

The Impact on Ongoing Trade Facilitation Improvement on Export-oriented Small and Medium Enterprises (SMEs) in Indonesia

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Aim:

This study is about export-oriented micro, small and medium enterprises (MSMEs) in Indonesia, which aims to examine their access to trade facilitation (TF).

In this study: TF is defined as measures or actions taken by government as well as private sector that makes MSMEs more easy to do direct export with low transaction cost and minimum lost due to failed trade transactions caused by unpredictable factors. TF includes export financing, trade insurance, information on e.g. potential foreign markets/buyers, laboratory for quality tests, storage, training on doing export, telephone line, internet, electricity and supports for doing promotion

The study has two main research questions:

(1) do export-oriented MSMEs have access to TF?

(2) how helpful are those items of TF in supporting their export?

Methodology

The study is based on:

- (1) desk research
- (2) secondary data analysis
- (3) key informant/indepth-interview
- (4) field surveys in two clusters of export-oriented MSMEs with total respondents:30 producers in Solo and 52 producers D.I. Yogyakarta; both regions are located in Central Java.

Development of Indonesian MSMEs

Total enterprises by size category in all economic sectors in Indonesia, 2000-2011
(in thousand units)*

Size category	2000	2005	2009	2011
MSEs	39,705	47,006.9	52,723.5	55,162.2
MEs	78.8	95.9	41.1	44.3
LEs	5.7	6.8	4.7	4.95
Total	39,789.7	47,109.6	52,769.3	55,211.4

Total Employment by Size Category and Sector in Indonesia, 2008 (workers)*

	MIEs	SEs	MEs	LEs	Total
Agriculture	41,749,303	66,780	643,981	229,571	42,689,635
Mining	591,120	28,762	21,581	78,847	720,310
Manufacture	7,853,435	1,145,066	1,464,915	1,898,674	12,362,090
Elect, gas & water supply	51,583	19,917	31,036	54,233	156,769
Construction	576,783	137,555	51,757	31,016	797,111
Trade, hotel & restaurant	22,168,835	1,672,351	472,876	179,895	24,493,957
Transport & communication..	3,496,493	145,336	111,854	98,191	3,851,874
Finance, rent & service	2,063,747	313,921	279,877	156,064	2,813,609
Services	5,096,412	462,683	178,311	49,723	5,787,129
Total	83,647,711	3,992,371	3,256,188	2,776,214	93,672,484

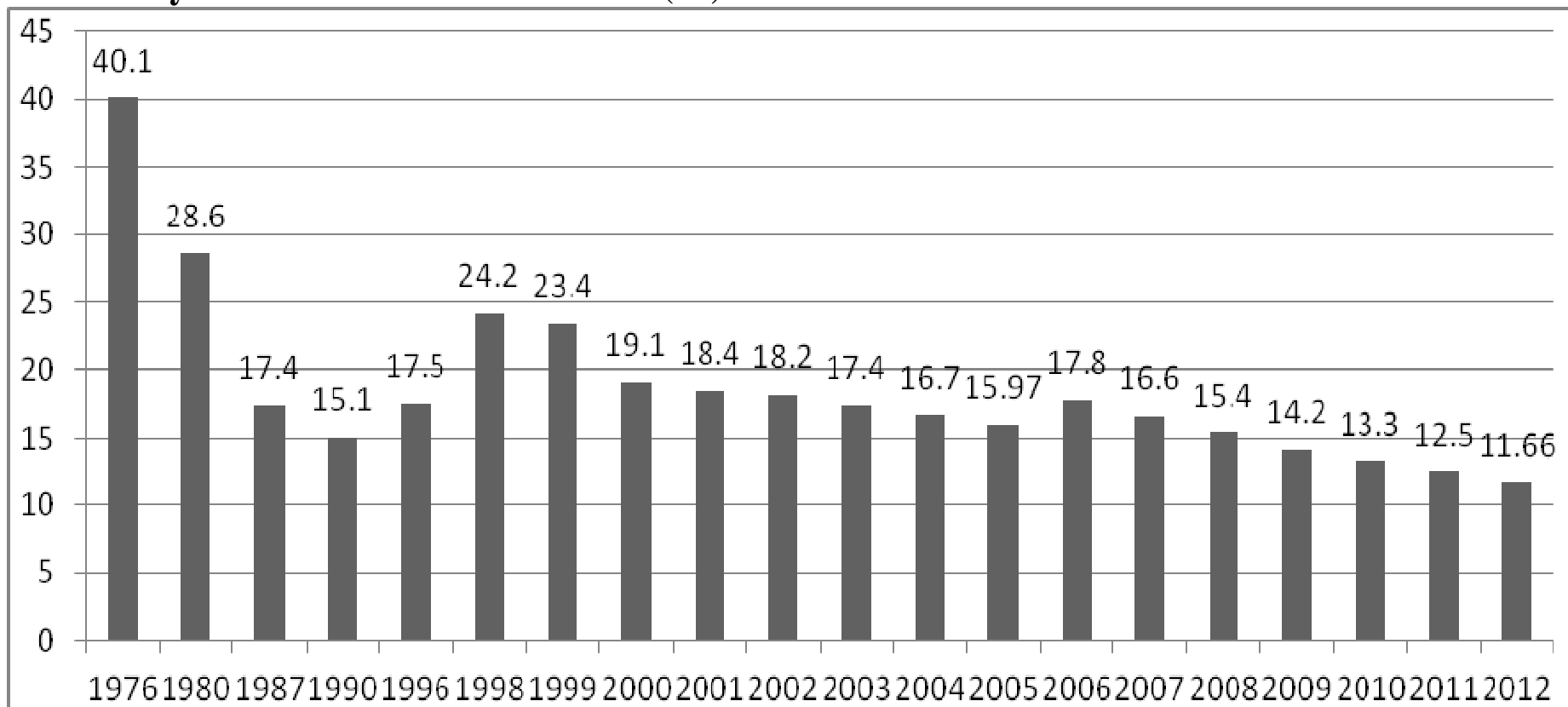
The Link between MSMEs and Poverty Reduction

Two Channels:

