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

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1. Introduction

This study is about export-oriented micro, small and medium enterprises (MSMEs) in Indonesia, which aims to examine their access to trade facilitation (TF). It uses the definition of MSMEs by the National Statistics Agency (BPS), which defines micro enterprises (MIEs) as units of production/firms with 0 to 4 workers; small enterprises (SEs): 5 to 20 workers; medium enterprises (MEs): 21 to 99 workers, and enterprises employing 100 and more workers are categorized as large enterprises (LEs). The study has three main research questions: (1) do export-oriented MSMEs have access to TFs, such as trade finance, trade insurance, information on market and trade regulation/policies through internet, infrastructure such as well-constructed roads linking their clusters/production locations to main trading ports, transport facilities, testing laboratories, ware/storehouses, electricity and communication? (2) how helpful are those TFs in supporting their export?

Good TF measures and full access to TF are considered very important for MSMEs since the fact that MSMEs are very important in Indonesia not only because they generate employment, produce basic goods for middle and low income households and contribute significantly to the country's gross domestic product (GDP), but many of them do have great potential as exporters and Indonesia needs export to earn foreign currencies to replace the country's dependency on foreign loans. Moreover, national data on MSMEs indicate that the majority (about 99 per cent) of them (about 51 million units in total) are from the category of MIEs and SEs, and people (owners and workers) engaged in these enterprises are from low income group. Due to their lacks of such as capital, technology, access to wider market, and human skilled, their productivity and income per capita are low. Even MIEs are generally considered as a pocket of poverty. But many MIEs are involved directly or indirectly in export activities.

Thus, with this fact it is obvious that the improvement in the performance (e.g. productivity and export growth) of MSMEs, especially MIEs and SEs, will contribute a lot to poverty alleviation, and making MSMEs more capable to do export would help much to meet that goal.

The study is based on: (1) desk research: academic literature on MSMEs, especially with respect to their export performance and their access to TF in Indonesia and in other Asian developing countries as a comparison (including studies done in e.g. India and Sri Lanka for ARTNeT); government and reports from various non-government organizations (NGOs) and other publications on TF and MSMEs access to TF in Indonesia; (2) secondary data analysis on MSMEs in Indonesia focusing on export-oriented MSMEs; (3) key informant/indepth-interview (e.g. related local government officials, NGOs assisting MSMEs in doing export); and (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. They were selected randomly and face-to-face interviewed using a semi-structured questionnaire consists of a list of questions covering broad areas related to TF (see the appendix). The sample also includes some LEs to have a comparison picture regarding the research questions stated above.

2. Development of Indonesian MSMEs

Historically, Indonesian micro, small and medium enterprises (MSMEs) have always been the main players in domestic economic activities, accounting for more than 99 percent of all existing firms across sectors (Table 1) and providing employment for over 90 percent of the country's total workforce (Table 2), mostly women and the youth. The majority of MSMEs are micro and small enterprises (MSEs), which are dominated by self-employment enterprises without wage-paid workers. Many MSEs, especially micro enterprises (MIEs), are established by poor households or individuals who could not find better job opportunities elsewhere, either as their primary or secondary (supplementary) source of income. Therefore, the presence of many MSEs in rural as well as urban areas in Indonesia is considered as a result of current unemployment or poverty problem; not seen as a reflection of entrepreneurship spirit (Tambunan, 2006; 2008b; 2009a,b).

Table 1: Total enterprises by size category in all economic sectors in Indonesia, 2000-2009
(in thousand units)*

Size category	2000	2001	2003	2004	2005	2006	2007	2008	2009
MSEs	39,705	39,883.1	43,372.9	44,684.4	47,006.9	48,822.9	47,720.3	52,327.9	52,723.5
Mes	78.8	80.97	87.4	93.04	95.9	106.7	120.3	39.7	41.1
Les	5.7	5.9	6.5	6.7	6.8	7.2	4.5	4.4	4.7
Total	39,789.7	39,969.9	43,466.8	44,784.1	47,109.6	48,936.8	49,845.0	52,262.0	52,769.3

Note: * MSEs consist of microenterprises (MIEs) and small enterprises (SEs); MEs=medium enterprises; LEs = large enterprises.

