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

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OUTLINE

Kementerian PPN/ Bappenas

1. **DEVELOPMENT SMEs AND COOPERATIVES**
2. **FRAMEWORK ON DEVELOPMENT OF SMEs AND COOPERATIVES**
3. **STRATEGIC PROGRAMME AND ACTIVITIES**

DEVELOPMENT OF SMEs AND COOPERATIVES

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DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (1)

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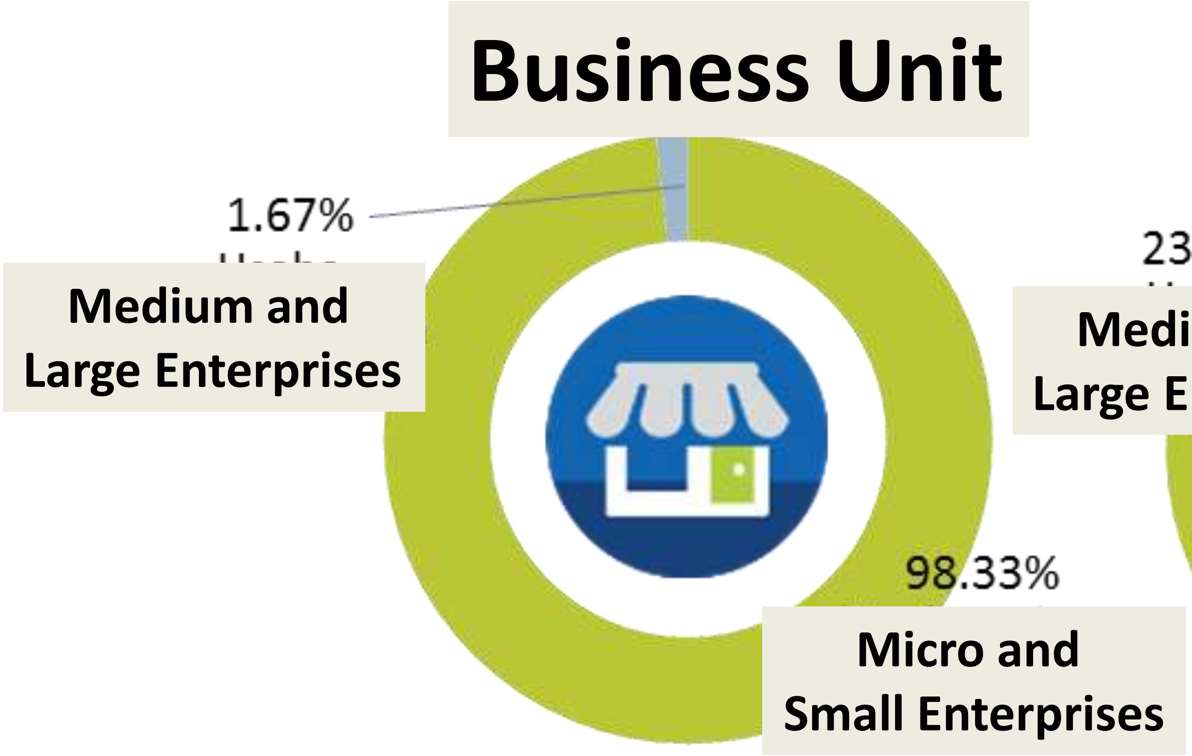
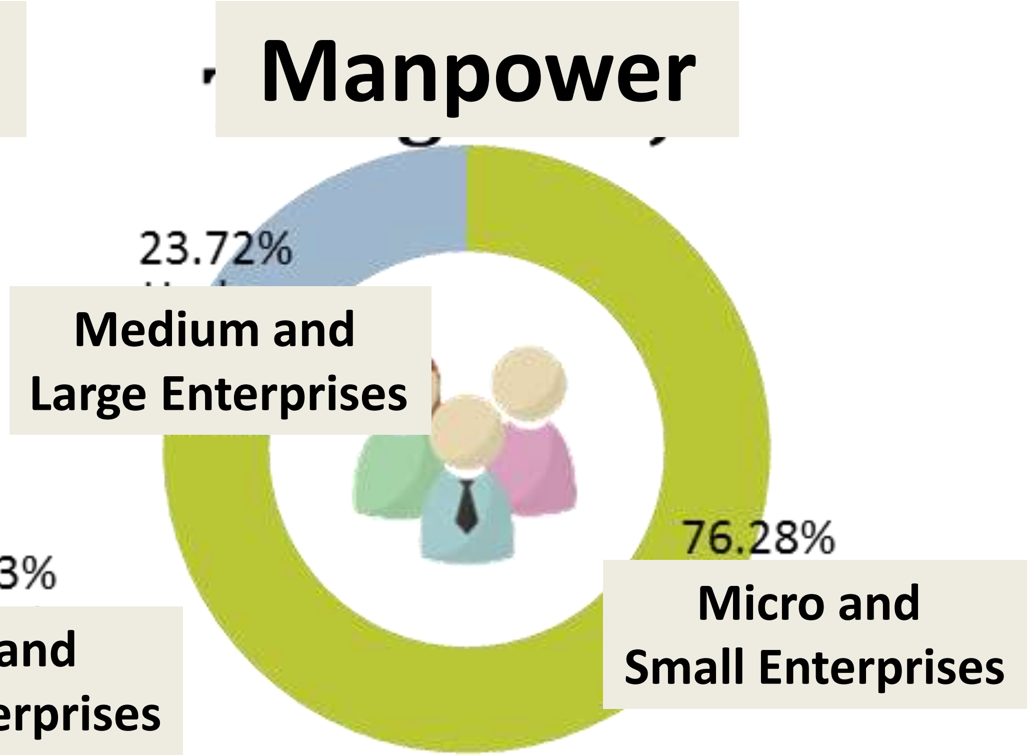
NON-AGRICULTURAL SECTOR

