POLICY ON THE DEVELOPMENT OF SMALL, MEDIUM AND MICRO ENTERPRISES AND COOPERATIVES IN INDONESIA

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Presented in a Workshop on “Productivity and Work Condition in SMEs: Workshop for Policy Makers”
15 June 2017
1. DEVELOPMENT SMEs AND COOPERATIVES
2. FRAMEWORK ON DEVELOPMENT OF SMEs AND COOPERATIVES
3. STRATEGIC PROGRAMME AND ACTIVITIES
DEVELOPMENT OF SMEs AND COOPERATIVES
DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (1)

NON-AGRICULTURAL SECTOR

Proportion of Micro and Small Enterprises vs. Medium and Large Enterprises

Source: Economic Census 2016, Edited
DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (2)

NON-AGRICULTURAL SECTOR

Distribution of Micro and Small Enterprises vs. Medium and Large Enterprises

Source: Economic Census 2016, Edited
a. Nationally, 98.33% business unit is dominated by micro and small enterprises (SMEs) and they absorb 76.28 percent of the national manpower.

b. Their main businesses are 1) wholesale and retail trading, and motor vehicle repair and maintenance, 2) accommodation and food and beverage, and 3) manufacture industry.

c. Three major islands of their distribution are in Java, Sumatra and Sulawesi.
DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (4)

SMEs' Business Unit

<table>
<thead>
<tr>
<th>Year</th>
<th>Mikro</th>
<th>Kecil</th>
<th>Menengah</th>
<th>Besar</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>98.82%</td>
<td>1.09%</td>
<td>0.08%</td>
<td>0.01%</td>
</tr>
<tr>
<td>2012</td>
<td>98.79%</td>
<td>1.11%</td>
<td>0.09%</td>
<td>0.01%</td>
</tr>
<tr>
<td>2013</td>
<td>98.77%</td>
<td>1.13%</td>
<td>0.09%</td>
<td>0.01%</td>
</tr>
<tr>
<td>2014</td>
<td>98.74%</td>
<td>1.15%</td>
<td>0.10%</td>
<td>0.01%</td>
</tr>
<tr>
<td>2015</td>
<td>98.72%</td>
<td>1.17%</td>
<td>0.11%</td>
<td>0.01%</td>
</tr>
</tbody>
</table>

Contribution to GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Mikro</th>
<th>Kecil</th>
<th>Menengah</th>
<th>Besar</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>32.02%</td>
<td>14.59%</td>
<td>2.72%</td>
<td>32.02%</td>
</tr>
<tr>
<td>2012</td>
<td>31.32%</td>
<td>14.51%</td>
<td>2.76%</td>
<td>31.32%</td>
</tr>
<tr>
<td>2013</td>
<td>30.15%</td>
<td>14.48%</td>
<td>2.76%</td>
<td>30.15%</td>
</tr>
<tr>
<td>2014</td>
<td>29.67%</td>
<td>14.37%</td>
<td>2.76%</td>
<td>29.67%</td>
</tr>
<tr>
<td>2015</td>
<td>28.30%</td>
<td>14.25%</td>
<td>2.76%</td>
<td>28.30%</td>
</tr>
</tbody>
</table>

Contribution to Export

<table>
<thead>
<tr>
<th>Year</th>
<th>Mikro</th>
<th>Kecil</th>
<th>Menengah</th>
<th>Besar</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.31%</td>
<td>83.56%</td>
<td>11.48%</td>
<td>84.27%</td>
</tr>
<tr>
<td>2012</td>
<td>1.29%</td>
<td>85.94%</td>
<td>10.03%</td>
<td>84.32%</td>
</tr>
<tr>
<td>2013</td>
<td>1.38%</td>
<td>84.32%</td>
<td>11.54%</td>
<td>84.27%</td>
</tr>
<tr>
<td>2014</td>
<td>1.32%</td>
<td>84.27%</td>
<td>11.76%</td>
<td>84.27%</td>
</tr>
</tbody>
</table>

