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**Working Paper**

## Ongoing trade facilitation improvement: Its impact on export-oriented small and medium-sized enterprises in Indonesia

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Ongoing trade facilitation  
improvement: Its impact  
on export-oriented small  
and medium-sized  
enterprises in Indonesia



Tulus T. H. Tambunan

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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**WORKING PAPER**

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# **Ongoing trade facilitation improvement: Its impact on export-oriented small and medium-sized enterprises in Indonesia**

Tulus T. H. Tambunan

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**Abstract:** Trade facilitation refers to all measures that can be taken to facilitate cross-border trade flows, but there is no standard formal definition of trade facilitation. This paper examines whether export-oriented MSMEs have access to trade facilitation and how helpful trade facilitation is in supporting exports by MSMEs. Data shows only a small proportion of MSMEs export their products, and the paper makes recommendations on encouraging export activities through increasing awareness and training of MSMEs regarding trade facilitation information, and promotion of information communications technology.

**JEL Classification:** F13

**Key words:** Development, Indonesia, SME, Trade, Trade Facilitation

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## Introduction

The study described in this chapter examines the effect of trade facilitation measures on export-oriented micro, small and medium-sized enterprises (MSMEs) in Indonesia.<sup>1</sup> While trade facilitation frequently refers to all measures that can be taken to facilitate 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), trade facilitation can be defined as any action that is intended to reduce transaction costs that affect the international movement of goods, services, investments and people. Trade facilitation also refers to policies and measures aimed at easing trade costs by improving efficiency at each stage of the international trade chain (e.g., Moïsé and others, 2011). The coverage of trade facilitation may include aspects such as trade procedures, trade finance, market information, customs, regulatory bodies, provisions for official control procedures applicable to import, export and transit provisions related to transport and transport equipment, provisions related to the use of information and communication technologies, logistics and infrastructure, among others. The study poses two main research questions:

(a) Do export-oriented MSMEs have access to trade facilitation?

(b) How helpful is trade facilitation in supporting exports by MSMEs?

Availability of good trade facilitation and full access to the benefits of trade facilitation measures are considered very important for MSMEs, which, in turn, generate employment, produce basic goods for middle- and low-income households and contribute significantly to the country's gross domestic product (GDP). Data from the National Statistics Agency (BPS) on MSMEs indicate that almost all of them (about 51 million units in total) are micro enterprises (MIEs) (mainly self-employment) and small enterprises (SEs), and that the owners and workers engaged in these largely family owned-enterprises are from the low-income group (BPS, 2010). Due to their lack of capital, technology, access to wider markets and skilled manpower, on average these labour-intensive enterprises have low levels of productivity and income.

Improvement in MSME performance (e.g., productivity and export growth), especially MIEs and SEs, may strongly contribute to poverty alleviation, as they often involve poor farming communities or landless farm households. Empowerment of MIEs has indeed been

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<sup>1</sup> It uses the National Statistics Agency definition of MSMEs: (a) micro enterprises as production units/firms – 0 to 4 workers; small enterprises – 5 to 20 workers; medium enterprises – 21-99 workers; and large enterprises – 100 or more workers.

generally accepted as an important strategy for poverty alleviation (Harvie, 2003; Suryahadi and others, 2010). One way to empower these enterprises is to support them through exporting, as many MIEs are also involved directly or indirectly in export activities, mainly in the handicrafts industry (BPS, 2010).

The study is based on:

- (a) Desk research – academic literature on MSMEs, especially with regard to their export performance and access to trade facilitation in Indonesia and other Asian developing countries,<sup>2</sup> reports from the Government and various non-governmental organizations (NGOs), and other publications on trade facilitation and MSMEs' access to trade facilitation in Indonesia;
- (b) Secondary data analysis on MSMEs in Indonesia focusing on export-oriented enterprises;
- (c) Key informant/in-depth interviews (e.g., related local government officials, NGOs assisting MSMEs in exporting);
- (d) Field surveys in two clusters of export-oriented MSMEs with 30 producers in Solo and 52 producers D. I. Yogyakarta as respondents. Both regions are located in central Java. The respondents were selected randomly, based on the lists of members provided by the local Chamber of Commerce (Kadinda). They were interviewed face-to-face, using a semi-structured questionnaire comprising a list of questions covering broad areas related to trade facilitation (see annex). MSMEs as well as large enterprises (LEs) are considered in order to gain a comparative picture regarding the research questions stated above.

