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## DOING BUSINESS IN INDONESIA: A CONSTRUCTION PERSPECTIVE

### 1. Country Information

Indonesia, the world's fourth most populous nation, became independent in 1949. The region was formerly under control of the Dutch and Japanese. The country consists of more than 17,000 islands and is by far the largest and most varied archipelago on earth. The biggest islands are Java, Sumatra, Kalimantan, New Guinea and Sulawesi.

Indonesia is located in an area where three tectonic plates meet, and it is therefore a large number of active volcanoes, earthquakes and tsunamis that can occur. Wooded mountains characterize the islands, but extensive lowland areas are also found on some of the islands.

The country has a tropical climate, with humidity between 70-95 percent. There are slight variations in temperature, and the average is 27-28 degrees in the lowlands, while it is slightly cooler in the mountains.

Indonesia is the world's largest producer of palm oil; other important industries are oil and energy, textiles, footwear, mining, cement, forestry, rubber, food and tourism.

Map of Indonesia



Key Statistics

<b>Indonesia</b>	
Capital	Jakarta
Area	Land: 1.826.440 sq. km
	Water: 93.000 sq. km
	Total: 1.919.440 sq. km

<b>Politics</b>	
Government	Republic
President	Susilo Bambang Yudhoyono
<b>Society</b>	
Population	242.968.342 (Jakarta 9 million)
Population Below Poverty Line	32 million
Official Languages	Bahasa Indonesia, English, Dutch, and Javanese
Ethnic Groups	Javanese, Sundanese, Indonesian (Malay), Madura
Religions	Islam (87%), Protestant, Hinduism, Catholic and Buddhism
<b>Economy</b>	
GDP Ranking (World)	115
GDP Purchasing Power Parity (PPP)	855 billion USD
GDP PPP per capita	4.380 USD
GDP (nominal)	695 billion USD
GDP (nominal) per capita	2963 USD
GDP growth	6%
GDP per sector	Industry (47.1%), Services (38.5%) and Agriculture (14.4%)
Inflation	6.96%
Labor Force	112 million
Unemployment	7.9%
Currency	Indonesian Rupiah (IDR)
Exchange Rates	1 USD = 8 849 IDR (17 Oct 2011)
<b>Climate</b>	
Seasons	Dry (May – October) and wet (November – April) seasons
Mean Daily Temperature	24°C to 34°C

## 2. Indonesia At A Glance

### 2.1 Government & Politics

President Suharto's regime ended in 1998 and the first democratic elections were held in 2004. Since the end of the Suharto regime, Indonesia has embarked on a period of political and institutional reform. This has resulted in the emergence of new political parties, a restructuring of Parliament, and the devolution of much power away from the central government.

Indonesia's political system is a constitutional democracy and led by a directly elected President. The President is elected in a general election every five years. The legislature is made up of two bodies – the House of Representatives (DPR) and the Regional Representatives Council (DPD), which are mandated to deal with regional affairs. The

supreme constitutional body is the People's Consultative Assembly (MPR), consisting of both the DPR and the DPD sitting together. The President is accountable to this body.

President Susilo Bambang Yudhoyono won Indonesia's first direct presidential elections in September 2004 and was re-elected for a second term in July 2009.

## 2.2 Foreign Relations

After focusing on internal problems for several years, Indonesia now has major foreign-policy ambitions. It has become a non-permanent member of UN Security Council, and signed several cooperation and friendship agreements with key countries like the EU, USA and Australia. Indonesia has also traditionally played a leading role in the Non-Aligned Movement in the United Nations and is not trying to regain this position.

As the world's third largest democracy with moderate Muslim-majority, Indonesia would like to play a role as a bridge between Islam and the west. Several state leaders visit Indonesia every year. ASEAN is an important organ of Indonesia's regional engagement. They also have extensive bilateral cooperation with some of the ASEAN partners, especially Malaysia and Singapore. APEC is also regarded as a central area for regional economic cooperation.

## 2.3 Economy

### 2.3.1 Overview

In recent decades, Indonesia has been viewed as one of Southeast Asia's most successful highly performing and newly industrializing economies. It is the largest economy in Southeast Asia and a member of the G-20 major economies. It features a developing market economy, with strong influence from the government. The government plays a significant role by owning more than 164 enterprises. The government also administers the prices of many basic products, such as rice, electricity and fuel.

Domestic consumption is one of the major driving forces behind the country's economic growth. Although Indonesia's economy grew surprisingly fast during the 1980s and 1990s, it experienced considerable trouble after the Asian financial crisis of 1997, which led to significant political reforms.

Today Indonesia's economy has recovered and continues to have a steady growth. With a large internal market, cheap labor, a growing middle class, political stability and steady economic growth, the country now stands as a reformed democracy with enormous economic potential. Foreign investment has increased rapidly in recent years and interest from international business is growing.

### 2.3.2 Current Economic Situation

The global financial crisis in 2008-2009 had a relatively small impact on Indonesia because of its heavy reliance on domestic consumption as the driver of its economic growth. Although the economy slowed significantly from the 6 percent growth rate recorded in 2007 and 2008, Indonesia managed to withhold a 4 percent growth rate in 2009.

Indonesia outperformed its regional neighbors and joined China and India as the only G-20 members posting growth during the crisis. The government used fiscal stimulus measures and monetary policy to counter effects of the crisis and offered cash transfers to poor families.

The government made economic advances under the first administration of President Susilo Bambang Yudhoyono, introducing significant reforms in the financial sector, including tax and custom reforms, the use of treasury bills, and capital market development and supervision. Indonesia's debt-to-GDP ratio in recent years has declined steadily because of increasingly robust GDP growth and sound fiscal stewardship.

Indonesia is also working towards expanding the coverage of their safety net as a mean to fight poverty. The workers will be better protected against the financial consequence from loss of employment by introducing various forms of unemployment insurance.

### 2.3.3 Imports & Exports

<b>Indonesia Top Ten Imports 2010</b>	<b>USD billion</b>
Petroleum	27.53
Machinery	20.53
Electrical and electronic equipment	15.06
Vehicles	7.38
Iron and steel	6.37
Organic chemicals	5.23
Plastics	4.83
Aircraft and parts	3.53
Articles of iron and steel	3.45
Cotton	2.23
<b>Total Imports</b>	<b>135.66</b>

<b>Indonesia Top Ten Exports 2010</b>	<b>USD billion</b>
Mineral fuels	46.77
Palm oil	16.31
Electrical and electronic equipment	10.43
Rubber	9.37
Copper ore	8.15
Machinery	5.07
Paper and paperboard	4.19
Apparel (not knitted)	3.61



Copper	3.31
Wood and articles of wood	2.94
<b>Total Exports</b>	<b>157.78</b>

#### 2.3.4 GDP Purchasing Power Parity (PPP)

The Gross Domestic Product (GDP) has risen in recent years, but at the same time, the differences between rich and poor has increased as well. The main growth has been concentrated in the island of Java and the capital Jakarta.

In 2009, the Indonesian economy was the 15th largest in the world by purchasing power parity (PPP), with gross domestic product estimated to be 854.98 billion USD and a growth rate around 6 percent.

#### 2.3.5 Gross National Income (Per Capita)

For the year 2010, Indonesia is ranked at 147 with a GNI (Per Capita) at 2,580 USD by the World Bank's World Development Indicators database.

#### 2.3.6 Currency

Indonesian Rupiah or the IDR cannot be circulated or convertible in the global market. Therefore, all entities wishing to conduct transactions denominated in IDR must open onshore accounts.

#### 2.3.7 Inflation

Inflation was about 7% in the first 2 months of 2011 and is likely to remain relatively high through the first half of the year before moderating in the second half on base effects and an expected improvement in domestic food supplies. For the full year, inflation is estimated to average 6.3%. It will subside a little in 2012 if global food and commodity prices decelerate.

#### 2.3.8 Infrastructure SWOT Analysis

##### Strengths

- PLN's 20 gigawatt (GW) electricity generation expansion plans.
- Billions of dollars pledged for railway investments by coal mining companies.
- Foreign direct investment (FDI) has grown substantially over recent years, a trend that continued in the first half of 2010.
- There is strong political will to make public private partnerships (PPPs) and concessions a mainstream means of procuring new infrastructure.