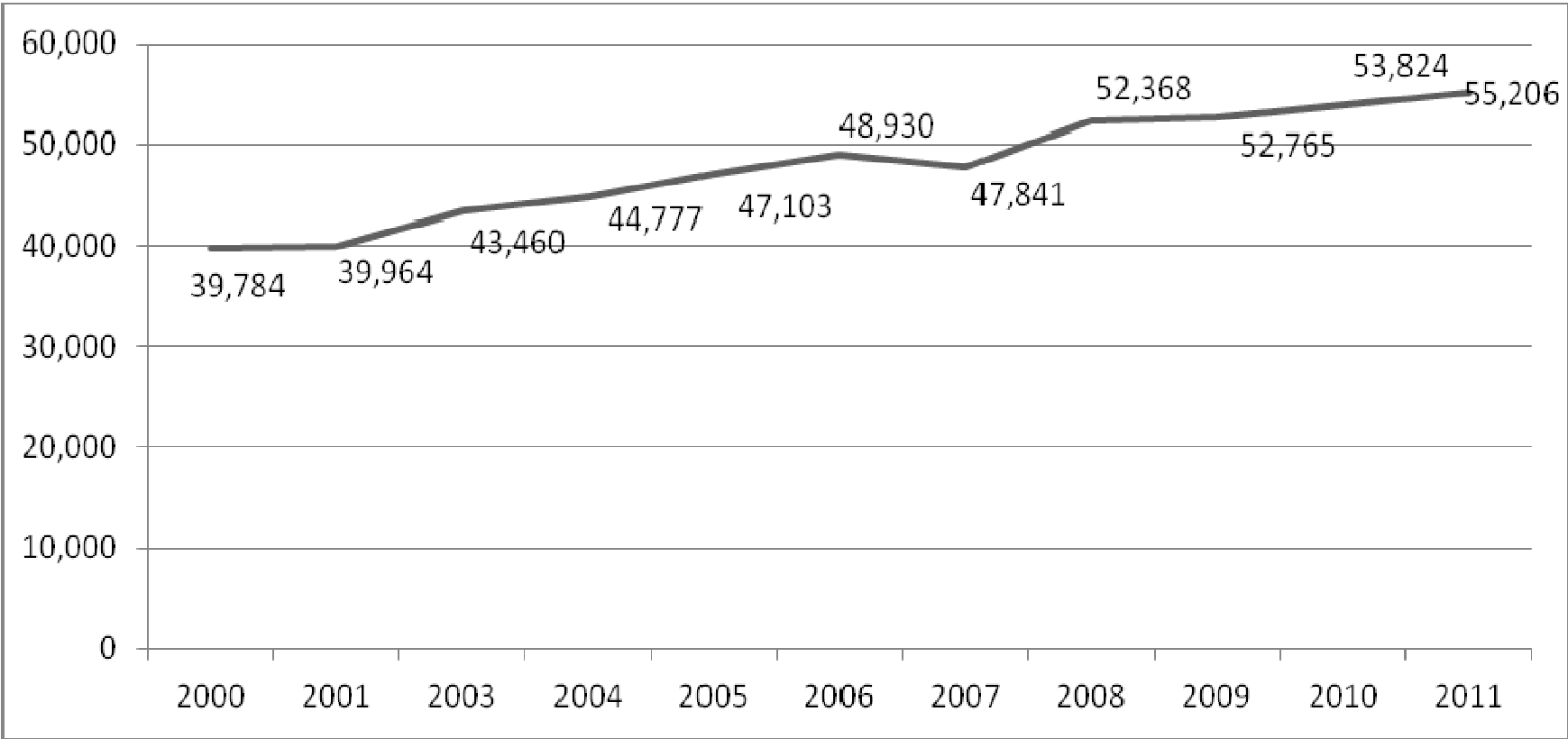
1) Poverty \uparrow \rightarrow MSMEs \uparrow : consumption link & employment/income link

2) MSMEs \uparrow \rightarrow Poverty \downarrow : employment/income link

Poverty rate in Indonesia: 1976-2012 (%)

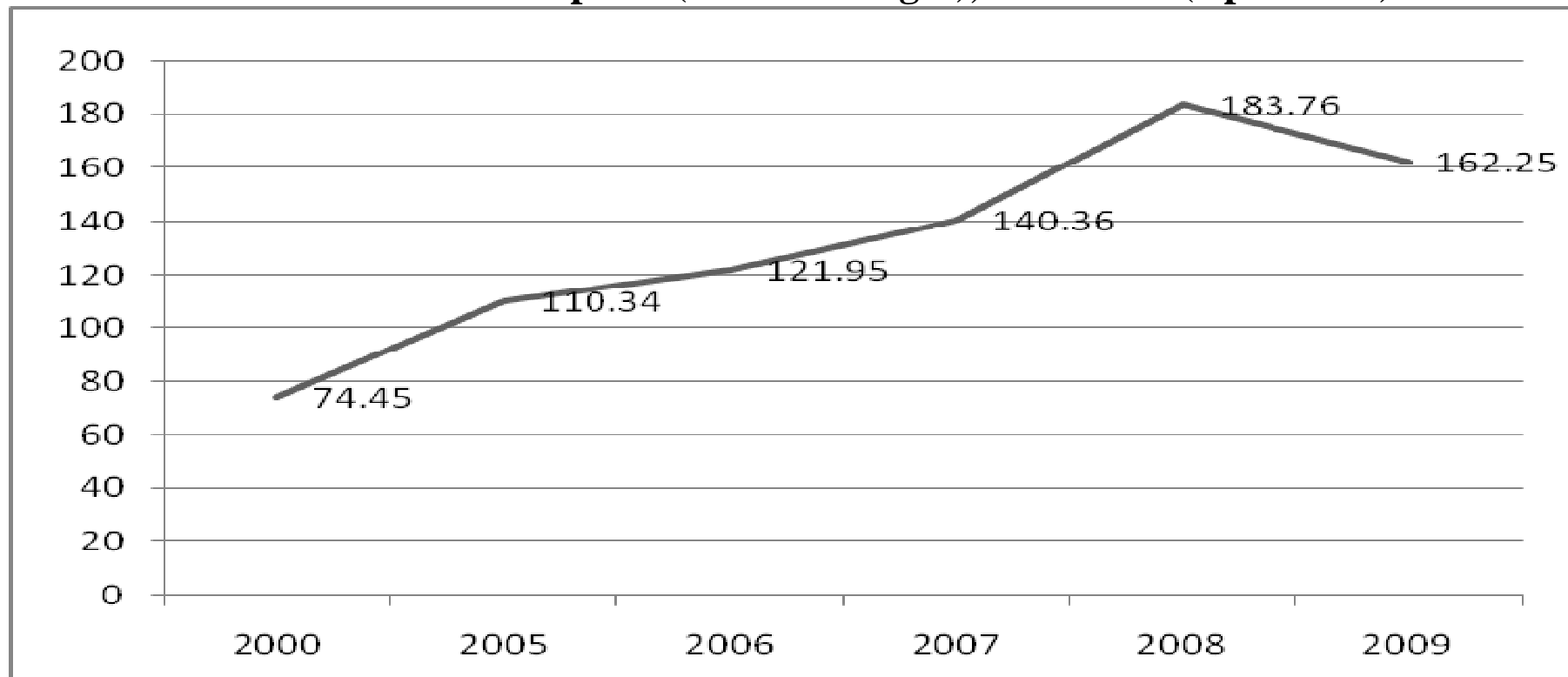


The growth of number of MSMEs: 2000-2011 (000)