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<sup>2</sup> Mainly through the World Bank and Asian Development Bank databases, and studies carried out, for example, in India and Sri Lanka for ARTNeT.



## 1. Development of Indonesian MSMEs

Historically, Indonesian MSMEs have always been the main players in domestic economic activities, accounting for more than 99 per cent of all existing firms across sectors (table 1) and providing employment for more than 90 per cent of the country's total workforce (table 2), comprising mostly women and youths. The majority of MSMEs are micro- and small-sized enterprises (MSEs), and within the MSEs the dominant enterprises in terms of number are MIEs, or about 99 per cent of total MSEs. Many MIEs are established by poor households or individuals who could not find better job opportunities elsewhere, as either their primary or secondary (supplementary) source of income. If not all, at least the majority of MIEs are operating in the informal sector (which means that the majority of MSMEs in Indonesia are operating in the informal sector). Their presence in rural as well as urban areas in Indonesia is often considered to be a result of current unemployment or poverty problems, and not a reflection of entrepreneurship spirit (Tambunan, 2006, 2008, 2009(a) and 2009(b)).<sup>3</sup>

**Table 1. Total enterprises by size category in all economic sectors in Indonesia, 2000-2009**  
(Unit: '000 enterprises)

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

Sources: State Ministry for Cooperatives and SMEs (available at [www.depkop.go.id](http://www.depkop.go.id)) and the Indonesian Central Bureau of Statistics (BPS) (available at [www.bps.go.id](http://www.bps.go.id)).

During 2000-2009, the total number of MSEs increased by some 32.7 per cent, while MEs and LEs both dropped by 47.8 per cent and 17.5 per cent, respectively. While most MEs and especially LEs are more integrated with the regional or global economies, MSEs are more local-market oriented (particularly MIEs), so they are more isolated or naturally protected from global market factors (e.g., the global financial crisis in 2008-2009) and heavy competition from imported goods. That is why no matter whether Indonesian economy is hit by regional or global economic recessions, MSEs have kept on increasing in number.

<sup>3</sup> As stated by (a) Anantha and others, 2010: "Micro-enterprises are the keys to generating employment opportunities as well as income earning avenues for...landless, women and landholding people"; and (b) Gennrich, 2004: "Due to the fact that MEs may be a suitable additional source of income generation, it would be of particular interest if such economic activities could also imply a reduction in rural poverty."

**Table 2. Total employment by size, category and sector in Indonesia, 2008\*****(Unit: No. of workers)**

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

Source: State Ministry for Cooperative and SMEs (available at [www.depkop.go.id](http://www.depkop.go.id)) and BPS (available at [www.bps.go.id](http://www.bps.go.id)).

\* Data at the sectoral level are not yet available for 2009.

**Table 3. Structure of enterprises by size, category and sector in Indonesia, 2008****(Unit: No. of enterprises)**

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

Source: State Ministry for Cooperative and SMEs (available at [www.depkop.go.id](http://www.depkop.go.id)) and BPS (available at [www.bps.go.id](http://www.bps.go.id)).

Note: Data at the sectoral level are not yet available for 2009.