- Presence of some of Asia's largest construction companies.

#### Weaknesses

- The country's power sector is running a supply deficit and is managing its shortfall with outages.
- Poor business environment scores due to entrenched corruption and a lack of transparency.
- Contract enforceability is dubious.
- Corruption is high.
- High foreign exchange risk.

#### Opportunities

- There are opportunities for international companies to compete with the fragmented domestic industry for major projects, particularly in the house building, energy and transport sectors.
- The government is improving public private partnership regulations and expanding access to financing. Major expansion plans of cement majors indicate strong demand for construction materials and therefore a growing construction sector.
- Demand for Indonesian coal is driving investment into infrastructure by international investors including those from India, China and the Middle East to meet strong demand for coal for electricity generation.
- New state-owned infrastructure guarantee agency and amendments to public private partnerships/concessions legislation are steps towards addressing deep structural problems in Indonesia's infrastructure market.

#### Threats

- High inflation in the construction sector due to rising costs for cement could make projects unfeasible economically.
- Continued electricity shortages could threaten the pace of investments.
- Political risks remain high, with the rule of law in the country extremely fragile.

### 2.3.9 Country Risk Analysis

The AMB Country Risk Report ranked Indonesia at Country Risk Tier (CRT) 4.

The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk:

1. Economic;
2. Political; and
3. Financial System.

Indonesia has high levels of political and financial system risk. A.M. Best considers the majority of countries in Southeast Asia to be categorized as CRT 3 or CRT 4. The exceptions are Vietnam, the sole CRT 5, and Singapore, the sole CRT 1.

Benefiting from strong initial conditions and strong policy responses, the Indonesian economy weathered the global recession well. Indonesia's economy slowed only slightly in 2009 and picked back up at growth rates of about 6% in 2010 and 2011. Growth is expected to be around 6.2% in 2012.

The strength of the Indonesian economy comes in large part from its greater dependence on domestic consumption rather than exports, unlike many of its regional peers.

<b>Regional Comparison</b>	
Country	Country Risk Tier (CRT)
Indonesia	CRT 4
Philippines	CRT 4
Malaysia	CRT 3
Singapore	CRT 1
Thailand	CRT 3
Vietnam	CRT 5

Indicators: CRT 1 = Least amount of risk  
CRT 5 = Most amount of risk

### 2.3.10 Investment

Following the experience of economic and financial crisis in 1997, the government of Indonesia recognized that foreign investments have important role in order to reconstruct the Indonesian economy. During the following years, the successive government enacted legal and regulatory reforms, which were designed to make Indonesia an attractive and competitive destination for foreign investments.

The May 2010 investment package was the Indonesian government's latest answer to concerns that the country was losing its edge in attracting foreign investors. The May 2010 regulation (known as PP 76 or Government Regulation No. 76-77, 2007) opened the way for the possibility of 95% foreign ownership of companies, including in a number of areas, which previously had been closed to foreign equity participation.

Indonesia's trade policy became more liberal as a result of the Association of South East Asian Nations (ASEAN) Free Trade Agreement (AFTA) in 2002 and subsequent free trade agreements. The majority of Indonesia's trade is conducted with Asian countries, with its main trading partners being Japan, China, Singapore and South Korea. The United States is also a key export market. Indonesia's largest export commodities are oil and gas, minerals, crude palm oil, electrical appliances and rubber products.

Indonesia has introduced new investment laws, increasing transparency and investor protection, in an attempt to improve its foreign investment climate. During 2001–2006, total foreign investment grew substantially, but has declined in recent times with the global financial crisis. Bureaucratic red tape also continues to hamper an increase in foreign direct investment (FDI). The World Bank's annual report released in 2011 ranked Indonesia in 121st place out of 183 countries in terms of ease of doing business.

The Indonesian government is now seeking to build economic confidence through programs prioritizing a reduction in corruption, respect for the rule of law, reform of the judiciary and taxation reform. FDI is recognized as having a key role in promoting economic growth and creating new employment opportunities. While the Indonesian economy still has many hurdles to negotiate, it has the potential to achieve strong sustained growth over the next five years.

### 3. Construction Industry Overview

Indonesia's construction industry has been experiencing exceptionally high levels of inflation over recent years; however, despite this trend real growth has been high, averaging 7.6% per year between 2003 and 2010. Although these high levels of inflation are estimated to continue over the period of 2010-2015, the construction industry is still anticipated to post high real growth, reflecting the high levels of anticipated activity. This is being driven by investment into transport and energy infrastructure, as well as industrial construction related to the country's growing mining sector. In 2011 the construction industry growth is forecasted to be 7.4%, and between 2011 and 2015, the growth is estimated to average 8.1% per year.

### 4. Construction Outlook & Opportunities

#### 4.1 Selected Construction and Infrastructure Industry Data – Industry Forecast Scenario

	2011f	2012f	2013f	2014f	2015f
Construction industry	837,380	1,040,445	1,292,441	1,605,082	2,001,538

value, IDR billion					
Construction industry value, USD billion	93.0	116.9	146.9	186.6	238.3
Construction industry, % of GDP	11.5	12.7	14.0	15.5	17.1
Construction industry employment, '000	6,649	7,159	7,709	8,301	8,982
Total workforce, '000	158,649	160,896	163,094	165,242	167,341
Infrastructure Industry Value As % of Total Construction	47.6	47.3	47.1	46.8	46.4
Infrastructure Industry Value, USD billion	44.3	55.3	69.2	87.4	110.7
Residential and Nonresidential Building Industry Value As % of Total Construction	52.4	52.7	52.9	53.2	53.6
Residential and Nonresidential Building Industry Value, USD billion	48.8	61.6	77.7	99.2	127.6

#### 4.2 Construction and Infrastructure Forecast

Based on latest data released for the real construction industry value by Statistics Indonesia, 2010 real growth came in at 7%, despite growth in the nominal value of 19%. This indicates that inflation in the construction sector has been around 12% higher than the level in the economy in general (based on the Consumer Price Index (CPI)). The source of this inflation is not entirely clear; however, the rising cost of raw materials such as cement and steel is likely to have driven increased costs.

Cement demand in Indonesia has been growing rapidly and it is expected to continue over the near term, keeping cement prices elevated. Latest data from the Indonesian Cement Association shows that cement consumption rose by 12% in H110 compared to H109. According to a recent study of 11 countries in Asia, Indonesia had the fourth highest cement price in the region; a 50kg bag of cement in East Java costs almost double what it would in China. With cement costs accounting for around 30% of project costs, the impact is notable.

The main reason for the higher prices has been blamed on transport and distribution costs, and the uncertain electricity supply in the country is bound to have an impact. There are also concerns about collusion between cement makers, limiting production to drive prices higher. In January 2010, the Business Competition Supervisory Commission expanded its investigation into the alleged collusion, including eight producers who control 90% of the market.

Despite the rising cost of construction, both the construction sector as a whole and the infrastructure sector specifically, have been growing rapidly. Construction is estimated to grow by 7.4% y-o-y in real terms in 2011, with industry value rising from 661 trillion IDR in 2010 to 837 trillion IDR in 2011. Substantial investment is being poured into both energy and transport infrastructure with power plants, roads and railways being built across the country.

#### 4.3 Competitiveness of Indonesia's Infrastructure

	Rank /139 countries
Quality of Roads	84
Quality of Railroad Infrastructure	56
Quality of Port Infrastructure	96
Quality of Air Transport Infrastructure	69
Quality of Overall Infrastructure	90

Source: World Economic Forum Global Competitiveness Report 2010/11

#### 4.4 Summary of Public-Private Partnerships infrastructure Projects in Indonesia

Sector/Sub-sector	Quantity	Project Cost (IDR million)
Air Transportation	4	14,294.5
Land Transportation	3	2,780.0
Marine Transportation	10	27,232.3
Railways	10	111,862.0
Roads and Bridges	33	259,405.0
Water Resources	2	6,935.0
Water Supply	25	14,077.4
Solid Waste and Sanitation	6	2,122.5
Telecommunication	-	-
Power	6	53,100.0
Oil and Gas	-	-
<b>Total (Assumption 1 USD = 9,400 IDR)</b>	<b>99</b>	<b>491,808.6 (USD 52.3 billion)</b>

Source: BlueBook, PUBLIC-PRIVATE PARTNERSHIPS Infrastructure Projects in Indonesia, BAPPENAS, Usulan 2010

#### 4.4 Issues & Challenges

##### 4.4.1 Politics

Indonesia still faces a number of serious problems such as occasional inter-religious violence, separatist/secessionist issues, the direct election of the provincial and district heads and minor conflict between ethnic groups.

