Central Java had two districts each among the worst ten.

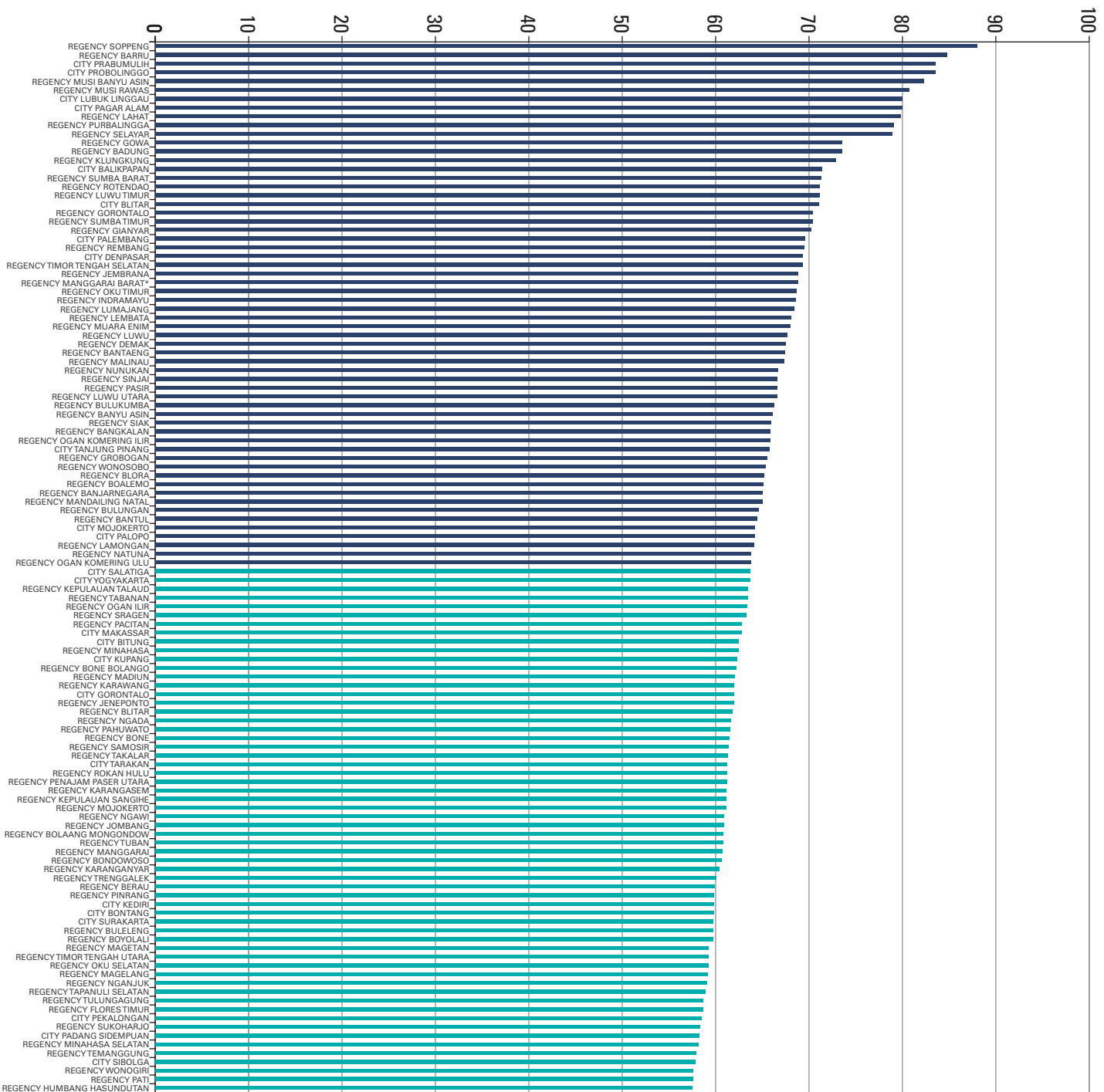
There is significant variation among districts within provinces. In Central Java, for example, the Regent of Purbalingga was rated tenth best overall, the Regent of Banyumas was considered the second worst out of 243 cities and districts in Indonesia. Within Sumatra, South Sumatra appears to produce the best mayors/regents in Indonesia, while mayors and regents in North Sumatra are rated the worst. The Regencies of Nias and Nias Selatan in North Sumatra have the worst district heads in the region, according to firms' perceptions. It is interesting to note that the Regent of Serdang Berdagai is ranked the tenth worst in the country, despite that fact that he was the first regent to sign a Memorandum of Understanding with the anti-corruption commission (KPK) agreeing to abide by ethical codes (see Table 48).

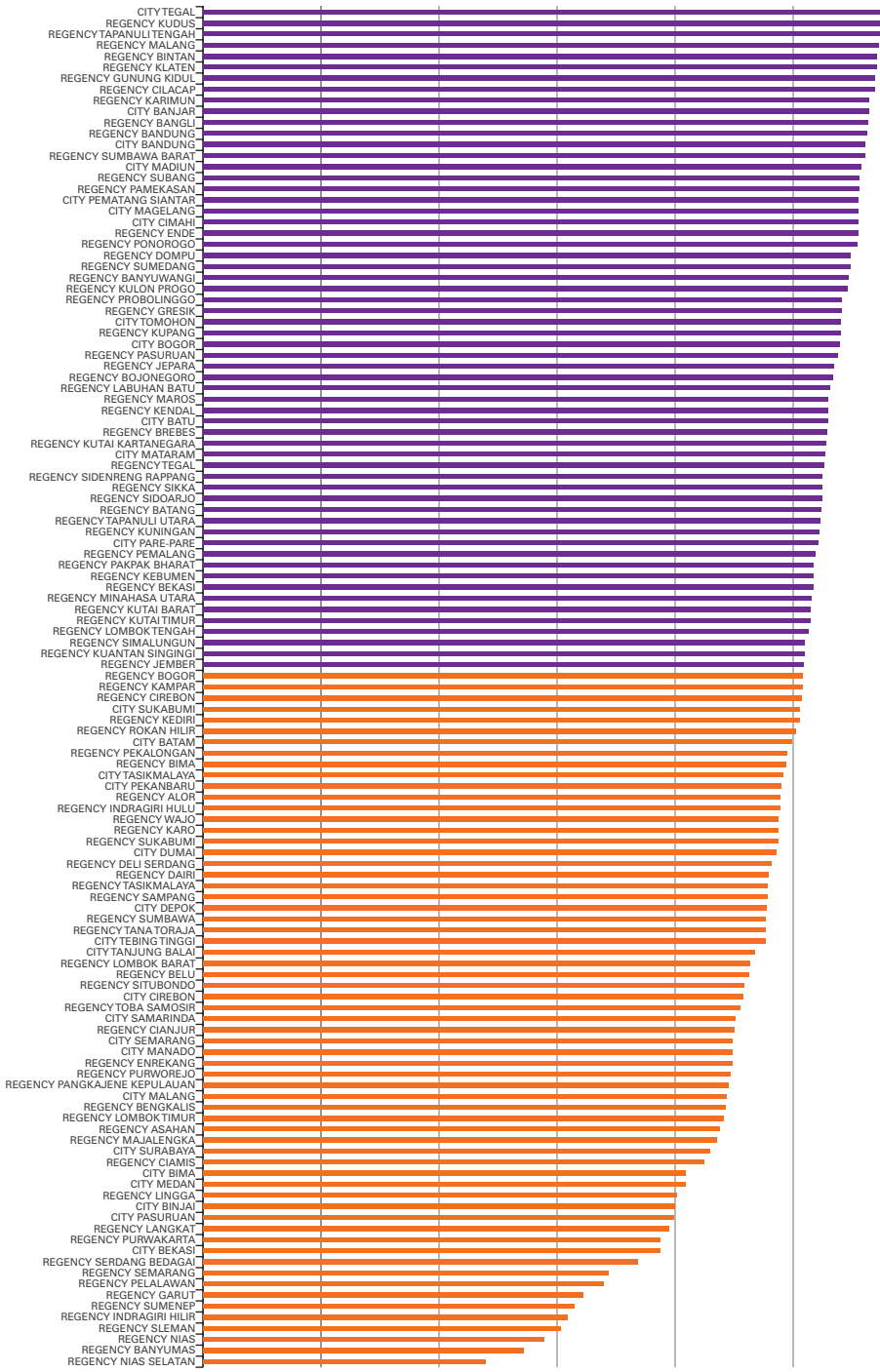
Table 48: Best And Worst Districts By Province For Capacity And Integrity Of The Mayor/Regent Sub-Index

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	48.7	Rgcy Nias Selatan	23.9	Rgcy Mandailing Natal	64.9
Riau	48.5	Rgcy Indragiri Hilir	30.8	Rgcy Siak	65.8
South Sumatra	72.1	Rgcy Oku Selatan	59.1	City Prabumulih	83.4
Kepulauan Riau	55.4	Rgcy Lingga	40.1	City Tanjung Pinang	65.7
West Java	50.1	Rgcy Garut	32.2	Rgcy Indramayu	68.5
Central Java	56.7	Rgcy Banyumas	27.1	Rgcy Purbalingga	78.9
DI Yogyakarta	53.9	Rgcy Sleman	30.3	Rgcy Bantul	64.4
East Java	56.7	Rgcy Sumenep	31.4	City Probolinggo	83.4
Bali	66.1	Rgcy Bangli	56.3	Rgcy Badung	73.4
NTB	49.2	City Bima	40.8	Rgcy Sumbawa Barat	56.0
NTT	61.1	Rgcy Belu	46.2	Rgcy Sumba Barat	71.2
East Kalimantan	59.9	City Samarinda	45.1	City Balikpapan	71.2
North Sulawesi	57.6	City Manado	44.8	Rgcy Kepulauan Talaud	63.4
South Sulawesi	62.8	Rgcy Pangkajene Kepulauan	44.5	Rgcy Soppeng	87.9
Gorontalo	64.2	Rgcy Pohuwato	61.5	Rgcy Gorontalo	70.3

Figure 14 shows the rankings of all surveyed districts for the Capacity and Integrity of the Mayor/Regent Sub-index:

Figure 14: Capacity And Integrity Of The Mayor/Regent Sub-index For All Districts





## Local Taxes, User Charges and other Transaction Costs

### Background

Businesses in Indonesia regularly have to pay legal and illegal user charges, taxes and security payments. Decentralization has allowed local governments to impose their own taxes and user charges, furthering the burden on businesses. A decade ago, the Government of Indonesia responded to high local permitting costs by issuing a law that limited many local taxes and user charges at the provincial and district/city levels.<sup>15</sup> Although this law was proven to have a positive impact on business climate by reducing prices and the regulatory burden, it was overturned in 2000 when local governments succeeded in reaffirming their authority to manage taxes and permits at the local level. In the post-decentralization era, local governments often use local taxes and user charges as a source of revenue rather than a public good. At the same time, police and thug organizations (*preman*) also demand regular payments from firms in exchange for security, further driving up costs for firms.

**User charges are issued by local governments for a number of reasons, from transporting commodities to crossing district borders.** User charges are often collected by different government departments based on commodity. For example, the local forestry department may ask any truck driver carrying forest products to pay a fee. In other cases, user charges are collected for road use, border crossing, or using a ferry. The implementation and collection of user charges is problematic because the reason for the charge is not transparent. Thus, firms often accept the need to pay user charges without questioning whether or not the charge was legitimate. Despite the negative impact on the free flow of goods, some

local governments still issue permits and licenses and impose user charges on the movement of goods.

**Transactions costs are particularly onerous for businesses transporting their goods on local roads.** Truck drivers transporting items are liable to legal and illegal local user charges, payments at weigh stations, and payments to police or *preman* (gangsters). The typical time spent paying these charges is 19 minutes for each truck.<sup>16</sup>

**Firms make routine payments to the police and to local *preman* for security reasons, but these payments are mostly illegal.** This survey found that up to one third of large firms make routine security payments. Police and army/*preman* organizations often extort firms in exchange for security, to avoid being stopped on the road, and to avoid heavy fines. Payments to police, the army, and *preman* organizations are mostly illegal, damaging perceptions of the rule of law and the overall business climate. Because police officers extort illegal charges from truck drivers, often in conjunction with *preman*, this damages any sense of trust in the police force. This kind of extortion also harms the business climate because corruption leads to uncertainty for firms carrying their goods along Indonesian roads. As mentioned in the World Bank Logistics Performance Index, predictability and reliability are as important as cost and speed in shaping the investment climate.

**The Local Economic Governance Survey allows us to assess the impact of transaction costs on the local business community.** Businesses frequently complain about the high incidence of taxes and local user charges to which they are subject. Local governments are entitled to levy user charges for a wide variety of local regulatory services, even when no service is actually delivered. It is not just the costs, but the lack of clarity, and sometimes

15 Law No. 18/1997 on Local Taxes and Local User-Charges (*Undang-Undang Nomor 18 Tahun 1997 tentang Pajak Daerah dan Retribusi Daerah*). It was amended by Law 34/2000 by providing authority for local government to create their own levies.

16 The Cost of Moving Goods: Road Transportation, Regulations and Charges in Indonesia," The Asia Foundation, April 2008.

illegality, that creates unnecessary impediments for businesses. This sub-index looks at a variety of these taxes and charges, and how they affect firms by size, sector and geographic location.

## Results

Table 49: Median User Charge And Local Tax Payments By Size And Sector Of Firm

	Small	Medium	Large	Production	Trade	Service	Total
User charges per employee (Rp '000)	15	11	6	10	16	13	13
Local taxes per employee (Rp '000)	19	15	15	13	23	22	17
Total official payments per employee (Rp '000)	26	20	14	17	31	28	23

**User charges are a larger proportionate burden on small firms.** A typical firm pays around Rp 360,000 a year in user charges and around Rp 400,000 per year in local taxes. However, these figures obviously vary enormously by the size of the firm. To compensate for differences due to the size of the firm, we present the median user charge payments and local taxes per employee in Table 49. Small firms typically pay around Rp 15,000 per employee in user charges; by contrast large firms typically pay around Rp 6,000 per employee. Local taxes are more evenly distributed across firms of different size, but overall the burden of local taxation and charging falls more heavily on small rather than large firms.<sup>17</sup>

**Production firms appear to be subject to fewer user charges and local taxes than trade and service sector firms.** Table 49 shows that firms in the production sector typically pay little more than than half the overall user charges and local taxes per employee paid by firms in the trade and service sector. This suggests that local governments focus their collection efforts on the more visible and more numerous trade and services sectors. However, it is interesting to note that the mean payment by production firms is not smaller than that for other sectors. This suggests that a small number of production firms do have

to pay considerably higher user charges and local taxes.

**Generally local user charges and taxes are not perceived to be a significant burden on the business community.** More than 92% of firms -

small, medium and large - say that the user charge and local tax payments do not burden them, or trouble them very little. This is quite a surprising result given the frequent complaints in the media and the public debate about these charges. Moreover, the same result is repeated in most provinces (see Table 50) with two notable exceptions. Firstly, in North Sumatra and Kepulauan Riau, user charges and taxes appear particularly burdensome. Almost a third of firms

Table 50: Percentage Of Firms Burdened By Taxes And User Charges

Province	% of firms burdened by user charges	% of firms burdened by local taxes
North Sumatra	14	17
Riau	14	17
South Sumatra	9	10
Kepulauan Riau	18	15
West Java	16	20
Central Java	14	19
DI Yogyakarta	17	29
East Java	11	11
Bali	7	12
NTB	24	13
NTT	7	11
East Kalimantan	7	10
North Sulawesi	11	10
South Sulawesi	12	9
Gorontalo	10	9
Total	12	14

Note: Figures are percentage of firms that were substantially or very substantially burdened by the user charges/taxes.

<sup>17</sup> Analysis in which the tax and charge payments are normalized by sales shows a similar picture.

Table 51: Percentage Of Firms Making Payments To Different Groups

	Small (%)	Medium (%)	Large (%)	Production (%)	Trade (%)	Service (%)	Total (%)
Police	11	16	31	15	18	12	14
Military	4	7	17	7	7	5	6
Local Government	5	5	9	6	6	4	5
Social Organization	11	13	21	14	14	10	13
Gangsters	5	5	7	5	7	4	5

in Kepulauan Riau said that they were burdened by user charges and over a quarter felt burdened by local taxes. Similarly in North Sumatra around a quarter of firms said that they felt burdened by charges and taxes. For example, more than a third of firms in the Regency of Langkat in North Sumatra felt burdened by user charges and over 40% of firms in the City of Batam in Kepulauan Riau felt this way. By contrast less than 7% of firms in Bali felt burdened by user charges, and only 12% were troubled by local taxes.

**Large businesses more frequently are required to make security payments, but in general**

**businesses are not burdened by these transactions.** Nearly a third of large businesses make payments to the police, compared to only 11% of small businesses (see Table 51). Across all firm sizes, a minority of businesses report being significantly burdened by these transactions. For example, only 21% of firms consider police payments a burden. However, the burden of security payments does vary somewhat by business size and payment type. For payments to local government officials, small and medium businesses or more adversely affected (as high as 25% of firms) compared to large firms. Payments

Table 52: Burden Of Payments (Percentage Finding Them Not Burdensome)

	Small (%)	Medium (%)	Large (%)	Production (%)	Trade (%)	Service (%)	Total (%)
Police	78	79	84	76	83	81	79
Military	76	83	84	80	83	79	81
Local Government	75	75	85	75	75	79	76
Social Organization	88	87	83	87	87	88	87
Gangsters	60	57	59	61	59	54	58

Table 53: Prevalence Of Security Payments By Province

Province	Police (%)	Military (%)	Local Government (%)	Social Organization (%)	Gangsters (%)
North Sumatra	19	6	8	21	9
Riau	22	10	6	22	11
South Sumatra	9	5	3	4	4
Kepulauan Riau	18	11	7	22	2
West Java	22	12	9	19	11
Central Java	13	6	4	15	6
DI Yogyakarta	14	8	4	25	5
East Java	13	6	3	5	5
Bali	6	1	2	13	1
NTB	6	3	3	5	2
NTT	4	1	4	3	0
East Kalimantan	24	12	7	22	3



to gangsters (*preman*), although less prevalent, are considered very burdensome by 42% of all firms (see Table 52).

**The prevalence of security payments varies greatly by region and payment type.** Overall, West Java, Riau and East Kalimantan have the highest security payment rates, while NTT, NTB and Bali report the lowest. Interestingly, North Sumatra businesses report some of the highest security payment rates across all categories, except the military. But within provinces, there is significant variability in payment types. Police payments in DI Yogyakarta are below average, but it has the highest level of payments to social organizations (see Table 53).

**The share of firms paying the police is lowest in several districts in NTB and NTT.** Table 54 shows the 10 districts with the lowest share of firms making payments to the police. In 8 of the 10 best districts, none of the firms interviewed said that they made payments to the police.

Table 54: The 10 Districts With The Lowest Share Of Firms Making Payments To The Police

Province	District	% of firms that make payments to the police
NTT	Rgcy Timor Tengah Selata	0
North Sulawesi	Rgcy Kepulauan Talaud	0
NTT	Rgcy Sumba Barat	0
NTB	Rgcy Sumbawa Barat	0
NTT	Rgcy Flores Timur	0
Bali	Rgcy Bangli	0
NTT	Rgcy Ngada	0
North Sumatra	Rgcy Nias Selatan	0
NTB	Rgcy Lombok Timur	2
Central Java	Rgcy Pekalongan	2

**But a large share of firms claim to make payments to the police in some districts in Java and North Sumatra.** Table 55 shows the worst ten districts for making payments to the police. In the Regency of Malnau in East Kalimantan, almost half of the firms surveyed claimed to make

payments to the police. It is also notable that two major cities are in the bottom ten – the City of Bekasi and the City of Semarang where overall one third of firms make payments to the police.

Table 55: The 10 Districts With The Highest Share Of Firms Making Payments To The Police

Province	District	% of firms that make payments to the police
East Kalimantan	Rgcy Malinau	49
Riau	Rgcy Rokan Hilir	44
North Sumatra	Rgcy Labuhan Batu	42
North Sumatra	City Tanjung Balai	40
East Kalimantan	Rgcy Kutai Timur	40
West Java	City Bekasi	38
North Sumatra	Rgcy Langkat	38
Central Java	City Semarang	36
West Java	Rgcy Indramayu	35
East Java	Rgcy Jombang	35

## Transaction Costs Sub-index

To assess the extent to which the transaction costs associated with local government user charges constrain businesses, we construct a sub-index comprising the following measures (see Box 7).

### Box 7: Variables In The Transaction Costs Sub-Index

- The extent to which firms say that they are bothered by user charges
- The percentage of firms that say that there are official user charges for transporting goods across district borders and the log of the user charges for distributing goods across district borders per firm employee\*
- The percentage of firms that say that they have had to pay donations or contributions to the local government in the last year and the extent to which these payments bothered the firms.\*
- Overall assessment by firms of how much issues associated with licensing constraint their business activities.
- The share of firms that say that they have to make additional payments to the police\*\*
- Overall assessment by firms of how much issues associated with such transaction costs constrain their business activities

\* This variable combines the t-scores of related underlying variables.

Both t-scores are reversed.

\*\* The t-score is reversed.

The best performing districts for the Transaction Costs Sub-index were mainly located in NTB, NTT and Bali, but there is significant variance within provinces. The top two regencies were Tabanan in Bali and Lombok Timur in NTB (see Table 56)

Table 56: Best Ten Districts For Transaction Cost Sub-Index

Province	District	Sub-index score
Bali	Rgcy Tabanan	96.1
NTB	Rgcy Lombok Timur	95.5
NTT	Rgcy Manggarai	94.0
North Sulawesi	Rgcy Kepulauan Talaud	93.9
Bali	Rgcy Gianyar	93.2
NTT	Rgcy Flores Timur	93.0
East Java	Rgcy Magetan	93.0
NTT	Rgcy Lembata	92.5
NTT	Rgcy Timor Tengah Selatan	91.9
NTT	Rgcy Sumba Timur	89.1

The worst performing districts were mainly located in North Sumatra and West Java.