Manpower

<table>
<thead>
<tr>
<th>Year</th>
<th>Mikro</th>
<th>Kecil</th>
<th>Menengah</th>
<th>Besar</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>90.77%</td>
<td>3.75%</td>
<td>2.72%</td>
<td>2.76%</td>
</tr>
<tr>
<td>2012</td>
<td>90.12%</td>
<td>4.09%</td>
<td>2.94%</td>
<td>2.84%</td>
</tr>
<tr>
<td>2013</td>
<td>88.90%</td>
<td>4.73%</td>
<td>3.36%</td>
<td>3.01%</td>
</tr>
<tr>
<td>2014</td>
<td>86.96%</td>
<td>5.73%</td>
<td>4.01%</td>
<td>3.29%</td>
</tr>
<tr>
<td>2015</td>
<td>85.50%</td>
<td>6.49%</td>
<td>4.50%</td>
<td>3.50%</td>
</tr>
</tbody>
</table>

Source: Ministry of SMEs and Cooperatives, 2017, Edited
Increased number of active cooperatives is followed with increased number of application for Cooperative Registration Number (NIK) i.e., by 23 percent in average in 2017.

* Since 2016, data on cooperatives is taken from Online Data System developed by the Ministry of SMEs and Cooperatives. This data contains real data on active cooperatives at regional level. While data for 2017 is data taken from Online Data System, of the Ministry of SMEs and Cooperatives per 22nd of May 2017.
## Issues on Development of SMEs and Cooperatives

### Improving Micro and Small Enterprises’s Ability to Develop Sustainably

#### Business Constraints SMEs (%)

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit problems</td>
<td>19.9</td>
</tr>
<tr>
<td>Raw materials</td>
<td>18.8</td>
</tr>
<tr>
<td>Manpower and HR</td>
<td>17.2</td>
</tr>
<tr>
<td>Access to markets</td>
<td>16.7</td>
</tr>
<tr>
<td>Sales and distribution</td>
<td>9.7</td>
</tr>
<tr>
<td>Licensing</td>
<td>7.5</td>
</tr>
<tr>
<td>Managerial training</td>
<td>3.2</td>
</tr>
<tr>
<td>Production</td>
<td>3.2</td>
</tr>
<tr>
<td>Production technology</td>
<td>2.2</td>
</tr>
<tr>
<td>Profits and development</td>
<td>1.6</td>
</tr>
</tbody>
</table>

#### Access to finance

- **Bank**: 10%
- **Non-Bank**: 90%

#### Wider productivity gap

- **Micro**: 456 Kali
- **Small**: 427 Kali
- **Medium**: 415 Kali
- **Large**: 389 Kali

**Note:**
1. Bank is the largest source of finance. SMEs’ access to bank loans is based on their amount of loan account (BI, 2014)
2. Source of non-bank finance covers personal capital, loan from family members/friends, cooperatives, micro financial agencies, other financial agencies, government programme.

### Optimizing Supports for Micro and Small Enterprises

- Type of supports: technical, stimulants, incentives, initiated supports which have not been made available, such as seed/start-up capital for new businesses.
- Supports coverage and period
- Synergy and partnership with business community.

### Improving Productivity

- Endowment: assets, HR quality, entrepreneurship capacity.
- Access to business opportunities, access to productive resources, access to improved skills, access to market, and access to business network.
EFFORTS TO ‘UPGRADE’ MICRO, SMALL AND MEDIUM ENTERPRISES

**Micro enterprises**
- 58.5 million business units
- Productivity per business unit: Rp. 66.4 million

**Characteristics:**
- Informal, with frequently changed business nature and/or business premises
- Low productivity due to limited assets, skills and access to productive resources, particularly capital
- Varied progress (survival up to e-commerce technology based)
- Some acts as initial suppliers for a supplier/value chain network (producers of raw materials/order-based workers)

**Government’s intervention:**
- Influencing policies: (1) Prices of food staples, (2) energy, (3) production facilities, (4) loans, (5) layout, and (6) collections.