The majority of MSMEs in Indonesia are involved in agricultural activities (table 3). In 2008, there were about 42.7 million labourers in that sector, of which almost 99.5 per cent worked in MSMEs. Within the MSMEs, MIEs are mostly agricultural-oriented. About 52 per cent of total MIEs were found in the sector, compared with only 0.2 per cent and 4.2 per cent, respectively, in SEs and MEs. In the manufacturing sector, MSMEs are traditionally not so strong compared to LEs.<sup>4</sup>

## **2. Link between MSMEs and poverty reduction**

Indonesia was among only a few countries in South-East Asia that experienced high rates of annual economic growth during the “New Order” era (1966-1998) led by former President Soeharto. In addition, it was probably among very few countries with the best performance in terms of industrialization, agricultural development (especially with regard to the implementation of the “green revolution”), GDP growth, income per capita growth and poverty reduction within the group of developing countries in Asia, Africa and Latin America. Because of its spectacular performance in that time, the World Bank’s regional report identified Indonesia, together with Malaysia and Thailand, as the “new Asian tigers” in addition to the existing ones (besides Japan), i.e., Hong Kong (before it was returned to China), the Republic of Korea, Singapore and Taiwan Province of China.

Guided by a five-year economic plan (*Repelita*), the process of economic development in Indonesia during that period placed emphasis on two sectors, industry and agriculture. Beginning with an import-substitution strategy in the early 1970s, followed by a gradual shift to an export promotion strategy in the mid-1980s – financed by donor countries and the World Bank and stimulated by huge inflows of foreign direct investment (FDI), especially in the manufacturing industry – Indonesia has experienced a rapid process of structural change from an agricultural-based economy to one that is industrial-based. However, the degree of industrial development in Indonesia in terms of diversification, structural strengthening and technology useage was still much lower compared to the Republic of Korea and Taiwan Province of China. By the end of the 1990s, Indonesia's GDP share of industry had already reached around 43 per cent, ranking it second after Malaysia within ASEAN.

As the output of these two sectors experienced remarkable growth, followed by output growth in some other non-mining sectors such as trade, construction and finance, overall, Indonesia’s GDP grew significantly at an annual average of 8 per cent during the 1980s and

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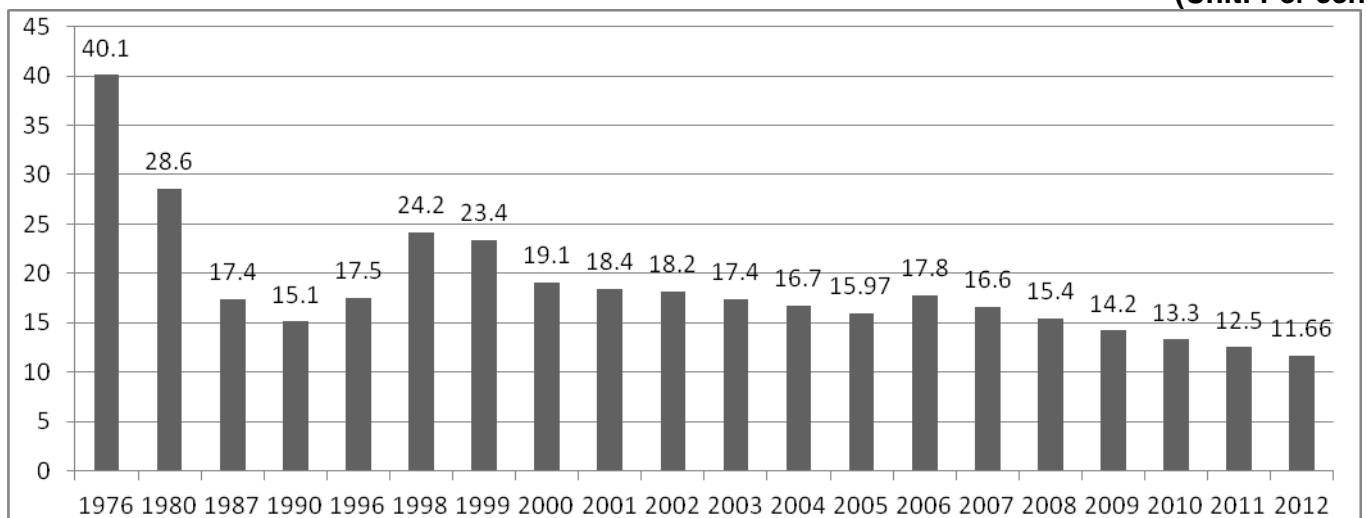
<sup>4</sup> This structure of MSMEs by sector is, however, not unique to Indonesia. It is a key feature of this category of enterprises in developing countries, especially in those countries where the level of industrialization is relatively low.