Source: State Ministry for Cooperative and SMEs (www.depkop.go.id) and Indonesian Central Bureau of Statistics (BPS) (www.bps.go.id)

Table 2: 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

Note: * data at sectoral level are not yet available for 2009.

Source: State Ministry for Cooperative and SMEs (www.depkop.go.id) and BPS (www.bps.go.id)

The majority of MSMEs in Indonesia are involved in agricultural activities (Table 3). In 2008 there were about 42.7 millions laborers in that sector, of which almost 99.5 percent worked in MSMEs. While, in terms of unit there were about 26.4 millions units in that sector, of which almost 100 percent were MSMEs. Within the MSMEs, MIEs are mostly agricultural-oriented. About 52 percent of total MIEs were found in the sector, compared to only 0.2 percent and 4.2 percent with respect to, respectively, SEs and MEs. In the manufacturing sector, MSMEs are traditionally not so strong as compared to LEs. This structure of MSMEs by sector is, however, not an Indonesian unique. It is a key feature of this category of enterprises in developing countries, especially in countries where the level of industrialization is relatively low.

Table 3: Structure of Enterprises by Size Category and Sector in Indonesia, 2008 (units)*

	MIEs	SEs	MEs	LEs	Total
Agriculture	26,398,113 (52.07)	1,079 (0.21)	1,677 (4.23)	242 (5.54)	26,401,111 (51.50)
Mining	258,974 (0.5)	2,107 (0.41)	260 (0.66)	80 (1.83)	261,421 (0.51)
Manufacture	3,176,471 (6.27)	53,458 (10.28)	8,182 (20.63)	1,309 (29.94)	3,239,420 (6.32)
Elect, gas & water supply	10,756 (0.02)	551 (0.11)	315 (0.79)	125 (2.86)	11,747 (0.02)
Construction	159,883 (0.32)	12,622 (2.43)	1,854 (4.68)	245 (5.60)	174,604 (0.34)
Trade, hotel & restaurant	14,387,690 (28.38)	382,084 (73.45)	20,176 (50.88)	1,256 (28.73)	14,791,206 (28.85)
Transport & communication..	3,186,181 (6.29)	17,420 (3.35)	1,424 (3.59)	319 (7.30)	3,205,344 (6.25)
Finance, rent & service	970,163 (1.91)	23,375 (4.49)	3,973 (10.02)	599 (13.70)	998,110 (1.95)
.Services	2,149,428 (4.24)	27,525 (5.29)	1,796 (4.53)	197 (4.51)	2,178,946 (4.25)
Total (percentage)	50,697,659 (100.00)	520,221 (100.00)	39,657 (100.00)	4,372 (100.00)	51,261,909

Note: * data at sectoral level are not yet available for 2009.

Source: State Ministry for Cooperative and SMEs (www.depkop.go.id) and BPS (www.bps.go.id)

3. Export Performance

Other important feature of MSMEs in Indonesia (as in developing economies in general) is that most of the enterprises are domestic market oriented for a number of reasons. The most important one is their lack of four key inputs, namely (i) technology and skilled workers (so they cannot make highly competitive products that meet world standards), (ii) information especially on market potentials (including current changes in market demand/taste), (iii) global business strategies, and (iv) capital for financing export activities. Especially for MIEs and SEs, doing international marketing is too costly, as they have to deal with such as promotion, distribution, communications, export license, transportation and logistic.