Interestingly, NTB had some of the best and worst performing districts for transaction costs, with Bima scoring just 27.3 points while Lombok Timur had among the highest rankings (see Table 57).

Table 57: Worst Ten Districts For Transaction Cost Sub-Index

Province	District	Sub-index score
NTB	Rgcy Bima	27.3
North Sumatra	City Padangsidempuan	36.5
Riau	Rgcy Rokan Hilir	39.7
North Sumatra	Rgcy Labuhan Batu	41.0
West Java	Rgcy Bandung	42.2
North Sumatra	City Tanjung Balai	43.2
West Java	Rgcy Indramayu	45.7
South Sulawesi	Rgcy Sidenreng Rappang	47.0
North Sumatra	Rgcy Langkat	47.1
West Java	City Cimahi	48.1

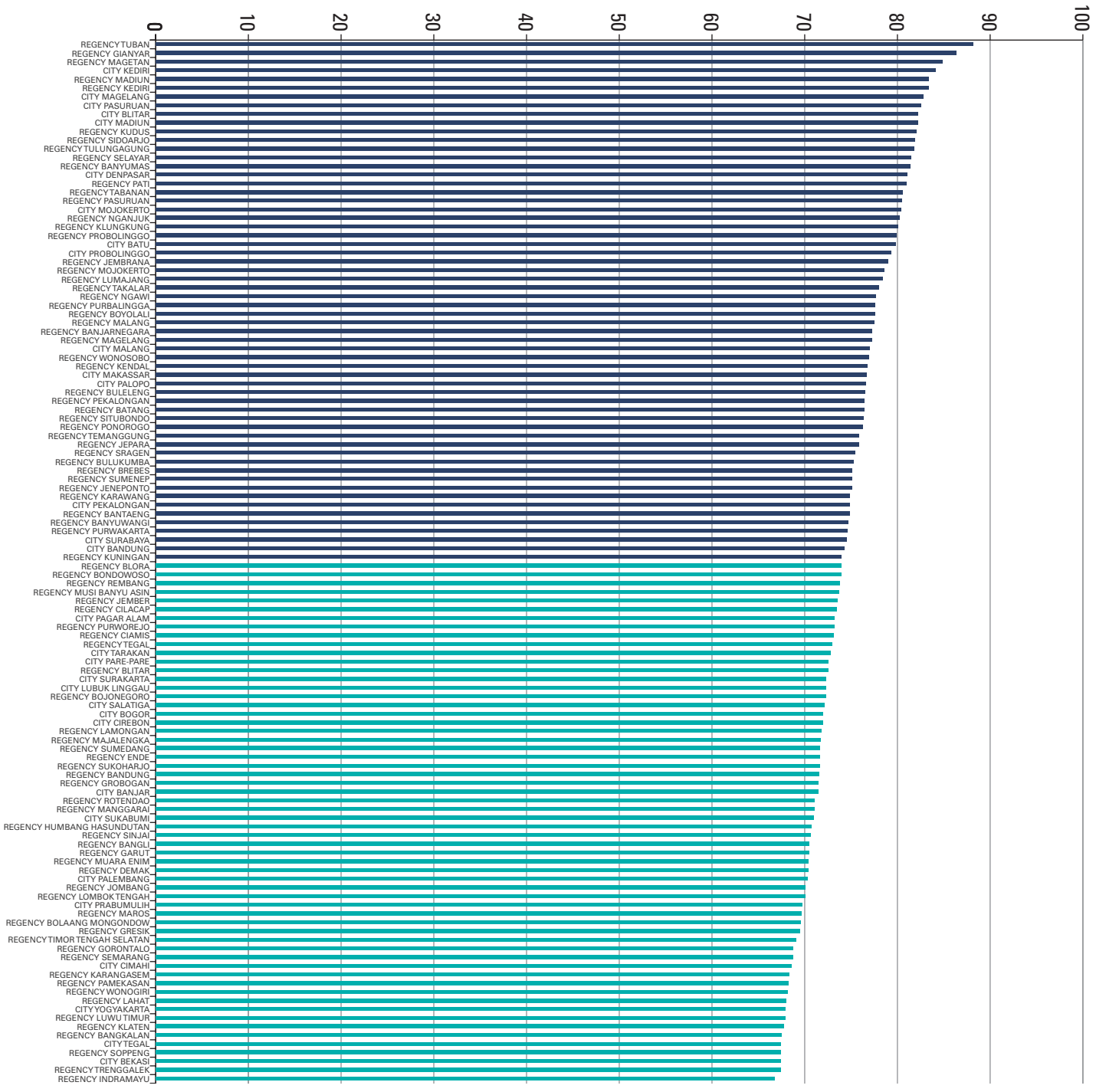
There is significant variation among districts within provinces. South Sumatra districts showed the most consistency, with only 18 points separating its best and worst districts (City of Prabumulih was ranked 16<sup>th</sup>, and Regency of Ogan Komering Ilir was ranked 136<sup>th</sup>). The most variation was seen between districts in North Sumatra, with nearly a 50-point difference between the best and the worst districts in terms of transaction costs (see Table 58).

Table 58: Best And Worst Districts By Province For Transaction Cost Sub-Index

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	61.2	City Padangsidempuan	36.5	Rgcy Papak Bharat	84.1
Riau	61.2	Rgcy Rokan Hilir	39.7	Rgcy Bengkalis	74.0
South Sumatra	77.3	Rgcy Ogan Komering Ilir	67.8	City Prabumulih	86.1
Kepulauan Riau	68.9	City Batam	54.3	City Tanjung Pinang	88.7
West Java	61.5	Rgcy Bandung	42.2	Rgcy Karawang	71.2
Central Java	72.3	Rgcy Semarang	52.3	Rgcy Pati	85.1
DI Yogyakarta	62.0	Rgcy Sleman	48.3	City Yogyakarta	76.9
East Java	74.8	Rgcy Jombang	55.8	Rgcy Magetan	93.0
Bali	85.5	Rgcy Jembrana	76.8	Rgcy Tabanan	96.1
NTB	67.7	Rgcy Bima	27.3	Rgcy Lombok Timur	95.5
NTT	83.5	Rgcy Alor	65.2	Rgcy Manggarai	94.0
East Kalimantan	69.4	Rgcy Malinau	51.9	Rgcy Nunukan	81.4
North Sulawesi	72.2	City Bitung	48.9	Rgcy Kepulauan Talaud	93.9
South Sulawesi	59.8	Rgcy Sidenreng Rappang	47.0	Rgcy Selayar	88.4
Gorontalo	67.9	Rgcy Pohuwato	58.3	Rgcy Bone Bolango	75.9

Figure 15 shows the rankings of all surveyed districts for the Transaction Costs Sub-index:

Figure 15: Transaction Costs Sub-index For All Districts





## Local Infrastructure

### Background

**Indonesia's poor infrastructure is harming the business climate and limiting the ability of small business owners to access profitable markets and to operate reliably.** Although it is recovering now, Indonesia has suffered from a decade of under investment in infrastructure. After the Asian financial crisis, public infrastructure expenditure fell to about 1% of the GDP in 2000. By 2007 it had risen to 3.4%, which is still below pre-crisis levels of 5% to 6% of GDP.<sup>18</sup> The poor quality of infrastructure in more isolated areas of Indonesia significantly raises the costs faced by small businesses, transport firms and consumers. In particular, poor road quality and unreliable electricity remain key challenges for local economic development.

**The unstable power grid in Indonesia means that business operations are stalled by frequent blackouts, particularly in the outer islands.** Indonesia has installed electrical generating capacity estimated at 21.4 gigawatts, with 87% coming from thermal (oil, gas, and coal) sources, 10.5% from hydropower, and 2.5% from geothermal sources (Global Energy Network Institute, 2008). State utility provider PLN (Perusahaan Listrik Negara) has a monopoly on electricity provision in Indonesia. An electricity law signed in 2002 required an end to PLN's monopoly and planned to establish an independent regulatory body by law. However, Electricity Law No. 20/2002 was struck down by the constitutional court as it sought to privatize what is considered a public service under the government's control. As a result, private companies are effectively unable to compete with PLN to provide electricity.

**Indonesia performs poorly in international rankings of the quality of its transportation infrastructure.** A survey conducted by the World Economic Forum ranked Indonesia 91 out of 131 countries in the transportation infrastructure area. Only 58% of the total road length in Indonesia is paved, leading to higher maintenance costs for vehicles traveling secondary roads, particularly trucks bearing high loads. By comparison, 98.5% of Thai roads are paved, and 80.8% of Malaysian roads are paved<sup>19</sup>. In general, Indonesia's national and provincial roads are financed and maintained through the Special Allocation Fund (*Dana Alokasi Khusus* or *DAK*), while the General Allocation Fund (*Dana Alokasi Umum*, *DAU*) transfers funds from the central to the district/city governments. According to a World Bank study on road conditions and SMEs in Manggarai, NTT<sup>20</sup> lack of *DAU* is one of the biggest limitations to the government's ability to maintain district/city roads, since allocations are based on population, rather than land area.

**The Local Economic Governance Survey allows us to assess the quality of local infrastructure.** Firms assessed several main features of local infrastructure, including roads, street illumination, government supplied drinking water, electricity and telephone service. These assessments captured both current quality, recent improvements (or their absence) and responsiveness of local government to addressing damage and service disruptions. Issues related to infrastructure development were listed as the greatest constraint to growth by respondent firms.

### Results

**Business firms in Indonesia find infrastructure to be one of the most binding constraints.** Overall, 30 - 40% of firms report that the condition of

18 *Spending for Development: Making the Most of Indonesia's New Opportunities*, Indonesia Public Expenditure Review, The World Bank Jakarta, 2007.

19 *The IRF World Road Statistics*, International Road Federation, 2006

20 *Roads in Manggarai District, East Nusa Tenggara: Infrastructure Decline and Impacts on Business and Communities*, Rural Investment Climate Assessment Case Study 5. World Bank Office, Jakarta.

infrastructure in their area is bad or very bad. This pattern shows little variation by sector or firm size. Businesses report that telephone lines are in the best condition. Conversely, a third of firms felt that the availability and quality of drinking water was poor, and 37% of firms felt that the quality of street illumination was poor (see Table 59).

poor, while 77% said that the telephone service was working well. In contrast, most respondents (92%) in Bali have good electricity, but less than three-quarters had a positive perception of the quality of road and street illumination.

**Overall, firms report little improvement in infrastructure since 2006, but this varies by**

Table 59: Percentage Of Firms Rating Infrastructure As Bad Or Very Bad

	Small	Medium	Large	Production	Trade	Service	Total
District/City Roads	33	32	37	34	31	31	33
Street Illumination	38	36	41	39	35	36	37
Gov't Supplied Drinking Water	34	33	34	34	33	34	34
Electricity	28	26	29	27	26	29	27
Telephone	19	18	15	21	16	17	18

**The most remote locations also have the poorest infrastructure.** The worst infrastructure services were reported by businesses in North Sumatra, Riau, NTT and NTB. The best services are found in the Regency of Tuban, East Java and Gianyar, Bali. West Java, despite housing the capital city, is not one of the provinces with the best perceived quality of infrastructure (see Table 60).

**There is a high degree of regional variation in the quality of different types of infrastructure.** For example, in North Sumatra, almost two-thirds (65%) of firms described electricity services as

**region.** Twenty five percent or less of respondents believe there has been a significant improvement in infrastructure services. Firms report that roads and telephones are the types of infrastructure that have been most improved since 2006. The government does not seem to have made much progress in providing clean drinking water or street illumination, as only 16 and 18% of firms saw improvements in those services (see Table 61).

**On average it takes 81 days to repair local roads.** Firms were asked how many days it takes to repair

Table 60: Percentage Of Firms Saying Infrastructure Is Bad Or Very Bad

	District/City Roads	Street Illumination	Gov't Supplied Drinking Water	Electricity	Telephone
North Sumatra	47	45	44	64	23
Riau	39	48	65	53	33
South Sumatra	22	36	59	26	36
Kepulauan Riau	35	53	41	61	26
West Java	35	42	25	15	15
Central Java	33	20	11	10	4
DI Yogyakarta	17	28	12	20	9
East Java	28	25	27	10	10
Bali	26	26	24	8	20
NTB	35	37	40	33	28
NTT	41	68	44	48	24
East Kalimantan	40	51	42	53	18
North Sulawesi	25	39	44	39	26
South Sulawesi	25	41	38	12	21
Gorontalo	26	46	37	34	27

Table 61: Improvement In Infrastructure Since 2006

Province	District/City Roads (%)	Street Illumination (%)	Gov't Supplied Drinking Water (%)	Electricity (%)	Telephone (%)
North Sumatra	14	12	12	8	18
Riau	15	12	4	9	23
South Sumatra	31	22	13	25	22
Kepulauan Riau	19	14	16	7	26
West Java	20	10	9	16	12
Central Java	20	15	11	11	16
DI Yogyakarta	32	25	23	27	32
East Java	28	27	18	29	30
Bali	31	30	26	38	29
NTB	37	37	31	32	42
NTT	22	9	18	19	31
East Kalimantan	19	11	16	12	31
North Sulawesi	24	12	6	12	16
South Sulawesi	41	28	30	46	42
Gorontalo	19	17	21	15	21
Total	25	19	17	21	25

Note: Figures are percentages of firms believing that there has been a significant or very significant improvement in the quality of the infrastructure. The remaining firms felt that there was no improvement or only an insignificant improvement.

different types of infrastructure in their district. The longest time by far was taken to repair roads, with an average of 81 days and a median of a month. At the other end of the spectrum, repairing problems with the electricity or telephones took an average of 7 days, and a median time of just one day. Fixing street lamps and providing clean drinking water took an average of 18 to 22 days. The differences in the time to repair different types of infrastructure clearly reflects the different nature of the repairs that have to be done. However, the large difference between the mean and median times for repair indicates that infrastructure repairs in some locations take a very long time indeed (see Table 62).

**There are large differences between the best and worst districts in their responsiveness to tackling infrastructure problems.** Table 63 & 64 shows the ten fastest and ten slowest districts for the time to fix local roads. In the City of Blitar, firms say that it only takes around 8 days on average for roads to be repaired. Even faster response times are reported for the Regencies of Dompu, Belu, and Timor Tengah Selatan in NTT, and the Regency of Lombok Tengah in NTB. This is surprising given the problems associated with road infrastructure quality in Eastern Indonesia – but it may reflect effective local mechanisms for road maintenance. By contrast, five districts in North Sumatra take over 200 days to fix local roads and in the Regencies of Nias and Nias Selatan, more

Table 62: Number Of Days To Repair Infrastructure

Province	Small		Medium		Large	
	Mean	Median	Mean	Median	Mean	Median
North Sumatra	7	12	5	5	7	4
District/City Roads	80	30	82	30	83	30
Street Illumination	22	3	21	3	28	4
Gov't Supplied Drinking Water	17	2	18	2	25	2
Electricity	7	1	7	1	8	1
Telephone	7	1	7	1	10	1



than 10 months are required. Analysis at the provincial level suggests that North Sumatra and Riau, which reported the worst quality of infrastructure, also report that repairs take far longer. But there are large variations across different provinces, with repairs taking ten times longer in North Sumatra (typically 90 days) than in NTB (typically 9 days). Interestingly, infrastructure repairs can vary even between neighboring provinces—NTB reported only a median of 9 days for road repair, while NTT reported a median of 30 days.

**Almost a third of firms reported having a generator, with the average firm reporting 1.8 power outages per week.** Generator ownership

Table 63: Best Ten Districts For Time To Repair Roads

Province	District	Days to repair district roads
NTB	Rgcy Dompu	2
NTB	Rgcy Lombok Tengah	4
NTT	Rgcy Belu	7
NTT	Rgcy Timor Tengah Selatan	8
East Java	City Blitar	8
South Sulawesi	Rgcy Luwu Timur	8
NTT	Rgcy Alor	8
West Java	Rgcy Purwakarta	10
East Java	City Malang	10
Central Java	Rgcy Banyumas	10

Table 64: Worst Ten Districts For Time To Repair Roads

Province	District	Days to repair district roads
East Java	Rgcy Bangkalan	208
North Sumatra	Rgcy Tapanuli Tengah	210
North Sumatra	Rgcy Labuhan Batu	214
Riau	Rgcy Indragiri Hilir	218
North Sumatra	Rgcy Asahan	220
East Kalimantan	Rgcy Kutai Timur	255
Central Java	Rgcy Kebumen	269
East Java	Rgcy Sampang	272
North Sumatra	Rgcy Nias Selatan	303
North Sumatra	Rgcy Nias	311

varied according to the size of the firm, with 63 % of large firms owning a generator, compared to 27% of small firms owning one. This is despite the fact that large firms reported slightly fewer power outages than small and medium-sized firms (see Table 65).

Table 65: Electricity Quality By Province

Province	% own genset	Average no. of times per week electricity is cut off
North Sumatra	49	5
Riau	65	2
South Sumatra	48	2
Kepulauan Riau	64	3
West Java	21	1
Central Java	14	0
DI Yogyakarta	31	1
East Java	22	0
Bali	22	0
NTB	25	3
NTT	38	2
East Kalimantan	64	3
North Sulawesi	39	5
South Sulawesi	28	1
Gorontalo	35	2
Total	33	2

**Firms in Indonesia's outer islands are more likely to have a generator and more likely to report frequent electricity shortages.** Regionally, 65 % of firms in Riau and East Kalimantan have generators, while approximately 50% of those in North and South Sumatra own generators. These numbers are very high in comparison with less than 20% in most of Java. Firms in Java are also likely to report outages once a month rather than several times per week.

**The worst electricity shortages are found in North Sumatra, which is cut off 4 to 5 times per week.** The highest rates of blackouts were reported in North Sumatra, Riau and North Sulawesi. East Kalimantan and NTB also suffered from an average of 3 blackouts a week. However, higher outages do not necessarily correspond to owning a generator. In North Sulawesi, although firms report being cut off 5 times a week (the second highest in the country), only 38 % of firms have

generators. This may be linked to the average size of businesses in North Sulawesi, as small businesses are less likely to be able to invest in a generator.

**Overall, 27% of firms reported that matters related to infrastructure significantly constrain the performance of their businesses.** This is much higher than for other constraints facing businesses, indicating that infrastructure is considered the most significant constraint by businesses overall. When firms were asked to list specific problems affecting their operations, the most oft-mentioned problems were access to their business location (transportation and roads) and electricity shortages. However, once again, responses indicated variation according to location. In general, negative perceptions of services and slow repair times are consistent with an overall perception of infrastructure as a constraint. The outer islands, particularly North Sumatra, Riau and East Kalimantan, report the most significant constraints; 35 to 40 % of firms in North Sumatra and 42 % of firms in East Kalimantan believe that infrastructure hampers their businesses. In East Java, only 13% see infrastructure as a significant constraint, and

Table 66: Perceptions of Constraint

Province	Percentage of firms that say infrastructure is a significant constraint
North Sumatra	39
Riau	34
South Sumatra	17
Kepulauan Riau	39
West Java	30
Central Java	17
DI Yogyakarta	59
East Java	13
Bali	17
NTB	50
NTT	39
East Kalimantan	43
North Sulawesi	31
South Sulawesi	19
Gorontalo	37
Total	27

numbers are similarly lower in Bali, Central Java and South Sumatra (see Table 66).

## Local Infrastructure Sub-index

To get an overall assessment of the quality of local government infrastructure policy and programs, we construct a sub-index comprising the measures shown in Box 8. Note that the focus is explicitly on local infrastructure which is under the control of the district government (not national or provincial infrastructure). However, there are two exceptions to this. Firstly we include the quality of electricity provision from PLN, the state-owned electricity company; and second we include the quality of the provision of fixed line telephone services. These are included because, although both of these are provided by national rather than local bodies, the quality of implementation of that provision can be influenced by local governments. For example, local governments can discuss the supply of electricity with the local PLN and try to ensure the best possible planning and provision available within the overall constraints of national provision.

### Box 8: Variables In The Local Infrastructure Sub-Index

- Average perceived quality of five types of infrastructure (district roads, street lighting, water from the local water authority (PDAM), electricity, telephone)
- Average time (in days) to fix problems with these types of infrastructure\*
- The percentage of firms that have a generator\*\*
- The number of times in a week that the electricity is cut off\*
- The overall assessment of how large a constraint is posed by problems with infrastructure supplied by the local government.

\* The log of this variable is used to create a near Normal distribution. The t-score of the variable is reversed to reflect the fact that long times are bad rather than good.

\*\* The t-score of this variable is reversed to reflect the fact that larger scores are bad rather than good

**Eight out the top ten districts for the infrastructure sub-index are in East Java.** The best local infrastructure services are found in the Regency of Tuban , East Java (see Table 67).

Table 67: Best Ten Districts For Local Infrastructure Sub-Index

Province	District	Sub-index score
East Java	Rgcy Tuban	89.0
Bali	Rgcy Gianyar	87.2
East Java	Rgcy Magetan	85.7
East Java	City Kediri	85.0
East Java	Rgcy Madiun	84.2
East Java	Rgcy Kediri	84.2
Central Java	City Magelang	83.7
East Java	City Pasuruan	83.4
East Java	City Blitar	83.1
East Java	City Madiun	83.1

At the district level, six out of the top ten districts with the worst infrastructure are located in North Sumatra (see Table 68). The concentration of the best districts in Java and the worst off Java does suggest that decentralization and regional autonomy have not yet ensured that local governments in more remote regions are able to provide adequate infrastructure services for their citizens. The more remote the district, the more difficult it is to operate a business because of power outages and poor roads.