**Small enterprises**
- 681.5 thousand business units
- Productivity per business unit: Rp. 1.5 billion

**Characteristics:**
- Most are formal
- Fixed business and some have management structure
- Adequate productivity
- Sustainable and business competitiveness are determined by access to information, innovation/technology and markets
- Some are active in exporting
- Some act as subsequent suppliers (producers of manufactured and semi-finished products)

**Government’s intervention:**
- Influencing policies: (1) Prices of raw materials and energy, (2) business administration, (3) infrastructure, (4) tax and interest rate, and (6) collections.

**Medium enterprises**
- 59.3 thousand business units
- Productivity per business unit: Rp. 24.0 billion

**Characteristics:**
- Formal
- Fixed business and have management structure
- Adequate productivity
- Sustainable and business competitiveness are determined by business efficiency, innovation and market segments
- Some are active in exporting
- Some act as partners for micro, small and large enterprises (main actors in supply/value chain)

**Government’s intervention:**
- Influencing policies: (1) fiscal and monetary, (2) raw materials, (3) trading and logistics, (4) infrastructure, (5) manpower, and (6) collections.
FRAMEWORK ON THE DEVELOPMENT OF SMES AND COOPERATIVES
FRAMEWORK ON EMPOWERMENT OF COOPERATIVES AND SMES IN THE NATIONAL LONG TERM DEVELOPMENT PLAN (RPJPN) 2005-2025 (LAW NO. 17/2007)

**RPJPN 2005-2025 MISSION**

- **Ekonomy**
  - Competitive nation
- **Inequality**
  - Fair and justified development

**POLICY DIRECTION OF RPJPN 2005-2025**

- Science and technology and competitive-based development of small and medium enterprises (SMEs)
- Coopertives: Improving bargaining power and collective efficiency of their members
- Empowering micro enterprises: Improving income for lowly paid community

**TARGET**

- Economic Growth
- Narrowed Gap
POLICY DIRECTION IN SMEs AND COOPERATIVES IN 2015-2019

Nine priorities (Nawa Cita) concerning SMEs and Cooperatives

6. Improving People’s Productivity and Competitiveness at International Markets

7. Materializing Independent Economy by Motivating Strategic Sectors in Domestic Economy

Policy Directions and Strategies

Improving SMEs and cooperatives’ competitiveness to develop sustainably in order to support the national independent economy

- HR Quality: Education & training, entrepreneurship, facilitation
- Access to finance: Credit for Business (KUR), sectoral programme credit, revolving funds, warehouse receipts
- Added Value & Marketing: Technology, standardization/certification, people’s markets, distribution cooperatives, trading house
- Business institution: Cooperatives, clusters and value chain supply partnership
- Business facilitation, certainty and protection: License for micro and small enterprises, harmonization and improved regulation

Targets

- SMEs and Cooperatives as economic drivers
- Competitives SMEs
- Developed and independent cooperatives
- New feasible and innovative entrepreneurship
<table>
<thead>
<tr>
<th>Target</th>
<th>Indicator</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improving SMEs and Cooperatives’ contribution in economy</td>
<td>1. Development of SMEs and Cooperatives’ contribution in establishing GDP (average/year)</td>
<td>6,5-7,5%</td>
</tr>
<tr>
<td></td>
<td>2. Development of SMEs’ and Cooperatives’ total manpower (average/year)</td>
<td>4,0-5,5%</td>
</tr>
<tr>
<td></td>
<td>3. Development of SMEs’ and Cooperatives’ contribution to non-oil export (average/year)</td>
<td>5,0-7,0%</td>
</tr>
<tr>
<td></td>
<td>4. Development of SMEs’ and Cooperatives’ contribution in investment (average/year)</td>
<td>8,5-10,5%</td>
</tr>
<tr>
<td>2. Improving SMEs’ competitiveness</td>
<td>5. Development of SMEs’ productivity (average/year)</td>
<td>5,0-7,0%</td>
</tr>
<tr>
<td></td>
<td>6. Percentage of UMKM accessing formal finance (target for 2019)</td>
<td>25,0%</td>
</tr>
<tr>
<td></td>
<td>7. Number of SMEs and Cooperatives that apply standard quality and product certification (cumulative for 5 years)</td>
<td>50,000 unit</td>
</tr>
<tr>
<td>3. Improving new businesses</td>
<td>8. Number of new business units—through central and regional programmes (cumulative for 5 years)</td>
<td>1 juta unit</td>
</tr>
<tr>
<td>4. Improving institutional performance and cooperatives’ business</td>
<td>9. Participation of cooperatives’ members in providing capital (target for 2019)</td>
<td>55,0%</td>
</tr>
<tr>
<td></td>
<td>10. Number of new cooperatives’ members (average/year)</td>
<td>7,5-10,0%</td>
</tr>
<tr>
<td></td>
<td>11. Cooperatives’ increased business volume (average/year)</td>
<td>15,5-18,0%</td>
</tr>
</tbody>
</table>
STRATEGIC PROGRAMMES AND ACTIVITIES
INTEGRATED BUSINESS SERVICE CENTER (PLUT) FOR COOPERATIVES AND SMES (1)