##### 4.4.2 Financial

Actual infrastructure investments are less than half of the annual requirements to achieve targeted growth and poverty reduction due to insufficient of allocated budget. Fiscal space does not allow all of the required infrastructures to be founded by the public sector. The allocated budget for infrastructure is only 1% of GDP; meanwhile the required budget is 5% of GDP. Quality infrastructure services are necessary to sustain growth and maintain/improve the competitiveness. Therefore, huge investments are required during the next five years and beyond.

#### 4.4.3 Legal System

One of the main issues is the excessive degree of regional autonomy. Some local governments seem to have forgotten that they do not have the jurisdiction to create regulations that conflict with legislation and regulations made higher up.

Today, the Indonesian government is working to regain control over the local laws so they will be more conjoined with the national laws; this is to some extent done through anti corruption work the Indonesian government has started.

Land acquisition is also one of the biggest issues holding back investment. Under the current system, speculators attempting to front-run government purchases can drive prices higher, while a clunky arbitration process to determine fair price transactions can result in delays lasting a year or more.

These uncertainties render costs and timeframe projections difficult at best and there have been multiple cases where projects have essentially stalled. In order to for the bill to be a success, several things are required, as follows:

- Specific definitions on terms and situations to prevent ambiguity;
- Enforcement provisions for the bill;
- Cutting the time required for arbitration; and
- Cut soaring costs of land due to speculation.

#### 4.4.4 Industry Risks

The tendering process in Indonesia is fairly competitive, and though some of the larger contractors get the major government projects, there are no serious barriers to entry for new firms. Investors must contend with security concerns and weak governance, particularly in the legal sphere.

Indonesia also suffers from one of Asia's worst investment climates, which has proved to be a major obstacle to attracting greater foreign direct investment (FDI) flows. Corruption and graft remain major obstacles, which also drag down the transparency of tendering process scores.

#### 4.4.5 Country Risks

Indonesia was hit harder than any of its neighbors by the Asian financial crisis of 1997-1998. Though progress has been made – Indonesia’s banking sector currently enjoys low loan-to-deposit ratios and the country’s external debt has been significantly reduced (including graduation from an International Monetary Fund loan program in December 2003) – tackling key issues such as unemployment still remains an area of underperformance. Moreover, lifting private sector investment, both foreign and domestic, remains a pressing task for the incumbent authorities.

Other problems include widespread corruption, excessive bureaucracy, potential security risks, a lack of transparency and a raft of local taxes following fiscal decentralization in 2001. Despite an ongoing anti-corruption drive, Indonesia was still ranked at 110 out of 178 in the Transparency International’s 2010 corruption perception index.

The World Bank estimates that corruption can add up to 20% to the cost of doing business in Indonesia. The biggest concern is that Indonesia appears to be regressing in its fight against corruption with a raft of proposals being made that if approved, would undermine current anti graft laws. According to local reports, some of the proposed amendments include criminalizing the actions of whistle-blowers and providing a loophole so that corruption involving less than 25 million IDR (2,875 USD) is not considered a crime if the money is returned. Several penalties for corruption offenses may also be reduced.

#### 4.4.6 Infrastructure Gridlock

The infrastructure challenge is daunting and spans the transport, water, sanitation, and power sectors, amongst others. With government spending on infrastructure lagging and FDI dulled by the slow pace of reforms, this is where the rubber meets the road if Indonesia is to move to a higher growth plane. Major airports are running at 200% of capacity, turnaround time at major ports may be as long as 10-14 days, road construction has lagged the surge in motor vehicles and power brownouts are not uncommon.

#### 4.4.7 Inconsistencies in Government Policies

After the end of the Suharto regime in 1998, broad autonomy was transferred to regional governments. In theory, decentralization makes sense because of the country’s diverse geography, culture, and resource endowment. In practice, however, overlapping bureaucracies soon complicated investment as local governments took to issuing new local licenses, implementing differing taxes and regulations, and undermining the national government’s efforts to push forward with pro-investment policies.

#### 4.4.8 Natural Disaster



### Volcano Eruption

Indonesia has a very unique and challenging location as it is located on the so-called “Ring of Fire” at the meeting point of several tectonic plates. As a result of this, volcanoes erupting over time mainly build the Indonesian islands. Many of these volcanoes are still active today and are therefore closely monitored by geologists, volcanologists and government.

The fact that these volcanoes are still active has been clearly evidenced through several eruptions in the last couple of years. The latest of these eruptions was at the Merapi volcano near Yogyakarta in January 2011. This led to several fatalities and damaged the infrastructure greatly in the surrounding areas. Other volcanoes that have had eruptions in previous years are Krakatau, between Java and Sumatra, and Sinabung on Sumatra.

### Earthquakes

Another effect of the geological position of Indonesia on the tectonic edge is that earthquakes occur regularly. In 2010, there were three earthquakes over 7.2 on the Richter scale. The highest of these measured 7.8. All of these occurred on Sumatra. In previous years, earthquakes, most of them following the lines of the tectonic plate subduction, have shaken other parts of Indonesia.

### Tsunami

One of the most dangerous side effects an earthquake is the possibility for a tsunami. Tsunamis can occur after earthquakes if a lot of water is thrown towards land by the moving tectonic plates. The devastating power of tsunamis became clear on 26th of December 2004, when a huge tsunami hit many places in South East Asia including Indonesia and Thailand, killing hundreds of thousands of people and wiping out big areas of property.

Also, recently there have been tsunamis after earthquakes that have taken several lives in Indonesia. None of these tsunamis have been as large as the one in 2004. However, the danger of tsunamis is easy to avoid for companies. Being located away from the shore and on higher ground, you will avoid the tsunamis’ devastating power.

### Flood

Flooding is unfortunately a big problem many places in Indonesia. After heavy rainfall, rivers may break their banks and flood huge areas on the flat surrounds. In the big cities there is no good system for coping with the massive amounts of water that gathers in low-lying areas. This is an important factor when locating offices and factories.

#### **4.4.9 Terrorism**

Indonesia has in the last years had a few terrorist attacks. These have been directed towards American and Australian targets. The bombing in Bali in 2002 and at the J.W. Marriott and Ritz-Carlton hotels in 2009 in Jakarta are the most well known.

The fact that these terrorist attacks have been specifically directed towards American and Australian installations gives companies from other nations some safety. However, there have also been some terrorist attacks aiming for Indonesian targets, like the 2000 bombing of Jakarta Stock Exchange.

By choosing non-American or non-Australian hotels and conference centers for your business, you will avoid some of the risks.

#### 4.4.10 Corruption

One of the biggest and most sensitive challenges every business will meet when establishing and doing business in a developing country is corruption. It leads to inefficient use and distribution of resources, market inefficiencies, slows down many business processes and leads to an environment where people and companies are not treated fairly, and it makes it hard to predict the entire cost of projects. It is no secret that this is a big issue also when it comes to Indonesia. Ranked as number 110 of 178 in the world by Transparency International, there is much room for improvement.

#### 4.4.11 Bureaucracy

The Indonesian bureaucracy is often blamed for being inefficient, slow and incompetent. In Indonesian society, there is a general aversion among lower and even mid level employees to make decisions; this is also true for bureaucrats. This means that permits, licenses, applications etc., will be passed on from low to mid to top-level bureaucrats before they are approved and signed, making it a slow winding process.