Export Performance of MSMEs

MSMEs' exports (non-oil and gas), 2000-2009 (Rp trillion)



**MSMEs' Access to Trade Facilitation and Its
Impact on Their Trade Activities: Conclusion
from literature review**

- Degree of development/improvement of TF varies by country; strongly related to economic development in general (Asian developing region)
- Degree of MSMEs' access to TF varies by country (Asian developing region)
- Although no strong evidence indicating that existing TF measures are bias against MSMEs, in general, as expected, LEs have more access to existing TF than MSMEs

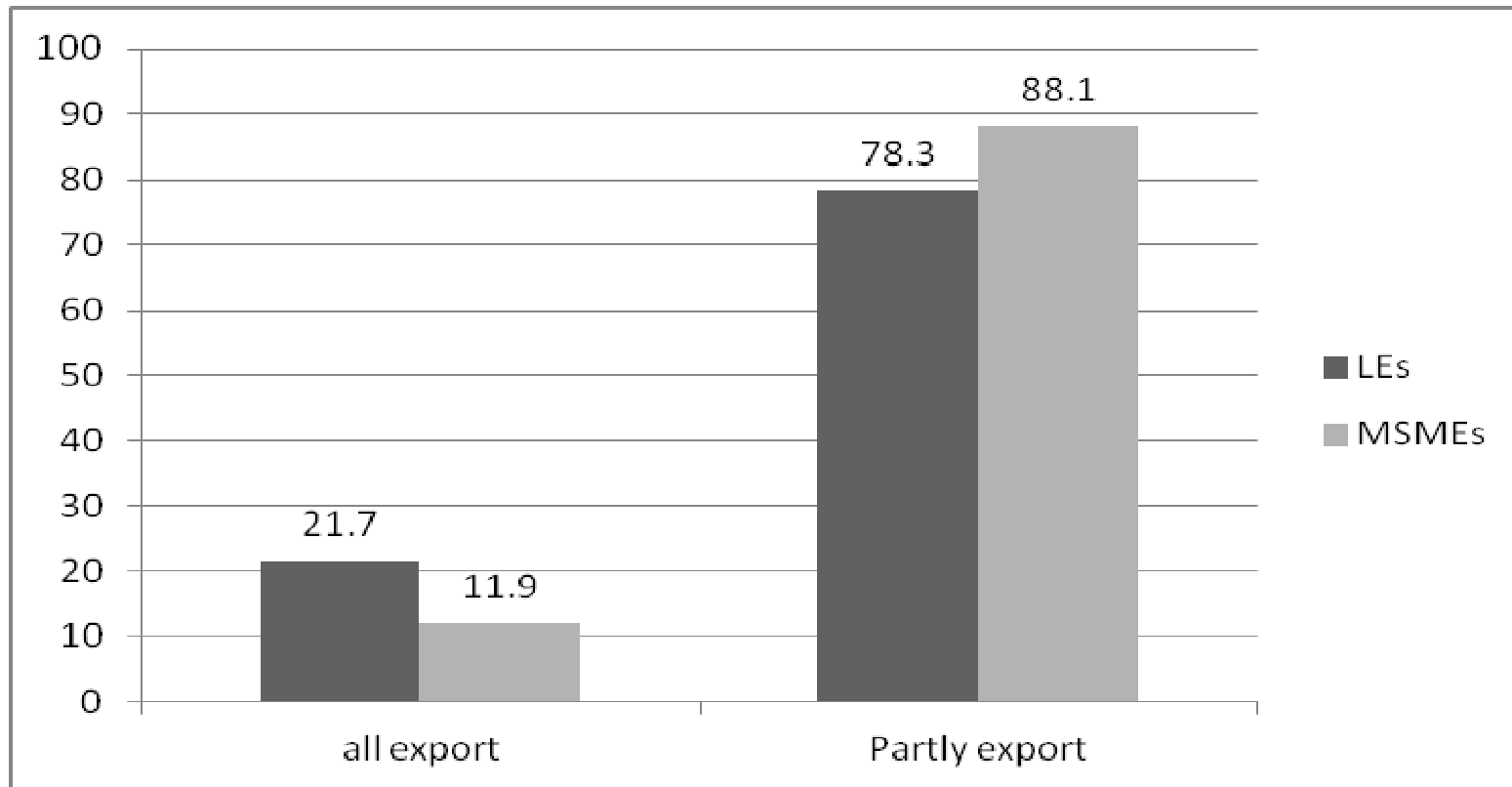
- Lack of access to trade financing reveals as the most problem often mentioned by respondents in many studies.
- From the MSMEs side, lack of information/awareness and fund tends to be the main reason for not having access to TF
- To conclude that having access to TF make MSMEs' export to grow is difficult since many other factors also play an important role in affecting their export