VISION AND MISSION

“To be a leading Integrated Service Center, which enables SMEs and cooperatives in developing regional potency

To be facilitator and coach who provides solutions to SMEs’ problems.

To be mediator and source of information who provides proper reference for SMEs and cooperatives to get specific solutions.

To be display window and source aspirations who is able to provide best practices in developing SMEs and cooperatives.
INTEGRATED BUSINESS SERVICE CENTER (PLUT) FOR COOPERATIVES AND SMES (2)

SERVICES

Access to raw materials, improved diversification and product quality (standardization, certification, packaging, brands), technology application

Information on markets, facilitation of access to markets, including export, promotion and marketing network

Cooperatives, partnership, cluster, facilitation, licen-sing & investment, regulation advocacy

Advocacy and facilitation on financial services, facilitation on access to finance, advocacy for KSP and LKM, facilitation on linkage

Training, facilitation, access to job training, collaboration with education and training centers/facilitation with private sector

5 in 1
DEVELOPMENT OF ENTERPRENEURSHIP (1)

The National Mid Term Development Plan (RPJMN) Target for 2015-2019

1 million new businesses – through central and regional programmes

Development Norms, Standards, Procedures and Criteria (NSPK) are set as Synchronization Guidance in Developing Entrepreneurship

SCOPE OF ENTERPRENEURSHIP DEVELOPMENT

1. Improved entrepreneurship educational curriculum and modules and training
2. Socializing entrepreneurship: Socialization and competition
3. Improving policy and supporting systems
4. Developing entrepreneurship (including social and technology entrepreneurship)
5. Collaborating with business community and other stakeholders
DEVELOPMENT OF ENTERPRENEURSHIP (2)

- Improved productivity
- Enterpreneurship education and training
- Business incubation
- Entrepreneurship development
- Development of home industries
- Innovation
- Business job training

Ministry of SMES and Cooperatives
Ministry of Manpower
Ministry of Youth and Sports
Ministry of Village Development and Underdeveloped Regions
KKP
Regional Government
Partnership with business community

Ministry of Education and Culture
Ministry of Research and Technology and High Education
Ministry of SMEs and Cooperatives
Regional Government

State Ministry of Women and Children Protection
Regional Government
Partnership with business community

Ministry of SMES and Cooperatives
Bekraf
Regional Government
Universities
Partnership with business community

Bekraf
Ministry of Communication and Information
Ministry of SMES and Cooperatives
Partnership with business community
Universities
CREDIT FOR BUSINESS (KUR) (1)

a. Policy on supporting collateral for SMEs’ and Cooperatives’ credit from banks (Presidential Instruction No. 06/2007).

b. Credit for Business (KUR) programme was launched on 5th of November 2007.

c. KUR is provided for SMEs and cooperatives that have productive individual, group, partnership and/cluster businesses, which are (feasible) to be financed, but not bankable yet.

d. Prioritized sectors for distribution: agriculture, fishery, manufacturing industry, and integrated trading at upstream sector

e. KUR was initiated in 2015 for deployment of Indonesian workers (KUR TKI).

f. In 2016, special new KUR were granted by the Indonesian Export Financier Agency (LPEI) to business entities, including individuals who has Export Oriented Businesses, or so-called KURBE.
CREDIT FOR BUSINESS (2)

2007-2010

- **Period I and II**
  - **KUR Type and Credit Limit**
    1. Micro KUR Credit limit up to Rp. 5 million.
    2. Retail KUR Credit limit between Rp. 5 to Rp. 500 million.
  - **KUR Interest Rate**
    1. Micro KUR 22 percent effective per year.
    2. Retail KUR 14 percent effective per year.