Table 68: Worst Ten Districts For Local Infrastructure Sub-Index

Province	District	Sub-index score
North Sumatra	Rgcy Labuhan Batu	26.3
Riau	Rgcy Rokan Hulu	28.7
North Sumatra	Rgcy Nias Selatan	31.7
North Sumatra	Rgcy Asahan	35.4
East Kalimantan	Rgcy Kutai Timur	38.2
North Sumatra	Rgcy Nias	39.5
North Sumatra	City Tanjung Balai	40.7
NTT	Rgcy Lembata	41.2
East Kalimantan	City Samarinda	42.8
North Sumatra	Rgcy Simalungun	43.2

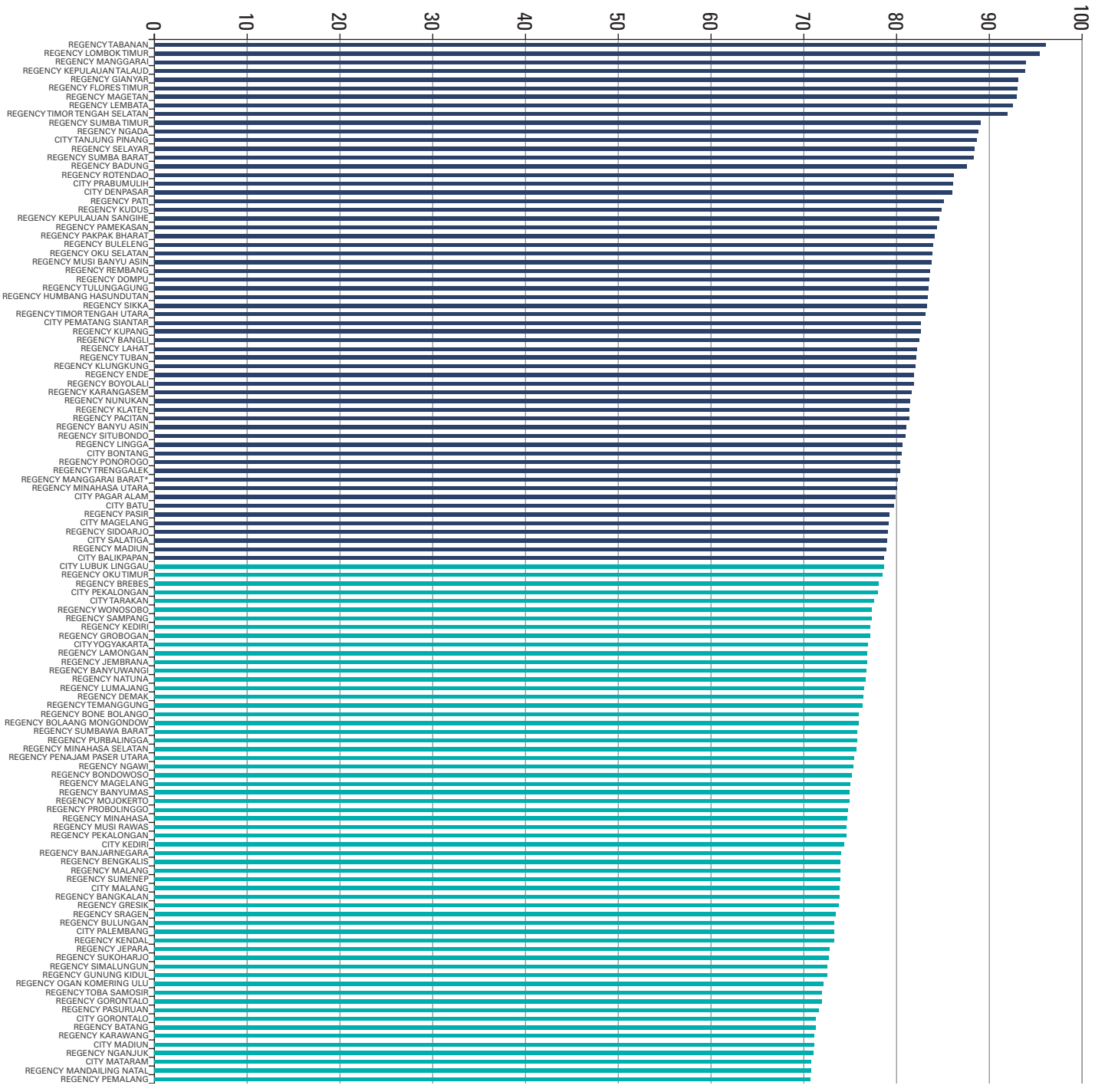
Within provinces there are large differences in performance of local infrastructure services. Thus even in remote provinces, some districts provide much better quality services than others. For example, in North Sumatra, the Regency of Humbang Hasundutan scores much more highly than the Regency of Labuhan Batu; similarly in NTT, the Regency of Ende's performance is much better than the Regency of Lembata. Thus, although remoteness plays a role in determining infrastructure quality, the quality of local economic governance would appear to also be important in determining business satisfaction with infrastructure services (see Table 69).

Table 69: Best And Worst Districts By Province For Local Infrastructure Sub-Index

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	49.7	Rgcy Labuhan Batu	26.3	Rgcy Humbang Hasundutan	71.4
Riau	51.3	Rgcy Rokan Hulu	28.7	City Dumai	59.6
South Sumatra	64.7	Rgcy Oku Selatan	49.7	Rgcy Musi Banyu Asin	74.5
Kepulauan Riau	56.0	Rgcy Karimun	46.3	City Batam	64.3
West Java	69.6	Rgcy Bekasi	61.6	Rgcy Karawang	75.6
Central Java	74.3	Rgcy Pemasang	63.8	City Magelang	83.7
DI Yogyakarta	64.2	Rgcy Kulon Progo	58.4	City Yogyakarta	68.6
East Java	77.4	Rgcy Sampang	57.2	Rgcy Tuban	89.0
Bali	77.3	Rgcy Badung	66.8	Rgcy Gianyar	87.2
NTB	59.3	Rgcy Bima	43.7	Rgcy Lombok Tengah	70.7
NTT	58.9	Rgcy Lembata	41.2	Rgcy Ende	72.4
East Kalimantan	53.4	Rgcy Kutai Timur	38.2	City Tarakan	73.5
North Sulawesi	57.9	Rgcy Minahasa Utara	50.7	Rgcy Bolaang Mongondow	70.3
South Sulawesi	68.9	Rgcy Wajo	56.9	Rgcy Selayar	82.3
Gorontalo	62.2	Rgcy Pohuwato	58.4	Rgcy Gorontalo	69.4

Figure 16 shows the rankings of all surveyed districts for the Local Infrastructure Sub-index.

Figure 16: Local Infrastructure Sub-index For All Districts





## Security and Conflict Resolution

### Background

Security is an essential condition for businesses to be able to operate successfully. Security concerns and conflicts can affect the reliability of their business operations, deter new investors and have a negative impact on the business climate. This survey also examined firms' perceptions of the police because business owners rely on the police to settle criminal cases and labor disputes.

**The Indonesia police have been experienced significant reforms in recent years, but challenges remain.** The Indonesian national police (*Polri*) were formally separated from the military and became an independent entity in 1999. However, the police are still governed by many procedures that have been in place for decades and are centralized in command. While this provides clear reporting authority, it presents a challenge for decentralized local governments that do not have any direct authority over local police operations.

**There are numerous divisions within the national police structure, but this survey focuses on district-level police activities.** The police are divided into territorial forces; provincial police; regional police, city or district police; and sub-district police. Some branches, such as *Brimob* (mobile brigade), have a paramilitary role. Air police, marine police, forensics and anti-terrorist police factions also operate in the regions. This

survey focuses on perceptions of the capability and willingness of district-level police to protect businesses and solve business-related crimes or labor disputes.

**In addition to security, institutions and norms that allow businesses to fairly and expeditiously resolve business disputes form an important aspect of economic governance.** Many businesses prefer to use the *musyawarah mufakat*, a community dispute resolution session, though governments are involved in providing mediation services and legal redress through the courts. There are also other formal and informal mechanisms such as arbitrators and family/colleague mediation services. Together these various approaches form dispute resolution systems that work to varying degrees in every district.

**The Local Economic Governance Survey allows us to assess issues related to security and conflict mediation.** Businesses were asked about the frequency of crime, the responsiveness of the police, and the most common types of conflict mediation. It provides an overall assessment of the security situation in each district, as well as the importance of security for business operations.

### Results

**Most firms reported relatively low incidences of crime and positive impressions of police conduct.** On average, only 13% of firms reported incidences of theft. There was little variation

Table 70: Quality Of The Police

	Small	Medium	Large	Production	Trade	Service	Total
% of firms that say the police always takes action on time to solve business-related criminal cases	78	78	77	77	76	80	78
% of firms that say the solutions to criminal cases provided by the police benefit the company	72	71	69	69	70	74	71
% of firms that say solutions provided by the police minimize company losses in terms of time and money	69	70	68	68	69	72	70



among business sizes and sectors. Most firms also reported that the police take action to solve criminal cases (see Table 70). However, it is important to note that many businesses do not want to openly criticize the police. Thus, while 78 % of firms responded that the police handled criminal cases well, these ratings may be higher than expected because of the sensitive nature of the topic.

**However, incidents of crime and police approval ratings show significant regional variations.** Riau and North Sumatra reported the highest incidences of theft (see Table 71). These seem to occur most among trading companies. The lowest incidences of theft were reported in Bali. There is also a strong correlation between low crime rates and high police approval ratings. In Bali, 87 % of firms reported that the police always took action to solve crimes affecting their businesses, compared to 58% of firms in Riau.

Table 71: Regional Variations In Crime And Police Approval

Province	% of firms reporting theft	% of firms that agree that the police take timely action
North Sumatra	16	70
Riau	18	58
South Sumatra	27	86
Kepulauan Riau	17	81
West Java	17	73
Central Java	10	74
DI Yogyakarta	11	66
East Java	11	79
Bali	5	87
NTB	9	81
NTT	8	83
East Kalimantan	17	85
North Sulawesi	17	75
South Sulawesi	12	88
Gorontalo	16	83
Total	13	78

**At the district level there are dramatic differences in the level of crime.** In the 12 most peaceful districts, not a single firm reported experiencing theft in 2007. By contrast in the Regency of Langkat in North Sumatra, 46% of respondents

claimed to have been subject to theft. Districts in South Sumatra appear to suffer disproportionately – five of the bottom ten districts for incidence of theft are located there.

**There are also large differences in the opinions of firms about the responsiveness of the police.** For example, in Regency Indragiri in Riau, only 28% of respondents feel that the police respond in a timely fashion, whilst barely a third respond positively in the Regency of Langkat in North Sumatra (see Table 73) These two provinces account for 6 of the bottom 10 districts when ranked by their opinions of the police. The stronger disregard for the police in these areas could indicate lower quality of service from the police or higher levels of openness from respondents. In contrast, all the respondents in five districts felt that the police are responsive in addressing crime (see Table 72).

Table 72: Ten Districts With The Best Opinion Of Police Responsiveness

Province	District	% of firms that say that the police respond quickly
Riau	Rgcy Indragiri Hilir	28
East Java	Rgcy Pamekasan	100
Kepulauan Riau	Rgcy Karimun	100
NTT	Rgcy Timor Tengah Selatan	100
NTT	Rgcy Timor Tengah Utara	100
East Kalimantan	Rgcy Malinau	100
South Sulawesi	Rgcy Sinjai	98
Kepulauan Riau	Rgcy Natuna	98
South Sulawesi	Rgcy Soppeng	98
South Sulawesi	Rgcy Pangkajene Kepulauan	96
South Sumatra	Rgcy Musi Banyu Asin	96

**By an overwhelming margin, the most-used method of conflict resolution by firms is the *musyawarah mufakat*, a community dispute resolution session.** In this case, responses varied little by province, although Riau and East Java expressed the highest use of community dispute



**Table 73: Ten Districts With The Worst Opinion Of Police Responsiveness**

Province	District	% of firms that say that the police respond quickly
Riau	Rgcy Indragiri Hilir	28
North Sumatra	Rgcy Langkat	34
North Sumatra	Rgcy Nias Selatan	37
Riau	Rgcy Kampar	42
NTT	Rgcy Sumba Barat	43
Riau	City Dumai	43
North Sumatra	Rgcy Nias	44
Central Java	City Semarang	46
Central Java	City Surakarta	47
East Java	Rgcy Probolinggo	49

resolution methods. At the district level, all of the respondents in the Regency of Pacitan, East Java, said that they used *musyawarah mufakat* to resolve their problems, whereas only 2% of those in the Regency of Klungkung in Bali use this method. Respondent firms were given the choice of five dispute resolution mechanisms:

*musyawarah*, government mediation services, arbitrators, courts, and family/colleague mediation services. 55% of firms said that they use the *musyawarah* to address conflict issues, as compared with less than 1% using government services, arbitration, or courts. Only 7% indicated that they used family or colleague mediation services. This indicates that firms turn to their communities and, to a lesser extent, their families, to resolve issues related to their businesses. This finding suggests that aspects of *musyawarah* could be incorporated into future reforms of court and arbitration processes so that more formalized conflict resolution systems can develop alongside traditional ones (see Table 74).

**Table 74: Methods Of Conflict/Dispute Resolution**

	Small	Medium	Large	Production	Trade	Service	Total
Musyawarah mufakat (community arbitration)	52	57	62	52	52	59	55
Government mediation services	0	1	1	0	0	1	1
Arbitrator	0	0	1	0	0	0	0
Court	0	0	1	0	0	0	0
Colleague/family mediation services	7	8	6	7	6	8	7

Note: Figures are Percentages of firms that claim to have used this mechanism for dispute resolution

**Security and conflict issues are considered an obstacle by only a small number of firms.** Only 4% of firms reported that security issues hampered their business operations. This result was consistent regardless of firm size, sector or region. Thus, overall, crime and security issues are not major issues for businesses. But some districts do have severe problems. In the Regency of Kulon Progo, 57% of firms say that security issues are a major problem; in the Regency of Rokan Hilir in Riau, almost 40% express concern. Similarly, the widespread use of community mediation techniques and low use of courts for business-related conflict indicates that formal mediation services are not gaining the trust of the business community.

## Security and Conflict Resolution Sub-index

Constructing an overall index of the quality of local government performance in ensuring security and in resolving business related conflicts is challenging for two reasons. Firstly, as with the Capacity and Integrity of the Mayor/Regent sub-index, this is a sensitive issue and so response rates tend to be lower and also tend to be biased towards “safe” answers. Secondly, the typical incidence of crime experience by a randomly selected firm is very low and so many of the selected firms simply did not have a great deal of experience in the last year on which to base their answers. Nonetheless, firms do typically have longer-term experience of dealing with the police and other actors involved in dispute resolution and are capable of giving meaningful perceptions on these issues. Therefore, as in the

Capacity and Integrity of the Mayor/Regent sub-index, we construct an index based primarily on the perceptions of the business community regarding the effectiveness of these mechanisms in their district. The sub-index is constructed using the following variables (see Box 9).

**Box 9 : Variables In The Security And Conflict Resolution Sub-Index**

- The percentage of firms saying that they have experience theft in the last year
- The extent to which firms agree that the police handle cases in a punctual fashion, benefiting the firm, and minimizing the firm's loss of time and money\*
- The extent to which firms agree that the police handle cases of worker demonstrations in a punctual fashion, minimizing the firm's loss of time and money\*
- Overall assessment by firms of how much issues associated with security and conflict resolution constrain their business activities

\* This variable combines the t-scores of a range of similar perception questions on this topic.

**The best performing districts for the Security and Conflict Resolution Sub-index were mainly located in East Java and NTT.** Four of the top ten, including the leader, the Regency of Pamekasan, are in East Java, Riau and North

**Table 75: Best Ten Districts For Security And Conflict Resolution Sub-Index**

Province	District	Sub-index score
East Java	Rgcy Pamekasan	96.7
NTT	Rgcy Timor Tengah Utara	83.4
East Java	Rgcy Trenggalek	83.1
NTT	Rgcy Lembata	82.4
Bali	Rgcy Tabanan	82.0
East Java	Rgcy Pacitan	81.7
Bali	Rgcy Buleleng	79.4
Central Java	Rgcy Wonosobo	79.4
East Java	Rgcy Magetan	78.8
East Java	Rgcy Tuban	78.8

Sumatra have a majority of the districts in the bottom 10 (see Table 75).

**The worst districts overall are found in North Sumatra and Riau.** Four out of the bottom 10 cities and districts are found in Riau. Others are located in North Sulawesi. Only one district on Java, the Regency of Sleman, is found in the bottom ten. This suggests that districts located further away from Jakarta report more crime and lower police approval ratings (see Table 76).

**Table 76: Worst Ten Districts for Security and Conflict Resolution Sub-index**

Province	District	Sub-index score
North Sumatra	Rgcy Langkat	27.4
Riau	Rgcy Rokan Hilir	30.6
DI Yogyakarta	Rgcy Sleman	31.2
West Java	Rgcy Indramayu	32.6
North Sumatra	Rgcy Nias Selatan	34.7
Riau	Rgcy Indragiri Hilir	36.3
Riau	Rgcy Pelalawan	37.5
North Sulawesi	Rgcy Minahasa Utara	38.3
Riau	City Dumai	38.6
North Sulawesi	City Bitung	39.3

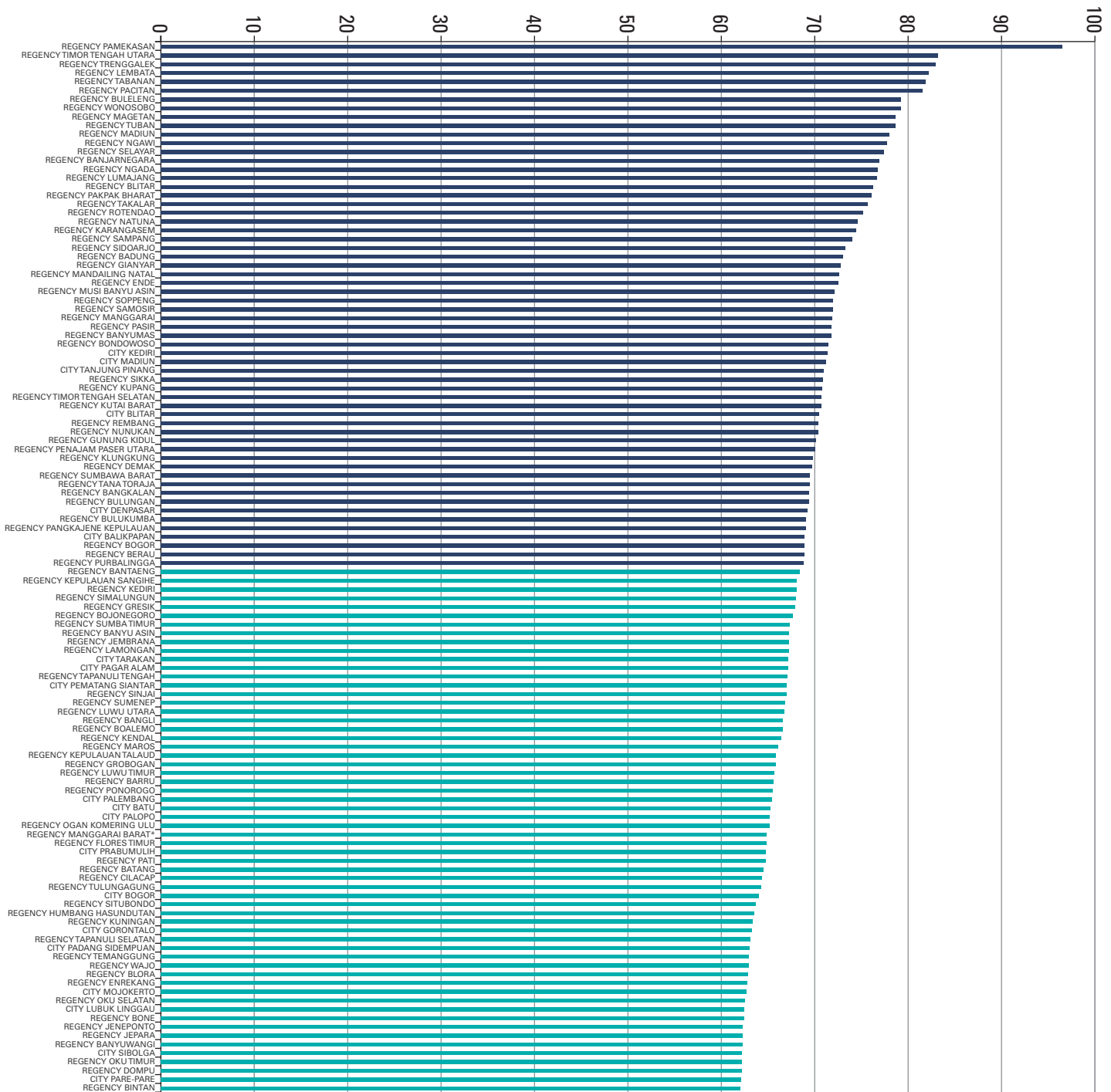
**There is significant variation in districts' security and conflict resolution performance within the same provinces.** DI Yogyakarta is a province of remarkable district variation across several sub-indices. For security and conflict resolution, it is home to the 24<sup>th</sup> best (Gunung Kidul) and 9<sup>th</sup> worst (Sleman). Other provinces show similar heterogeneity in district performance. Being in a low or high performing province for this sub-index does not necessarily imply that the performance of any district will be good or bad (see Table 77).