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





Source: Economic Census 2016, Edited

DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (2)

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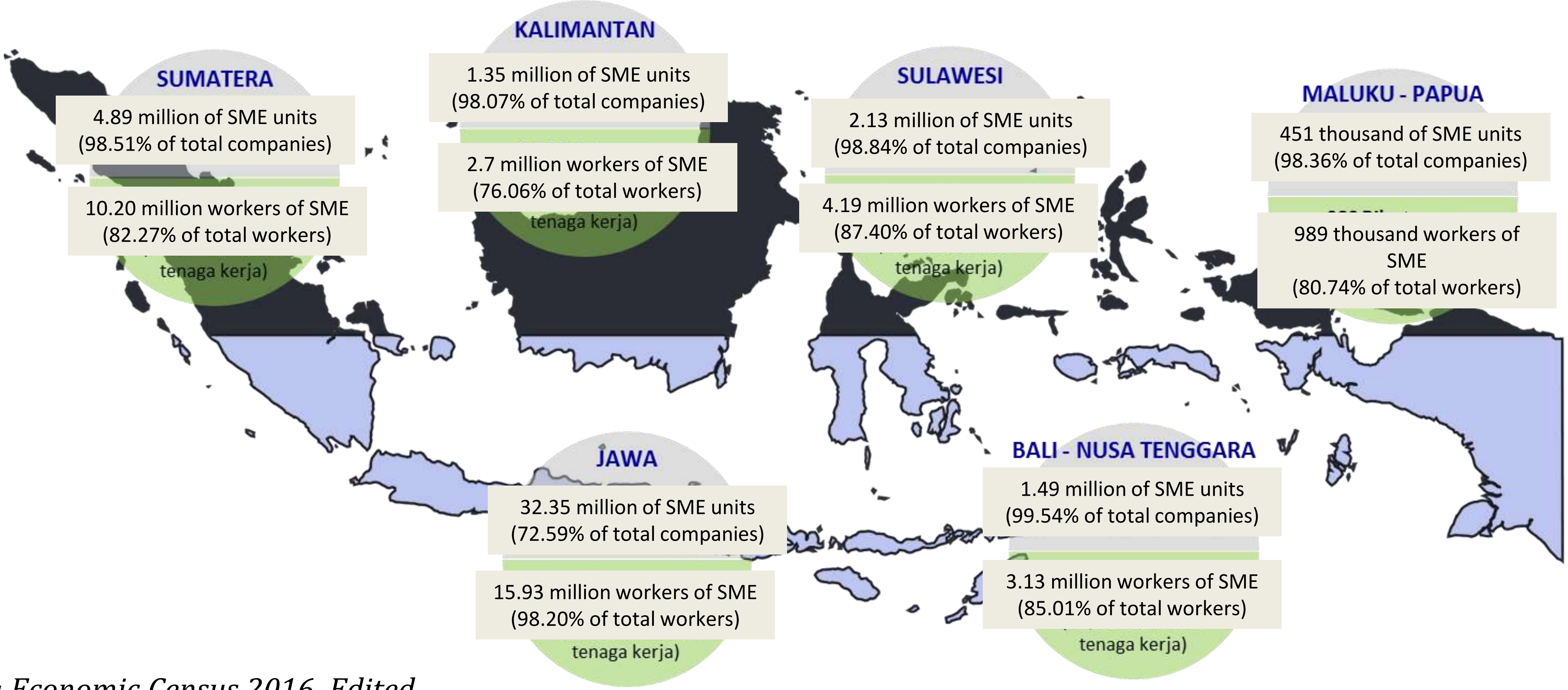
NON-AGRICULTURAL SECTOR

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



Source: Economic Census 2016, Edited

DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (3)