Surveys

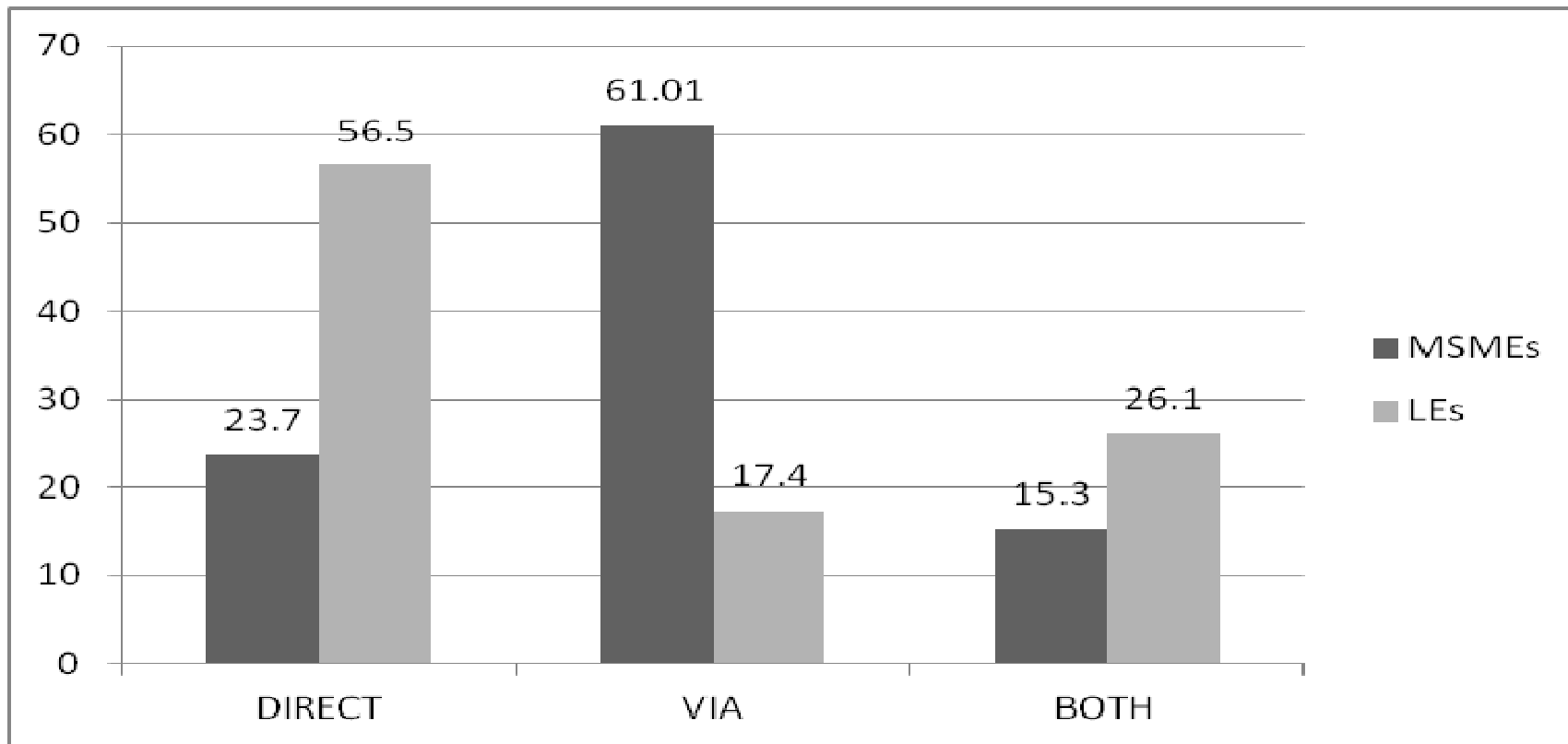
Profile of the Sample

- Areas: Solo and D.I. Yogyakarta.
- Total respondents: Solo: 20 LEs and 10 MSMEs (total 30 respondents), and D.I.Y:3 LEs and 49 MSMEs (total 52 respondents).
- Commodities: ranging from wood/bamboo and rattan furniture, cloths to handicrafts