up to 1997 with a peak of 9.9 per cent in 1990. Income per capita also increased steadily from less than US\$ 500 in 1970 (which placed Indonesia among the poorest countries in the world at that time together with, for example, Bangladesh, Nepal and Sri Lanka) up to slightly more than US\$ 1,000 in 1996. After declining during the Asian financial crisis in 1997-1998, it started to rise again in 1999. Since then, it has continued to increase and was expected to reach more than US\$ 2,500 in 2011.

Another important indicator that also clearly shows the positive results of economic development during the Soeharto era is the continued decline in the poverty rate, measured by percentage of the country's total population living under the current national poverty line. In 1976, the poverty rate was about 40 per cent; by 1990 it had fallen to about 15 per cent. As a result of the 1997-1998 financial crisis, which led to many companies closing down and a subsequent significant increase in unemployment, the poverty rate jumped again to 24 per cent in 1998, the year that the crisis reached its worst point. However, from 1999, the poverty rate dropped again and reached 13.3 per cent in 2010. The World Bank forecast that in 2011 the poverty rate in Indonesia would be down further at around 12.5 per cent (figure 1).

**Figure 1. Poverty rate in Indonesia, 1976-2012**

(Unit: Per cent)



Source *Statistical Yearbook of Indonesia* (various years), Indonesian National Agency of Statistics (BPS) (available online at [www.bps.go.id](http://www.bps.go.id)).

The continuing decline in the poverty rate is undoubtedly linked to the Indonesia's sustained economic growth and increase in employment. In addition, as shown by BPS data, the facts that the number of MSMEs has increased annually and continue to be the main generator of employment, these enterprises have been the most important contributor to the continuing decline in poverty in the country.

### 3. Export performance

Most of the MSMEs in Indonesia (as in developing economies in general) are domestic market-oriented. In general, they lack: (a) technology and skilled workers, which prevents them from producing highly competitive products that meet world standards; (b) information, especially on market potential (including current changes in market demand/taste); (c) global business strategies; and (d) capital for financing export activities. In Indonesia, as in other developing countries, it is not uncommon (especially for MIEs and SEs) for direct international trade to be too costly due to various aspects such as promotion, distribution, communications, export licences, transportation and logistics. However, even if they are not directly involved in international trade, MSMEs can be integrated into export supply chains through the supply of components or semi-finished goods to export-oriented LEs.<sup>5</sup> Unfortunately, no national data are available on the involvement of Indonesian MSMEs in export supply chains. However, many Indonesian MSMEs are believed to have forward production linkages with exporting companies.

Nevertheless, based on government data, in some groups of industries many Indonesian MSMEs do export. Government data show that total exports (non-oil and gas) by MSMEs are continuing to grow from year to year (table 4), despite a slight decline in 2009, (figure 2), probably in relation to the global economic crisis.