### 4.5 Trade and Industry Seminar, Conferences & Expositions of 2011

12 - 14 April	Indonesia International Infrastructure Forum and Exhibition 2011
21-24 September	Building & Infrastructure Indonesia: The 16th International Series of Building and Construction, Equipment and Materials Exhibition
21-24 September	Infrastructure Development Indonesia: The International Exhibitions Supporting the Development of Indonesia's Infrastructure

## 5. Establishing Construction Business in Indonesia

### 5.1 Regulations & Procedures

#### 5.1.1 Regulations in Doing Construction Business in Indonesia

No.	Law/Regulation	No.	Year	Regarding
1	Law	18	1999	Construction Services
2	Government Regulation (GR)	28	2000	Construction Services Business and The Role of Community
3	Government Regulation	4	2010	Amendment to GR No.28/2000
4	Government Regulation	29	2000	Construction Services Delivery
5	Government Regulation	59	2010	Amendment to GR No.29/2000
6	Government Regulation	30	2000	Construction Services Development
7	Presidential Regulation (PR)	54	2010	Guidelines for Government Procurement of Goods and Services
8	Minister of Public Works Regulation (MR)	28	2006	Permit for Representative Office of Foreign Company
9	Indonesian Commitment in China – ASEAN Free Trade Agreement (CAFTA)		2007	Limitations on Market Access and National Treatment on Commercial Presence (Mode 3) and Natural Person (Mode 4)

### 5.1.2 Business

#### 5.1.2.1 Business establishment regulation and procedures

##### 5.1.2.1.1 Establishing a company

First step in establishing a P.T. company is to have drawn up a deed of establishment by an Indonesian notary in the Indonesian language, which is then presented to the Ministry of Justice.

This will include the proposed Articles of Association with the following issues have been settled, the P.T. name, purpose of the firm and location.

The approval from the BKPM (Badan Koordinasi Penanaman Modal/Capital Investment Coordinating Board) is needed for the formulation of a national investment policies and plans, promotion, licenses, control and evaluation.

Final approval for all foreign investment projects must however come from the chairman of the BKPM.

#### 5.1.2.1.2 Regulations on Foreign Business Entity

##### Market Access Limitation (Mode 3 of CAFTA)

- Foreign Service Provider (s) shall establish Representative Office (RO) in Indonesia;
- Foreign Service Provider (s) shall be in the form of Joint Operation (JO) or Joint Venture (JV) with Indonesian Construction Company(ies) holding registration certificate as a big company issued by the National Construction Services Development Board (NCSDB);
- There is no limitation of Foreign Capital Share for JO;
- JV Company shall be in the form of Limited Liability Company (LLC) with a maximum foreign capital share of 55 % for constructing company and 49 % for consulting company.

##### National Treatment (Mode 3 of CAFTA)

- License Fee Requirements

##### Business Requirements (Law No.18/1999)

- To conduct construction business in Indonesia, any construction company, including Foreign Construction Company who is willing to form JO, shall be registered at NCSDB and obtain Business License from the government;
- JV Company shall be registered at NCSDB and obtain Business License from the Indonesia Investment Coordinating Board (BKPM).

#### 5.1.2.1.4 Regulations on Foreign Workers

##### Market Access Limitations (Mode 4 of CAFTA)

- Only director(s), manager(s) and technical expert(s)/advisor(s) are allowed subjected to

Indonesian Labor and Immigration Laws and Regulations.

Business Requirements (Law No.18/1999)

- Foreign expert(s) shall hold Competence Certificate and be registered at NCSDB.

**5.1.2.1.5 Limitations in Government Procurement**

In accordance to PR No.54/2010, Foreign Company(ies) is (are) only allowed to participate a tender for a project with the value of :

- 100 Billion IDR (10.87 Million USD) and above for constructing services.
- 10 Billion IDR (1.087 Million USD) and above for consulting services.

**5.1.2.2 Overview of the Steps to Starting a Business in Indonesia**

Basically, it requires 9 procedures and 47 days to start a business in Indonesia.

No.	Procedure	Time to complete (days)	Cost to complete
1	Obtain the standard form of the company deed; arrange for a notary electronically; obtain clearance for the Indonesian company's name at the Ministry of Law and Human Rights	4	200,000 IDR for name clearance and reservation
2	Notarize company documents before a notary public	4	2526816 IDR
3	Pay the State Treasury for the non-tax state revenue (PNBP) fees for legal services at a bank	1	200,000 IDR
4	Apply to the Ministry of Law and Human Rights for approval of the deed of establishment	7	1,000,000 IDR for deeds approval + 580,000 IDR for Publication in the State Gazette (BNRI)
5	Apply for the permanent business trading license (Surat Izin Usaha Perdagangan, SIUP)	5	250,000 IDR

6	*Register with the Ministry of Manpower	14	No charge
7	*Apply for the Workers Social Security Program (Jamsostek Program)	7	No charge
8	Obtain a taxpayer registration number (NPWP) and a VAT collector number (NPPKP)	1	No charge
9	Register with the Company Register (Department of Trade) and obtain a registration certificate (TDP)	15	500,000 IDR

\* Takes place simultaneously with another procedure

### 5.1.2.3 Overview of the Steps to Building a Warehouse in Indonesia

Basically, it requires 14 procedures and 160 days to build a warehouse in Indonesia.

No.	Procedure	Time to complete (days)	Cost to complete
1	Request Pre-approval letter from Zoning Department	1	1,482,000 IDR
2	Receive inspection from Zoning Department	1	No charge
3	Obtain Pre-approval letter from Zoning Department	20	No charge
4	*Request and obtain notarized copy of Land Ownership certificate	1	25,000 IDR
5	Request and obtain the preparation of the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)	8	15,000,000 IDR
6	Request and obtain the approval for the Environmental Management Plan (UKL) and Environmental Monitoring Plan (UPL)	10	No charge
7	Request and obtain building construction permit (IMB)	21	9,104,200 IDR
8	Request and obtain the building completion and compliance minutes	28	62,500 IDR
9	Obtain building usage permit (IPB)	49	No charge
10	Register with land and building tax office	11	No charge
11	Register the warehouse with the regional office of the ministry of	9	100,000 IDR

	industry and trade		
12	*Obtain electricity connection	8	12,500,000 IDR
13	*Obtain water and sewerage connection	8	2,000,000 IDR
14	*Obtain phone connection	4	500,000 IDR

\* Takes place simultaneously with another procedure

#### 5.1.2.4 Business Accounting and Auditing

##### 5.1.2.4.1 Accounting standards and principles

The Indonesian Associations of Accountants is the governing body of the accounting profession in Indonesia. Accounting Standards are issued by the Indonesian Associations of Accountants and describe methods of accounting standards approved by the Association for application of the presentation of financial statements. The International Accounting Standards – IFRS is adopted and modified for the implementation of the Accounting Standards applied in Indonesia. No regulation is in force for implementation of Accounting Standards for the firm with the turnover less than 4,800,000,000 IDR a year.

##### 5.1.2.4.2 Accounting standards and requirements

Auditing standards are issued by the Indonesian Institute of Public Accountant and most of the contents are adopted from the International Standards of Auditing. Under Companies Ordinance of Indonesia, financial statements of all companies, either individual or corporations; are not required to be audited, except for those companies involved in commercial banks, other financial institutions like leasing and insurance, capital market, foreign investor's company, and the company which gets credit line for certain amount from public banks. Most of the large international accounting firms are affiliated with Indonesian accounting firms.

##### 5.1.2.5 Office Expenses

Typical expenses related to the office space (in Indonesian Rupiah):

- Office rental: South Jakarta: 80-110,000 IDR per m<sup>2</sup>/month
- Central Jakarta: 100-120,000 IDR per m<sup>2</sup>/month
- Telephone:  
Costs per minute:

- Local calls: 250 IDR (2 mins.)
- Long distance calls: 200 IDR (1 min)
- Internet: - Business package (3Mbps): 1,695,000 IDR (monthly fee)

#### 5.1.2.6 Company Banking Account

Once you have obtained the company domicile and the taxpayer registration number, your company can get a bank account. If you want to set up a Foreign Investment Company, however, you need to prove that you have paid-up capital, and for that you need to have a bank account. Most banks can give you a temporary bank account for exactly that purpose.