Market Orientation of the Sampled Respondents

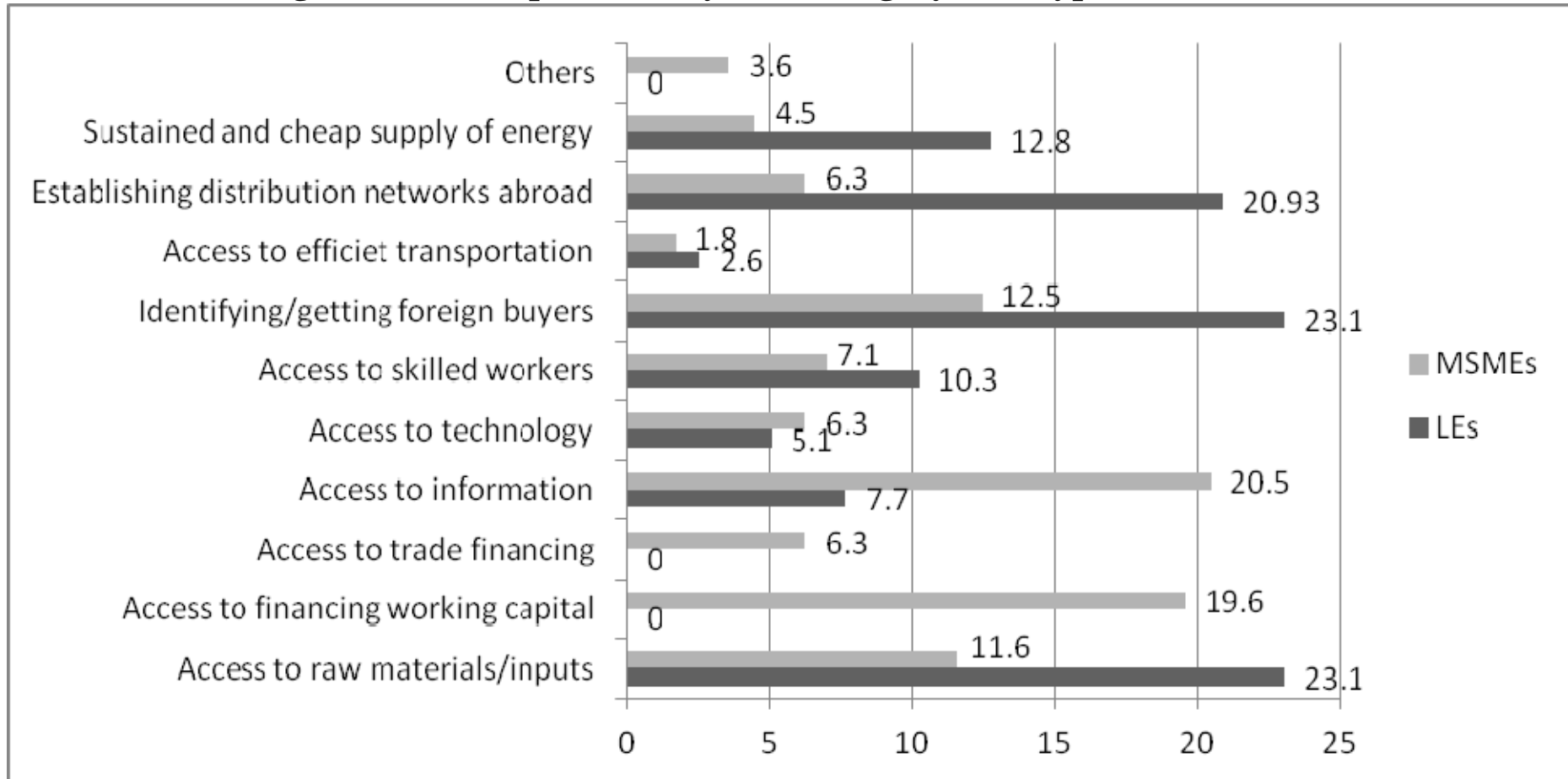


Ways of Doing Export of the Sampled Respondents

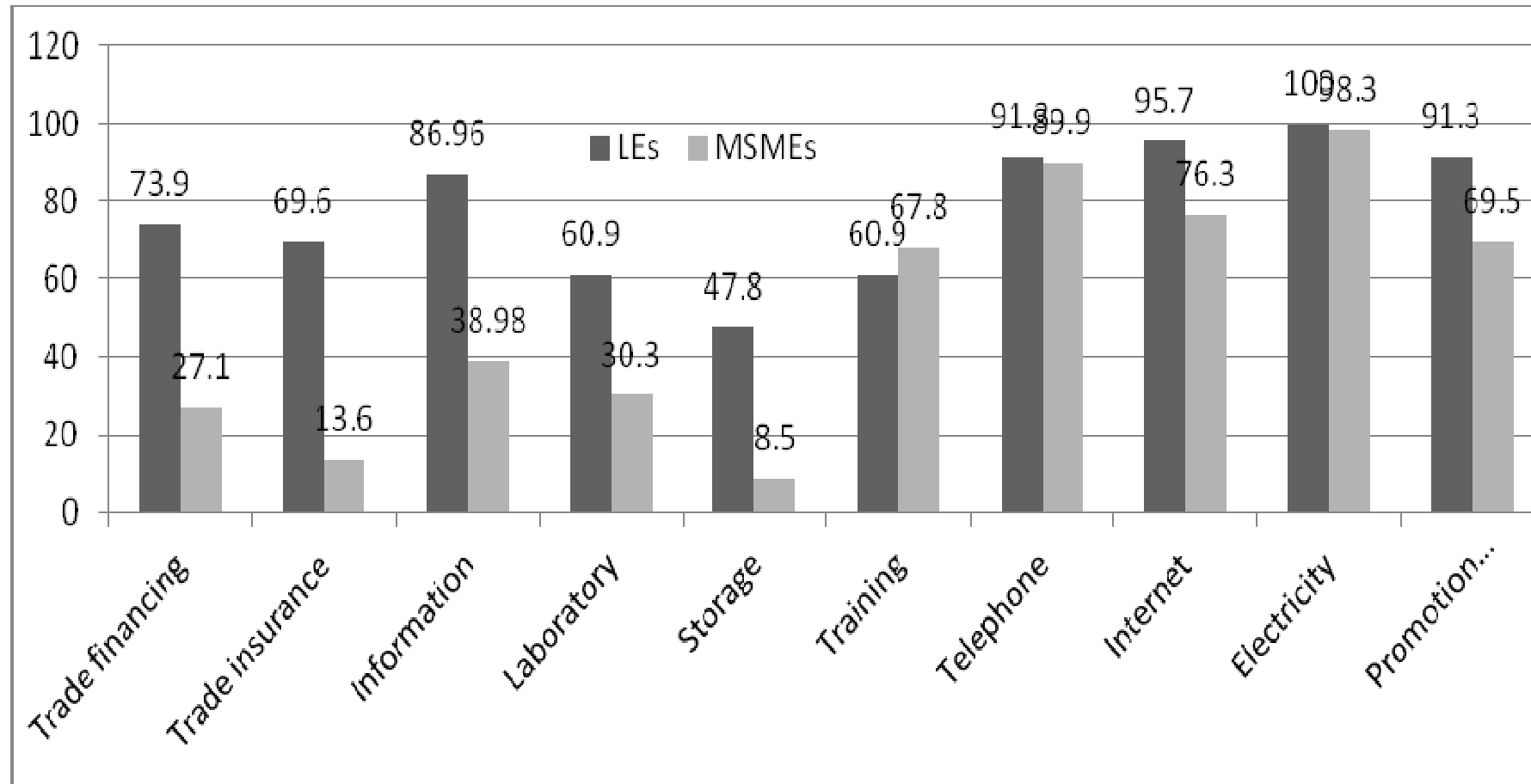


Findings

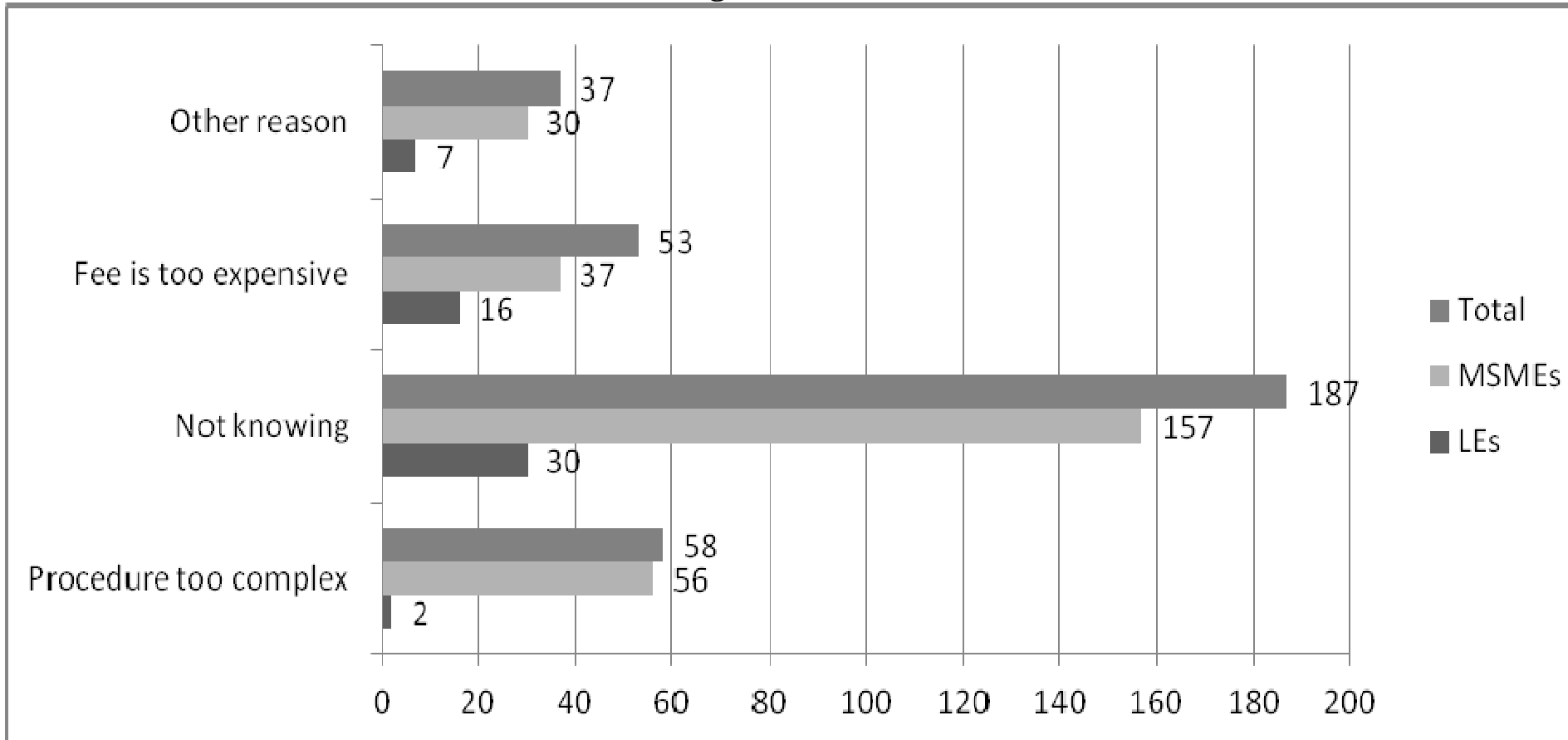
Percentage of Total Respondents by Size Category and Type of Main Constraint