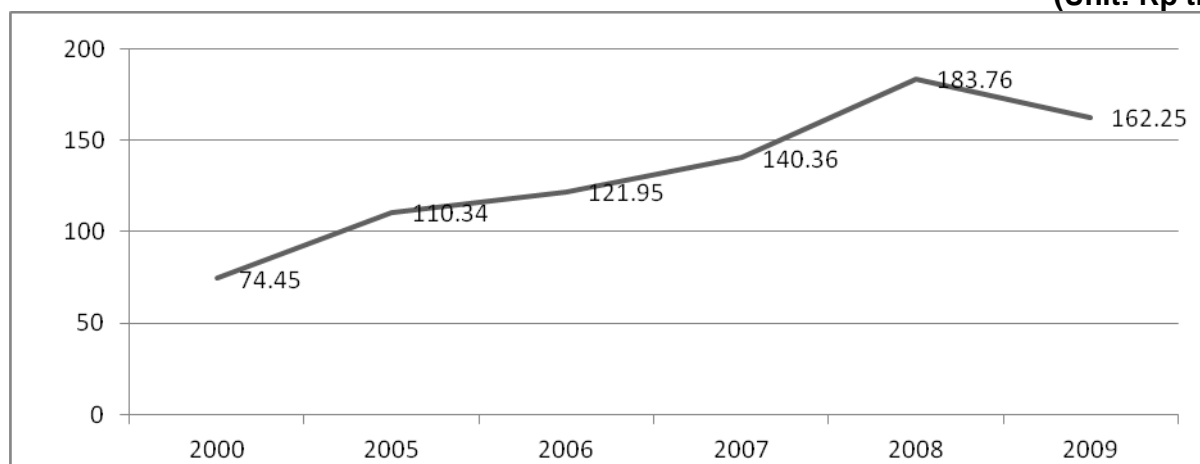
**Table 4. Export values of Indonesian MSMEs, 2006-2009**  
(Unit: Rp billion/US\$ million)

Year	Non-oil and gas exports				
	MIEs	SEs	MEs	LEs	Total
2006	Rp 13,477.2	Rp 29 365.4	Rp 79 108.2	Rp 656 231.8	Rp 778 182.6
	US\$ 1,347.7	US\$ 2 936.5	US\$ 7 910.8	US\$ 65 623.2	US\$ 77 818.3
2007	Rp 15,024.9	Rp 34 661.8	Rp 93 325.7	Rp 749 999.9	Rp 893 012.3
	US\$ 1,502.5	US\$ 3 466.2	US\$ 9 332.6	US\$ 7 500.0	US\$ 89 201.2
2008	Rp 20,247.2	Rp 44 148.3	Rp 119 363.6	Rp 915 091.2	Rp 1 098 850.2
	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	Rp 36 839.7	Rp 111 039.6	Rp 790 835.3	Rp 953 089.9
	US\$ 1,597.2	US\$ 4 ,093.3	US\$ 12 337.7	US\$ 87 870.6	US\$ 105 898.9

Source: State Ministry for Cooperatives and SMEs (available at [www.depkop.go.id](http://www.depkop.go.id)).

<sup>5</sup> This was stated in a report by ADB (2002) on the development of MSMEs in Indonesia, which suggested that the low representation of Indonesian MSMEs in the export sector was due mainly to the indirect nature of exporting through intermediaries.

**Figure 2. Development of Indonesian MSME exports (non-oil and gas), 2000-2009**  
(Unit: Rp trillion)



Source: State Ministry for Cooperatives and SMEs (available online at [www.depkop.go.id](http://www.depkop.go.id)).

#### **4. Access by MSMEs to trade facilitation and its impact on their trade activities**

In the current study, trade facilitation is defined as measures or actions taken by the Government as well as the private sector that make it easy for MSMEs to export directly with low transaction costs. Many MSMEs have great export potential, but they lack the necessary resources to export directly, e.g., working capital, knowledge/information about international market conditions or potential, and skills in exporting. Theoretically, with full access to trade facilitation, the export volume by MSMEs will increase and, subsequently, generate greater multiplier effects on employment creation and poverty reduction.

In the case of Indonesia, not many studies on trade facilitation and its impact have been conducted. Damuri (2006) carried out a survey of private sector actors in various types of businesses, including exporters and importers. He concluded that although Indonesia had already implemented various trade facilitation measures discussed in the WTO negotiations, the degree of implementation of those measures still needed 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 Government of Indonesia has launched several programmes for improving trade procedures, including a customs-related administration programme.