Table 77: Best And Worst Districts By Province For The Security And Conflict Resolution Sub-Index

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	55.2	Rgcy Langkat	27.4	Rgcy Papak Bharat	76.3
Riau	45.0	Rgcy Rokan Hilir	30.6	Rgcy Rokan Hulu	55.7
South Sumatra	61.1	Rgcy Muara Enim	46.3	Rgcy Musi Banyu Asin	72.2
Kepulauan Riau	60.3	City Batam	41.5	Rgcy Natuna	74.8
West Java	53.7	Rgcy Indramayu	32.6	Rgcy Bogor	69.1
Central Java	57.8	City Tegal	39.8	Rgcy Wonosobo	79.4
DI Yogyakarta	46.7	Rgcy Sleman	31.2	Rgcy Gunung Kidul	70.2
East Java	67.2	Rgcy Jombang	48.3	Rgcy Pamekasan	96.7
Bali	72.8	Rgcy Bangli	66.7	Rgcy Tabanan	82.0
NTB	54.7	City Bima	41.6	Rgcy Sumbawa Barat	69.6
NTT	67.3	Rgcy Sumba Barat	41.0	Rgcy Timor Tengah Utara	83.4
ast Kalimantan	64.1	City Samarinda	51.5	Rgcy Pasir	71.9
North Sulawesi	53.0	Rgcy Minahasa Utara	38.3	Rgcy Kepulauan Sangihe	68.2
South Sulawesi	64.9	City Makassar	54.0	Rgcy Selayar	77.6
Gorontalo	61.1	Rgcy Gorontalo	55.3	Rgcy Boalemo	66.7

Figure 17 shows the rankings of all surveyed districts for the Security and Conflict Resolution Sub-index:

Figure 17: Security And Conflict Resolution Sub-index For All Districts





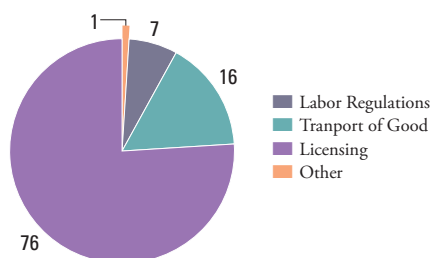
## Local Regulations

### Background

The process of decentralization has placed significant levels of authority at the local government level to determine budget allocations, local taxes and fees and public service standards. Local regulations (*Peraturan Daerah*, or *Perda*) are formal legal instruments to guide the administration and implementation of these aspects of public policy. For the purposes of this survey, local regulations are also a key tool in providing incentives or disincentives for economic development in a particular region. Some districts have developed strategic, coherent economic governance frameworks, while others have drafted regulations that are unclear and/or highly distortive for business development.

We reviewed 932 local regulations from the 243 districts in the survey sample. The analyzed regulations were restricted to economic matters: those relating to licensing, those relating to the transportation of goods and services, and those relating to labor issues, with the following composition (Figure 18):

Figure 18: Composition of Local Regulations Analyzed (%)



Every regulation was assessed according to three general metrics: legality, substance and principle. The *legal* assessment focused on compliance with relevant superseding laws and completeness of the text of the regulation in terms of basic information on jurisdiction, tariff formulae, and period of validity. The *substance* assessment considered any inconsistencies or lack of clarity between what a regulation aimed to achieve and

how it was operationalized in the accompanying legal procedures and requirements. For example, to what extent does the regulation make clear the rights and obligations of fee payers and the local government, or to what extent are the costs for various charges make clear. The *principle* assessment rated regulations on their consistency with fundamental principles such as the free movement of goods in the country and the territorial integrity of the country. The full details of the elements of each component are given in Box 10.

#### Box 10: Analysing Problems With *Perda*

The following issues were examined in each *perda* collected:

- **Legality:**
  - relevance of legal references
  - use of up-to-date legal references
  - completeness of formal legal references
- **Substance:**
  - disconnect between aims and content
  - clarity of objects
  - clarity of subjects
  - clarity of rights and obligations of fee payers and the local government
  - clarity of time standards, costs, and procedures or rate structure and standards
  - conformity between the philosophy and the principles of taxation
- **Principle:**
  - territorial integrity of the national economy and the principle of free internal trade
  - healthy competition
  - negative economic impacts
  - obstacles to public access and the public interest
  - violations of governmental authority

## Results

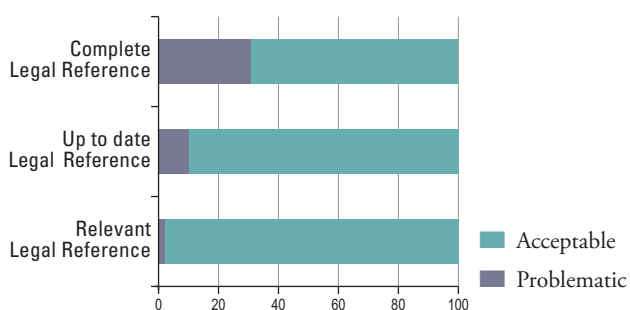
Overall, 85% of local regulations have problems according to at least one of the three general metrics. The most problematic metric related to the substance of the regulation, with 78% of regulations suffering from at least one of the six potential substance problems outlined in Box 10. Moreover, 35% of all regulations had inappropriate, old, or incomplete legal references, while 10% of regulations had problems with their

underlying principles. We consider the nature of the problems found for each type of problem in more detail below.

### Legal Problems

Among regulations with legal deficiencies, nearly a third were penalized for incompleteness (Figure 19). In most cases this was because of inconsistencies with Law Number 34 of 2000 on Local Taxes and Local User Charges, Government Regulation Number 65 of 2001 on Local Taxes, and Government Regulation Number 66 of 2001 on Local User Charges. A number of the provisions set forth in these three legislative products are obligatory; any regulations that did not refer to these provisions were therefore categorized as legally problematic. Table 78 shows a number of basic details that are required in any regulation requiring a user charge or tax, but which were absent to varying degrees in the regulations reviewed in this survey.

Figure 19: Legal Problems with *Perda*



Fewer than 10% of local regulations were problematic because of the failure to use up-to-date legal references or because of the relevance of their legal references. While most references were up-to-date, some had not been updated since decentralization. For example, some *perda* did not refer to Law Number 34 of 2000 on Local Taxes and Local User Charges. In terms of *perda* year of issuance, the oldest dated from 1987, while the latest were issued in early 2008. An example of a regulation violating the criterion of relevance would be a *Perda* that regulates work safety and stipulates a number of user fees, but that does not

refer to Law 34 of 2000 on Local Taxes and Local User Fees, regulation 65 of 2001 on Local Taxes, and regulation 66 of 2001 on Local User Fees.

Table 78: Required Components In All Regulations That Impose A Tax Or User Charge

Taxes	User Charges
<ul style="list-style-type: none"> <li>Name, object, and subject of tax</li> <li>Basis for imposition, rate, and method for calculating tax</li> <li>Collection jurisdiction</li> <li>Tax period</li> <li>Assessment</li> <li>Payment and collection procedures</li> <li>Expiration</li> <li>Administrative penalties</li> <li>Effective date</li> </ul>	<ul style="list-style-type: none"> <li>Name, object, and subject of user charge</li> <li>Category of user charge; method for measuring level of use of the service concerned</li> <li>Rate structure and amounts</li> <li>Collection jurisdiction</li> <li>Collection procedure</li> <li>Administrative penalties</li> <li>Expiration</li> <li>Collection procedures</li> <li>Effective date</li> </ul>

### The *Perda* that most often violate the legal

**relevance criterion are those in the trade sector.**

The *Perda* without relevant legal references in the trade sector include those dealing with Trading Business Licenses (SIUP), Company Registration Certificates (TDP), permits to load and unload trade goods, and warehouse registration certificates amongst others. The *Perda* in the industry sector include those relating to Industrial Business Permits (IUI), Industry Registration Certificates (TDI), and construction service permits. The *Perda* in the agricultural sector that did not have relevant legal references were often those relating to livestock. In addition, some *Perda* relating to building permits, nuisance permits, and business location permits also did not have relevant legal references.

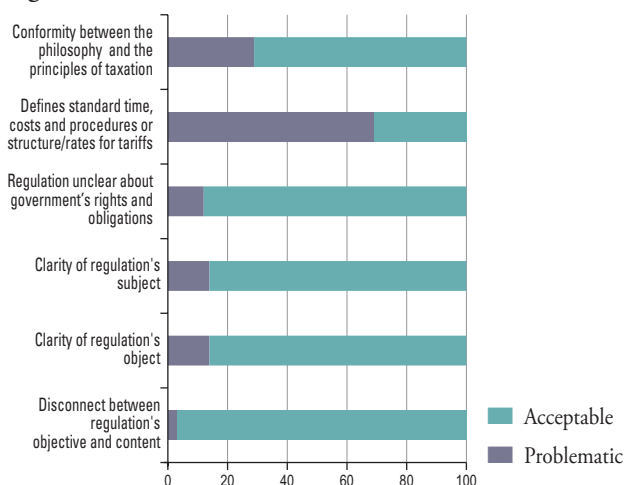
### Problems of Substance

The most common problem that occurred in the substance category was that local regulations did not stipulate standard times, costs, and procedures or clarify the rate structure and fees.



Over two third of the *perda* examined suffered from this problem (see Figure 20). An example of this would be a regulation on road user charges which does not include the rates according to the classification of the roads and the fees charged for each type of road.

Figure 20: Problems Of Substance With *Perda*



Another common problem of substance was when there was a conflict between the *perda* and the types of levies which can be charged laid down in national law. This occurs when user charges are inconsistent with user fee categories mentioned in Law 34 of 2000 on Local Taxes and Local User Fees, which states that user charges should be limited to those for specific licenses, general service user fees, and business service user fees. However, some *perda* violate the principle that user fees are only charged in exchange for public goods and services. Specific examples of cases where the user charge does not result in any public service include:

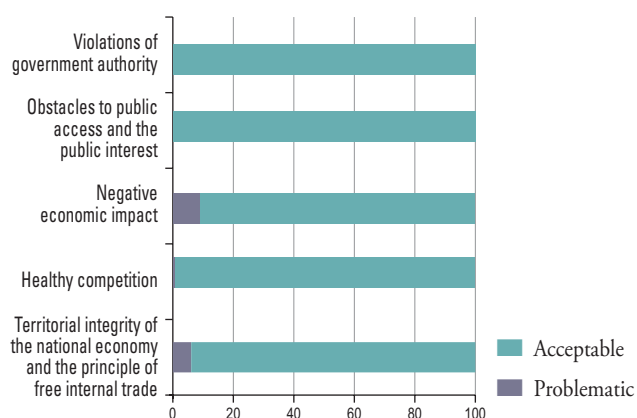
- Regulations on livestock that collect user charges for activities performed by private slaughterhouses;
- Regulations that collect user charges for selling fish outside fish auction facilities provided by the local government;
- Regulations which collect user fees for personnel training conducted by private enterprises.

A frequent problem of substance is the emphasis on permit fees and procedures, while failing to mention technical service standards that relate to the public welfare. The disconnect between the objectives and content of local regulations can often be seen in *perda* relating to the livestock sector. Local regulations are ostensibly used to prevent animal diseases from being transmitted to other livestock or to humans by requiring inspections of the slaughtering, trade, and distribution of livestock and meat products. In the regulations, however, most of the substance deals with permit requirements and the associated charges, while the technical standards for livestock health and safety are not clearly stipulated.

### Problems of Principle

Although there were generally few problems of principle, those that were identified tended to have negative economic impacts. Nine percent of the *perdas* examined had negative impacts upon the local economy. For example, some *perda* deal with voluntary contributions by third-parties to the local government, but the implementation requirements are compulsory and serve as an unofficial tax on businesses. This type of problem was often found in the food crop, fisheries, and plantations subsectors of agriculture. Other negative impacts can occur when regions collect user fees for nuisance and building permits from entrepreneurs located within industrial zones,

Figure 21: Problems Of Principle With *Perda*



even though the industrial zone itself has already undergone an environmental impact analysis. In these cases, the permits are largely redundant and any charges imposed on companies/ tenants in the industrial zone constitute multiple charges.

**Another problem of principle is related to the free flow of goods between districts.** Figure 21 shows that 6% of *perda* had this problem. In the era of regional autonomy, the territorial integrity of the national economy is challenged by obstacles to the free flow of goods, services, and persons. Many local governments, using the excuse of protecting local safety, collect user charges on all trade in animals/livestock and their derivative products (meat, hides, and horns), thus hindering trade, while also failing to protect safety through qualified inspections. In the fisheries sector, a Certificate of Origin must be obtained for trade of fish caught outside the local district/region. Some regions also collect user fees from boats loading or unloading their catch in local harbors. Lastly, labor problems are found throughout the country, mainly related to changes on the use of labor from outside regions.

## Local Regulations Sub-index

Although the assessment of the quality of local regulations was not done using data from the firm survey, it is still possible to construct a sub-index in the same way as is done for the other sub-indices. Box 11 describes the calculation of the Local Regulations Sub-index.

**Fourteen districts obtained a perfect score for the quality of their regulations.** Table 79 shows the districts in which no problems (neither legal, substance or principle) were found in the *perda* which were reviewed. This does not, of course, mean that there are no problems with any of the *perda* issued by these districts – in some cases only one or two economic related *perda* were available for review and so it may be the case that others do have problems. Nonetheless, the quality of

regulation for the reviewed *perda* was excellent in these districts.

### Box 11: Variables In The Local Regulation Sub-Index

The Sub-index for the Quality of Local Regulations was constructed around the three categories of potential problems: legality, substance and principle, each with a subset of supporting variables as shown in Box 9.

In each district surveyed, an attempt was made to collect *perda* relating to licensing, transportation and labor issues. In some districts all the relevant *perda* were obtained, in others a much more limited set of *perda* were available. All of the *perda* that were obtained from each district were analysed for legal problems, problems of substance and problems of principle. For each district, we calculate the percentage of all the possible problems which might have happened that actually occurred. For example, there are three types of legal problem which might occur (failure to use relevant legal references; failure to use of up-to-date legal references; and incompleteness of formal legal references). If six *Perda* have been collected in a district, then there are 18 possible legal problems which might occur. We calculate the share of these 18 problems which actually occurred.

Then, for legal, substance and principle problems, we provide a score ranging from 0 (for the district with the highest share of problems) to 100 (for the district with the lowest share of problems). The final sub-index score is calculated as a weighted sum of the scores for legal, substance and principle problems. The weights used are 0.15 for legal problems, 0.35 for substance problems, and 0.5 for principle problems, reflecting the greater importance attached to problems of substance and, particularly, problems of principle.

**By contrast, a few districts have issued some very poor quality local regulations.** Table 80 shows the bottom ten districts ranking by the Quality of Local Regulation Sub-index. The table also shows the percentage of possible legal, substance and principle problems that actually occurred in the *perda* reviewed. For example, in the *perda* reviewed in the City of Palembang, 16% of the possible legal problems, 46% of the possible substance problems, and a quarter of the potential principle problems were present.

Table 79: Best Fourteen Districts For Local Regulation Sub-Index

Province	District	Sub-index score
South Sumatra	City Prabumulih	100
Central Java	Rgcy Boyolali	100
East Java	Rgcy Trenggalek	100
East Java	Rgcy Tulungagung	100
East Java	Rgcy Bondowoso	100
East Java	Rgcy Situbondo	100
East Java	Rgcy Bojonegoro	100
East Java	City Pasuruan	100
Bali	Rgcy Bangli	100
NTT	Rgcy Sumba Barat	100
NTT	Rgcy Kupang	100
NTT	Rgcy Timor Tengah Utara	100
Gorontalo	Rgcy Bone Bolango	100
NTT	Rgcy Rotendao	100

There is significant variation in the quality of local regulations within provinces. Districts in Yogyakarta were the most consistent, with all districts scoring above 79 on the sub-index. Other provinces, such as South Sumatra, East Java, Bali and Gorontalo, had districts that had perfect scores for the sampled *perda*, along with districts that received some of the worst scores overall (see Table 81).

Table 80: Worst Ten Districts For Local Regulation

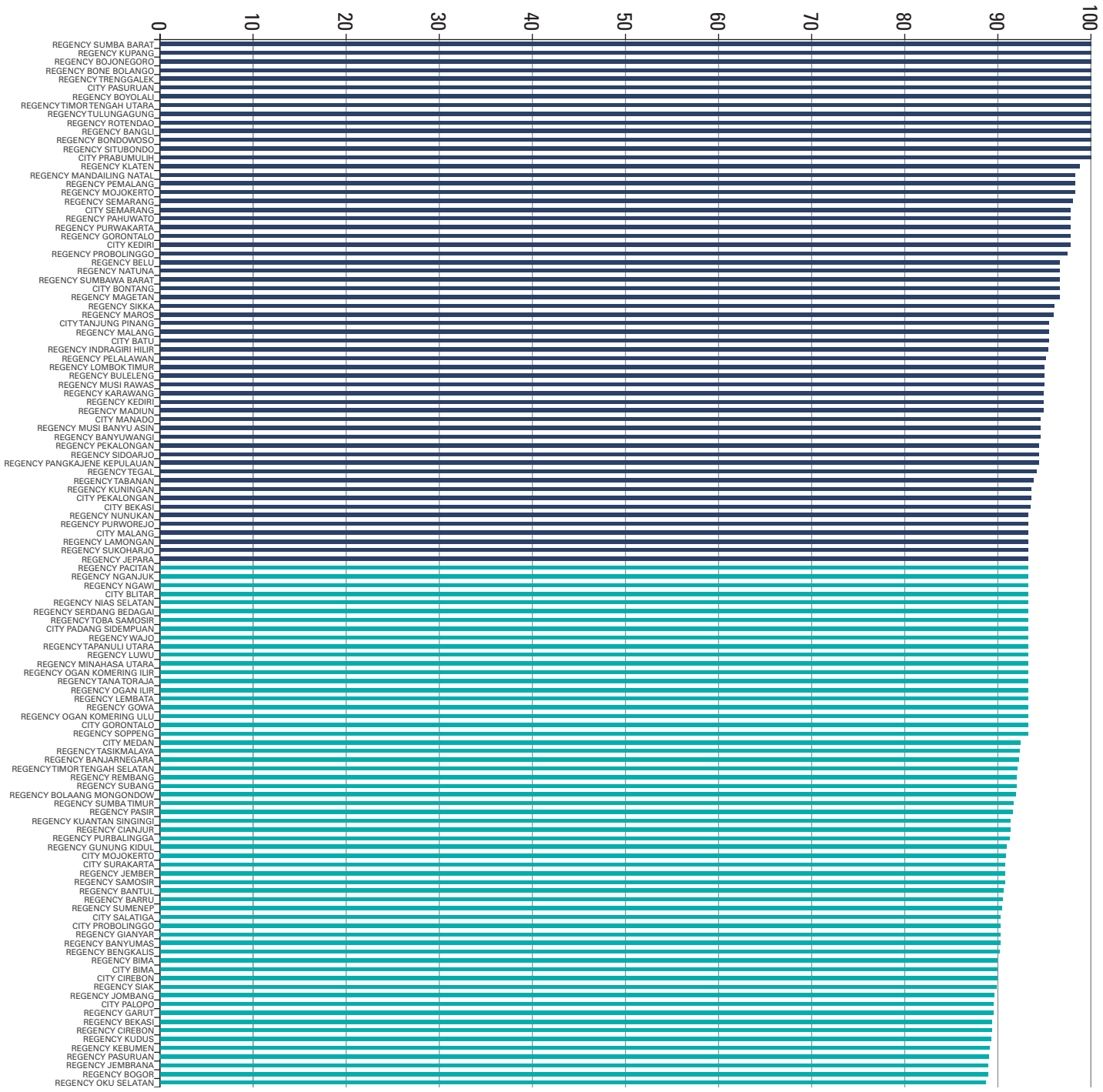
Province	Worst Districts	% of legal problems	% of substance problems	% of principle problems
Bali	Rgcy Karangasem	0	50	20
Riau	City Dumai	33	17	30
Bali	Rgcy Klungkung	0	0	40
East Java	Rgcy Lumajang	0	0	40
North Sumatra	City Tanjung Balai	67	8	30
South Sumatra	City Palembang	17	46	25
North Sulawesi	Rgcy Minahasa Selatan	33	17	40
Gorontalo	Rgcy Boalemo	33	17	40
East Java	Rgcy Sampang	33	33	40
East Java	Rgcy Gresik	100	83	40

Table 81: Best And Worst Districts By Province For Local Regulation Sub-Index

Province	Average Sub-index score	Worst District	Sub-index score	Best District	Sub-index score
North Sumatra	83.1	City Tanjung Balai	49.1	Rgcy Mandailing Natal	98.3
Riau	81	City Dumai	50.7	Rgcy Indragiri Hilir	95.4
South Sumatra	81.4	City Palembang	47.3	City Prabumulih	100.0
Kepulauan Riau	79.6	Rgcy Lingga	67.9	Rgcy Natuna	96.6
West Java	85.2	Rgcy Sudistrict Of Umi	61.1	Rgcy Purwakarta	97.7
Central Java	85.8	Rgcy Wonosobo	61.1	Rgcy Boyolali	100.0
DI Yogyakarta	84.2	Rgcy Kulon Progo	78.8	Rgcy Gunung Kidul	90.9
East Java	86.3	Rgcy Gresik	1.1	Rgcy Trenggalek	100.0
Bali	81	Rgcy Klungkung	50.0	Rgcy Bangli	100.0
NTB	85.3	Rgcy Dompu	54.8	Rgcy Sumbawa Barat	96.6
NTT	88.4	Rgcy Manggarai Barat	65.8	Rgcy Sumba Barat	100.0
East Kalimantan	79.9	Rgcy Penajam Paser Utara	61.1	City Bontang	96.6
North Sulawesi	81.5	Rgcy Minahasa Selatan	38.2	City Manado	94.6
South Sulawesi	84	Rgcy Bone	57.2	Rgcy Maros	95.9
Gorontalo	85.4	Rgcy Boalemo	38.2	Rgcy Bone Bolango	100.0

Figur 22 shows the rankings of all surveyed districts for the Local Regulations Sub-index:

Figure 22: Local Regulation Sub-index For All Districts





# THE ECONOMIC GOVERNANCE INDEX (EGI)

## Index Weighting

The measurement of the quality of economic governance is based on an aggregation of the nine sub-indices into a final overall performance index. While all of the sub-indices and supporting variables are important for economic governance, the issues they represent are not held in equal importance by the business community. In order to create the final index, we weighted each of the sub-indices according to the percentage of firms that listed each index theme as the major constraint affecting business development. Table 82 shows the breakdown of these weights by sub index.