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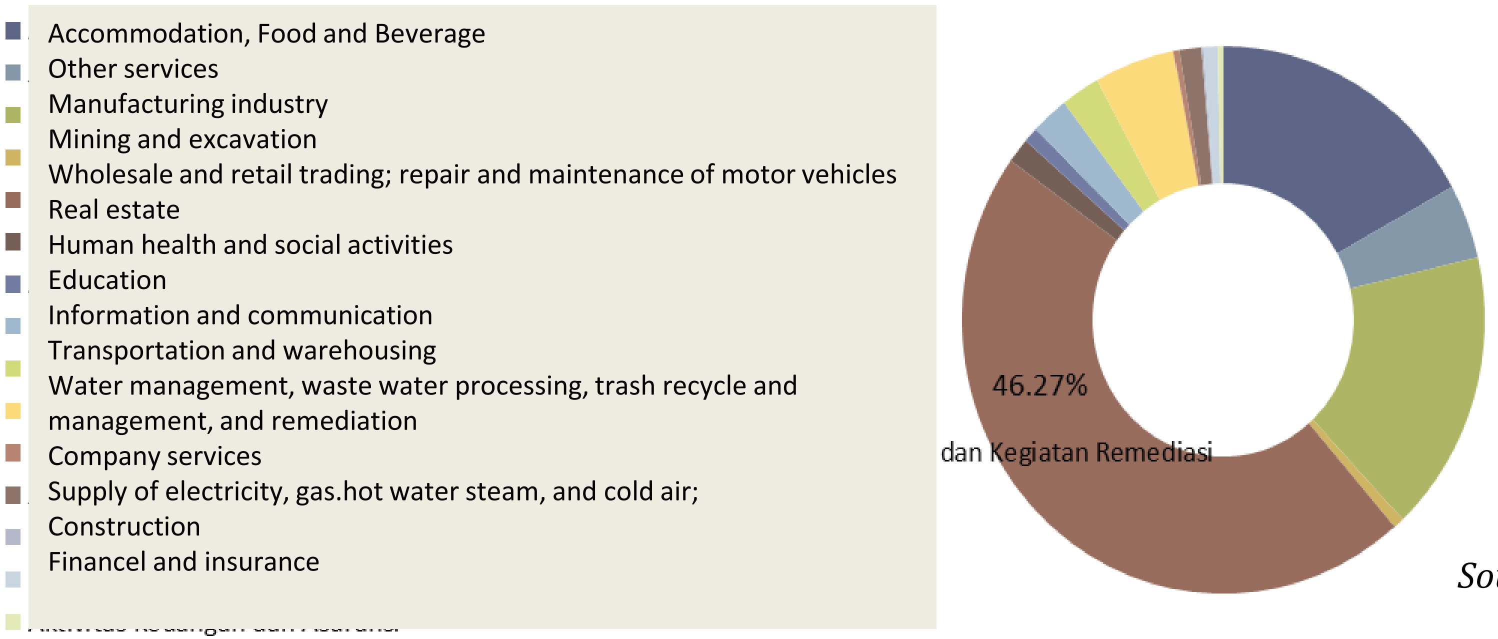
NON-AGRICULTURAL SECTOR

Distribution of Micro and Small Enterprises by Business Nature



Source: Economy Census 2016, edited

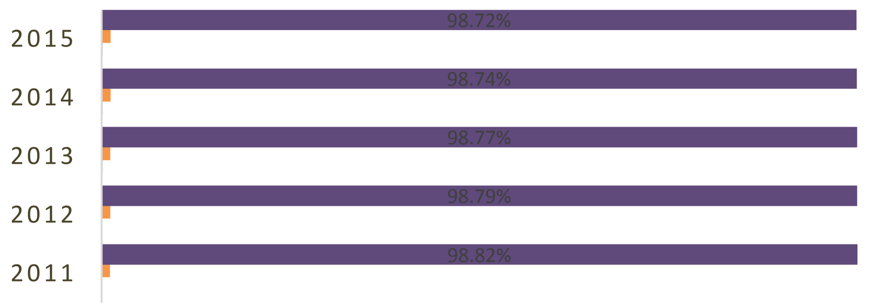
a. Nationally, 98.33% business unit is dominated by micro and small enterprises (SMEs) and they absorb 76.28 percent of the national manpower.

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.

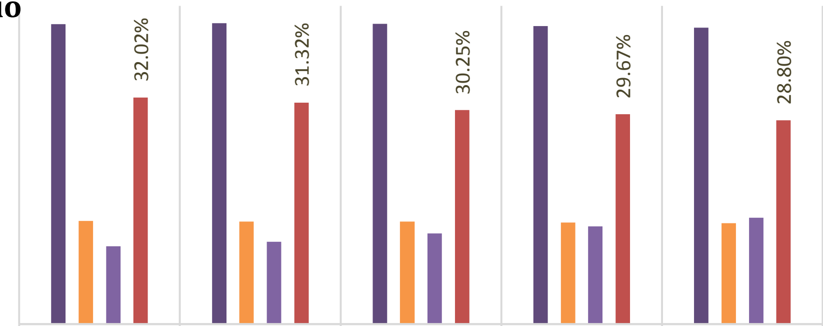
DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (4)