The programmes are also in line with several international agreements on trade facilitation, in which Indonesia has actively participated.<sup>6</sup> However, the findings of the Damuri (2006) survey revealed that the implementation of several trade facilitation measures needed

<sup>6</sup> These agreements include the APEC Trade Facilitation Action Plan and ASEAN Customs Agreement.

significant improvement. While the availability of information related to trading activities has shown significant progress, this remains the most problematic issue. Damuri also found that many traders faced difficulties in meeting certain regulations and procedures based on new regulations, as they were issued and implemented simultaneously, without any notification. The lack of formal consultative mechanisms exacerbated the situation. Rampant illegal conduct of officials was found to be eroding the competitiveness of Indonesian products. Traders surveyed complained that improper conduct of trade-related officials had not only increased costs, but also slowed down their activities, which could lead to the loss of business opportunities and substantial market share.

Rahardhan and others (2008) studied the impact of trade facilitation on export activities in Indonesia. They examined the impact of ASEAN trade facilitation on trade volumes of the main important commodities from East Java. They conducted in-depth interviews with exporting firms of all sizes as well as some key officials. The findings from the interviews showed that from the perspective of the respondents, the most important trade facilities were:

- (a) Tariff barriers – the respondents said that removing all problems related to customs procedures, tariff differences in line with declining MFN tariffs, administration procedures in completing all the required forms, and information on the Common Effective Preferential Tariff (CEPT) scheme had the most important effects;
- (b) Non-tariff barriers – the issues related to import licences, technical regulations, various extra taxes (including tax of foreign exchange transactions) and the customs clearance procedure were highlighted as important impediments.

The most recent study, although not focusing on Indonesia, was made by Otsuki (2011) who attempted to quantify the benefits of trade facilitation in ASEAN. He assessed the performance and progress of the ASEAN economies in trade facilitation, and the effect of improved trade facilitation on the region's manufacturing trade. In a scenario of raising the below-average countries halfway to the global average, he estimated ASEAN's trade would increase by US\$99 billion, three-quarters of which would come from the region's own improvements. He also found that regulatory reforms (e.g., the enhancement of transparency of trade-related regulations as well as ensuring law-abiding operations of the regulatory authorities) to be the most effective ones.

Other important studies were carried out by Shepherd and Wilson (2009) in ASEAN, and by ADB and ESCAP (2009) Trade flows in ASEAN were found to be particularly sensitive to trade facilitation, especially with regard to transport infrastructure as well as information and

communications technology. The findings suggested that the region could make significant economic gains from trade facilitation reform. Shepherd (2010) revealed two important facts. First, trade costs in many APEC economies have declined significantly since the 2001 Shanghai Declaration, in which APEC economies committed to reduce trade costs by 5 per cent over the following five years through tariff reductions and trade facilitation. The performance of individual economies, however, has varied substantially, and some economies are far below the Shanghai target. ASEAN member countries have also experienced some declines in trade costs, but generally to a lesser extent than in APEC.

However, in both groups, tariff reductions have played an important role in reducing overall trade costs. Progress on non-tariff trade costs has been much less impressive. This finding raises serious questions as to the effectiveness of trade facilitation efforts in the APEC region, which should be clearly focused on non-tariff trade costs or improvement of trade facilitation (Shepherd, 2010).

Trade facilitation performance in Asia and the Pacific has improved with a reduction of (a) the number of days involved needed to import and export and (b) other trade costs including international transportation costs. However, the trade facilitation performance gap between the APEC region and the world's most developed economies remains wide. In addition, national trade facilitation measures in many developing countries in Asia have often inherently focused on facilitating imports and exports from and to developed countries, partly because of the increasingly sophisticated requirements imposed by developed countries on their trading partners as part of trade security initiatives. As such, trade facilitation concerns at many land borders have remained unanswered.

Unfortunately, until now not many studies have been conducted specifically on access by export-oriented MSMEs to trade facilitation and the resultant impact on their export volume and costs in Indonesia. However, some official statements made by government agencies may indirectly suggest that access to trade facilitation measures is still a serious constraint for MSMEs. Trade finance is among the important trade facilitation measures, and recently Bank Indonesia (BI) stated that 50 per cent of all MSMEs in Indonesia were still not served by banks.<sup>7</sup>

Existing limited studies include Alavi (2009), who discussed the development of MSMEs in Indonesia during the 2008-2009 global economic crisis and the importance of trade facilitation, especially trade finance. However, the study was limited by the lack of strong

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<sup>7</sup> For additional details see <http://ditjenpdn.kemendag.go.id/index.php/public/information/articles-detail/berita/30>.



evidence as to whether these enterprises had easy access to trade facilitation and what had been the impact on their performance or their survival ability in times of economic crisis.