Table 82: Percentage Of Firms Saying The Issue Is The Biggest Constraint They Face

Weight (%)	Issue
14.0	Land Access and Security of Tenure
8.8	Business Licensing
10.0	Local Government and Business Interaction
14.8	Business Development Programs
2.0	Capacity and Integrity of Mayor/Regent
9.9	Local Taxes, User Charges and other Transaction Costs
35.5	Local Infrastructure
4.0	Security and Conflict Resolution
1.0	Local Regulations

Note: These weights combine responses for the underlying categories e.g. Land Access and Security of Tenure separately. Business Development Programs combines the responses of those who said that Labor Issues, Financial Issues, or Marketing, were their primary constraint.

By a large margin, businesses see the inability to deliver good quality local infrastructure as the key most important constraint on economic development. A long time horizon is required for dramatic changes in local infrastructure quality, but even in the short term local governments can be proactive in setting investment priorities and maintaining current resources. To a lesser extent, issues related to business development programs and land access were key constraints, followed by

local government and business interaction, transaction costs and licensing. Very few firms said that the capacity and integrity of the mayor, security or the quality of local regulations were the primary constraints facing their businesses.

## Results

With weights applied to the sub-index scores, we find the best performing district for the 2007 survey to be the City of Blitar in East Java. Actually, districts in East Java dominated the top ranks, taking six of the top ten, with the remaining districts from South Sumatra and Bali (see Table 83).

Table 83: Best Ten Districts For Economic Governance Index

Province	District	EGI score
East Java	City Blitar	76.0
East Java	Rgcy Magetan	75.4
South Sumatra	City Prabumulih	74.7
South Sumatra	Rgcy Musi Banyu Asin	74.3
Bali	Rgcy Jembrana	73.7
East Java	Rgcy Tuban	73.4
East Java	Rgcy Lumajang	72.0
East Java	Rgcy Madiun	72.0
East Java	City Probolinggo	71.5
Bali	Rgcy Gianyar	71.3

The bottom ten mostly comprised districts in North Sumatra, including the worst overall, the Regency of Nias Selatan. Districts in North Sumatra represented seven of the bottom ten and the province's best district was ranked only 119<sup>th</sup> overall. The other poor performing districts were from the provinces of Riau and NTB (see Table 84).

There was significant variation within provinces. The highest degree of variance overall can be seen in North Sumatra and NTT, which include some of the worst scores overall. The most consistent



**Table 84: Worst Ten Districts For Economic Governance Index**

Province	District	EGI score
North Sumatera	Rgcy Nias Selatan	41.41
North Sumatera	Rgcy Labuhan Batu	41.76
RIAU	Rgcy Rokan Hilir	45.10
North Sumatera	Rgcy Nias	45.26
RIAU	Rgcy Rokan Hulu	47.69
NTB	Rgcy Bima	48.19
North Sumatera	Rgcy Asahan	48.36
North Sumatera	Rgcy Karo	48.36
North Sumatera	City Medan	48.56
North Sumatera	City Tanjung Balai	49.10

provinces are Kepulauan Riau, Bali and Gorontalo. Although South Sumatra and East Java contain the highest-scoring districts overall, they also contain a high degree of variance across districts. Bali had the highest average score across districts and one of the highest degrees of consistency (see Table 85)

Infrastructure and land access were among the most important constraints named by local businesses, and were weighted accordingly. Thus, positive perceptions of infrastructure and land access procedures helped to propel the city to the top spot. Licensing was also named as one of the top 5 constraints for firms, and Blitar was ranked best district for licensing services overall. Blitar's simplified licensing services, provided through a One Stop Shop, helped to ensure that Blitar was the winner.

The City of Blitar is the second-smallest city in East Java, with a population of approximately 1.3 million, located in the southern part of East Java province. The highest contributing sectors to the city's economy are trade and tourism. Visited by hundreds of thousands of people every year, the grave of President Soekarno is its main tourist attraction.

**Table 85: Best And Worst Districts By Province For The Economic Governance Index**

Province	Average EGI score	Worst District	EGI score	Best District	EGI score
North Sumatra	56.8	Rgcy Nias Selatan	41.4	Rgcy Humbang Hasundutan	62.4
Riau	52.2	Rgcy Rokan Hilir	45.1	City Dumai	56.8
South Sumatra	65.1	Rgcy Oku Selatan	57.0	City Prabumulih	74.7
Kepulauan Riau	60.6	Rgcy Karimun	56.6	Rgcy Bintan	63.6
West Java	60.3	Rgcy Bekasi	54.8	Rgcy Ciamis	67.9
Central Java	64.4	Rgcy Kebumen	55.2	Rgcy Purbalingga	71.1
DI Yogyakarta	62	Rgcy Sleman	52.5	Rgcy Gunung Kidul	67.7
East Java	67	Rgcy Sampang	56.7	City Kota Blitar	76.0
Bali	69.2	Rgcy Badung	63.9	Rgcy Jembrana	73.7
NTB	58.3	Rgcy Bima	48.2	Rgcy Lombok Timur	64.4
NTT	61.6	Rgcy Belu	49.4	Rgcy Timor Tengah Selatan	69.9
East Kalimantan	59.4	City Samarinda	49.7	City Tarakan	69.1
North Sulawesi	59.6	City Bitung	55.0	Rgcy Bolaang Mongondow	65.6
South Sulawesi	63	Rgcy Wajo	56.4	Rgcy Selayar	69.9
Gorontalo	63.2	Rgcy Pohuwato	58.2	Rgcy Gorontalo	68.4

#### Top-ranked: Blitar

The City of Blitar was ranked highest overall due to its strengths in areas considered to be most important to firms. Blitar ranked consistently high in all the sub-indices, but particularly for infrastructure (83), land access (79) and licensing (85). Blitar was ranked among the top ten cities/districts with the best infrastructure.

#### Lowest-ranked: Nias Selatan

Nias Selatan was ranked lowest overall due to weaknesses across the board. Nias Selatan ranked in the bottom ten in the areas of licensing, security, infrastructure, the integrity of the mayor and government-business interaction. However, firms in Nias Selatan were particularly critical of the infrastructure, the integrity and capacity of the



mayor, and government-business interaction. The low ratings for the integrity of the mayor and government-business interaction indicate businesses in Nias Selatan believe their mayor is corrupt and does not take the needs of the business community into account. It is interesting to note that within Sumatra, South Sumatra appears to produce the best mayors/regents in Indonesia, while mayors and regents in North Sumatra are rated the worst. The mayor of Nias Selatan received the worst ranking overall. Because this index is focused on economic governance, it is not surprising that the district with the lowest-ranked mayor would take the bottom spot.

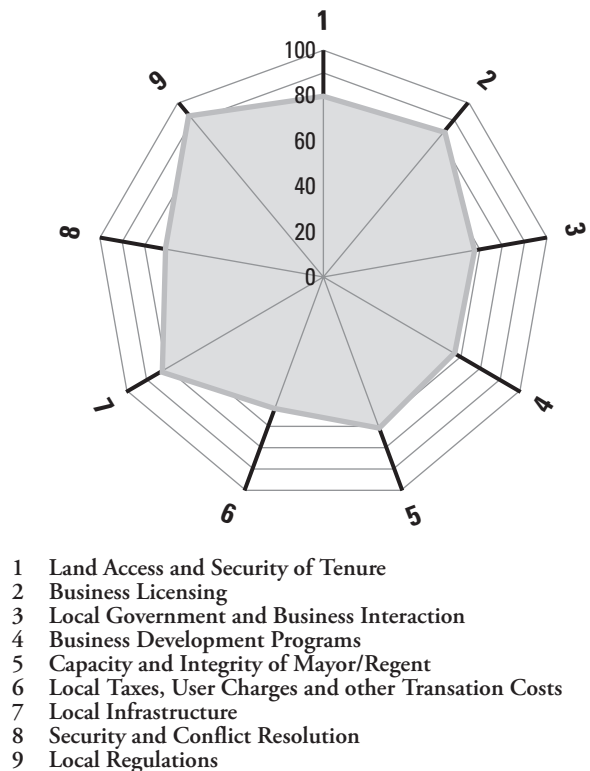
Nias Selatan is a district in North Sumatra made up of 21 islands. Nias was split into two districts in 2003: Nias and Nias Selatan (South Nias). Nias Selatan has a small population of approximately 275, 000. In March 2005, Nias experienced an earthquake of magnitude 8.7 on the Richter scale, leaving more than 6,000 buildings in Nias Selatan destroyed.

A full listing of the overall EGI for each district is shown in Figure 23. Appendix 2 provides the scores for each sub-index for every district.

## Seeing the Whole Picture

The results presented above for the EGI clearly depend on the choice of weights. Basing the weights on the firms own stated beliefs about the relative importance of different aspects of governance is preferable to using equal weights or weights set by expert opinion. Nonetheless, it is helpful to be able to see the performance on all 9 dimensions of economic governance simultaneously for each district so that people can make their own judgements about overall relative performance. Fortunately this is easy to achieve by using “spider diagrams”. These diagrams show the performance of each district on each sub-index. Figure 24 shows the spider diagram for the City of Blitar.

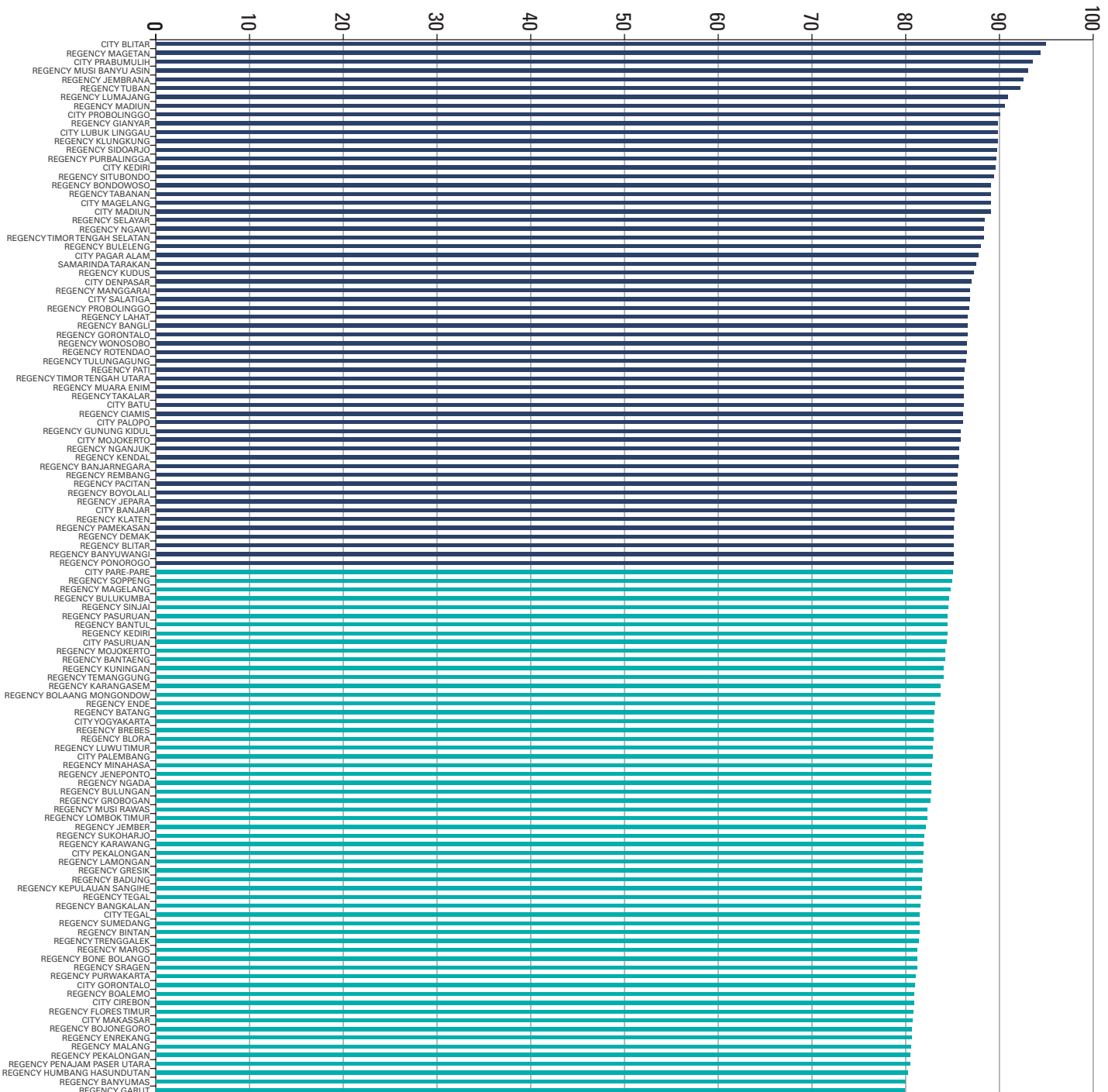
Figure 24: The Spider Diagram for the City of Blitar

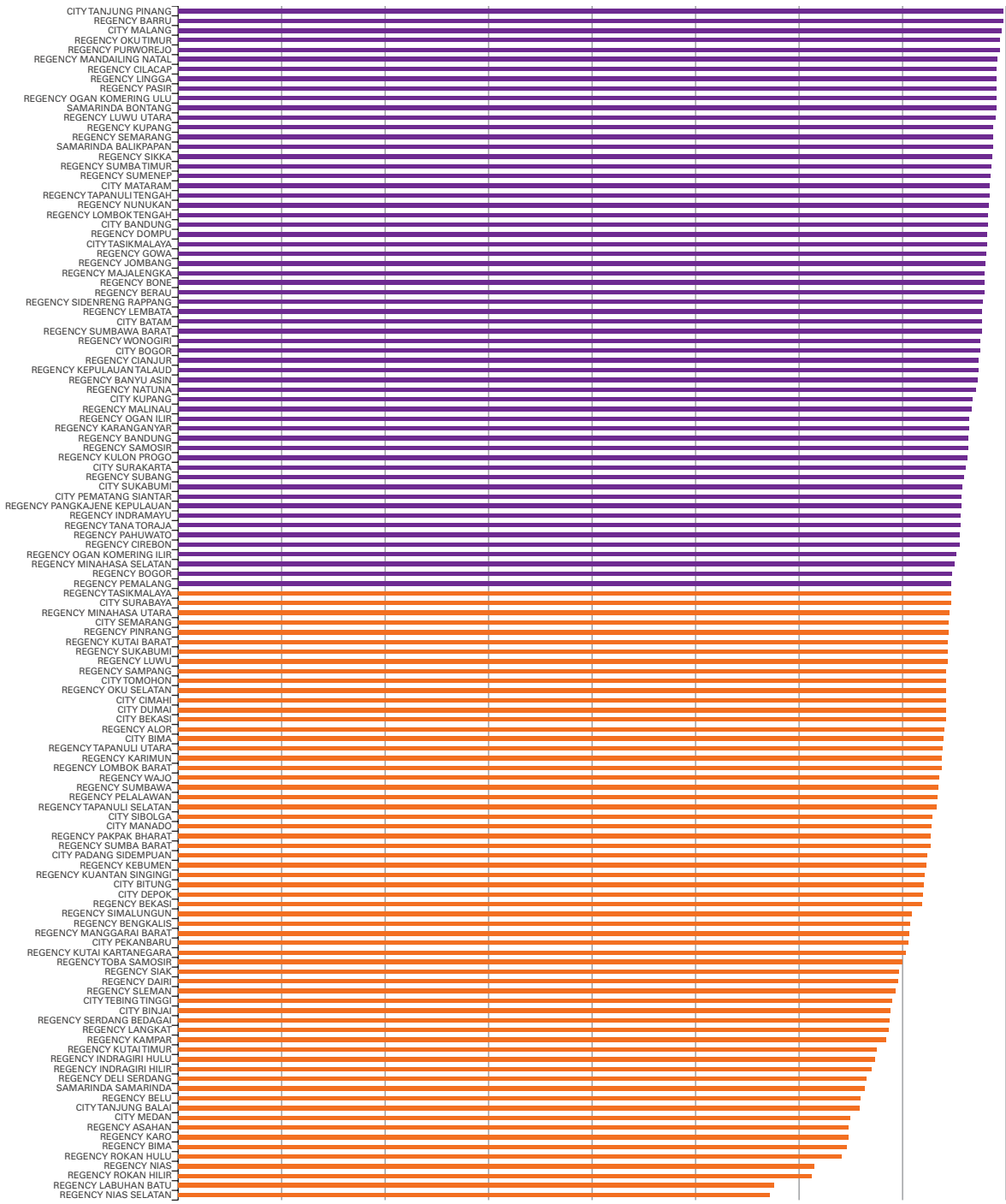


It is clear that, although the City of Blitar has the best overall EGI score, it is still far from perfect. Indeed it does not score particularly well on Transaction Costs, Business Development Programs and Local Government-Business Interaction. This illustrates one of the real values of the Economic Governance Index. Because it consists of policy relevant and actionable sub-indices, it is possible for all districts to identify the areas in which improvements can be made. Moreover, because the components of each sub-index are clear, it is relatively easy to identify the steps needed to achieve improvements.

The Spider Diagrams also provide a quick way of visually comparing performance across a large number of districts. Since the relevant comparator districts are often those in the same province, Appendix 1 provides the spider diagrams for all districts in each of the 15 provinces surveyed.

Figure 23 : The Economic Governance Index For All Districts







# CONCLUSIONS AND IMPLICATIONS FOR POLICY

The Local Economic Governance Survey 2007 is the largest survey of economic governance ever conducted in Indonesia and one of the largest such exercises worldwide. As such it provides an invaluable source of information about the nine aspects of economic governance described above, as well as a baseline for monitoring further progress in improving governance in Indonesia.

However, amidst the large number of results presented above, it is worth considering some overall messages which can be drawn from this unique survey. We highlight three key conclusions:

## **1. Government efforts to improve the investment climate should focus more on infrastructure and land issues**

One of the more striking findings from the survey is that firms often say that many of the problems related to investment climate issues which are generally believed to burden businesses, do not, in fact, particularly bother them. For example, 80% of firms report no problems related to business licensing and 92% say that local taxes and user charges do not overly burden them. Given the high level of policy attention which has been paid to improving licensing services and attempting to ensure that local governments do not impose illegal or inappropriate user charges, these relatively high ratings are surprising.

Of course, a large number of businesses are not bothered by licensing procedures, taxes and user charges, because they don't have licenses and don't pay most taxes and user charges. Only a little more than half of all the firms surveyed even have a business registration certificate (TDP) or a trading license (SIUP), and compliance is much

worse for other licenses. Thus the fact that licensing procedures do not appear to burden firms is in part a sign of failure rather than success – many firms simply don't have the formal licenses that they should.

At the same time, a high share of firms that actually do have licenses still say that licensing procedures and user charges do not bother them. Unfortunately, this is not primarily due to the spread of One Stop Shops for business licensing throughout the country. Despite the substantial growth in these services, 70% of businesses still say that they obtain their licenses from disparate technical departments – there is clearly much that can and should be done to improve licensing services in Indonesia. However, it is also clear that the costs and time for obtaining licenses are regarded as a nuisance by businesses, but seldom a major impediment to growth.

Likewise, other aspects of economic governance, such as security, conflict resolution, and corruption, were not identified by businesses as major constraints. With a few exceptions, the incidence of crime was fairly low and police responsiveness to incidents was generally timely. Dispute settlement mechanisms for businesses rely almost exclusively on traditional community resolution processes that do not involve the government or courts, so whether starting up a business or settling a contract dispute, most firms rarely interact with the government. Of course, this analysis does not quantify the opportunity costs of not having reliable legal settlement processes, only the extent to which informal mechanisms seem to suffice. A third of businesses did say that their mayors were corrupt and this presumably could create uncertainty and inequities of access among businesses. But,

surprisingly, nearly all firms said that the integrity of the mayor/regent had little or no influence on their operations.

By contrast, many firms are greatly troubled by the poor quality of infrastructure at the local level. When asked to identify the most important constraint on their business activities, 35% picked infrastructure problems – only 9% picked licensing and 10% picked the transaction costs associated with taxes and user charges. The fact that it typically takes a month to repair local roads (and in some districts many months) clearly affects the costs faced by local businesses. Similarly, the fact that 63% of large firms feel it necessary to have a generator is a good indication of the high costs which many firms face as a result of the unreliable supply of electricity. While ensuring a reliable supply of electricity is primarily a national responsibility, local governments, provinces and the national utility, PLN, need to find ways to extend more reliable electricity services throughout Indonesia. On the other hand, fixing district level roads is clearly a local responsibility and the results of this survey suggest that district governments should pay greater attention to improving the maintenance of local level roads.

Similarly, the difficulties of accessing land and insecurity of tenure are important problems for local businesses, with 14% of firms identifying this as their most important constraint. Nearly half of firms say that gaining access to land is difficult and securing that access by obtaining a land certificate is a lengthy process. Again this poses a problem for local governments, since responsibility for land issues lies with the Land Agency (BPN) at the national level. But the dramatic differences between performance on land issues between different districts suggests that local governments can have an important influence on the quality of land-related services provided. Pending any national legal reforms, these best practices should be replicated in poorer

performing districts. However, national and local governments also need to work together to find effective ways of identifying, facilitating and securing access to land for businesses.

## **2. Local Governments need to do more to make themselves relevant and supportive of the business community**

There seems to be a gulf between the needs of businesses and the capacity and approach of local governments to meet those needs. Some local governments make substantial efforts to provide effective services, by consulting with the business community, tackling corruption within government, maintaining better infrastructure, and providing effective business development programs. But unfortunately, many do not. Fewer than 30% of firms believe that there is a *Forum Komunikasi* between the local government and businesses and fewer than 20% are aware of business development programs supplied by the local government. Only half of the firms surveyed believe that local governments consult with businesses about policies that affect them or about the problems that they face. More than 40% of firms believe that the local government's policies have no positive influence at all on their business.

The extremely low licensing compliance rate is also illustrative of local governments' relevance problem for businesses. Licenses neither serve a useful information function (an early attempt to implement this survey using the TDP lists from district governments had to be abandoned because the list was so inaccurate), nor do they achieve a market control function (for example, the way in which nuisance licenses are issued means that they rarely uphold social protections). But while license records are often poorly kept, governments do collect the revenue, either from issuance or unofficial payments for non-compliance. Firms therefore tend to obtain licenses either to avoid having to pay bribes for their non-compliance or because they are needed for some other purpose,

such as applying for credit or participation in a government tender.