2011-2014

- **Period III**
  - **KUR Type and Credit Limit**
    1. Micro KUR Credit limit up to Rp. 25 million.
    2. Retail KUR Credit limit Rp. 25 to Rp. 500 million.
  - **KUR Interest Rate**
    1. 2015: 12 percent effective per year.
    2. 2015: 9 percent effective per year.

2015-2016

- **KUR Type and Credit Limit**
  1. Micro KUR Credit limit up to Rp. 25 million.
  2. Retail KUR Credit limit Rp. 25 to Rp. 500 million.
  3. KUR for Indonesian workers Credit limit up to Rp. 25 million.

**KUR Interest Rate**

- 2015: 12 percent effective per year.
- 2015: 9 percent effective per year.
CREDIT FOR BUSINESS (3)

Credit for Business (KUR) is a credit/working capital and/or investment for productive and qualified business debtors who do not have adequate additional collateral.

Individual or legal entity operating productive business.

100% of fund KUR supplier.

KUR was relaunched on 14\textsuperscript{th} of August 2015 by using subsidized interest scheme.

DEVELOPMENT OF KUR SCHEME FOR 2016

9 percent effective per year or equal to similar flat interest rate.

Improving and extending bank services to productive SMEs; Improving SMEs’ capacity and competitiveness; Encouraging economic growth and recruitment of manpower.
LEGAL BASIS
1. Presidential Regulation No. 98/2014 concerning License for Small Business (UMK)
2. Regulation of the Minister of Home Affairs No.83/2014 concerning granting of license (IUMK);
3. 3 Ministers’ Memorandum of Understanding i.e., Minister of Home Affairs, Minister of SMEs and Cooperatives and Minister of Trade;
4. Five Agencies’ PKS i.e., the Ministry of Home Affairs, Ministry of SMEs and Cooperatives, Ministry of Trade, BRI, and Asippindo.

OBJECTIVES
1. Providing certainty and protection in doing businesses in allocated areas
2. Providing facilitation for business development;
3. Providing facilities in accessing financial supports from banks and non-bank agencies;
4. Facilitating empowerment from central, and regional governments and/or other agencies.

IUMK Data per April 2017
- Approved: 221,580
- Rejected: 523
- Not yet processed: 17,816

Total Applications: 239,919

Disetujui
Ditolak
Belum Diproses
Approved
Rejected
Not yet processed
## OTHER EFFORTS IN DEVELOPING SMES AND COOPERATIVES

<table>
<thead>
<tr>
<th>Area</th>
<th>Follow Up</th>
</tr>
</thead>
</table>
| **HR Quality**                | 1. Development of entrepreneurship  
2. Development of training and education center in various sectors  
3. Providing extended business services, among others, by improving quality and quantity of Integrated Business Service Centers (PLUT-KUMKM) |
| **Financial Access**          | 1. Extending financial scheme, including financial supports for new businesses  
2. Expending distribution of credits to non-retail sectors  
3. Developing advocacy and financial collaboration |
| **Value Added and Marketing** | 1. Improving integrated production network and marketing  
2. Improving business partnership between SMEs and big investors  
3. Revitalizing as many people’s markets as possible in order to improve effective and efficient product distribution |
| **Business Institution**      | 1. Modernizing cooperative business in order to compete at global markets (so far only 2 cooperatives from Indonesia registered in the world’s best 500 cooperatives)  
2. Improving SMEs’ leading businesses so as to connect them with global production network (based on data 2012, only 6.3 percent of Indonesian SMEs are connected with global production network, this figure is far from Vietnam that has 21.4 percent) |
| **Business Facilitation, Certainty, and Protection** | Improving policies so as to facilitate business establishment (synchronized and harmonious regulation between sectors and inter-regions) |
THANK YOU