For individuals, however, it is easy to live as an expat in Indonesia without opening a local bank account. Cash can very easily be obtained from a well-developed Automatic Teller Machines (ATM) system throughout the country.

ATMs are conveniently located in shopping centers, malls and office buildings throughout the city and operate with widely accepted international credit and debit cards affiliated with: Alto, Maestro, Cirrus, Plus, Master Card & Visa. USD cash withdrawals are available from Citibank ATMs.

### 5.1.3 Employment

#### 5.1.3.1 Work Permits

All foreigners planning to work in Indonesia must obtain a work permit as an addition to a KITA visa. Work permits are issued by the Department of Manpower approximately concurrently with the VITAS visa. The BKPM will approve a certain number of positions for expatriates as contained in the investment application.

#### 5.1.3.2 Employment regulation and procedures

The Indonesian Manpower Law, which was issued in 2003, encourages worker protection by implementing measures designed to formalize relations between employer and employees. Encompassing labor welfare is the main spirit of the Manpower Law. The following are key points that need attention in relation to employment in Indonesia:

##### Contracts

Indonesian Manpower Law states that employment can be made verbally and in writing. To avoid legal dispute it is best to have an employment contract in writing.



There are two types of employment contract:

- a) Fixed-term contracts;
- b) Permanent employment contract.

A fixed-term contract can only be used for certain types of jobs, namely seasonal jobs or jobs, which will be completed in a certain period of time. Bilingual contracts are permitted. However, if under dispute and interpretation between both languages is different, the Indonesian version will prevail.

#### Staff hiring

Staff hiring can be made by either direct recruitment or outsourced. Direct recruitment is very common where work relations are between an employer and an employee. Outsourced recruitment is where a third-party outsourcing company provides its employees to the employer, and is only allowed for workers engaged in non-core activities such as janitors, security, etc.

#### Employee rights

- a) Working hours

Normal working hours are 7 hours per day or 40 hours per week for 6 working days in a week or 8 hours per day and 40 hours per week for 5 working days in a week.

Working in excess of the normal working hours will be normally considered as overtime and workers are entitled to compensation for it, except for workers in a management role.

Normal break time will be a minimum of 30 minutes per 4 hours of work and 2 days per week.

- b) Welfare obligation

Employers having more than 10 employees or paying a monthly salary of more than 1,000,00 IDR must register with the Jamsostek program.

The Jamsostek program consists of working accident protection, death insurance, old-age savings and healthcare. All of the components are mandatory with exception to healthcare, should the employer provide higher or at least the same benefits as the Jamsostek program.

The program is maintained by a designated state-owned company, PT Jamsostek. Jamsostek contributions are made by both employer and employee at prevailing rates.

c) Wages and remuneration

An employer is obliged to comply with the rate of minimum wage for salary determined by the Regional Government from each province. In Jakarta, for example, the minimum wage for the year 2010 is 1,118,009 IDR (equivalent to 125 USD) per month.

d) Leave and break

Employees are entitled to annual leave for a minimum of 12 days per year. Other leave must be granted for certain occasions such as leave for female workers due to the period of menstruation, maternity and miscarriage, leave due to marriage or death of families.

### Unions

Workers are given the opportunity to form their own Union. A Union can act in representing workers' interests to the employer. Each Union must have their own by-laws and manage their own budget.

### Termination

Indonesian Manpower Law stipulates several articles on the termination of employments.

In principle, termination of employment must be mutually agreed. Therefore, prior to termination, an employer is obliged to discuss with the individual employee or existing Labor Union in the company regarding the termination plan. If such discussion fails to resolve a disagreement, the employer can proceed with the termination by filing a case to the proper Industrial Relation Dispute Resolution Institution.

Upon termination, an employer is obliged to pay severance payment the amount of which would depend on the length of service and type of the employment contract.

### Expatriate employees

Employment of expatriates is temporary in nature and available only for certain positions such as Director or Technical Advisor.

Expatriate employees must obtain a proper work and stay permit in order to become legally employed and reside in Indonesia.

An Indonesian counterpart must be employed for each expatriate being employed to support transfer of knowledge and technology to Indonesian employees. A ratio of 1:3 between expatriates and Indonesian employees is expected. A lower ratio may be accepted in a case of difficulty in hiring Indonesian counterparts with the required qualifications.

#### Manpower report

Companies are obliged to submit a Manpower Report annually. This report consists of working conditions such as the minimum/maximum and average wage, number and education level of both local and foreign employees, etc.

### **5.1.3.3 Issues and Challenges**

#### The Labor Law

Some critics have regarded the Indonesian Labor Law as a serious constraint to doing business in Indonesia. For instance, the law requires companies to make severance payments for a minimum of 108 weeks to workers who have been laid off.

Indonesian Labor Laws also make it difficult for employers to fire workers and this means they will think twice before hiring as well. Currently, employers looking to cut or replace workers must negotiate with the employee's trade union and if agreements cannot be reached, cases must be brought before the Institution for the Settlement of Industrial Relation Disputes (ISIRD). The procedures involved and length of time for settlements to be reached could be a significant deterrent to hiring in the first place.

For more information about the Indonesian Labor Law:

<http://www.ilo.org/public/english/dialogue/ifpdial/info/termination/countries/indonesia.htm>

#### Local Customs

Patience is a virtue when trying to introduce new management policies etc. that are very different from local ones. Sudden changes might cause insecurity among the employees and be misunderstood as a form of disrespect of Indonesian customs. Gradual change is therefore more effective.

## 5.2 Taxation

### 5.2.1 Introduction

Taxes are imposed at the national and regional levels with the basic Categories of National Taxes, Regional Taxes and Customs & Excise Taxes.

Tax treaty has been made between Indonesian Government and the following countries:

- |               |               |               |               |
|---------------|---------------|---------------|---------------|
| - Australia   | - India       | - Norway      | - Taiwan      |
| - Austria     | - Italy       | - Pakistan    | - Thailand    |
| - Belgium     | - Japan       | - Philippines | - Tunisia     |
| - Canada      | - Korea-South | - Poland      | - U.K.        |
| - Denmark     | - Luxemburg   | - Singapore   | - U.S.A.      |
| - Finland     | - Malaysia    | - Sri Lanka   | - France      |
| - Netherlands | - Sweden      | - Germany     | - New Zealand |
| - Switzerland |               |               |               |

### 5.2.2 Tax Payers

#### 5.2.2.1 Resident Tax Payer

Include Companies, Partnership, Cooperatives and Individual residing in Indonesia and established according to Indonesian Law, also includes any Permanent Establishment of an organization that is not set up or domiciled in Indonesia.

Individual is considered resident tax payer when present in Indonesia for more than 183 days in a year or when present with the intention to reside. A P.E. is broadly defined and includes any establishment, which is regularly used to carry on business in Indonesia by an organization not set up in Indonesia. An organization is required to register as a Tax Payer (Wajib Pajak) for paying its own income, withholding tax on payment to its employees and third party.

#### 5.2.2.2 Non-Resident Tax Payer

These are not residents in Indonesia, but receive income from Indonesia. Withholding tax is withheld by Domestic / Resident Tax Payer for the Income from Indonesia.

### 5.2.3 General Tax

#### 5.2.3.1 National Taxes

These taxes include Income Tax, Value Added Tax (VAT), Sales Tax on Luxury Goods and Stamp Tax.

### 5.2.3.2 Regional Taxes

These taxes include:

- Development tax 5% - 10% for hotel bills and restaurants
- Motor Vehicle Tax
- Advertisement Tax
- Property on Land & Buildings

### 5.2.3.3 Custom and Excise Taxes

Customs and excise tax include Export Tax, Import duties, Tobacco, Alcohol & Gasoline taxes.

## 5.2.4 Income Tax

Income tax is self-assessment and become final within 5 years of filling a complete return. Income includes worldwide income and capital gains.

Taxable income is determined after allowable deductions (recognized by tax office) are subtracted from gross income. Individual has been liable to tax at the progressive rates.