At the same time, a large majority of firms do believe that the government can play a constructive role in supporting the investment climate, such as guiding better infrastructure investment and funding business development programs for worker training or product promotion. Local governments need to critically evaluate the performance of existing services and revamp the way in which they operate with the private sector in order to ensure that their activities are relevant and useful to the vast majority of businesses. They also need to improve the lines of communication between themselves and local businesses and devote more resources to supporting a competitive environment for the development of local businesses.

### **3. The dramatic differences in the quality of local economic governance across the country suggest that substantial progress can be made**

Perhaps the most striking finding from the survey is the dramatic differences that exist in the quality of local economic governance across the country. In the Regency of Timor Tengah Utara it takes 4 weeks to get a land certificate – in the City of Cimahi it takes 42 weeks; in the Regency of Luwu Utara it takes 2 days to obtain most licenses – in the City of Surabaya it takes 47 days to get a nuisance license; in the Regency of Indramayu almost half of firms say that user charges bother them – in the City of Tanjung Pinrang, none of the firms surveyed were bothered by user charges. In almost every aspect of local economic governance there are large differences among districts.

These large differences are not only driven by geography. In East Java the City of Blitar repairs

the roads in eight days. In the Regency of Sampang—in the same province—it takes 272 days! In the Regency of Mandailing Natal in North Sumatra, not a single firm in our sample reported an incidence of theft in 2007 – in the Regency of Langkat in the same province, almost half of the firms had experienced theft. Clearly, some local governments have been more effective at implementing reforms and delivering services independent of their structural endowments or location.

The fact that the large differences in district performance are not driven by geography suggests that there is enormous potential for improvement in the quality of local governance. Because the Economic Governance Index (EGI) is based on standards which have already been achieved in the country, this means that these standards are attainable. This suggests that both central government and provincial governments should place more emphasis on both supporting districts and holding them accountable for the achievement of realistic standards already achieved by comparable districts. Moreover, electorates too should use this type of “yardstick competition” to judge the performance of their district governments.

In conclusion, the EGI provides a tool by which all Indonesians can measure whether their local governments are performing well. The challenge now is to use this tool to explore in more detail why some districts perform well on some issues while others perform badly, and to put in place appropriate incentives for districts to learn from each other and improve their performance. The EGI can also be extended to the rest of the country to provide policymakers and voters with the first comprehensive measure of the quality of local economic governance throughout Indonesia.

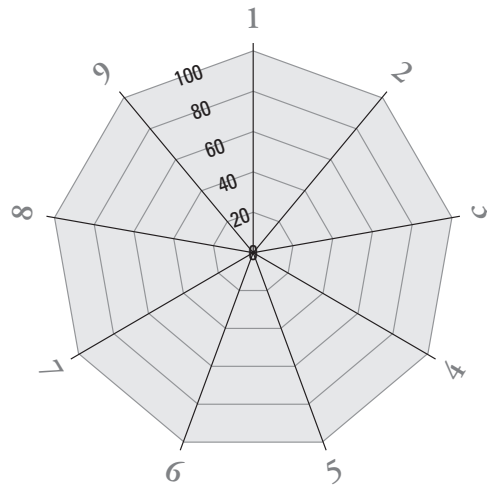




# APPENDICES

## Appendix 1: Spider Diagrams For Each District By Province

The spider diagram below shows the score of a hypothetical district with perfect scores of 100 for each sub-index, represented by the shaded area. The following pages show individual spider diagrams for each district by province.



1. Land Access and Security of Tenure



2. Business Licensing



3. Local Government and Business Interaction



4. Business Development Programs



5. Capacity and Integrity of Mayor/Regent



6. Local Taxes, User Charges and other Transation Costs



7. Local Infrastructure

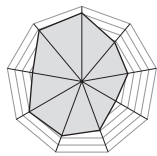


8. Security and Conflict Resolution

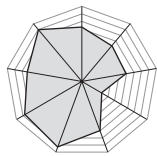


9. Local Regulations

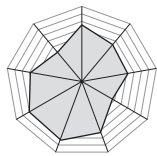
### Bali Province



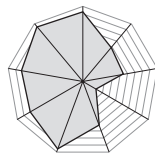
Rgcy Jembrana



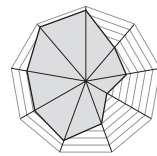
Rgcy Gianyar



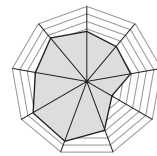
Rgcy Klungkung



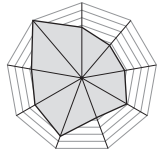
Rgcy Tabanan



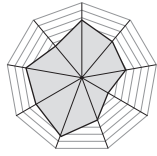
Rgcy Buleleng



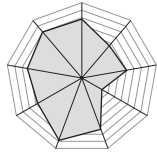
City Denpasar



Rgcy Bangli

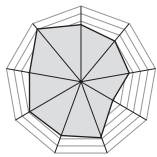


Rgcy Karangasem

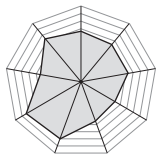


Rgcy Badung

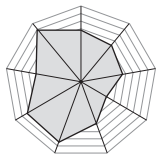
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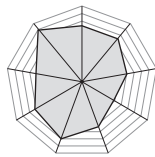
Rgcy Purbalingga



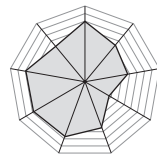
City Magelang



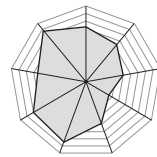
Rgcy Kudus



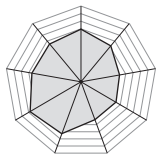
City Salatiga



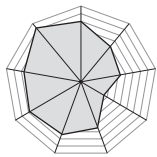
Rgcy Wonosobo



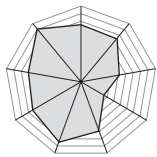
Rgcy Pati



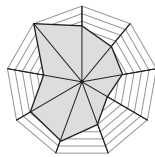
Rgcy Kendal



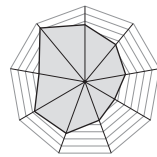
Rgcy Banjarnegara



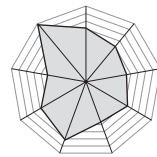
Rgcy Rembang



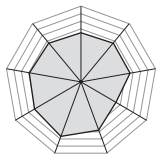
Rgcy Boyolali



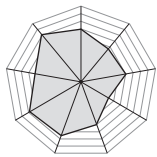
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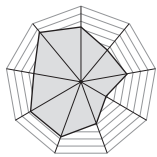
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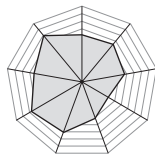
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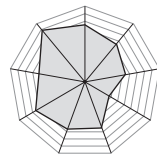
Rgcy Magelang



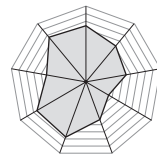
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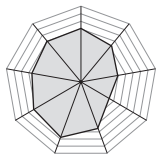
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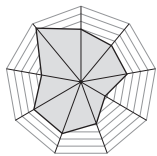
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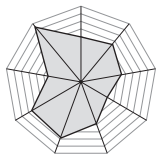
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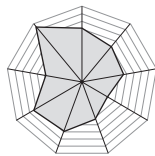
Rgcy Grobogan



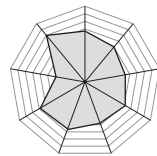
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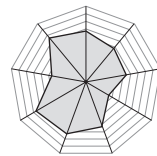
City Pekalongan



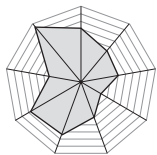
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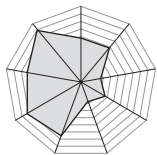
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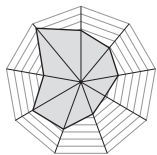
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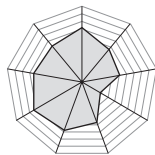
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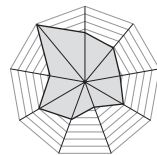
Rgcy Banyumas



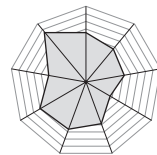
Rgcy Purworejo



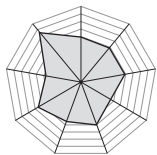
Rgcy Cilacap



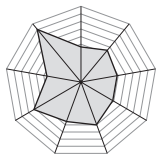
Rgcy Semarang



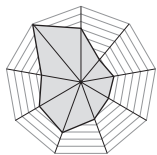
Rgcy Wonogiri



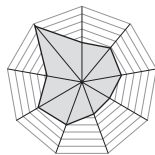
Rgcy Karanganyar



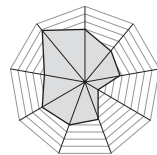
City Surakarta



Rgcy Pemalang

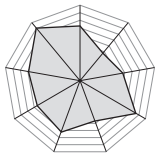


City Semarang

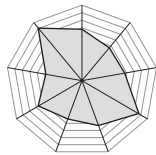


Rgcy Kebumen

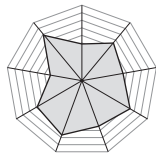
**DI Yogyakarta Province**



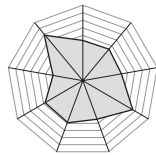
Rgcy Gunung Kidul



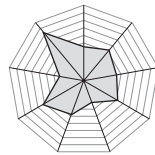
Rgcy Bantul



City Yogyakarta

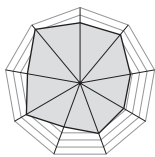


Rgcy Kulon Progo

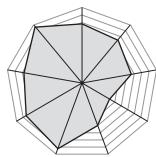


Rgcy Sleman

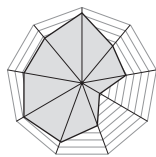
**East Java Province**



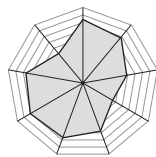
City Blitar



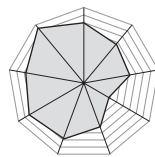
Rgcy Magetan



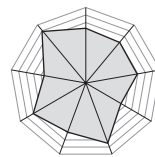
Rgcy Tuban



Rgcy Lumajang



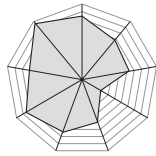
Rgcy Madiun



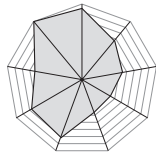
City Probolinggo



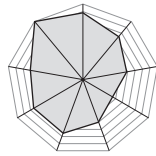
Rgcy Sidoarjo



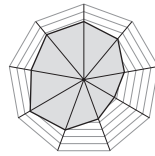
City Kediri



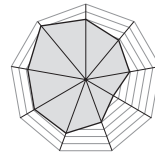
Rgcy Situbondo



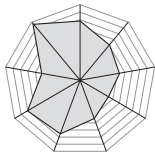
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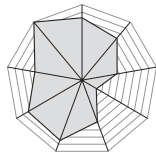
City Madiun



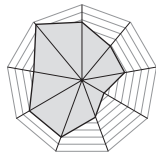
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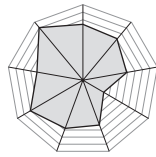
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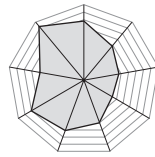
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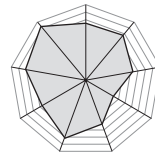
City Batu



City Mojokerto



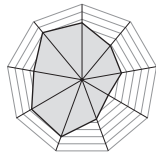
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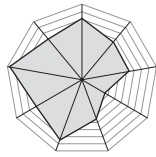
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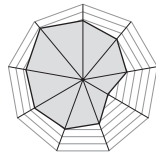
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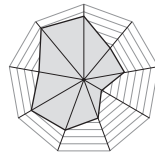
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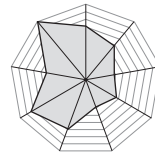
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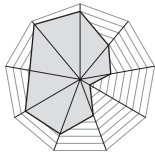
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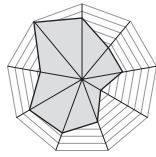
Rgcy Pasuruan



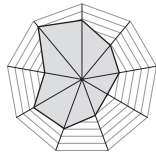
City Pasuruan



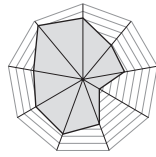
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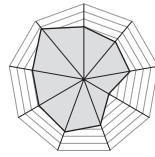
Rgcy Mojokerto



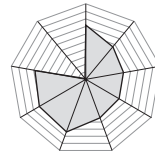
Rgcy Jember



Rgcy Lamongan



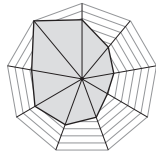
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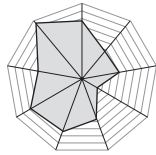
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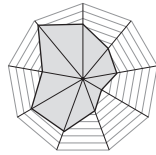
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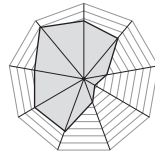
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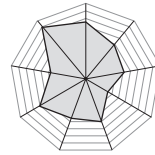
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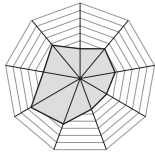
City Malang



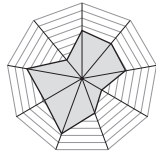
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Rgcy Jombang

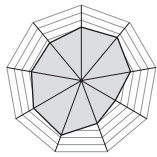


City Surabaya

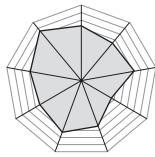


Rgcy Sampang

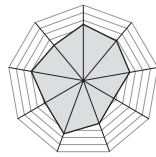
### East Kalimantan Province



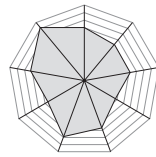
City Tarakan



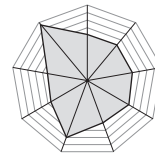
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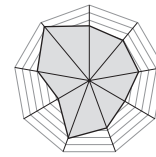
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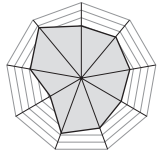
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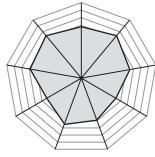
City Bontang



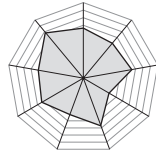
Rgcy Nunukan



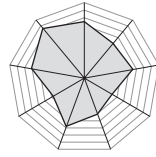
City Balikpapan



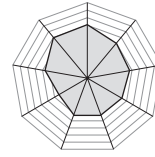
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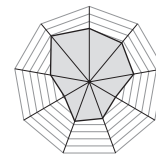
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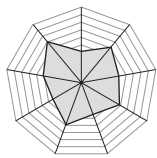
Rgcy Kutai Barat