SMEs' Business Unit



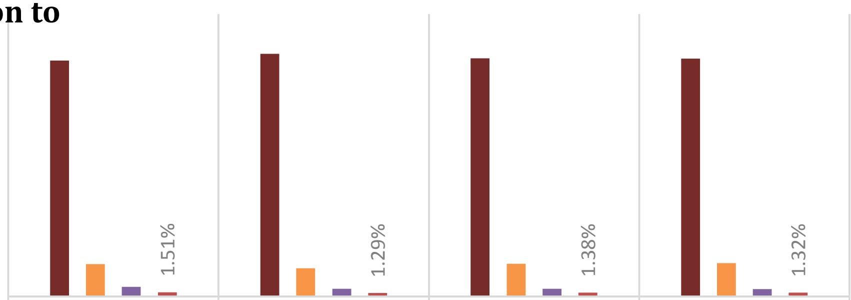
	2011	2012	2013	2014	2015
Mikro	98.82%	98.79%	98.77%	98.74%	98.72%
Kecil	1.09%	1.11%	1.13%	1.15%	1.17%
Menengah	0.08%	0.09%	0.09%	0.10%	0.11%
Besar	0.01%	0.01%	0.01%	0.01%	0.01%

Contribution to GDP



	2011	2012	2013	2014	2015
Besar	42.39%	42.52%	42.44%	42.14%	41.92%
Menengah	14.59%	14.51%	14.48%	14.37%	14.25%
Kecil	10.99%	11.65%	12.83%	13.82%	15.03%
Mikro	32.02%	31.32%	30.25%	29.67%	28.80%

Contribution to Export



	2011	2012	2013	2014
Besar	83.56%	85.94%	84.32%	84.27%
Menengah	11.48%	10.03%	11.54%	11.76%
Kecil	3.45%	2.74%	2.76%	2.65%
Mikro	1.51%	1.29%	1.38%	1.32%

SMEs' Manpower

	2011	2012	2013	2014	2015
Mikro	90.77%	90.12%	88.90%	86.96%	85.50%
Kecil	3.75%	4.09%	4.73%	5.73%	6.49%
Menengah	2.72%	2.94%	3.36%	4.01%	4.50%
Besar	2.76%	2.84%	3.01%	3.29%	3.50%

Source: Ministry of SMEs and Cooperatives, 2017, Edited

DEVELOPMENT OF COOPERATIVESI

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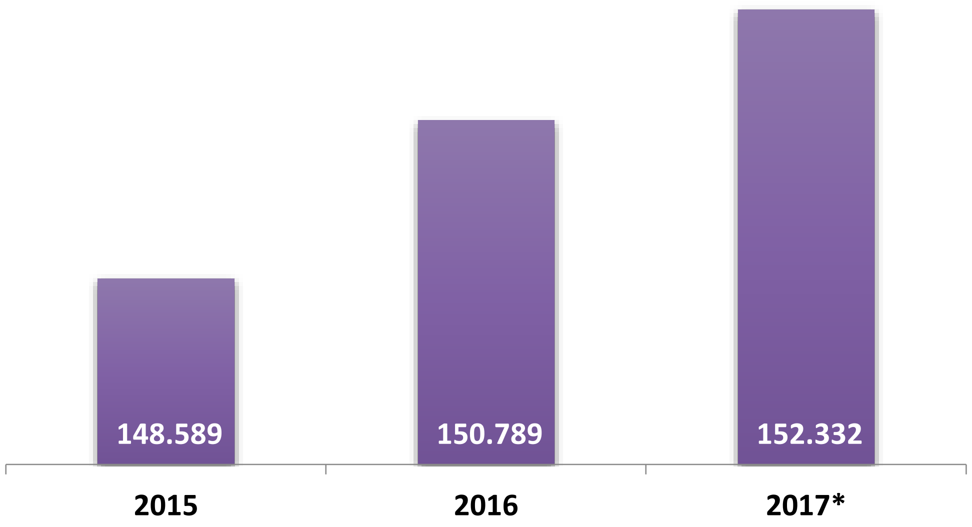
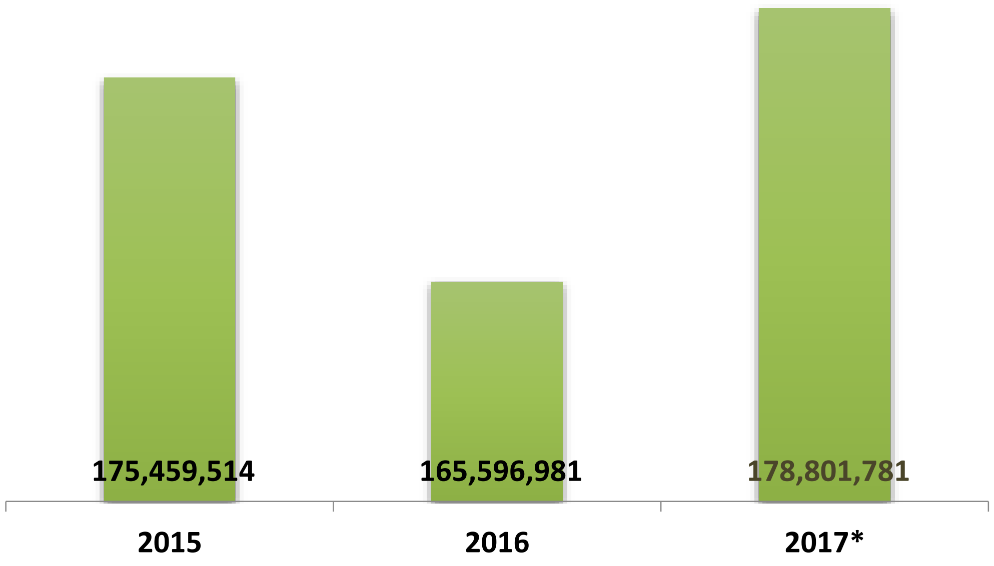
Total Active Cooperatives