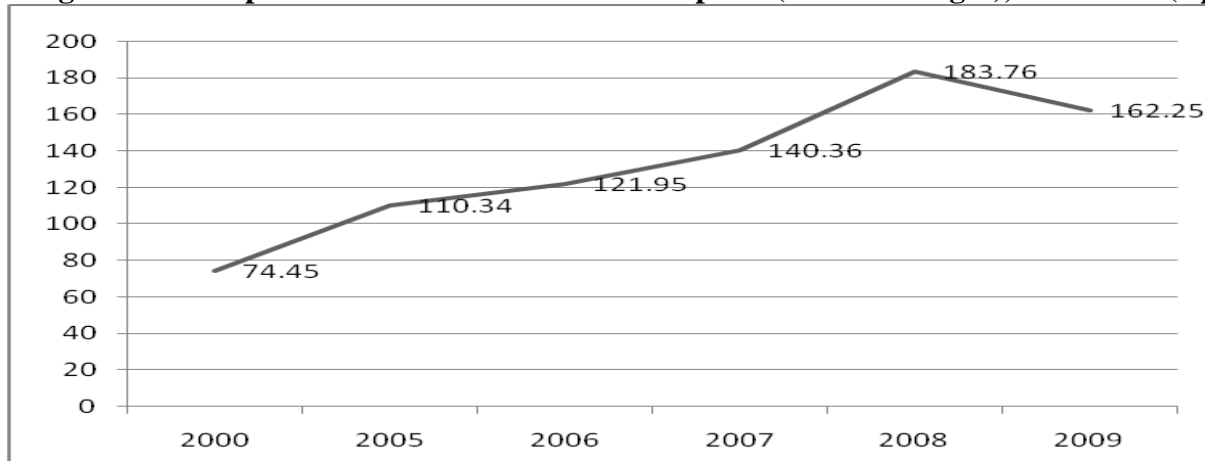
Nevertheless, based on government data, in some groups of industries, many Indonesian MSMEs do export. Government data show that MSMEs' total exports (non-oil and gas) continue to grow from year to year (Table 4); although in 2009, their total exports declined slightly (Figure 1). Probably the decline was caused, among other factors, by the 2008/09 global economic crisis. During that crisis, many Indonesian exports of manufactured goods including furniture which is produced and exported mainly by MSMEs, declined.

Table 4: Export Values of Indonesian MSMEs, 2006-2009 (Rp billion/US\$ million)

Year	Non-oil and gas Export				
	MIEs	SEs	MEs	LEs	Total
2006	Rp13,477.2	Rp29,365.4	Rp79,108.2	Rp656,231.8	Rp778,182.6
	US\$1,347.7	US\$2,936.5	US\$7,910.8	US\$65,623.2	US\$77,818.3
2007	Rp15,024.9	Rp34,661.8	Rp93,325.7	Rp749,999.9	Rp893,012.3
	US\$1,502.5	US\$3,466.2	US\$9,332.6	US\$75,00.0	US\$89,201.2
2008	Rp 20,247.2	Rp44,148.3	Rp119,363.6	Rp915,091.2	Rp1,098,850.2
	US\$2,024.7	US\$4,414.8	US\$11,936.4	US\$91,509.1	US\$109,885.0
2009	Rp 14,375.3	Rp36,839.7	Rp 111,039.6	Rp790,835.3	Rp953,089.9
	US\$1,597.26	US\$4,093.3	US\$12,337.7	US\$87,870.6	US\$105,898.9

Source: State Ministry for Cooperative and SME (www.depkop.go.id)

Figure 1 Development of Indonesian MSMEs' exports (non-oil and gas), 2000-2009 (Rp trillion)



Source: State Ministry for Cooperative and SME (www.depkop.go.id)

4. MSMEs' Access to Trade Facilitates

As explained in Grainger (2009), TF is the simplification, harmonization, standardization and modernisation of trade procedures. It seeks to reduce trade transaction costs at the interface between business (i.e. exporters and importers) and government and is an agenda item within many customs related activities. These include WTO trade round negotiations, supply chain security initiatives, development and capacity building programs, as well as many customs modernisation programs. The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) defines TF as the simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment (OECD 2003). In UN/CEFACT and UNCTAD (2002), it is stated that TF covers: trade procedures, customs and regulatory bodies, provisions for official control procedures applicable to import, export and transit including: general arrangements, customs controls, official documentation, health and safety, financial securities, and transshipment, provisions relating to transport and transport equipment, including: air transport; sea transport; and multimodal transport, provisions relating to the movement of persons, provisions relating to the management of dangerous goods, provisions relating to payment procedures, provisions relating to the use of information and communication technologies, provisions relating to the commercial practices and the use of international standards, and legal aspects of TF.