Rgcy Kutai Kartanegara

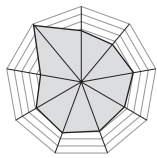


Rgcy Kutai Timur

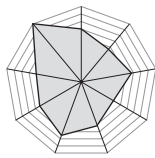


City Samarinda

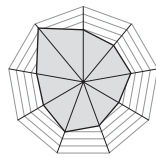
### Gorontalo Province



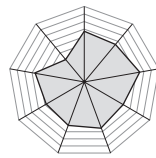
Rgcy Gorontalo



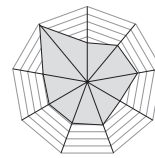
Rgcy Bone Bolango



City Gorontalo

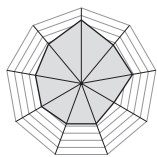


Rgcy Boalemo

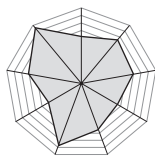


Rgcy Pahuwato

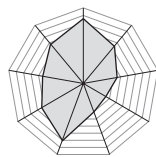
### Kepulauan Riau Province



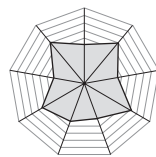
Rgcy Bintan



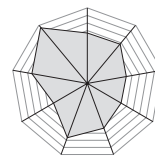
City Tanjung Pinang



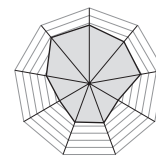
Rgcy Lingga



City Batam

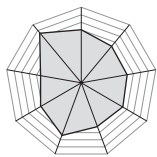


Rgcy Natuna

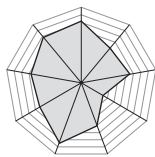


Rgcy Karimun

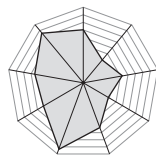
### North Sulawesi Province



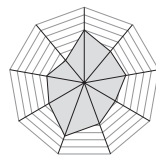
Rgcy Minahasa



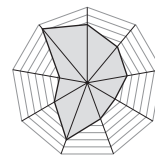
Rgcy Kepulauan Sangihe



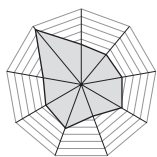
Rgcy Kepulauan Talaud



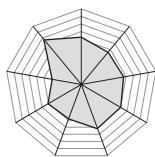
Rgcy Minahasa Selatan



Rgcy Minahasa Utara

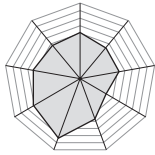


City Manado

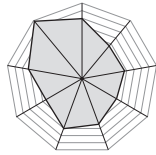


City Bitung

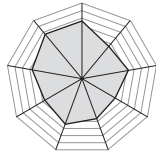
**North Sumatra Province**



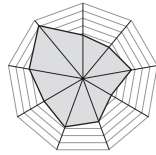
Rgcy Humbang Hasundutan



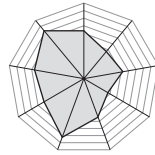
Rgcy Mandailing Natal



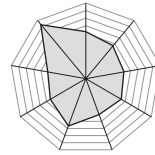
Rgcy Tapanuli Tengah



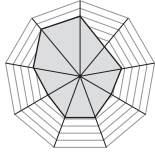
Rgcy Samosir



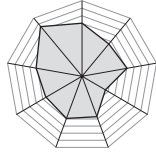
City Pematang Siantar



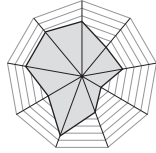
Rgcy Tapanuli Utara



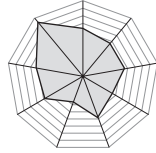
Rgcy Tapanuli Selatan



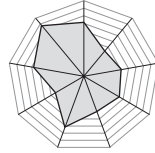
City Sibolga



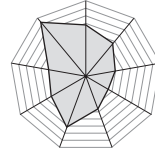
Rgcy Pakpak Bharat



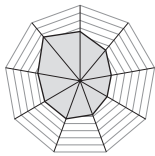
City Padang Sidempuan



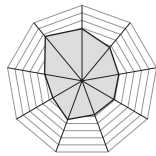
Rgcy Simalungun



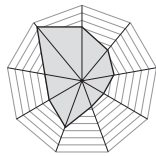
Rgcy Toba Samosir



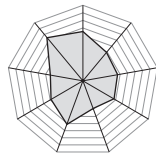
Rgcy Dairi



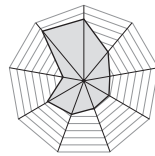
City Tebing Tinggi



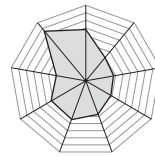
Rgcy Serdang Bedagai



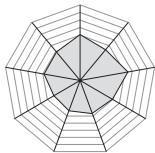
City Binjai



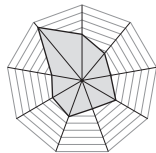
Rgcy Langkat



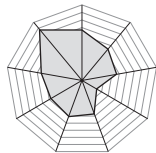
Rgcy Deli Serdang



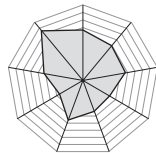
City Tanjung Balai



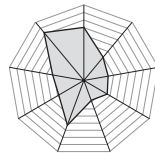
City Medan



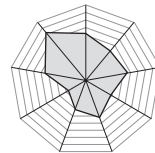
Rgcy Karo



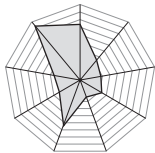
Rgcy Asahan



Rgcy Nias

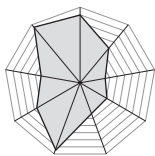


Rgcy Labuhan Batu

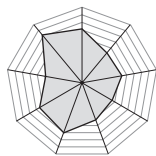


Rgcy Nias Selatan

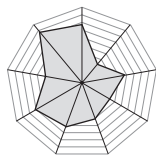
**NTB Province**



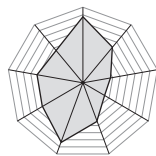
Rgcy Lombok Timur



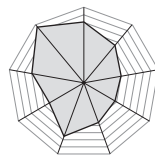
City Mataram



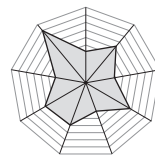
Rgcy Lombok Tengah



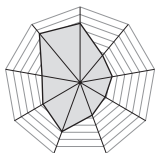
Rgcy Dompu



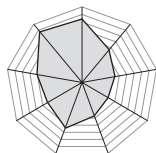
Rgcy Sumbawa Barat



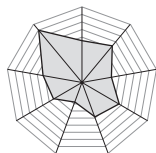
City Bima



Rgcy Lombok Barat

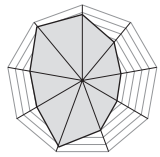


Rgcy Sumbawa

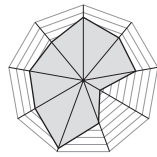


Rgcy Bima

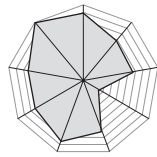
**NTT Province**



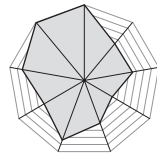
Rgcy Timor Tengah Selatan



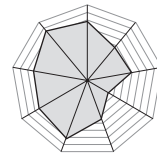
Rgcy Manggarai



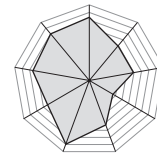
Rgcy Rotendao



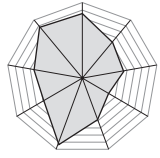
Rgcy Timor Tengah Utara



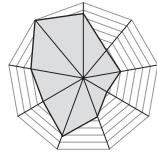
Rgcy Ende



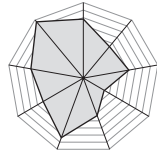
Rgcy Ngada



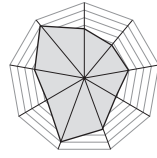
Rgcy Flores Timur



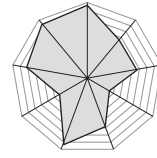
Rgcy Kupang



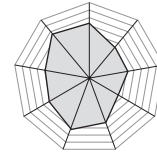
Rgcy Sikka



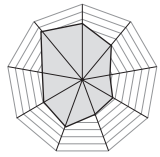
Rgcy Sumba Timur



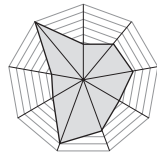
Rgcy Lembata



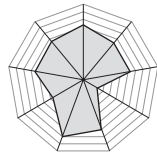
City Kupang



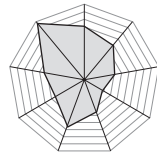
Rgcy Alor



Rgcy Sumba Barat

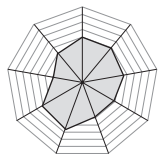


Rgcy Manggarai Barat

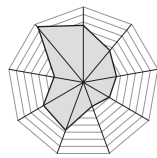


Rgcy Belu

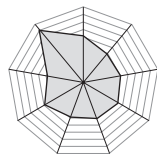
**Riau Province**



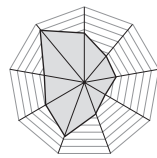
City Dumai



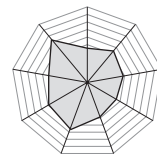
Rgcy Pelalawan



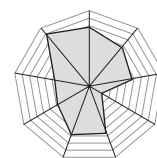
Rgcy Kuantan Singingi



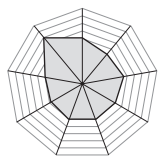
Rgcy Bengkalis



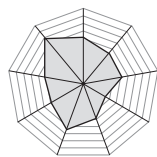
City Pekanbaru



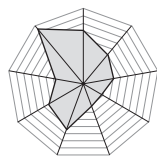
Rgcy Siak



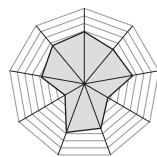
Rgcy Kampar



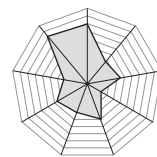
Rgcy Indragiri Hulu



Rgcy Indragiri Hilir



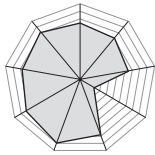
Rgcy Rokan Hulu



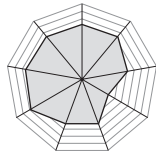
Rgcy Rokan Hilir



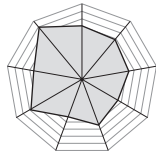
**South Sulawesi Province**



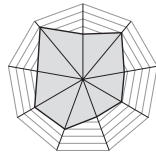
Rgcy Selajar



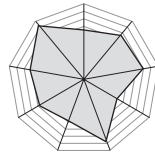
Rgcy Takalar



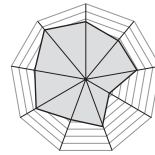
City Palopo



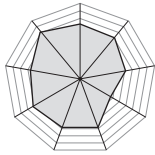
City Pare-Pare



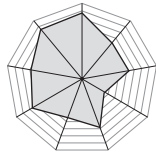
Rgcy Soppeng



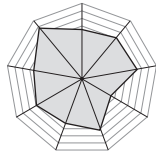
Rgcy Bulukumba



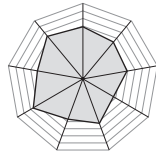
Rgcy Sinjai



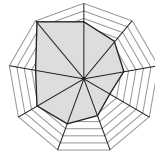
Rgcy Bantaeng



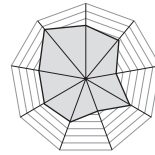
Rgcy Luwu Timur



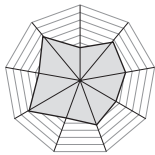
Rgcy Jenepono



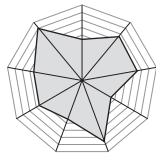
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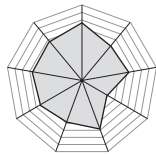
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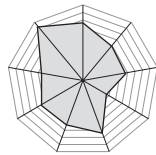
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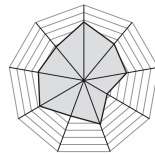
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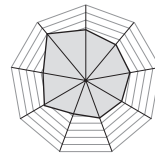
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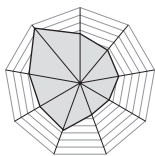
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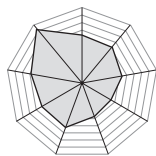
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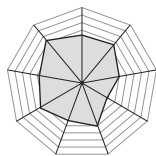
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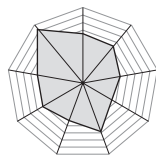
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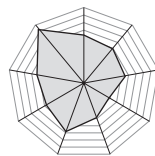
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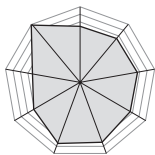


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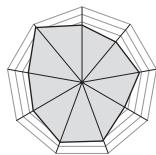


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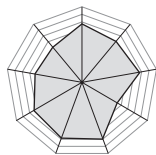
**South Sumatra Province**



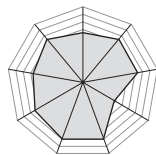
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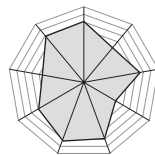
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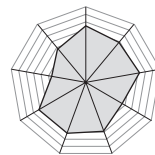
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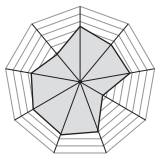
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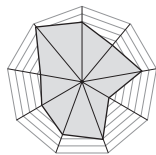
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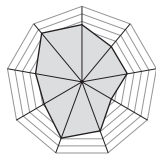
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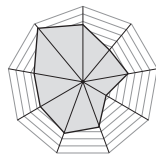
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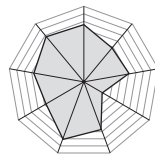
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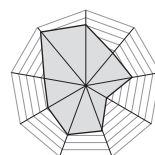
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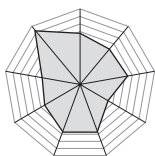
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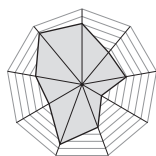
Rgcy Banyu Asin



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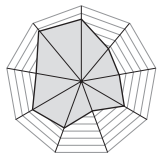


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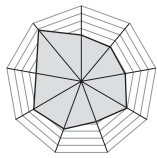


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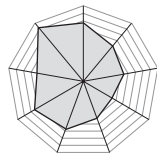
### West Java Province



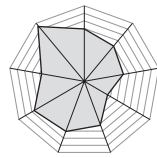
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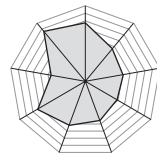
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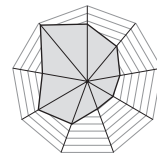
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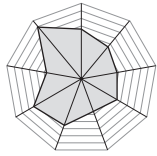
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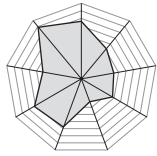
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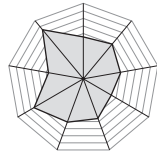
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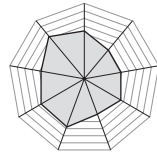
City Cirebon



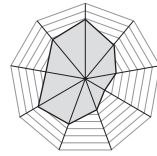
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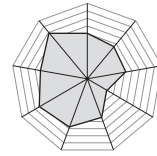
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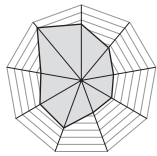
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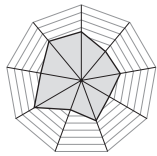
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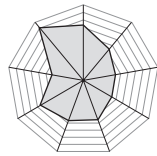
City Bogor



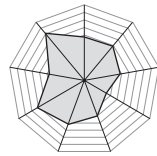
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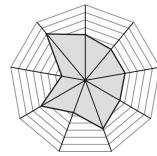
Rgcy Bandung



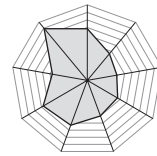
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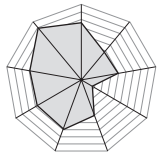
City Sukabumi



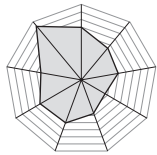
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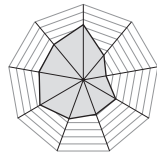
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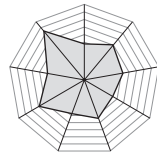
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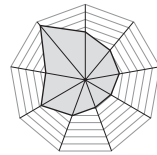
Rgcy Tasikmalaya



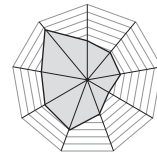
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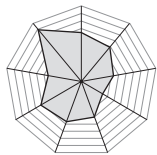
City Cimahi



City Bekasi



City Depok



Rgcy Bekasi

## Appendix 2: EGI And Sub-index Score For Each District By Province

Province	City/Regency	Land Access and Security of Tenure Sub-index	Business Licensing Sub-index	Local Government-Business Interaction Sub-index	Business Development Programs Sub-index	Capacity and Integrity of the Regent/Mayor Sub-index	Transaction Cost Sub-index	Local Infrastructure Sub-index	Security and Conflict Resolution Sub-index	Local Regulation Sub-index	Economic Governance Index	Rank
Bali	Regency Jembrana	92.1	67.5	62.5	52.4	68.8	76.8	79.8	67.3	88.9	73.7	5
Bali	Regency Gianyar	71.7	61.5	59.5	30.3	70.1	93.2	87.2	72.9	90.3	71.3	10
Bali	Regency Klungkung	76.1	63.8	61.8	47.1	72.7	82.0	80.9	69.9	50.0	71.0	15
Bali	Regency Tabanan	93.4	57.7	54.5	21.0	63.3	96.1	81.3	82.0	93.8	70.6	18
Bali	Regency Buleleng	94.0	58.3	53.0	33.4	59.6	83.9	77.3	79.4	95.0	69.6	24
Bali	City Denpasar	67.0	60.7	59.9	37.0	69.2	86.0	81.9	69.3	75.7	68.7	28
Bali	Regency Bangli	66.9	56.7	56.8	68.3	56.3	82.5	71.2	66.7	100.0	68.4	32
Bali	Regency Karangasem	77.2	61.9	60.3	39.7	61.1	81.7	69.0	74.5	54.7	65.5	75
Bali	Regency Badung	78.4	56.5	59.5	29.6	73.4	87.6	66.8	73.2	80.4	63.9	95
Central Java	Regency Purbalingga	75.9	70.2	65.3	48.7	78.9	75.8	78.4	69.0	91.3	71.1	13
Central Java	City Magelang	66.3	63.0	63.7	51.9	55.4	79.1	83.7	55.7	73.9	70.5	19
Central Java	Regency Kudus	68.5	62.9	57.2	39.4	57.4	84.9	82.8	60.6	89.3	69.0	27
Central Java	City Salatiga	73.5	74.0	60.4	50.0	63.6	79.0	72.9	61.9	90.3	68.6	29
Central Java	Regency Wonosobo	80.2	61.9	58.1	36.6	65.3	77.4	77.7	79.4	61.1	68.2	36
Central Java	Regency Pati	71.8	64.3	51.0	34.6	57.5	85.1	81.8	64.8	87.3	68.0	38
Central Java	Regency Kendal	69.7	61.8	51.8	53.5	52.9	73.3	77.5	66.5	65.4	67.4	48
Central Java	Regency Banjarnegara	79.1	61.0	54.3	35.3	64.9	74.0	78.1	77.0	92.2	67.4	49
Central Java	Regency Rembang	76.1	73.6	52.7	34.5	69.4	83.6	74.6	70.5	92.0	67.4	50
Central Java	Regency Boyolali	74.0	60.4	55.4	39.8	59.6	81.9	78.4	52.0	100.0	67.3	51
Central Java	Regency Jepara	75.7	63.7	54.7	45.1	53.4	72.8	76.6	62.4	93.2	67.3	53
Central Java	Regency Klaten	71.3	60.8	55.7	64.5	57.0	81.4	68.5	52.0	98.8	67.0	55
Central Java	Regency Demak	64.8	66.3	65.9	52.9	67.4	76.4	71.1	69.8	66.3	66.9	57
Central Java	Regency Magelang	70.2	56.3	61.1	41.8	59.1	75.1	78.0	61.6	80.7	66.6	63
Central Java	Regency Temanggung	72.0	54.4	62.9	37.2	57.8	76.3	76.7	63.1	85.8	66.0	73
Central Java	Regency Batang	62.2	64.4	58.4	40.3	52.3	71.3	77.2	64.7	79.7	65.1	76
Central Java	Regency Blora	75.8	65.0	55.4	35.9	65.1	66.5	74.7	63.0	87.9	65.0	78
Central Java	Regency Brebes	74.5	61.7	54.0	34.3	52.8	78.1	75.9	53.8	76.4	65.0	79
Central Java	Regency Grobogan	70.2	62.5	49.4	43.2	65.4	77.2	72.2	65.9	69.1	64.6	87

Province	City/Regency	Land Access and Security of Tenure Sub-index	Business Licensing Sub-index	Local Government-Business Interaction Sub-index	Business Development Programs Sub-index	Capacity and Integrity of the Regent/Mayor Sub-index	Transaction Cost Sub-index	Local Infrastructure Sub-index	Security and Conflict Resolution Sub-index	Local Regulation Sub-index	Economic Governance Index	Rank
Central Java	Regency Sukoharjo	70.0	62.3	62.2	36.9	58.2	72.7	72.3	53.8	93.2	64.1	91
Central Java	City Pekalongan	60.1	64.8	54.6	41.2	58.5	78.0	75.6	43.4	93.6	64.1	93
Central Java	Regency Tegal	70.7	60.3	56.9	39.5	52.6	69.8	73.7	49.3	94.1	63.8	97
Central Java	City Tegal	67.1	60.4	54.6	61.9	57.4	66.1	68.1	39.8	79.9	63.6	99
Central Java	Regency Sragen	67.5	58.0	54.3	34.4	63.2	73.4	76.2	46.9	75.3	63.3	106
Central Java	Regency Pekalongan	71.0	53.1	50.7	31.1	49.4	74.6	77.2	42.3	94.4	62.7	116
Central Java	Regency Banyumas	58.3	58.2	26.3	36.8	27.1	75.0	82.2	71.9	90.2	62.3	120
Central Java	Regency Purworejo	68.2	58.9	50.3	35.6	44.6	66.5	73.9	51.1	93.2	61.7	125
Central Java	Regency Cilacap	72.4	55.8	50.6	27.3	56.8	66.8	74.2	64.5	61.1	61.4	130
Central Java	Regency Semarang	65.5	59.5	48.3	57.4	34.3	52.3	69.4	48.2	98.0	61.1	135
Central Java	Regency Wonogiri	65.9	57.2	51.6	36.9	57.5	66.5	68.9	50.4	86.0	59.9	156
Central Java	Regency Karanganyar	59.8	59.3	59.8	44.6	60.3	55.7	65.7	46.7	86.1	59.0	164
Central Java	City Surakarta	46.6	55.7	49.8	47.3	59.7	54.8	73.1	45.5	90.7	58.7	168
Central Java	Regency Pemasang	71.1	37.6	42.8	41.5	51.8	70.8	63.8	53.5	98.3	57.5	179
Central Java	City Semarang	52.6	58.0	53.0	42.5	44.8	59.9	66.0	48.5	97.7	57.2	184
Central Java	Regency Kebumen	69.7	53.4	48.2	19.7	51.6	59.1	64.9	55.1	89.1	55.2	209
DI Yogyakarta	Regency Gunung Kidul	72.8	47.5	57.5	85.0	56.8	72.5	64.6	70.2	90.9	67.7	46
DI Yogyakarta	Regency Bantul	68.4	57.1	57.3	86.5	64.4	53.2	66.9	49.5	90.6	66.3	69
DI Yogyakarta	City Yogyakarta	48.9	65.3	56.1	74.4	63.6	76.9	68.6	42.4	78.8	64.9	81
DI Yogyakarta	Regency Kulon Progo	53.0	54.6	51.6	76.7	54.5	59.0	58.4	40.2	78.8	58.8	167
DI Yogyakarta	Regency Sleman	44.4	52.1	43.8	51.6	30.3	48.3	62.6	31.2	81.9	52.5	222
East Java	City Blitar	79.3	84.6	68.2	66.0	71.0	62.2	83.1	70.6	93.2	76.0	1
East Java	Regency Magetan	78.8	73.5	67.2	42.4	59.2	93.0	85.7	78.8	96.6	75.4	2
East Java	Regency Tuban	92.6	63.9	59.2	26.9	60.7	82.2	89.0	78.8	77.1	73.4	6
East Java	Regency Lumajang	84.7	78.6	59.5	44.9	68.3	76.6	79.2	76.8	50.0	72.0	7
East Java	Regency Madiun	79.9	66.7	62.3	38.2	62.0	78.9	84.2	78.1	94.9	72.0	8
East Java	City Probolinggo	72.5	69.8	70.2	54.0	83.4	70.0	80.1	56.5	90.3	71.5	9
East Java	Regency Sidoarjo	72.9	76.1	62.2	40.3	52.4	79.1	82.8	73.4	94.4	71.2	12

East Java	City Kediri	84.3	68.6	63.7	29.2	59.7	74.4	85.0	71.5	97.7	71.1	14
East Java	Regency Situbondo	93.9	67.4	55.2	43.8	45.8	81.0	77.1	63.8	100.0	70.9	16
East Java	Regency Bondowoso	88.6	74.3	59.4	45.4	60.6	75.2	74.7	71.6	100.0	70.6	17
East Java	City Madiun	76.3	70.0	54.7	46.5	55.7	71.2	83.1	71.3	76.6	70.5	20
East Java	Regency Ngawi	80.1	67.8	60.0	41.7	60.9	75.4	78.5	77.9	93.2	69.9	21
East Java	Regency Probolinggo	78.5	61.0	54.1	44.0	54.0	74.8	80.7	52.5	97.5	68.5	31
East Java	Regency Tulungagung	83.2	71.7	45.8	22.2	58.6	83.4	82.6	64.4	100.0	68.2	37
East Java	City Batu	77.0	60.0	58.7	32.8	52.8	79.8	80.6	65.4	95.5	67.9	42
East Java	City Mojokerto	74.6	70.4	59.9	32.0	64.1	68.6	81.2	62.8	90.9	67.7	45
East Java	Regency Nganjuk	77.7	57.3	47.9	43.8	59.0	71.1	81.0	59.9	93.2	67.5	47
East Java	Regency Pacitan	76.0	76.7	63.8	41.5	62.7	81.4	67.2	81.7	93.2	67.3	52
East Java	Regency Banyuwangi	92.1	62.4	47.8	33.0	54.6	76.8	75.4	62.4	94.6	67.0	56
East Java	Regency Ponorogo	75.1	58.6	54.0	40.7	55.4	80.4	77.0	65.6	81.4	66.9	58
East Java	Regency Pamekasan	81.0	64.6	63.4	34.4	55.5	84.4	68.9	96.7	68.9	66.9	59
East Java	Regency Blitar	78.9	70.3	59.8	38.0	61.8	69.7	73.3	76.4	88.3	66.9	60
East Java	Regency Pasuruan	83.6	55.3	54.4	27.1	53.7	71.7	81.3	60.7	89.0	66.4	65
East Java	City Pasuruan	71.6	58.7	38.3	46.3	39.8	69.8	83.4	53.8	100.0	66.3	67
East Java	Regency Kediri	90.4	58.1	41.1	15.0	50.5	77.2	84.2	68.2	94.9	66.3	68
East Java	Regency Mojokerto	80.9	55.5	55.2	29.5	61.0	74.9	79.4	56.2	98.3	66.2	70
East Java	Regency Jember	78.1	58.6	51.2	39.6	50.8	69.6	74.3	50.5	90.7	64.3	90
East Java	Regency Lamongan	80.9	58.6	56.2	24.3	64.1	76.9	72.5	67.3	93.2	64.0	94
East Java	Regency Bangkalan	69.5	64.5	62.0	37.5	65.8	73.9	68.2	69.6	87.2	63.7	98
East Java	Regency Gresik	71.6	55.2	51.3	51.1	54.0	73.8	70.2	68.0	1.1	63.6	102
East Java	Regency Trenggalek	76.8	61.9	57.9	26.3	60.0	80.4	68.1	83.1	100.0	63.6	103
East Java	Regency Bojonegoro	78.2	54.5	41.8	39.3	53.3	65.4	73.0	67.8	100.0	62.9	111
East Java	Regency Malang	76.6	46.0	50.4	23.2	57.1	74.0	78.3	58.8	95.5	62.8	115
East Java	City Malang	72.1	52.6	44.4	28.8	44.3	73.9	77.8	54.5	93.2	62.3	119
East Java	Regency Sumenep	76.1	68.9	30.6	17.9	31.4	73.9	75.9	66.9	90.4	60.9	139
East Java	Regency Jombang	75.4	58.3	52.3	32.8	60.8	55.8	70.8	48.3	89.6	60.5	147
East Java	City Surabaya	39.7	50.6	47.5	41.0	42.9	64.2	75.3	49.3	57.9	57.3	182
East Java	Regency Sampang	64.1	60.1	59.2	29.5	47.7	77.4	57.2	74.2	31.4	56.7	196
East Kalimantan	City Tarakan	70.6	74.6	66.4	52.2	61.1	77.6	73.5	67.3	65.2	69.1	26
East Kalimantan	Regency Bulungan	72.0	64.7	71.2	46.3	64.5	73.3	64.3	69.5	86.0	64.8	83
East Kalimantan	Regency Penajam Paser Utara	74.5	68.2	63.0	46.5	61.1	75.5	59.0	70.2	61.1	62.7	117
East Kalimantan	Regency Pasir	69.9	62.5	61.5	47.7	66.5	79.3	56.3	71.9	91.6	61.5	127
East Kalimantan	City Bontang	60.7	61.1	60.6	63.0	59.7	80.5	56.0	54.1	96.6	61.4	131
East Kalimantan	Regency Nunukan	72.9	69.5	66.7	53.8	66.6	81.4	48.4	70.5	93.2	61.3	133
East Kalimantan	City Balikpapan	68.9	71.0	65.8	60.4	71.2	78.7	47.5	69.1	87.3	61.1	136
East Kalimantan	Regency Berau	68.4	73.6	64.9	53.0	59.8	65.7	52.9	69.1	73.3	60.4	149
East Kalimantan	Regency Malinau	66.2	59.4	65.3	39.8	67.3	51.9	63.8	60.3	78.6	59.3	162