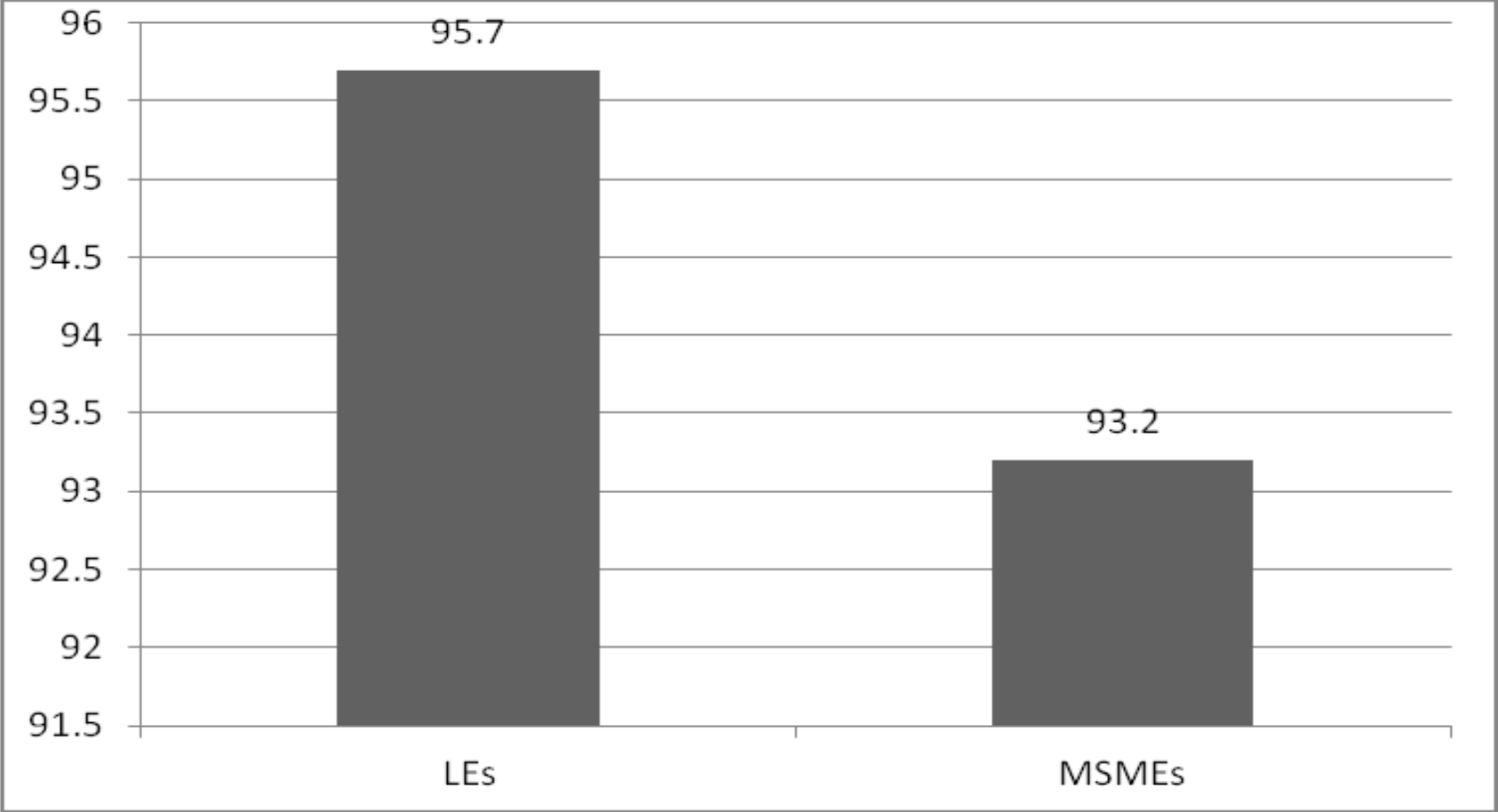
Percentage of Respondents by Access to Selected TF Measures



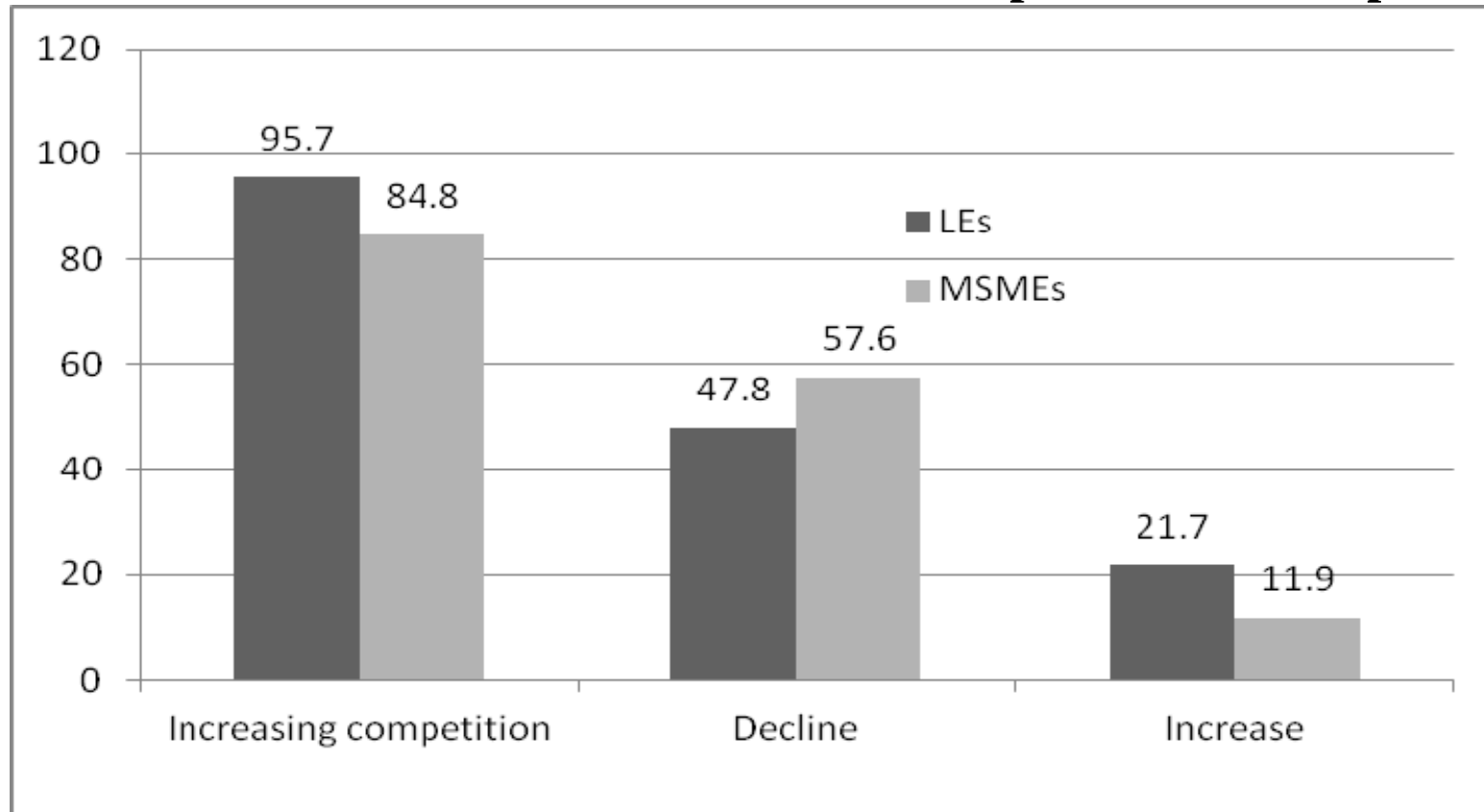
Main Reasons of Not Having Access to Some Listed TF Measures