<b>Taxable Annual Net Income</b>	<b>Tax Rate</b>
The first 50,000,000 IDR	5%
50,000,000 IDR to 250,000,000 IDR	15%
250,000,000 IDR to 500,000,000 IDR	25%
Over 500,000,000 IDR	30%

## 5.2.5 Corporate Tax

A flat rate of 25% applies since 2010. Public companies that satisfy a minimum listing requirements of 40% and other conditions are entitled to a tax discount of 5% off the standard rate, giving an effective tax rate of 20%.

Small enterprises, i.e. corporate taxpayers with an annual turnover of not more than 50 billion IDR, are entitled to a tax discount of 50% off the standard rate, which is imposed proportionally on taxable income of the part of gross turnover up to 4.8 billion IDR.

## 5.2.6 Withholding Taxes

Tax payers are appointed to be collectors of withholding tax, includes employers for their employees (the rate is as mentioned in point C), government office, director general of customs, and some individuals like accountants, consultants 15% of withholding tax will be withhold for Dividend, Interest (except for banks), Royalty, Prize, Rent, Technical – Management – Constructions –

Consultancy – Accounting Services. 15% withholding tax is charged for resident tax payers.

For Non Resident tax payer is 20% withholding tax and except for the countries, which made the Treaty Agreement, is charged within 10%-15%. In order to take advantage of the reduced tax rates for non-resident tax payers; the recipients must file a request with the tax office where the payee is registered and accompanied by:

- a) Certification from the competent authority stating the tax residency of the company.
- b) A power of attorney if the request is filed by another party.
- c) Copy of agreement and other supporting documents.

#### **5.2.7 Value-Added Tax (VAT)**

Effective 1985, VAT is imposed on goods and services at a basic rate of 10%. VAT is collected through manufacturer, wholesaler, distributor, until retail (for certain turnover in a year) level. VAT works on an input-output mechanism. Input tax can be credited against output tax in the same months. VAT returns for certain export products.

#### **5.2.8 Sales Tax On Luxury Goods**

Luxury Sales tax is levied at minimum 10% depending on the item. The government is permitted to charge a maximum rate of 200%.

#### **5.2.9 Stamp Tax**

The stamp tax is 2 (two) rate of stamp structure, imposing a basic tax of either 3,000 IDR or 6,000 IDR on dutiable documents.

Documents bearing a sum of money above 250,000 IDR up to 1,000,000 IDR are subjected to a 3,000 IDR stamp duty. If the amount exceeds 1,000,000 IDR then it is subjected to a 6,000 IDR stamp duty.

For cheques, the stamp duty is 3,000 IDR regardless of amount. Most of other dutiable documents (like contracts/agreements, notes, notaries deeds, etc.) are subjected to 6,000 IDR stamp duty.

#### **5.2.10 Property Tax On Land and Buildings**

Tax on land and building is payable annually. The effective rates are nominal, generally at 0.1% for the building and land worth less than 1 billion IDR for both individuals and corporates and 0.2% for individual building and lands worth more than this amount.

Special rates are applied to forestry, plantations, mining businesses. Exemptions are provided for building and land worth less than 60 million IDR; social affairs, health, religious worship, state education and culture, graveyards, protected forest, diplomatic offices and Specified International Organizations.

## **6. Banking and Finance**

### **6.1 Introduction**

Indonesian banking institutions are classified into commercial and rural banks. Commercial banks differ from rural banks in the sense that the latter are not involved directly in payment systems and have a restricted operational area.

To date, there are 122 commercial banks in Indonesia (4 State Banks and 118 Private Nation Banks). Two of the state-owned banks have Islamic banking unit. And among the private banks, 26 is Government Regional Banks and 14 of them have Islamic banking unit, 83 is Private Nation Banks and 10 of them have Islamic banking unit, and 9 Islamic Commercial Banks.

### **6.2 Key Picks**

The Bank of America Merrill Lynch in its Industry Overview dated on 26 May 2011 reported the following key picks in order of preference:

- i. Bank Mandiri
- ii. Bank Rakyat Indonesia
- iii. Bank Danamon

The key picks were based on stock valuations, earnings growth, loan growth, loan-to-deposit ratio, gross NPL ratio and loan loss coverage of the banks in Indonesia.

In another study, the HSBC Global Research also regarded Bank Mandiri as its top Indonesian bank picks.

### **6.3 Loan Growth**

Loan growth for the sector is currently estimated at 19.8%, slightly slower than the 22.8% recorded in 2010 but with the potential for positive surprises should infrastructure projects take root.

### **6.4 Interest Rates**

It is estimated that the Bank Indonesia rate (BI rate) could rise by another 75bp for this year, bringing the BI rate to 7.50%.

### **6.5 Non-Performing Loan (NPL)**

As at March 2011, the banking sector NPL ratio stood at 2.8%.

## 6.6 Foreign Exchange & Remittance Control

Foreign exchange controls do not exist currently in Indonesia since 1967. A free market for all major currencies is maintained and there is no restriction in respect of remittance of funds either into or out of Indonesia.

However, transfers of funds exceeding 10,000 USD (or its equivalent) from and within Indonesia should be reported to the Central Bank.

## 7. Cultural Aspects of Doing Business In Indonesia

### 7.1 Do's and Don'ts

#### Do's

- Be patient when dealing with bureaucracies.
- Show respect to the elder.
- Be calm, and avoid any show of emotion.
- Give the encounter his silence.

#### Don'ts

- Openly disagree.
- Create a situation where a contact might lose face.
- Assume that yes means yes.

### 7.2 Relationship

Initial meetings can often be dominated by small talk, which has little, if anything to do with core business matter. These introductory sessions can be an essential part of the relationship-building process and should not be rushed or viewed as inconsequential. It is during these sessions that the whole basis for future co-operation is made. It is therefore wise to accept invitations to weddings and birthday parties, as it is considered rude to reject them and may disrupt relationships.

### 7.3 Dress Code

Even though the dress code is more or less casual, one should always keep in mind that Indonesia is a Muslim majority country and that revealing clothes may be seen as offensive.

### 7.4 Gifts

Gift giving in Indonesia has been an issue as the country has a reputation for corruption reaching from the highest levels of government, down to petty bureaucrats and department managers. Although, giving of small gifts to help develop and maintain



business relationships are an Indonesian custom. The key to avoid corruption is to give small, corporate-type gifts. The gifts should always be wrapped, and do not expect that it will be opened in front of you.

Be also aware of the Muslim sensitivities towards alcohol, pork and being touched by the left hand. Gifts are not usually exchanged during the first meeting, but can be offered at subsequent events. If offered a gift, accept reluctantly and with humility.

## 7.5 Business Cards

Business cards are very important and should be handed out before a meeting. Have as much information as possible on your business card. This way, your business associate can see which senior personnel are present. When receiving cards, take their card with your right hand and after studying it carefully, place it in your wallet or on the desk in front of you.

## 8. Travelling to Indonesia

### 8.1 Visa

Malaysia is one of the 11 countries and territories eligible for a "Visa Free" facility. Those holding valid passports will be granted a non-extendable 30-day Visa-Free Short Visit Permit upon arrival at an Indonesian international gateway without charge.

Malaysian Identification Letter holder requires a visa to enter Indonesia. Other than social/business purposes, visa is required especially for officers posted in Embassy/General Consulate/Consulate-consulate of Malaysia and the application could be made at the Embassy of Indonesia in Kuala Lumpur.

Charges for the visa:

1. For Social/Cultural Visit - RM75.00
2. For Limited Stay - RM120.00 (1 year)
3. For Limited Stay - RM150.00 (1 year/Multiple Entry)

Indonesia issues a range of different classes of visa depending on the purpose of a foreigner's visit. The following are types of visa recognized in Indonesia:

1. Transit Visa
2. Transit Visa on Arrival
3. Visit Visa
4. Visit Visa on Arrival
5. Collective Visit Visa
6. Multiple Journey Business Visa
7. Limited Stay Visa

### 8.2 Flights

Recently, the airlines in Indonesia have been offering lower prices and better security. Also, the number of flight departures have been improved and increased in recent years. If booked in advance, round trips can cost you less than 100 USD.