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East Kalimantan	Regency Kutai Barat	74.2	60.2	65.1	42.4	51.4	69.5	48.0	70.8	86.5	57.1	185
East Kalimantan	Regency Kutai Kartanegara	70.7	60.0	56.7	52.9	52.8	52.8	43.6	56.9	69.7	53.4	218
East Kalimantan	Regency Kutai Timur	70.7	67.2	59.9	40.5	51.4	56.5	38.2	52.6	78.8	50.9	228
East Kalimantan	City Samarinda	40.9	61.3	50.9	58.9	45.1	59.5	42.8	51.5	70.9	49.7	232
Gorontalo	Regency Gorontalo	67.9	63.9	70.5	66.4	70.3	72.0	69.4	55.3	97.7	68.4	33
Gorontalo	Regency Bone Bolango	70.3	56.3	68.3	49.0	62.1	75.9	63.0	60.6	100.0	63.4	105
Gorontalo	City Gorontalo	69.0	63.2	64.4	54.3	61.9	71.3	61.1	63.4	93.2	63.2	108
Gorontalo	Regency Boalemo	67.2	64.0	74.9	59.4	65.0	62.1	59.2	66.7	38.2	62.8	114
Gorontalo	Regency Pahuwato	51.6	63.7	68.1	50.7	61.5	58.3	58.4	59.5	97.7	58.2	175
Kepulauan Riau	Regency Bintan	83.5	66.3	69.1	50.7	57.0	57.7	60.9	62.2	67.9	63.6	100
Kepulauan Riau	City Tanjung Pinang	62.1	74.3	69.6	55.4	65.7	88.7	50.1	71.1	95.5	62.1	122
Kepulauan Riau	Regency Lingga	86.7	64.2	45.6	34.7	40.1	80.7	62.8	55.0	67.9	61.4	128
Kepulauan Riau	City Batam	51.4	69.8	45.3	71.9	49.8	54.3	64.3	41.5	70.7	60.1	154
Kepulauan Riau	Regency Natuna	67.1	67.5	53.4	52.0	63.7	76.7	51.8	74.8	96.6	59.6	160
Kepulauan Riau	Regency Karimun	77.2	71.5	69.2	43.7	56.4	55.0	46.3	57.5	79.0	56.6	198
North Sulawesi	Regency Bolaang Mongondow	77.8	56.8	53.3	50.4	60.7	75.9	70.3	58.5	91.9	65.6	74
North Sulawesi	Regency Minahasa	70.2	63.1	61.9	64.6	62.4	74.7	62.0	54.7	86.5	64.9	82
North Sulawesi	Regency Kepulauan Sangihe	81.3	59.9	65.2	33.8	61.0	84.6	63.5	68.2	78.6	63.8	96
North Sulawesi	Regency Kepulauan Talaud	70.0	38.7	52.7	39.2	63.4	93.9	60.6	66.0	86.2	59.9	158
North Sulawesi	Regency Minahasa Selatan	70.0	54.3	56.5	47.5	58.1	75.7	53.8	50.4	38.2	57.4	181
North Sulawesi	Regency Minahasa Utara	76.5	61.8	53.4	43.0	51.4	80.0	50.7	38.3	93.2	57.3	183
North Sulawesi	City Tomohon	61.2	57.0	62.2	57.1	54.0	53.9	54.8	50.2	86.9	57.0	189
North Sulawesi	City Manado	52.5	52.3	54.7	62.4	44.8	62.0	53.5	51.3	94.6	55.7	205
North Sulawesi	City Bitung	62.9	55.0	56.7	60.6	62.4	48.9	51.5	39.3	77.3	55.0	211
North Sumatra	Regency Humbang Hasundutan	61.4	52.8	52.9	40.8	57.4	83.4	71.4	63.6	57.1	62.4	118
North Sumatra	Regency Mandailing Natal	78.8	56.1	57.4	53.0	64.9	70.8	55.7	72.7	98.3	61.5	126
North Sumatra	Regency Tapanuli Tengah	76.5	55.4	62.9	50.9	57.3	64.3	57.5	67.2	76.2	60.8	141
North Sumatra	Regency Samosir	57.7	54.3	65.1	43.2	61.3	69.0	60.0	72.1	90.7	58.9	165



North Sumatra	City Pematang Siantar	63.5	46.0	53.4	37.2	55.5	82.6	61.2	67.1	82.9	58.3	172
North Sumatra	Regency Tapanuli Utara	62.3	56.2	51.7	54.3	52.3	66.2	54.0	52.2	93.2	56.7	197
North Sumatra	Regency Tapanuli Selatan	79.5	50.9	56.9	46.9	58.8	58.9	49.4	63.2	80.9	56.1	203
North Sumatra	City Sibolga	69.7	55.4	60.7	35.1	57.7	59.8	54.8	62.3	86.5	55.8	204
North Sumatra	Regency Pakpak Bharat	72.4	49.9	55.0	28.8	51.7	84.1	51.2	76.3	75.6	55.6	207
North Sumatra	City Padang Sidempuan	63.6	55.9	56.7	45.1	58.1	36.5	59.0	63.1	93.2	55.4	208
North Sumatra	Regency Simalungun	71.0	43.9	50.4	53.7	50.9	72.6	43.2	68.1	87.2	53.9	214
North Sumatra	Regency Toba Samosir	67.5	56.7	40.3	34.0	45.5	72.0	52.4	51.1	93.2	53.1	219
North Sumatra	Regency Dairi	65.0	52.9	42.1	41.5	47.9	53.8	54.1	57.4	75.6	52.7	221
North Sumatra	City Tebing Tinggi	69.3	57.9	49.7	49.1	47.6	54.9	44.8	50.2	75.9	52.1	223
North Sumatra	Regency Serdang Bedagai	71.6	52.4	43.7	33.1	36.8	65.1	50.6	50.3	93.2	52.0	224
North Sumatra	City Binjai	64.9	49.2	46.8	48.1	39.9	61.7	48.8	44.3	74.9	52.0	225
North Sumatra	Regency Langkat	81.2	49.9	34.2	37.4	39.4	47.1	55.6	27.4	85.2	51.9	226
North Sumatra	Regency Deli Serdang	67.4	40.6	37.9	37.8	48.1	55.6	52.5	40.3	84.7	49.9	231
North Sumatra	City Tanjung Balai	61.1	52.6	64.4	49.9	46.7	43.2	40.7	49.0	49.1	49.1	234
North Sumatra	City Medan	61.1	46.3	39.1	51.3	40.8	52.0	44.7	41.7	92.4	48.6	235
North Sumatra	Regency Karo	67.2	54.2	47.6	22.9	48.7	51.7	47.5	54.8	87.9	48.4	236
North Sumatra	Regency Asahan	66.2	59.5	57.3	41.4	43.7	56.1	35.4	53.0	85.7	48.4	237
North Sumatra	Regency Nias	70.4	40.4	32.3	35.5	28.8	63.1	39.5	42.9	82.2	45.3	240
North Sumatra	Regency Labuhan Batu	61.9	50.7	55.9	37.5	53.0	41.0	26.3	54.9	82.3	41.8	242
North Sumatra	Regency Nias Selatan	73.4	34.5	27.9	32.8	23.9	64.6	31.7	34.7	93.2	41.4	243
NTB	Regency Lombok Timur	89.6	59.7	33.5	41.5	44.0	95.5	66.7	53.2	95.0	64.4	89
NTB	City Mataram	70.9	51.4	54.4	45.7	52.6	70.8	65.5	49.9	83.1	60.8	140
NTB	Regency Lombok Tengah	77.0	32.2	57.1	42.4	51.2	61.5	70.7	49.2	87.2	60.7	142
NTB	Regency Dompu	87.2	61.4	37.1	32.9	54.7	83.5	61.7	62.3	54.8	60.5	146
NTB	Regency Sumbawa Barat	80.5	64.2	50.8	46.7	56.0	75.8	53.1	69.6	96.6	60.2	153
NTB	City Bima	41.5	63.7	39.6	68.2	40.8	60.2	61.9	41.6	89.9	56.8	194
NTB	Regency Lombok Barat	78.4	47.5	43.2	38.3	46.3	70.5	57.9	52.1	84.0	56.6	199
NTB	Regency Sumbawa	83.6	56.5	44.4	39.9	47.6	64.0	52.5	61.1	86.8	56.3	201
NTB	Regency Bima	55.4	63.7	40.1	58.0	49.4	27.3	43.7	53.2	89.9	48.2	238
NTT	Regency Timor Tengah Selatan	87.7	65.4	51.1	52.3	69.2	91.9	69.8	70.9	92.1	69.9	23
NTT	Regency Manggarai	83.0	73.8	70.1	26.2	60.6	94.0	71.8	72.0	65.8	68.6	30
NTT	Regency Rotendao	89.2	69.1	66.9	23.9	71.1	86.2	71.8	75.3	100.0	68.3	35
NTT	Regency Timor Tengah Utara	99.4	63.7	65.4	42.7	59.2	83.1	61.6	83.4	100.0	68.0	39
NTT	Regency Ende	77.4	57.0	58.3	31.7	55.4	81.9	72.4	72.7	85.8	65.1	77
NTT	Regency Ngada	83.0	58.0	60.0	35.9	61.6	88.8	64.1	76.9	79.6	64.7	86
NTT	Regency Flores Timur	85.1	61.3	54.5	39.3	58.6	93.0	57.9	65.0	87.2	63.0	110
NTT	Regency Kupang	85.2	47.6	48.8	37.2	53.9	82.6	60.7	70.9	100.0	61.2	134
NTT	Regency Sikka	78.1	54.7	61.1	30.5	52.4	83.3	61.0	71.0	96.1	61.1	137
NTT	Regency Sumba Timur	65.4	56.5	59.7	47.6	70.3	89.1	56.4	67.4	91.7	61.0	138



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NTT	Regency Lembata	95.8	65.2	66.8	33.6	68.0	92.5	41.2	82.4	93.2	60.2	151
NTT	City Kupang	73.1	52.6	50.4	44.2	62.2	70.4	60.8	58.3	77.2	59.3	161
NTT	Regency Alor	74.0	57.3	36.7	44.7	48.9	65.2	58.4	53.5	83.1	56.8	193
NTT	Regency Sumba Barat	48.2	61.4	68.1	54.2	71.2	88.3	44.7	41.0	100.0	55.7	206
NTT	Regency Manggarai Barat*	71.9	64.4	63.6	20.6	68.7	80.2	45.1	65.0	65.8	53.7	216
NTT	Regency Belu	70.9	58.7	40.9	27.8	46.2	65.4	44.1	51.8	96.6	49.4	233
Riau	City Dumai	60.2	58.5	55.1	47.8	48.5	65.1	59.6	38.6	50.7	56.8	195
Riau	Regency Pelalawan	74.0	54.8	43.8	39.7	33.9	66.9	59.2	37.5	95.1	56.2	202
Riau	Regency Kuantan Singingi	62.3	49.8	49.8	52.7	50.9	49.4	57.8	47.0	91.4	55.1	210
Riau	Regency Bengkalis	64.8	44.7	41.0	31.2	44.2	74.0	58.8	51.9	90.1	53.8	215
Riau	City Pekanbaru	45.9	54.0	47.2	44.5	48.9	65.4	58.8	50.7	73.7	53.6	217
Riau	Regency Siak	78.8	67.6	56.8	19.1	65.8	67.5	46.8	46.1	89.8	52.9	220
Riau	Regency Kampar	59.2	50.3	55.3	51.5	50.7	51.5	47.5	49.3	77.6	51.6	227
Riau	Regency Indragiri Hulu	61.6	52.7	50.6	33.6	48.8	64.1	48.5	51.6	78.9	50.7	229
Riau	Regency Indragiri Hilir	70.9	50.5	40.1	27.1	30.8	63.4	52.7	36.3	95.4	50.4	230
Riau	Regency Rokan Hulu	69.0	58.9	66.2	35.8	61.1	66.7	28.7	55.7	66.3	47.7	239
Riau	Regency Rokan Hilir	78.6	39.1	43.9	21.0	50.2	39.7	45.5	30.6	82.5	45.1	241
South Sulawesi	Regency Selayar	75.2	70.3	65.8	21.4	78.9	88.4	82.3	77.6	81.2	69.9	22
South Sulawesi	Regency Takalar	73.5	75.1	61.0	39.9	61.3	61.3	78.8	75.8	73.8	67.9	40
South Sulawesi	City Palopo	70.1	70.0	62.9	55.4	64.1	51.9	77.4	65.3	89.5	67.9	43
South Sulawesi	City Pare-Pare	60.5	79.1	54.2	58.6	52.0	69.9	73.3	62.2	88.2	66.9	61
South Sulawesi	Regency Soppeng	64.9	76.1	79.1	51.1	87.9	58.7	68.1	72.1	93.2	66.8	62
South Sulawesi	Regency Bulukumba	77.1	67.0	68.6	36.1	66.2	56.6	76.1	69.2	85.5	66.5	64
South Sulawesi	Regency Sinjai	72.4	71.2	62.6	45.9	66.5	67.7	71.4	67.1	82.1	66.4	66
South Sulawesi	Regency Bantaeng	86.9	61.4	62.9	34.4	67.4	54.0	75.6	68.5	85.6	66.1	71
South Sulawesi	Regency Luwu Timur	65.4	71.6	75.3	43.8	71.0	62.7	68.6	65.8	88.2	65.0	80
South Sulawesi	Regency Jeneponto	69.0	63.8	57.9	45.2	61.9	56.7	75.8	62.4	74.2	64.8	84
South Sulawesi	Regency Maros	75.0	63.9	52.3	40.9	52.9	64.2	70.3	66.2	95.9	63.4	104

South Sulawesi	Regency Enrekang	70.5	67.1	40.3	68.1	44.8	59.5	64.4	62.9	86.2	62.9	112
South Sulawesi	City Makassar	43.2	66.5	61.4	54.0	62.7	52.3	77.4	54.0	77.2	62.9	113
South Sulawesi	Regency Barru	54.5	76.5	75.2	43.7	84.7	54.4	64.9	65.7	90.5	62.0	123
South Sulawesi	Regency Luwu Utara	76.7	59.2	63.6	39.0	66.5	59.0	64.1	66.9	66.8	61.4	132
South Sulawesi	Regency Gowa	76.7	60.0	57.1	36.5	73.4	62.3	63.8	54.3	93.2	60.5	145
South Sulawesi	Regency Bone	75.5	61.4	55.7	36.9	61.4	51.7	67.0	62.6	57.2	60.2	150
South Sulawesi	Regency Sidenreng Rappang	66.8	62.5	58.7	53.9	52.4	47.0	64.0	55.9	80.5	60.2	152
South Sulawesi	Regency Pangkajene Kepulauan	65.6	56.8	50.4	43.4	44.5	65.6	60.9	69.2	94.4	58.4	171
South Sulawesi	Regency Tana Toraja	64.4	62.6	52.2	43.3	47.6	61.7	60.1	69.6	93.2	58.3	173
South Sulawesi	Regency Pinrang	63.4	66.4	48.7	38.0	59.8	51.9	63.6	55.9	74.3	57.1	186
South Sulawesi	Regency Luwu	65.3	63.2	49.2	43.8	67.6	52.1	59.4	61.1	93.2	57.1	187
South Sulawesi	Regency Wajo	64.0	59.2	54.1	37.5	48.7	66.7	56.9	63.0	93.2	56.4	200
South Sumatra	City Prabumulih	74.3	75.9	77.0	75.2	83.4	86.1	70.5	64.9	100.0	74.7	3
South Sumatra	Regency Musi Banyu Asin	76.1	70.1	76.8	64.4	82.2	83.8	74.5	72.2	94.6	74.3	4
South Sumatra	City Lubuk Linggau	77.0	71.6	77.3	54.1	79.9	78.6	73.0	62.6	61.1	71.2	11
South Sumatra	City Pagar Alam	65.5	73.7	73.6	48.4	79.9	79.9	74.0	67.3	74.7	69.4	25
South Sumatra	Regency Lahat	79.9	60.3	75.6	47.7	79.8	82.3	68.7	56.5	78.8	68.3	34
South Sumatra	Regency Muara Enim	74.5	68.5	72.5	55.4	67.9	70.5	71.1	46.3	57.5	67.9	41
South Sumatra	City Palembang	73.8	63.9	66.5	34.7	69.5	73.3	71.0	65.6	47.3	64.7	85
South Sumatra	Regency Musi Rawas	79.2	63.3	80.1	40.7	80.7	74.6	60.7	56.1	94.9	64.4	88
South Sumatra	Regency Oku Timur	75.4	60.9	60.8	45.4	68.6	78.5	57.9	62.3	84.2	61.7	124
South Sumatra	Regency Ogan Komering Ulu	75.0	55.0	60.7	36.1	63.7	72.2	64.0	65.3	93.2	61.4	129
South Sumatra	Regency Banyu Asin	76.3	58.3	61.5	27.5	66.0	81.1	58.8	67.4	78.1	59.7	159
South Sumatra	Regency Ogan Ilir	80.2	56.4	62.3	32.6	63.3	69.0	57.8	55.8	93.2	59.1	163
South Sumatra	Regency Ogan Komering Ilir	68.0	61.6	64.4	41.7	65.8	67.8	54.5	50.6	93.2	57.9	177
South Sumatra	Regency Oku Selatan	80.7	54.7	59.9	29.4	59.1	83.9	49.7	62.7	88.7	57.0	190
West Java	Regency Ciamis	82.8	56.2	49.3	65.1	42.4	64.4	73.8	60.7	87.2	67.9	44
West Java	City Banjar	61.9	59.7	60.4	69.7	56.3	67.8	72.2	60.7	88.2	67.1	54
West Java	Regency Kuningan	77.3	62.1	55.6	43.5	52.1	67.6	74.7	63.5	93.6	66.0	72
West Java	Regency Karawang	69.5	61.2	52.0	36.1	61.9	71.2	75.6	57.8	94.9	64.1	92
West Java	Regency Sumedang	78.1	56.8	50.6	48.1	54.7	60.9	72.4	44.9	86.2	63.6	101
West Java	Regency Purwakarta	76.1	61.3	43.6	39.3	38.7	61.4	75.4	60.8	97.7	63.3	107
West Java	City Cirebon	65.5	55.7	48.7	55.6	45.7	65.2	72.6	47.6	89.9	63.1	109
West Java	Regency Garut	76.1	51.7	42.7	47.5	32.2	69.0	71.2	51.0	89.5	62.2	121
West Java	City Bandung	56.0	60.2	48.8	42.3	56.0	60.2	75.0	45.7	83.5	60.7	143
West Java	City Tasikmalaya	63.2	49.6	49.0	55.9	49.1	67.5	66.0	58.6	74.0	60.6	144
West Java	Regency Majalengka	78.3	59.0	41.5	29.4	43.5	63.6	72.4	53.4	67.7	60.4	148
West Java	City Bogor	61.0	54.8	52.5	30.1	53.9	67.5	72.7	64.1	80.1	60.0	155
West Java	Regency Cianjur	73.9	56.4	44.0	45.8	45.0	67.6	64.0	54.7	91.3	59.9	157
West Java	Regency Bandung	64.2	50.2	52.9	42.7	56.2	42.2	72.3	54.9	67.7	58.9	166

Province	City/Regency	Land Access and Security of Tenure Sub-index	Business Licensing Sub-index	Local Government-Business Interaction Sub-index	Business Development Programs Sub-index	Capacity and Integrity of the Regent/Mayor Sub-index	Transaction Cost Sub-index	Local Infrastructure Sub-index	Security and Conflict Resolution Sub-index	Local Regulation Sub-index	Economic Governance Index	Rank
West Java	Regency Subang	72.9	54.1	44.1	43.9	55.5	57.4	65.5	43.1	92.0	58.6	169
West Java	City Sukabumi	57.2	59.0	48.4	34.5	50.5	61.7	71.7	47.4	80.0	58.4	170
West Java	Regency Indramayu	60.6	53.3	53.9	52.3	68.5	45.7	67.4	32.6	79.9	58.2	174
West Java	Regency Cirebon	67.8	46.8	39.0	46.6	50.7	63.5	66.6	47.6	89.3	58.2	176
West Java	Regency Bogor	76.0	47.7	49.6	17.6	50.7	69.3	66.5	69.1	88.9	57.5	178
West Java	Regency Tasikmalaya	69.6	54.9	49.8	36.7	47.8	61.2	62.9	55.4	92.3	57.5	180
West Java	Regency Sukabumi	72.8	42.3	30.5	49.5	48.6	54.9	65.9	59.2	61.1	57.1	188
West Java	City Cimahi	47.5	59.8	52.8	43.8	55.4	48.1	69.3	50.1	83.8	57.0	191
West Java	City Bekasi	63.6	51.4	46.7	38.5	38.7	51.8	68.1	53.7	93.5	57.0	192
West Java	City Depok	52.4	47.4	44.9	32.6	47.7	69.0	64.7	61.9	88.2	54.9	212
West Java	Regency Bekasi	64.8	59.0	43.7	32.9	51.6	57.7	61.6	44.8	89.4	54.8	213