Percentage of Satisfied Respondents Having Access to Selected TF Measures



Percentage of Respondent Facing Increasing Competition and the Impact on Their Export

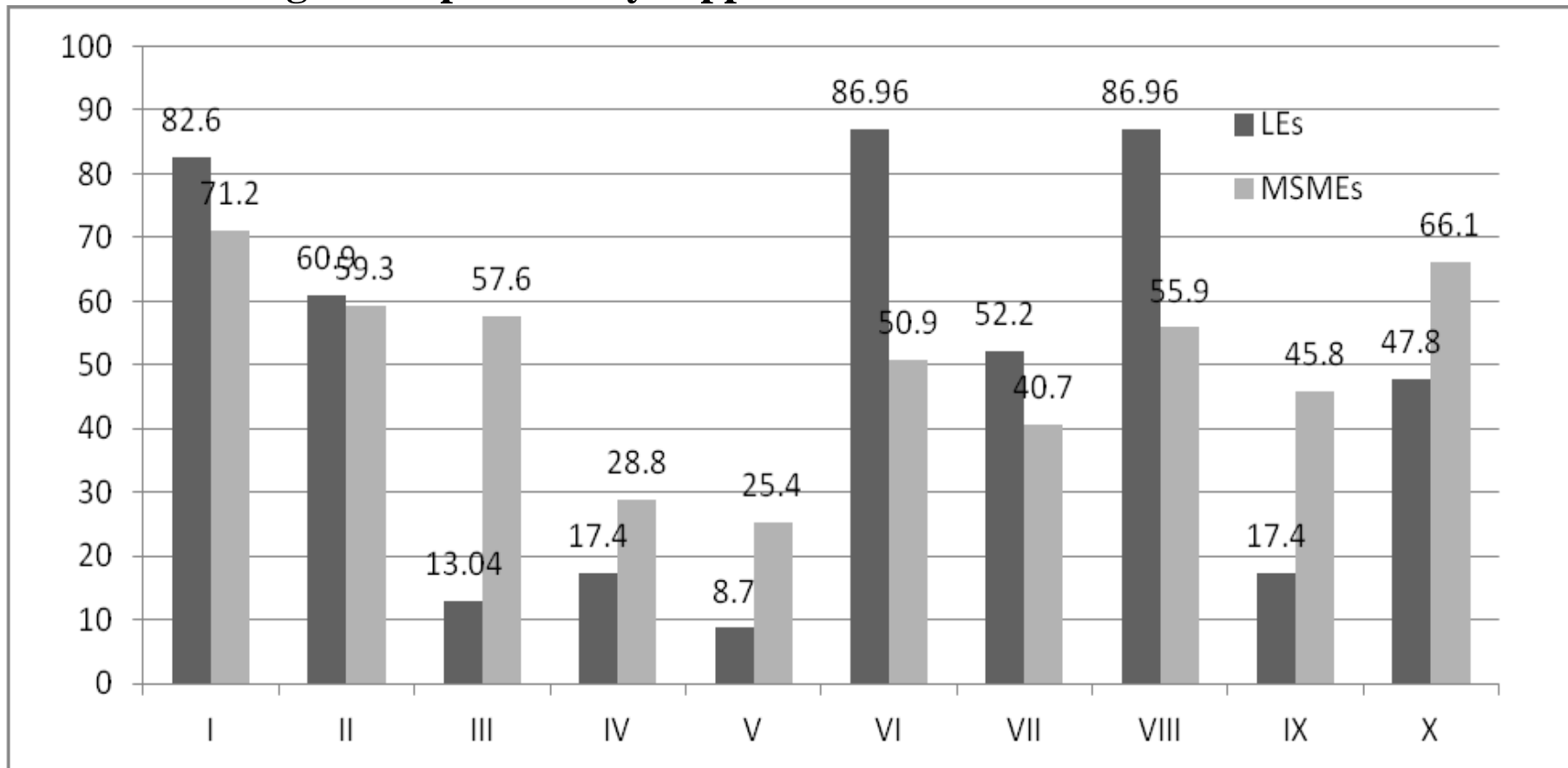


Supports from Government and Private Sector

i.e.

- Ministry of trade (I),
- Ministry of industry (II),
- Ministry for cooperative and SME (III);
- R&D institutes (IV);
- universities (V);
- chamber of commerce and industry (Kadin; VI);
- business associations (VII);
- banks and/or non-bank financial institutions (VIII);
- state-owned companies (BUMN; IX);
- local government (Pemda; X).