Members

25,6 million members | 25,5 million members | 26,7 million members

Total Business Volume (Rp. million)



Source: Online Data System, Ministry of SMEs and Cooperatives. 2017, Edited

Increased number of active cooperatives is followed with increased number of application for Coopeartive 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

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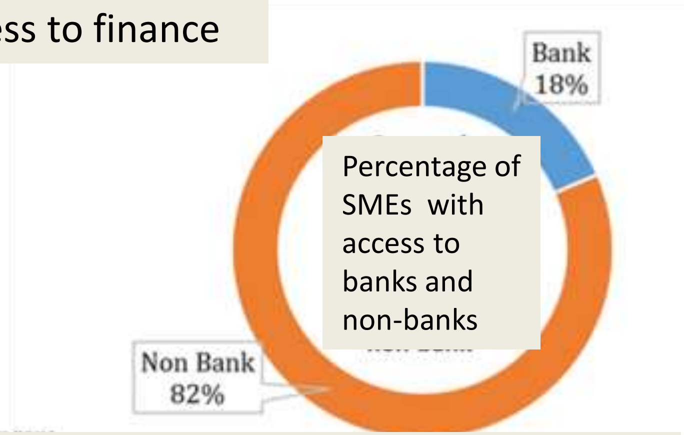
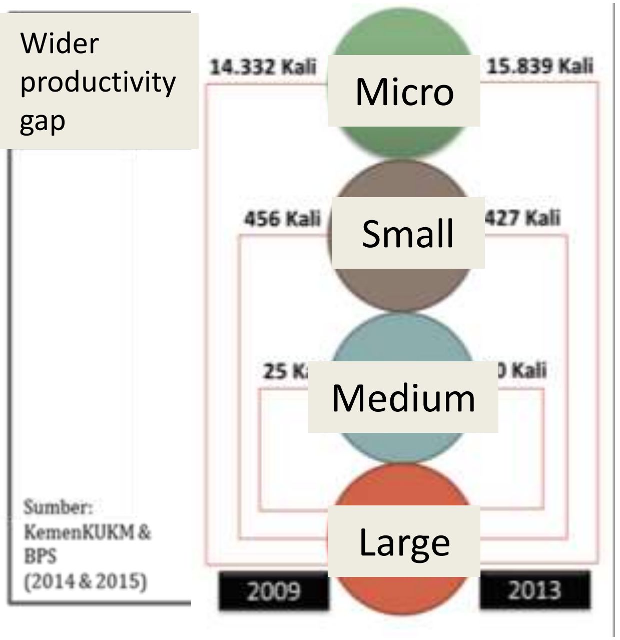
Improving Micro and Small Enterprises's Ability to Develop Sustainably

Business Constraints SMEs (*%)	
Credit problems	19,9
Raw materials	18,8
Manpower and HR	17,2
Access to markets	16,7
Sales and distribution	9,7
Licensing	7,5
Managerial training	3,2
Production	3,2
Production technology	2,2
Profits and development	1,6

Access to finance



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, enterpreneurship capacity.
•Access to business opportunities, access to productive resources, access to improved skills, acccess to market, and access to business network.

EFFORTS TO 'UPGRADE' MICRO, SMALL AND MEDIUM ENTERPRISES

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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 supplers for a supplier/value chain network (producers of raw materisl/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 deteremined 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 deteremined 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

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FRAMEWORK ON EMPOWERMENT OF COOPERATIVES AND SMES IN THE NATIONAL LONG TERM DEVELOPMENT PLAN (RPJPN) 2005-2025 (LAW NO. 17/2007)

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RPJPN 2005-2025 MISSION	POLICY DIRECTION OF RPJPN 2005-2025	TARGET

Ekonomy

Competitive nation

Inequality

Fair and justified development

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

Economic Growth

Narrowed Gap

POLICY DIRECTION IN SMEs AND COOPERATIVES IN 2015-2019

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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, enterprenership, 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

Develolped and independent cooperatives

New feasible and innovative enterpreneurship

TARGET IMPROVEMENT OF SMES AND COOPERTIVES' COMPETITIVENESS 2015-2019

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Target	Indicator	Target
1. Improving SMEs and Coopertives' contribution in economy	1. Development of SMEs and Cooperatives' contribution in establishing GDP (average/year)	6,5-7,5%
	2. Development of SMEs' and Cooperatives' total manpower (average/year)	4,0-5,5%
	3. Development of SMEs' and Cooperatives' contribution to non-oil export (average/year)	5,0-7,0%
	4. Development of SMEs' and Cooperatives' contribution in investment (average/year)	8,5-10,5%
2. Improving SMEs' competitiveness	5. Development of SMEs' productivity (average/year)	5,0-7,0%
	6. Percentage of UMKM accessing formal finance (target for 2019)	25,0%
	7. Number of SMEs and Cooperatives that apply standard quality and product certification (cummulative for 5 years)	50.000 unit
3. Improving new businesses	8. Number of new business units– through central and regional programmes (cummulative for 5 years)	1 juta unit
4. Improving institutional performance and cooperatives' business	9. Participation of cooperatives' members in providing capital (target for 2019)	55,0%
	10. Number of new cooperatives' members (average/year)	7,5-10,0%
	11. Cooperatives' increased business volume (average/year)	15,5-18,0%