### International Airports

- Bali - Ngurah Rai
- Borneo - Balikpapan
- Jakarta - Soekarno Hatta
- Medan - Polonia

### Domestic Airports

There are numerous domestic airports all over Indonesia providing a vast network of travel options. In addition to the above, the more popular destinations include the following:

- Batam
- Manado (Sulawesi)
- Surabaya
- Ujung Padang (Sulawesi)
- Yogyakarta

## **8.3 Ground Transport**

### **8.3.1 Taxi**

For people staying a short period of time, taxi is a good way to get around town. Blue Bird is one of the most recognized taxi companies and they will know where you are going most of the time and always use a meter.

Another company in the Blue Bird group is Silver Bird. This is a more expensive alternative to Blue Bird, but it's also more comfortable and the drivers normally have better English skills and a better knowledge of the road system. But at a start rate (flag fall) of 2½ times that of Blue Bird, it's a relatively more expensive option.

In Jakarta the start fee (flag fall) is around 5,000 to 6,000 IDR (0,5 US dollar) for Blue Bird taxis so this is an inexpensive way of travel. Visitors are cautioned about many other taxi companies, so it is a safe option to use Blue Bird / Silver Bird. Overall, taxi fares are very cheap in Indonesia.

Watch out for traffic jams where travelling a short distance can take hours. This typically occurs in the morning and after work hours. The traffic jam is most severe if it is raining since all the motorbikes take shelter under the bridges, creating a narrow passage for cars. The traffic jams are sadly enough not getting better.

By 2014 it is forecasted that Jakarta will be clogged. By then there will be so many cars and motorbikes on the roads that if you line them up bumper to bumper there will be no road space left and no one can move.

### 8.3.2 Bus

In Jakarta, bus lines like Trans Jakarta run from south to north and are used by many locals. The buses have a separate lane and you will rarely see cars trying to use it, as penalties are high for doing so. In this manner, the bus lanes are well functioning. The buses however are old and often crowded. But there are some newer buses and the bus program in Jakarta is getting better.

However, they only go in straight lines from south to north and north to south. There are no lines crossing the city in the east-west/ west-east directions. Therefore it is probably best to have your own car with a driver if you are planning to move often through the city.

### 8.3.3 Hire A Private Car

Private cars with a driver are not that expensive. Companies normally provide this for their expatriate employees. Drivers are provided through local companies and can be hired either with a car or you can provide your own car. It is highly recommended to stay away from driving yourself. The traffic is chaotic and traffic rules are normally overlooked.

Another reason is that local people may be extremely angry if they see that a foreigner has caused or been involved in an accident. There are stories about people being chased and beaten to death because they have been involved in an accident. This will not be a problem if you have an Indonesian driver. A driver without a car will have a wage of around 100 USD to 150 USD per month, not including overtime.

### 8.3.4 Train

Trains will be cheaper but also takes longer time. They can be a good experience if you want to see more of the countryside. There are several different classes on trains. The higher classes can be booked in advance through travel agencies or at the train station. This secures you a seat and the comfort level will be acceptable. There will also be air conditioning in the highest classes. The lower classes may be extremely crowded and it is not uncommon that people sit on top of the train roofs.

You might want to check with the locals first on how the situation is on the train.

## 8.4 Hotels / Finding a place to live

There are lots of 3, 4 and 5 star hotels in Indonesia. Be sure to look for hotel information from the Internet to get the best rates and make reservations. Also, it is a good practice to search for Indonesia hotel review websites and forums to get a general idea of what to expect.

By Indonesian law, foreigners are not allowed to own real estate. Due to this most foreigners rent their home while staying in Indonesia. In the greater part of the country, especially in rural areas, apartments are rare and houses are the best alternative. However, in Jakarta the apartment market is growing and most apartments are built after 1998 and have a good standard.

In the city center of Jakarta, single-room studio apartments are a popular way of living. The standard and what is included in the rent varies, but most places have cleaning and laundry service. In these types of apartments you will normally find a refrigerator, air-conditioner, broadband Internet and a TV. The rooms are clean and water and electricity is well functioning. Electricity is distributed in 220V and uses the European standard outlet. This is a good way to stay for single people. It is an affordable alternative and you can find good apartments close to the financial center of Jakarta. The prices vary by the standard but it is around 300 US dollars a month. A fence controlled by a security guard ensures security of the residence and its residents.

If you are going to live in Jakarta with your family, an alternative to living in the city center is living in a house on the outer edge of the city or the south part of the city, in an area called Selatan. Here houses are more spacious and good for families. Many will have a garden with a swimming pool.

The easiest and safest way to find a place to live in Jakarta is through an agent. By using an agent you have a better chance of getting a good place when you do not have the time or possibility to go around inspecting different alternatives yourself. A good place to start looking at houses is the website <http://www.rumah123.com>. An agent will possess knowledge about the housing market and is more likely to find a place that lives up to your expectations.

The lease is normally for a minimum 1 or 2 years and the rent is paid in advance for the whole or, less commonly, part of the leasing time. In either case, tenants should be aware that at least one year's rental is required to be paid in advance. In addition there is generally a rental bond payable upon both parties signing the lease. The bond is equivalent to one month's rental. Shorter lease periods will be a possibility in some places but the rent will normally be higher than for the 1 or 2 years' leasing contracts. Other costs like Internet and electricity, if not included in the rent, are paid one month in advance.

## 8.5 Food

Indonesian cuisine varies by region and is based on Chinese, European, Middle Eastern and Indian precedents. Rice is the main staple food and is served with side dishes of meat and vegetables. Spices, notably chili, coconut milk, fish and chicken are fundamental ingredients.

Be very careful when eating outside. Make sure that the food is fresh and properly fried, and take the food with you so you don't end up eating from poorly washed plates. Hygiene of street vendors is very dubious and newcomers to Indonesia are advised not to eat food from these sources.

Prices on foods vary significantly. Food from the trolleys is very cheap; the same goes for the food in food courts in low and middle class malls. If you go to an upscale mall or restaurant a main dish will cost between 50,000 and 100,000 IDR.

In western food chains the price will normally be even higher and a main course will cost up to 150,000 IDR. In upper class restaurants you can expect to pay at least double that amount.

## **8.6 Shopping & Free time activities**

If you need something for your home the high and middle class shopping malls, like Plaza Indonesia, Grand Indonesia and Plaza Mebel are good places to go. Here you will find almost everything you need gathered in one place. In these malls the price is not as cheap as in local stores but you will be more assured about the quality. Bargaining on prices is common in Indonesia. Sometimes the sellers will not bargain with you if they have a price tag on the product. However a price tag is no guarantee that you cannot bargain on the price because in most cases you can. In high class malls the prices will be fixed. Be aware that prices may vary a lot if the seller sees that you are new in town.

Most of the big cities have a great variety of free time activities. Besides shopping, the big malls often have facilities like movie theatres, fitness centers, bowling alleys and more. Travelling is cheap so there are great opportunities too see places all over Indonesia like volcanoes outside Jakarta, museums, rainforests, wildlife and much more. For children there is less to do even though most private schools have after class activities like football, swimming and badminton, which is a very popular sport in Indonesia. One big problem for many families with children in different age groups is that you have to drive everywhere and getting children to different places can be a struggle for instance in the Jakarta traffic.

## **8.7 Security**

There is also a growing awareness of security at most hotels and other western places. All cars are checked and pedestrians must go through a metal detector where their bags are also checked before they are allowed entry. The government has also worked actively to prevent new terrorist attacks.

In addition to the security precautions at the office, many companies also have a policy that all expatriates working in Indonesia must have guards at their home.

## **8.8 Health**

Healthcare is a major challenge, but the general health and life expectancy have improved for most Indonesians the past couple of years due to improvements in nutrition and availability of clean water. Life expectancy is 73 for women and 68 for men.

Indonesia has successfully developed a system of community health centers in towns and villages allowing access to primary healthcare. This gives a more conducive investment climate in the healthcare sector, serious improvements could be made, and the two million people that travel to Singapore and other neighboring countries for medical treatment every year could instead support the local economy.

### 8.8.1 Vaccinations

The most common vaccinations to take before going to Indonesia are Hepatitis A, Polio, Typhoid, Tetanus and Diphtheria. Malaria is also present in Indonesia though there is almost no malaria in the big cities due to the high level of pollution.