While TF frequently refers to all measures that can be taken to facilitate and ease cross-border trade flows, there is no standard formal definition of trade facilitation. In a broader sense of the term, as stated in Damuri (2006), TF can be defined as any action intended to reduce transaction costs which affect the international movement of goods, services, investments and people. For some others such as Moisé, et al. (2011), TF refers to policies and measures aimed at easing trade costs by improving efficiency at each stage of the international trade chain. They also cited the WTO definition of TF, which is the simplification of trade procedures, which is understood as the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movements of goods between countries/economies. Therefore, removing administrative and technical barriers to trade, as a way to reduce

trade transactions costs, and facilitate more inclusive participation of MSMEs in international trade, must also be considered as part of improving TF measures.

For Indonesia, not so many studies on this matter have been conducted so far, and among the existing ones was by Damuri (2006), which can be seen among serious studies on TF in Indonesia, and for it he also did a survey of private sector actors from different lines of business activities, including exporters and importers. He concludes that although Indonesia has already implemented various TF measures currently discussed in the WTO TF negotiation, the degree of implementation of those measures still needs significant improvement in order to provide simplified and harmonized procedures related to trade. In response to increasing demand for better public services related to trading activities, the Indonesian government has launched a number of programs to improve trade procedures, including a customs related administration program. The programs are also in line with several international agreements on trade facilitation, in which Indonesia has actively participated. Those include the APEC Trade Facilitation Action Plan and ASEAN Customs Agreement. Findings from his survey reveal that the implementation of several TF measures needs significant improvement. While the availability of information related to trading activities has shown significant progress, this remains the most problematic issue. The survey also found that many traders faced difficulties in meeting certain regulations and procedures based on new regulations, as they were issued and implemented at the same time, without any notification whatsoever. The lack of formal consultative mechanisms exacerbated the situation even further. Rampant illegal conduct of officials has eroded the competitiveness of Indonesian products. Traders surveyed complain that improper conduct of trade-related officials do not only increase costs, but also slow down their activities, which might lead to the loss of business opportunities and substantial market share.

Another research is from Rahardhan, et al. (2008) which may also give some clue about the impact of TF on export activities in Indonesia. They examined the impact of ASEAN TF on trade volume of main important commodities from East Java. For the purpose, they conducted in-depth interviews with exporters from all sizes and some key officials. The findings from the interviews show that from the own opinion perspective of the respondents, the most important trade facilities are the followings. With respect to tariff barriers, the respondents see that removing all problems related to custom procedure, tariff differences in line with declining MFN tariff, administration procedures in filling all required forms, and information on the Common Effective Preferential Tariff (CEPT) scheme have the most important effects. With respect to non-tariff barriers, the elimination of problems related to import license, regulations on specific technical requirements, costs of various extra taxes, including tax of foreign exchange transactions, import license, and many others, and procedure of custom clearance¹

Unfortunately, until now not so many studies have been conducted specifically on export-oriented MSMEs' access to TFs and the impact of their access to TF on their export volume and cost in Indonesia. Although some official statements made by government agencies may suggest indirectly that access to TF is still a serious constraint for MSMEs. Trade finance is among important TF, and recently, Bank Indonesia

¹Other studies on TF or some elements of it in Indonesia are including Anas (2003) who focuses on Indonesian customs reform comprehensive measures for facilitating trade, and Hakim (2007).

(BI) states that still 50 percent of total MSMEs in Indonesia are still not served by banks (<http://ditjenpdn.kemendag.go.id/index.php/public/information/articles-detail/berita/30>), as also confirmed before by e.g. Tables 17 and 18. While many studies elsewhere shows that liquidity constraint is among important factors that hinder many firms, including MSMEs, to become sustainable exporters.²Also, statement given by the Coordinating Ministry for Economy, Hatta Rajasa, during the KKPOD Award 2011 in Jakarta (July 2011) that MSMEs have difficulties in getting licenses, which may also include export license and license for importing raw materials. His statement was based on findings of a survey conducted by KKPOD in collaboration with the Asia Foundation (TAF).