STRATEGIC PROGRAMMES AND ACTIVITIES

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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 peroper reference for SMEs and cooperatives to get specific solutions

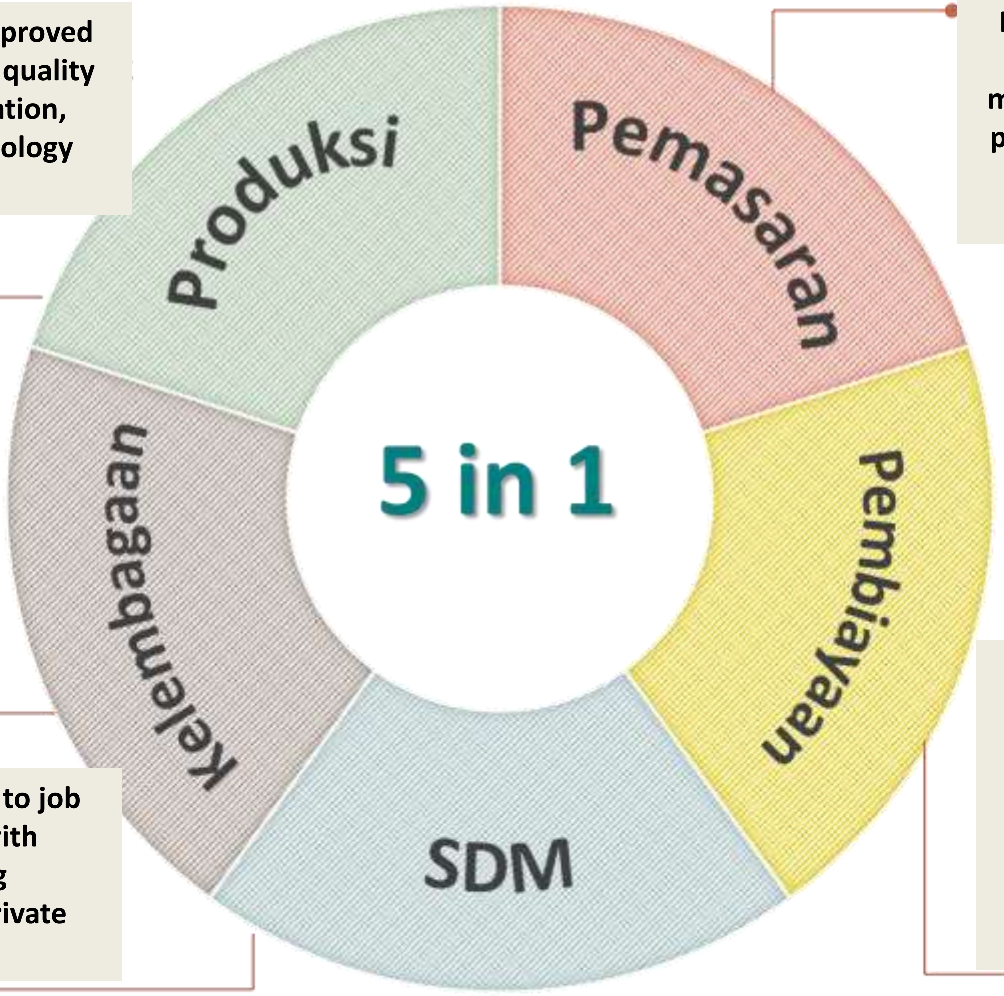
To be display window and source aspirations who is able to provide best practices in developing SMEs and cooperatives.

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

DEVELOPMENT OF ENTERPRENEURSHIP (1)

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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 Enterpreneurship