### 8.8.2 Mosquitoes

Be aware of the Dengue-carrying Aedes mosquito that is present in the cities. You will have to protect yourself from being stung by mosquitoes by using mosquito repellent cream or spray. The amount of mosquitoes you will encounter largely depends on the areas you are living in and the weather.

## 8.9 Public holidays

Holiday	2011	2012
New Year's Day	1 Jan	1 Jan
Chinese New Year	3 Feb	23 Jan
Maulidur Rasul	15 Feb	4 Feb
Hindu New Year	5 Mar	14 Apr
Good Friday	22 Apr	6 Apr
Wesak Day	9 May	28 Apr
Ascension of Christ	2 Jun	17 May
Isra' Mi'raj	28 Jun	17 Jun
Indonesian Independence Day	17 Aug	17 Aug
Aidilfitri	31 Aug	19 Aug
Aidiladha	6 Nov	26 Oct
Awal Muharram	26 Nov	15 Nov
Christmas Day	25 Dec	25 Dec

## 8.10 Business hours

Government office hours are usually 8 a.m. – 5 p.m. from Monday to Friday (Saturday off). Private office hours are usually the same as the government's except for some of them are still working on Saturday.

## Banking hours

Monday to Friday 8 a.m. – 3 p.m. Some larger banks are open on Saturday from 8 a.m. – 12 p.m.

### 8.11 Business attire

For doing business, the dress code is similar to elsewhere in the world. For work you are expected to wear a shirt and dark pants/skirt. Many workers also use grey or khaki pants instead of black pants. This varies from place to place and for different positions in the company. However, if you are in a manager position you are expected to wear a full suit. For networking events, the invitation will tell you to dress casually. Most men wear black pants and a shirt and women wear a dress or skirt to or slightly above the knee with a shirt or blouse. The place of the event will often give you a clue whether it is expected to dress in a more formal way even if the invitations says dress casual. If the event is hosted in an upscale hotel you can expect it to be more formal than an event hosted at a local restaurant. Some invitations specify lounge suit or batik and occasionally a further option of national dress is offered.

### 8.12 Tipping

A Government Tax of 11% is added to bills and many restaurants and larger hotels also add a 10% service charge. Additional tipping is optional and 5-10% of the bill is acceptable. Tip porters at your hotel or the airport around 2,000 IDR per bag.

### 8.13 Roads

The road network is best in Indonesia's most developed islands such as Java, Sumatra and Bali, which are also the main population centers. The country has a road network of 437,759 km in length, of which 258,744 km is paved. Indonesia has experienced very rapid growth of the total number of road vehicles in circulation. Despite being given a high priority in government spending programs, road construction in Indonesia as a whole has progressed at a slower pace and has largely failed to keep up with a rapidly rising vehicle population.

### 8.14 Telecommunication

Domestically, Indonesia has good coverage for media across most major islands. The telecommunication companies are providing a wide range of services such as Local and International Call, Mobile Cellular Services, Internet Access, Multimedia, etc. Foreign GSM mobile phones are compatible with the Indonesian telecommunications network. International phone cards are also usable at public phone kiosk and the Internet Connections are widely available in the cities.

The international dialing code for Indonesia is 62

When making international telephone calls from Indonesia, first dial 001 + country code + area code + telephone number.

### 8.15 Water

Overall there is little progress in the water and sanitation sector. Even though Indonesia is blessed with rainfall in most localities, less than 1 percent is harnessed for use. Of the 1 percent, 89 percent of water supply is directed towards agriculture and the balance to domestic, municipal or industrial use.

#### 8.16.1 Risk of Polluted Water

Another problem with local wells is the higher risk of polluted water. Tap water is not safe to drink and ice cubes should be avoided. Buy and drink bottled water instead.

### 8.16 Electricity

The Indonesian power supply sector has been plagued by logistical problems reflecting weak infrastructure. The state-owned company PLN, which has monopoly in the transmission and distribution of electricity, dominates the electricity sector. Approximately 35 percent or 82 million people have never been served by PLN and have little or no access to electricity.

220V AC 50 cycles is most common, however smaller hotels and rural areas tend to use 110V. It's best to double check before plugging anything in. A torch is a useful item to have as power cuts do occur.

Plugs are two round pins.

### 8.17 Schools

If you are bringing your family and children with you to Indonesia you should not be worried about your children's education. There are many international schools in Indonesia offering all grade levels. You can find good international schools in cities like Batam, Denpasar, Bandung, Surabaya, Semarang, Medan, and many in Jakarta. For example you can find the International Baccalaureate program for elementary schools offered in Batam and Medan and the full IB program in Bali and Surabaya. The internationally recognized education program Cambridge IGCSE (International General Certificate of Secondary Education) is offered in Batam and Denpasar (here also Cambridge curriculum at primary level (CIPP)).

In Jakarta you can find any type of school. Mentioning a few, you can choose between Australian, IGCSE, International Baccalaureate, American, British, New Zealand, and Montessori school curriculums. A more complete (however not a fully comprehensive) list of international schools found in Jakarta and the rest of Indonesia can be found at this website: <http://www.expatriate.or.id/orgs/schools.html#outside>.



Most of the international schools are located on Java as it is the most densely populated island in Indonesia. The choice of educational program is much more limited on for example Sumatra and Kalimantan. The prices vary both between the schools and between the different grade levels. To give an example of prices the cost of a place at Kindergarten to Grade 5 at the Jakarta International School is 17,800 US dollars plus an annual capital cost of 4,000 US dollars per year. For high school the cost is 20,500 US dollars plus the capital cost of 4,000 US dollars.

### 8.18 Malaysian Embassy

Address: Jl. H.R. Rasuna Said  
Kav.X/6, No. 1-3  
Kuningan  
12950  
Jakarta Selatan

Work days: Monday - Friday: 8.00 a.m. - 4.00 p.m.  
Public Holidays: Saturday & Sunday

Telephone: (6221)5224947  
Fax: (6221)5224974  
Email: maljakarta@kln.gov.my  
Website: [http://www.kln.gov.my/web/idn\\_jakarta/home](http://www.kln.gov.my/web/idn_jakarta/home)

### 8.19 Time Zone

Indonesia has three time zones as follows:

Waktu Indonesia Barat (WIB) – Western Indonesia Time, to GMT plus seven hours, applicable to all provinces in Sumatra and Java and the Provinces of West and Central Kalimantan.

Waktu Indonesia Tengah (WITA) – Central Indonesia Time, to GMT plus eight hours, applicable to the provinces of East and South Kalimantan, all provinces in Sulawesi, Bali West and East Nusa Tenggara.

Waktu Indonesia Timur (WIT) – Eastern Indonesia Time, to GMT plus nine hours, applicable to the provinces of Maluku and Papua.

### 8.20 Weather

Situated astride the equator, Indonesia experiences a tropical climate.

- Wet Season: November - April
- Dry Season: May - October

Temperatures are hotter along the coast and more moderate at higher elevations. Humidity remains high with a yearly average of 70-90%.

Rainfall can occur at any time of the year but is higher in the mountainous areas where there is very little distinction between the wet and dry seasons.

Central Indonesia is the driest area.

Due to its southerly position, Indonesia is not prone to cyclones or typhoons but thunderstorms are quite common.

## **8.21 Currency**

Rupiah (Rp) or Indonesian Rupiah (IDR)

1 Rupiah = 100 sen

Notes issued: 50,000, 20,000, 10,000, 5,000, 1,000, 500 and 100

Coins issued: 1,000, 500, 100, and 50

Some establishments may not accept currency notes that have been written on, looks scruffy or is generally older in appearance.

### **8.21.1 Credit Card Fraud**

Expatriates are advised to be extremely cautious using credit cards in Indonesia due to the danger of credit card fraud. Crimes related to credit card misuse are prevalent and include the use of stolen or counterfeit credit cards for Internet transactions. According to the Indonesian Credit Card Association (AKKI), banks often had additional requirements for foreign nationals who were seeking credit.

It is preferable to use cash for purchases and only take local currency from ATMs using your banking network. Do not use VISA or MasterCard debit cards tied to your current account when making purchases, since debit cards allow thieves to wipe out the total amount from the current account.

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