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Facilitating Small and Medium Enterprises in International Trade (Export): The Case of Indonesia

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FACILITATING SMALL AND MEDIUM ENTERPRISES IN INTERNATIONAL TRADE (EXPORT): THE CASE OF INDONESIA

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Objective

This paper examines the current situation of TF and the access of SMEs to TF in Indonesia.

Four questions:

- How has been the improvement of TF?
- How important are SMEs in export and what are their main constraints to participate in export?
- What is the main mode adopted by export oriented-SMEs?
- What is the role of government in facilitating participation of SMEs in export activities?

Methodology

- a descriptive analysis of secondary data;
- a survey of key literature on the current state of TF in Indonesia;
- primary data analysis (a survey of 39 export oriented SMEs in the wood furniture industry in Central Java).

The Current State of Trade Facilitation in Indonesia

- It is a country with low quality of TF.
- It has too many procedures to start a business
- It is the worst country with respect to time to start a business (151 days)
- It is the most expensive country with respect to cost to start a business (more than 100 per cent of income per capita).
- It needs 30 days to import and 25 days to export.
- It needs 6 signatures to import and 3 signatures to export
- For import, there are 10 documents required, and for export, 7 documents
- Harbors are still underdeveloped and inefficient with many legal and illegal retributions/payments.

Export Development of Indonesian SMEs

Share of SME exports in Total Exports in Selected ASEAN Countries, 2000 and beyond

Country	Share (%)
Vietnam	20
Singapore	16
Malaysia	15
Indonesia	17.72
Thailand	29.10
Philippines	16.81

Export of Indonesian SMEs, 2006-2007

Year	Unit	Non-oil and gas Export				
		SEs	MEs	SMEs	LEs	Total
2006	Rp billion	30,365	91,946	122,311	484,775	607,086
	US\$ million	3,501	10,602	14,103	55,896	69,998
	%	5.00	15.15	20.15	79.85	100.00
2007	Rp billion	5,508	107,314	142,822	570,594	713,416
	US\$ million	4,129	12,479	16,607	66,349	82,957
	%	4.98	15.04	20.02	79.98	100.00

SMEs' Access to TF

Only Three studies are available:

- 1) Damuri (2006): a survey of exporters and importers, other relevant business associations, and 25 firms (in all sizes) in Jakarta and Surabaya.

Most Problematic Areas of Trade Related Procedures

Areas	Percentage of the respondents seeing the area		
	Most problematic	Second most problematic	Third most problematic
Obtaining an import license	11.1	0.0	5.6
Tariff classification	16.7	11.1	16.7
Submission of documents for clearance	0.0	5.6	11.1
Identification of origin of the goods	0.0	0.0	5.6
Fees and penalties payment	22.2	27.8	16.7
Customs valuation	27.8	11.1	16.7
Technical or sanitary requirements	5.6	16.7	5.6
Inspection and release of goods	16.7	27.8	22.2

2) Rahardhan, et al. (2008). They examine the impact of ASEAN trade facilitation on trade volume of main important commodities from East Java. They have conducted in-depth interviews with exporters from all sizes and some key officials. The findings show that the most important trade facilities considered by the respondents that need to be improved are:

- (i) custom procedure,
- (ii) tariff differences in line with declining MFN tariff,
- (iii) administration procedures in filling all required forms,
- (iv) information on the Common Effective Preferential Tariff (CEPT) scheme,
- (v) import license,
- (vi) regulations on specific technical requirements, (vii) costs of various extra taxes, including tax of foreign exchange transactions,
- (viii) procedure of custom clearance

3) Own field survey (2009): 39 furniture producers/exporters
(mainly micro and small enterprises)

Form of TF as the main problem faced by the respondents

Form of TF	Number
Custom regulations and cost involved,	7
Shipment,	2
Documents required for export,	4
Environment, health and safety regulations,	3
Harbor facilities and cost involved	2
Trade financing (letter of credit and/or trade credit)	21
Total	39

Main conclusion:

No evidence that TF have a bias against SMEs. The finding can only indicate that among those items, lack of access to trade financing reveals as the most problem for the majority of the respondents.

Government efforts to increase SME's
access to TF

- 1) Strengthening the role of National Agency for Export Development NAFED. its main task and functions are to:
 - a) formulate policies and establish guidelines for encouraging and supporting the expansion of non-oil & gas exports;
 - (b). provide information services and technical advisory services for export development;
 - (c) coordinate and implement export promotion; and
 - (d). expand the range of export products and markets.

- 2) in cooperation with provincial governments and Japanese government through Japan International Cooperation Agency (JICA) under the project The Capacity Building of the Regional Export Training and Promotion Center to establish Regional Export Training and Promotion Center (RETPC).

Aim:

- a) to facilitate business community, especially SMEs,
- b) to increase their competence in international markets, by participating in training and export trade promotion.

Activities:

- 1) training programs of three months for entrepreneurs on the management of export and import business and it is specialized in garments and wooden furniture merchandising.
- 2) shorter training programs on topics such as export procedures and payment terms, product quality control, participation in trade fairs and exhibitions, and international business communication.

3) introducing several measures to in order to increase export, especially from SMEs, through:

- a) reductions in port charges,
- b) dissemination of information on export procedures and financing in eleven provinces,
- c) guidance on quality management systems for SMEs in various regions,
- d) assistance with production equipment for SMEs/associations in thirteen provinces.

4) Ministry of Trade `disseminates information on the potential of market products and market opportunities regularly to the business community in Indonesia and overseas through the *Export News*, analysis of market indicators, and market surveys published in print and electronic media.

To promote domestic products and build larger export markets, the Ministry of Trade, and in some occasions cooperate with the Ministry of Cooperative and SMEs, provide supports for selected SMEs to participate in foreign exhibitions

- 5) The Ministry of Cooperative and SMEs facilitates SMEs in export by:
- (a) developing trade missions and exhibitions;
 - (b) developing an information system and publication on export markets;
 - (c) developing franchising in the context of ASEAN cooperation;
 - (d) developing cooperation between SME and Trans National Corporations;
 - (e) developing business networking through industry clusters; and
 - (f) developing partnership models export-oriented SME.

6) Many private banks such as Bank International Indonesia and Standard Chartered Bank, and state-owned banks e.g. Bank Mandiri, BRI, BNI and Bank Ekspor-Impor Indonesia provide trade facilities to SMEs:

- loan for working capital,
- investment credit, letter of credit (L/C),
- foreign exchange line,
- bank guarantee,
- shipping guarantee,
- business management account
- loans against trust receipt (LATR) ,
- inward bills collection (IBC),
- invoice financing for suppliers (purchase) ,
- credit bills negotiation (CBN)
- pre-export financing ,
- export bills collection (EBC), etc.

However, not all SMEs can have access to these facilities, for the following reasons:

- many SMEs (especially MIEs and SEs) do not know that such facilities exist (this is information problem).
- many SMEs (especially SEs and MIEs) do not have knowledge on how to apply for such facilities (this has to do with education).
- it has to do with informality of their doing business. Many MIEs and SEs are in the informal sector with no well developed structure of organization and good management. Banks cannot serve this kind of enterprises/activities.