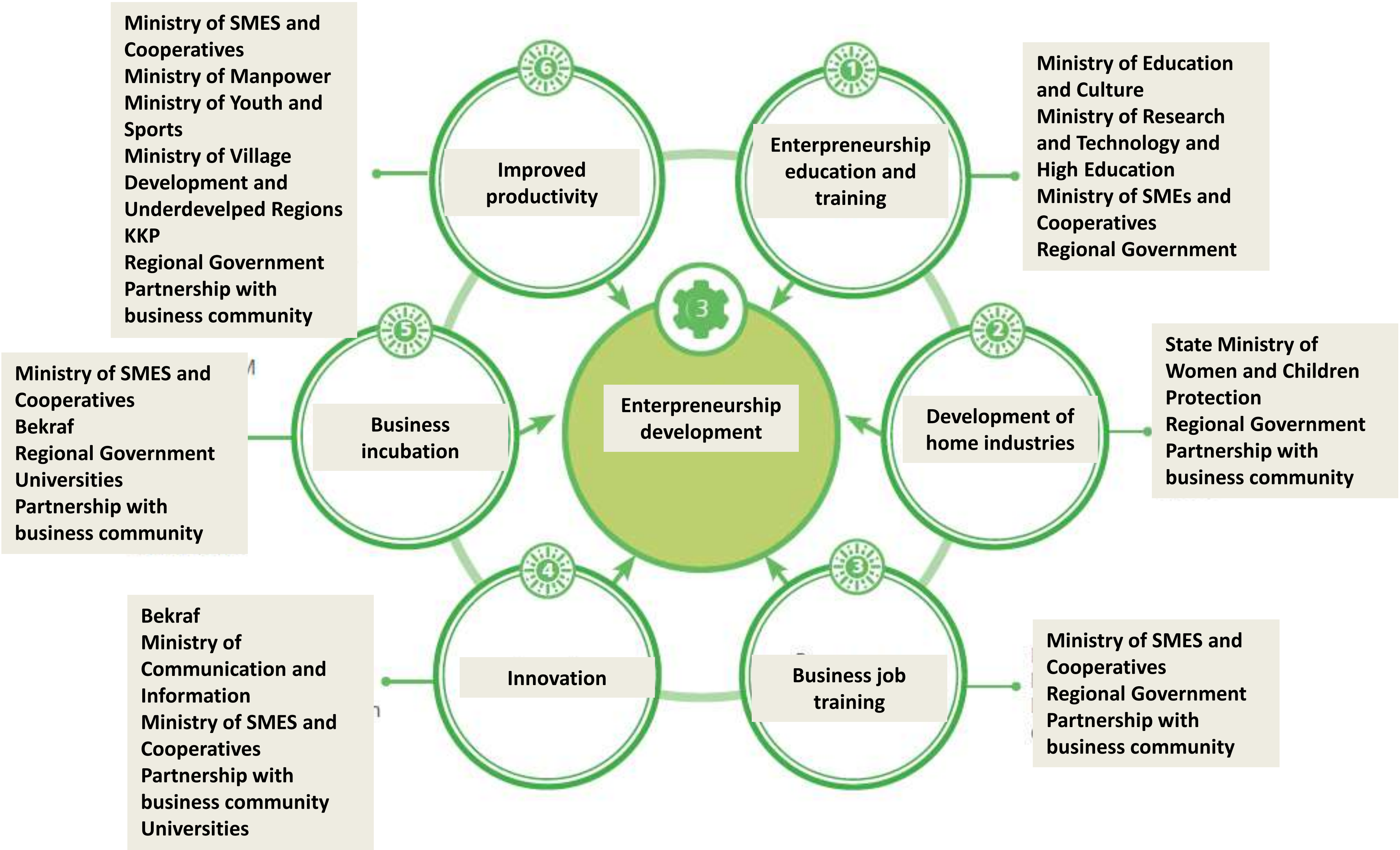
ENTERPRENEURHSIP DEVELOPMENT STRATEGY

1. **Creating a conducive business climate**
2. **Establishing new businesses**
3. **Improving enterpreneurship competence**

SCOPE OF ENTERPRENEURSHIP DEVELOPMENT

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

DEVELOPMENT OF ENTERPRENEURSHIP (2)



CREDIT FOR BUSINESS (KUR) (1)

a. Policy on supporting collateral for SMEs' and Cooperatives' creadit 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)

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2007-2010 / 2011-2014 — 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.

