Policies and Strategies of SMEs Development

Purpose: Information
Submitted by: Indonesia
Policies & Strategies of SMEs Development

Presented by: Indonesia

A. BACKGROUND

- Definition of SMEs according to law 9/1995 and Presidential Instruction No.10/1999
  1. Small enterprises can be defined as enterprises which:
     a. Having asset less than Rp 200 millions or
     b. Having annual total sales not more than Rp 1 billions
     c. Owned by Indonesian citizenship
     d. Being independent and not affiliated with large enterprises.
     e. Being individual business with or without legal license including cooperatives.
  2. Medium Enterprises can be defined as business entity with total asset bigger than that of small enterprises, but less than Rp 10 billions.
A. BACKGROUND

(Continued)

- Overview of SMEs Development
  - Total number of SMEs (2006) were around 48.9 millions (99.98%) with more than 53.28% contribution to GDP and 96.8% to employment
  - Majority of them are engage in primary sectors (60% in agriculture) and cottage industries
  - The average growth of SMEs within last five years is 1 %

Contribution of SMEs to Employment in 2004 - 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>MSE</th>
<th>ME</th>
<th>BE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>91.41%</td>
<td>4.82%</td>
<td>3.77%</td>
</tr>
<tr>
<td>2005</td>
<td>91.38%</td>
<td>4.90%</td>
<td>3.72%</td>
</tr>
<tr>
<td>2006</td>
<td>91.14%</td>
<td>5.05%</td>
<td>3.81%</td>
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Contribution Of SMEs on GDP In 2004-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>MSE</th>
<th>ME</th>
<th>BE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>16.16</td>
<td>44.62</td>
<td>39.22</td>
</tr>
<tr>
<td>2005</td>
<td>15.72</td>
<td>37.82</td>
<td>46.46</td>
</tr>
<tr>
<td>2006</td>
<td>15.61</td>
<td>37.67</td>
<td>46.72</td>
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</tbody>
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Export of Non Oil and Gas 2004 - 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>MSE</th>
<th>ME</th>
<th>BE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>79.71</td>
<td>15.11</td>
<td>5.18</td>
</tr>
<tr>
<td>2005</td>
<td>79.73</td>
<td>15.12</td>
<td>5.15</td>
</tr>
<tr>
<td>2006</td>
<td>79.88</td>
<td>15.13</td>
<td>4.99</td>
</tr>
</tbody>
</table>
B. Problems & Challenges

I. Problems of SMEs
   1. Lack of capability to access into productive resources
   2. Low level of quality on human resources
   3. Lack of numbers for business services providers institutions, and
   4. High administrative and transaction cost.
   5. Majority of SMEs are micro enterprises and engage in traditional sector with low productivity

B. Problems & Challenges
   (Continued)

II. Challenges of SMEs
   1. Structural Economic Gap, hollow in the middle
   2. Trend of globalization economy and liberalization on trade and investment.
   3. Era of autonomy and regionalism
   4. Strong competition.
C. Basic Policies & Strategies

- Developing a conducive-business environment
- Improving access of SMEs on productive resources
- Developing entrepreneurship and strengthening SME competitiveness
- Empowering Micro Enterprises.

D. Action Plans in Promoting SMEs

I. Action Plans for creating a conducive-business environment
II. Action Plans for market access
III. Action Plans for financial access
IV. Action Plans for information access
V. Action Plans for technology & technology sharing
VI. Action Plans for HRD
I. Action Plans for creating a Conducive business environment

1. Simplifying regulation for business-licenses
2. Promoting one stop service of licensing for SMEs
3. Providing regulation on promoting of franchising system for SMEs
4. Creating sound and sustainable macro, fiscal and monetary policy environment.
5. Empowering local government in promoting SMEs
6. Promoting stakeholders participation in promoting SMEs

II. Action Plans for market access

1. Establishing market information system—”Trading Board”, particularly for the list of commodity and market of SMEs
2. Mapping potential market: domestic and international market
3. Making directory, brochures and catalog
4. Conducting trade mission, business forum and exhibition: domestic and international market
5. Developing trading house
6. Promoting awareness to fulfill QCD (Quality, Cost and Delivery) requirement
III. Action Plans for financial access

1. Encouraging commercial bank to provide loans to SMEs
2. Providing budgetary support for strengthening Micro Financial Institutions
3. Promoting establishment of local credit-guarantee institutions
4. Supporting the service of Venture Capital
5. Promoting Ware-Housing Credit Guarantee System for SMEs
6. Debt and Corporate Restructuring for SMEs affected by the disasters
7. Improving skill to make business plan and project proposal

IV. Action Plans for information access

1. Facilitating communication network with business center and trade association at local and international market.
2. Socializing and introducing E-commerce for SMEs
3. Promoting and developing business information center for SMEs
4. Developing SME web-site
V. Action Plans for technology & technology sharing

1. Coordinating with research institute of technology to identify proper technology for SMEs
2. Providing center for quality assurance of SMEs’ products according to standard: domestic and international level
3. Developing design-center to improve design and quality according to the market demand.
4. Linking and synergising between SMEs and University particularly Institute of Research and Technology development.
5. Facilitating in developing sub-contracting system

VI. Action Plans for HRD

1. Developing and strengthening training institutions
2. Conducting training, workshop and seminar
3. Promoting apprenticeship program
4. Facilitating partnership program
5. Facilitating incubator program
6. Facilitating franchising program
7. Facilitating joint venture program
8. Promoting Business Development Services
E. CLOSING REMARKS

- SMEs are important and strategic for economic and social-political development
- Four basic policies in developing SMEs:
  - Developing conducive-business environment
  - Improving access to productive sources
  - Developing entrepreneurship and competitive SMEs
  - Empowering Micro Enterprises
- Six Action Plans for SME development: conducive-business environment, access to market, access to finance, access to information, technology and technology sharing, and HRD