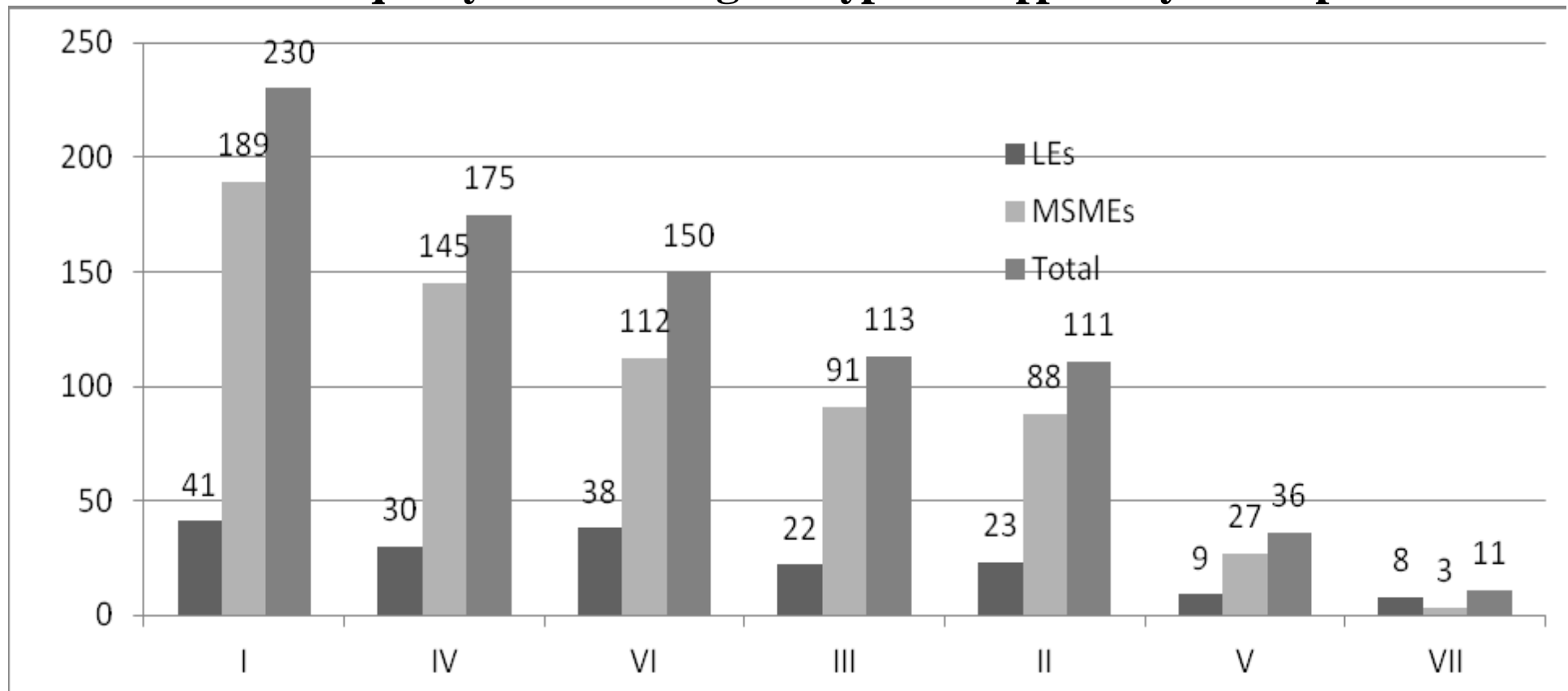
Percentage of Respondents by Supports Received from Government and Private Sector



With respect to type/form of supports i.e.

- training (I),
- financing (II),
- technical assistance (III),
- marketing/promotion (IV),
- procurement of raw materials/inputs (V),
- market information (VI),
- others if any (VII).

Frequency of Mentioning the Types of Supports by the Respondents



"Positive" Policies Needed by Respondents

Aspects	"Positive" policies
Raw materials	<ul style="list-style-type: none"> -Prohibiting export of raw materials (e.g. rattan) -Facilities to import raw materials for exports, including the presence of safeguard; -Low or no import tariffs -No restriction to import used materials/components -Stable and competitive exchange rate
Product quality	<ul style="list-style-type: none"> -Implementation of Indonesian National Standard (SNI) and supports for entrepreneurs to meet SNI
Export activity	<ul style="list-style-type: none"> -Supports in the forms of e.g. technical assistance, special credit scheme or easy access to bank credits, training, promotion, market information; -Centralization of export services networks and working 24 hours, including online services to get all licenses required. -No export tax and other barriers -Stable and competitive exchange rate -Low costs of transportation to port/hub, container, shipping
Energy	<ul style="list-style-type: none"> -Low cost -reliability in supply (e.g. electricity)
Infrastructure	<ul style="list-style-type: none"> -Development or improvement of existing infrastructure including road, port/harbor facilities (e.g. Semarang)
Manpower	<ul style="list-style-type: none"> -conducive wage regulation
Business environment	<ul style="list-style-type: none"> -No sudden changes or inconsistency in regulation/policies -New regulations must be clear and well thought off.

Conclusion

- Although TF is targeted for international trade, domestic market oriented MSMEs or those which only export a small part of their goods may also benefit from TF, as it has some spill-over effects on domestic business environment including improved better and transparent regulations, better storage facilities, improved logistics services, access to trade related information, and financial services

- Many government supported/initiated facilities, including TF, are not yet reached many MSMEs in Indonesia, especially those located in rural or rather isolated regions. The field findings show that the main reason for that lacking is the lack of information about existing TF by the owners of MSMEs. Thus, the main problem is not that TF does not exist, but it is mainly the lack of awareness by the MSMEs.

- Although a correlation between MSMEs' access to TF measures and impact on their export is difficult to measure, the finding regarding the question asked on whether or not the respondents are satisfied with TF services they received may suggest that TF services have some positive effects on exports of most of the respondents. However, the finding also suggests that although having access to improved TF is important for MSMEs, at the end the capability of them to increase their export will also depend on whether they can meet other export requirements such as enough production capacity and their ability to do innovation.

Suggested three policy measures:

- As lack of awareness by MSMEs to TF services is a major issue, the most important policy measure should touch upon 'reaching out to MSMEs'.

- Each departments in sectors where many MSMEs doing international trade transactions, especially the Ministry of Industry, should provide trainings with or without cooperation with private sector to MSMEs on how to find information about TF and how to access to it.

- As many elements of TF involve ICT on one hand, and, as MSMEs, especially MIEs, in Indonesia still have difficulties to access to ICT or to adjust their 'traditional business behavior' with 'ICT-based modern business', the Indonesian government should take 'affirmative actions', or 'positive discrimination' policies that take factors related to their limitations due to their smallest size and other 'inferior' characteristics like low educated owners and employees, and not aware of the importance of the use of ICT due to their lacks of knowledge into consideration in order to benefit them or to make them easy to integrate into ICT-based TF.

The affirmative action should include low cost (if not free) ICT workshop and trainings, technical assistance/consultation during the adoption process, a special credit scheme for financing development of ICT system in MIEs, and low price/fee of e-mail and internet connection subscriptions with limited period (for the beginners).

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