2015-2016 — Period III

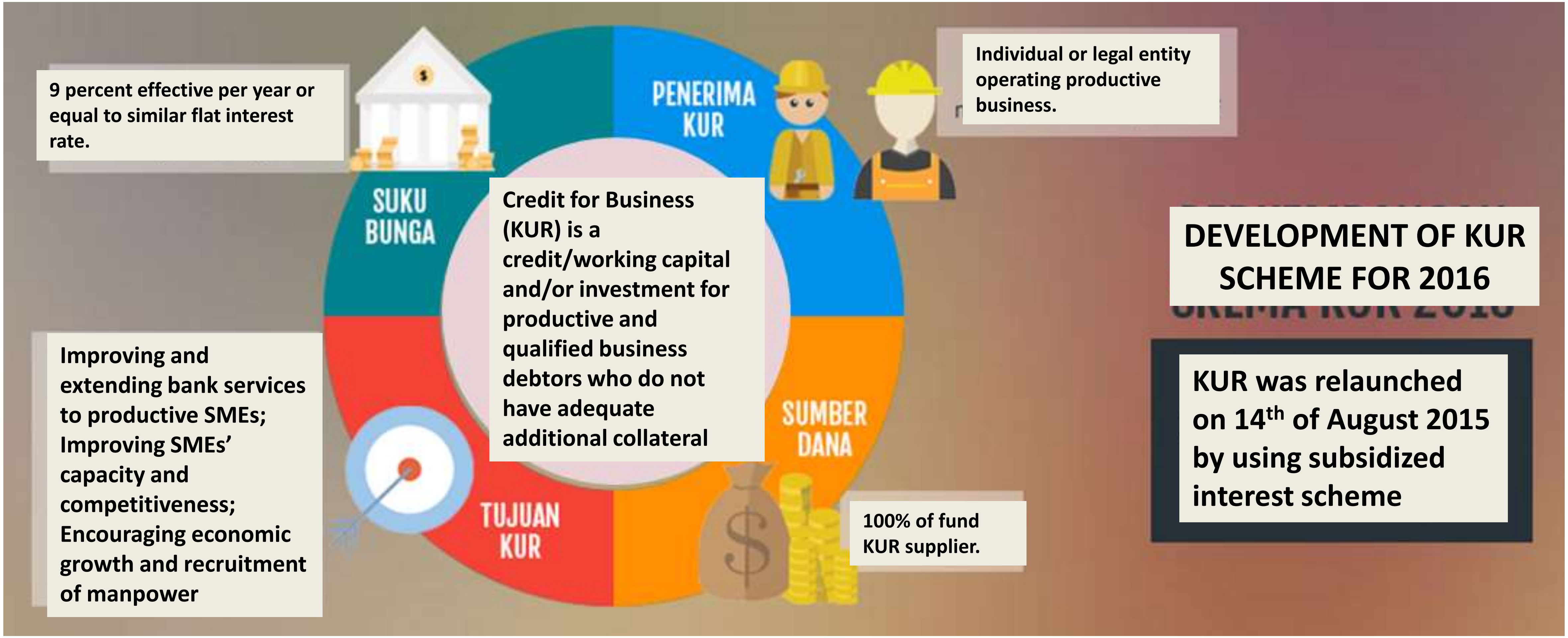
KUR Type and Credit Limit

1. Micro KUR
   Credit limit up to Rp. 25 million.
2. Retail KUR
   Credit limit Rp. 25 to Rp. 500 million.
3. KUR for Indonesian workers
   Credit limit up to Rp. 25 million.

KUR Interest Rate

1. 2015: 12 percent effective per year.
2. 2015: 9 percent effective per year.

CREDIT FOR BUSINESS (3)



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

Individual or legal entity operating productive business.

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

Improving and extending bank services to productive SMEs; Improving SMEs' capacity and competitiveness; Encouraging economic growth and recruitment of manpower

100% of fund KUR supplier.

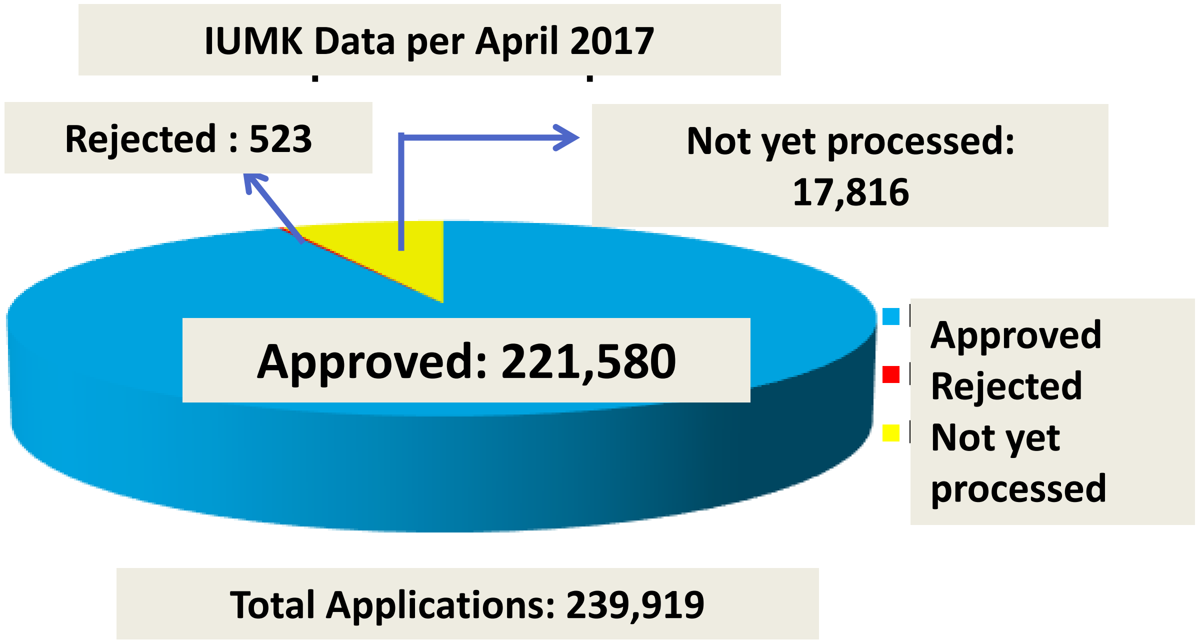
DEVELOPMENT OF KUR SCHEME FOR 2016

KUR was relaunched on 14th of August 2015 by using subsidized interest scheme

MICRO AND SMALL BUSINESS LICENSES (IUMK)

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.
5. 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.

OTHER EFFORTS IN DEVELOPING SMES AND COOPERATIVES

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	Follow Up
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 glogal 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