Probably a study done before by Tambunan (2009) can be seen as the only serious efforts to examine the impact of TF on export activities of MSMEs in Indonesia so far. He did a survey of 39 export-oriented MSMEs in the wood furniture industry in Central Java conducted in August 2009. His main argument as the basis for conducting his study is the fact that many export-oriented MSMEs or those which have great potentials to become exporters could not do export by themselves/directly, but must through the third party such as large-sized exporting or trading companies. He states that there are at least two main reasons. First, financial problem: most MSME, especially MSEs, lack of capital to pay all costs involved with export activities is limited; while, on the other hand, not easy for them to get enough support from banks or other formal financing institutions. Second, institutional and business constraints that MSMEs could not solve because of (i) they do not have direct access to export market or no access to information on export market opportunities and requirements; (ii) they are not able to adjust to rapid changes in export market; (iii) there is high risk in payment and shipment; (iii) payment is delayed, which small exporters/producers could not endure as they need daily cash flow very badly; (iv) there is higher cost involved in direct export activities by MSMEs; and (v) and no access to TF. During the survey, the respondents were requested to mention which form of TF is considered as the main problem in doing export. The finding shows the following six forms of TF mentioned by the respondents, though different individuals (or groups of individuals) have different perceptions about the degree of the problem with respect to each of the items as shown in Table 5.

Table 5: Form of TF as the main problem faced by the respondents

Form of TF	Respondents (N=39)	
	Number	% of the total
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	

Source: field survey

Based on this finding, however, one cannot conclude that such items of TF have a bias against MSMEs. The finding can only indicate that among those items, lack of access to trade financing reveals as the most problem

²See, among many others, Bernard and Wagner (2001), Bernard and Jensen (2004), Chaney (2005), Greenaway, et al. (2007), Muúls (2008); Li and Yu (2009), Manova (2009), and Ito and Terada-Hagiwara (2011). In addition, see also Milner et al. (2009) for their survey of literature on trade effects of TF in a large number of developing countries.

for the majority of the respondents. This finding is interesting due to the fact that many banks in Indonesia have been doing many efforts to facilitate SMEs in trade. Not only private commercial banks such as Bank International Indonesia and Standard Chartered Bank, but also several state-owned banks such as Bank Mandiri, BRI, BNI and Bank Ekspor-Import Indonesia provide trade facilities to SMEs. The trade facilities include loan for working capital, investment credit, letter of credit (L/C), foreign exchange line, bank guarantee, shipping guarantee, business management account –international trade (current account with interest and integrated trade facility), Loans Against Trust Receipt (LATR) , Inward Bills Collection (IBC), Invoice Financing for Suppliers (purchase) , Credit Bills Negotiation (CBN) Clean and Discrepant , Pre-Export Financing , Export Bills Collection (EBC), etc.

So, this new study that comes with much larger sample from two regions should be considered as an effort to add more information on the issue being studied. This new study may address the gaps by focusing more on MSMEs' access to TF, their way of doing export (directly or indirectly), their main constraints in doing export, and their own perception about competition as a direct result of free trade agreements and the impact on their exports.

5. Surveys: Findings and Discussions

5.1 Profile of the Sample

As already explained briefly in the introduction, two field surveys on export-oriented MSMEs in two different locations/cities in Central Java have been conducted for this study, namely Solo and D.I. Yogyakarta. Total respondents surveyed are 82 producers with the following specification: Solo: 20 LEs and 10 MSMEs (total 30 respondents), and D.I.Y:3 LEs and 49 MSMEs (total 52 respondents).³As said in the methodology section of this paper, the sample also includes some LEs as a comparison, and the initial plan was to have more MSMEs than LEs in Solo. However, during the observations and the survey, it was not so easy to find MSMEs which are still doing export. It was found some MSMEs which did not do export any more or had stopped doing that since many years ago for various reasons, including hard to compete and no capital to financing export activities.

The commodities of the sampled respondents are ranging from wood/bamboo and rattan furniture, cloths to handicrafts. Among the surveyed LEs, the largest respondent employs wage-paid more than 1000

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