A prior study by Tambunan (2009c) is probably the only serious attempt so far to examine the impact of trade facilitation on export activities of MSMEs in Indonesia. He conducted a survey of 39 export-oriented MSMEs in the wood furniture industry in Central Java in August 2009. His main argument regarding the basis for conducting his study was the fact that many export-oriented MSMEs or those that had strong potential to become exporters could not directly export by themselves, but had to go through a third party such as large-sized exporting or trading companies. He highlighted two main reasons. First, a financial problem – most MSMEs, especially MSEs, lack sufficient capital needed to pay all costs involved in export activities. On the other hand, it is not easy for them to get sufficient support from banks or other formal financing institutions. Second, the existence of institutional and business constraints that MSMEs are unable solve because:

- (a) They do not have direct access to export markets or no access to information on export market opportunities and requirements;
- (b) They are unable to adjust to rapid changes in export markets;
- (c) High risks exist in payment and shipment;
- (d) Delayed payments by importers. Small-sized exporters/producers cannot shoulder such a burden as a daily cash flow is vital to their business;
- (e) There is higher cost involved in direct export activities by MSMEs;
- (f) They have no access to trade facilitation benefits.

During the survey, the respondents were requested to indicate which form of trade facilitation they considered to be the main obstacle to exporting. Table 5 lists the six areas in which the respondents felt trade facilitation measures were needed the most. However, it should be noted that some individuals (or groups of individuals) had different perceptions regarding the degree of the problem with regard to each of the areas shown in table 5.

**Table 5. Trade facilitation areas in which respondents faced greater constraints**

Area	Number of respondents
Custom regulations and costs involved	7
Shipment	2
Documents required for export	4
Environment, health and safety regulations	3
Harbour facilities and costs involved	2
Trade financing (letters of credit and/or trade credit)	21
<b>Total</b>	<b>39</b>

*Source:* Tambunan, 2009(c).

The findings of the survey indicate that a lack of access to trade financing was seen as a major problem by the majority of the respondents. This finding is interesting due to the fact that many banks in Indonesia have been making efforts to facilitate SMEs in trade. Apart from private commercial banks, such as Bank International Indonesia and Standard Chartered Bank, several state-owned banks such as Bank Mandiri, BRI, BNI and Bank Ekspor-Impor Indonesia also provide trade facilities to MSMEs. The trade facilities include loans for working capital, investment credit, letters of credit (L/C), foreign exchange lines, bank guarantees, shipping guarantees, business management accounts for international trade (current accounts with interest and integrated trade facility), loans against trust receipt (LATR) , inward bills collection (IBC), invoice financing for suppliers (purchases), credit bills negotiation (CBN) – clean and discrepant, pre-export financing, export bill collection (EBC).

Trade facilitation can benefit MSMEs directly as well as indirectly. Direct benefit refers to those MSMEs that have access to trade facilitation; this not only lowers the cost of inputs procurement (resulting in lower production costs and subsequently increased production by MSMEs), but also leads to export growth among MSMEs as exporting is made easier and cheaper. Indirect benefit refers to those MSMEs having no access to trade facilitation but which are still able to benefit from existing trade facilitation through subcontracts and piecemeal production with LEs. With access to trade facilitation, LE trading costs decline, which is reflected in increased production. This may lead to higher demand for intermediate goods or components produced by MSMEs, which means increased production by MSMEs. The increase in exports by MSMEs as a result of their access to trade facilitation may also provide benefits indirectly to other local MSMEs through greater demand for intermediate goods or components by the former.

Although information on MSMEs having business/production linkages with LEs in Indonesia is scarce, the automotive industry has enjoyed success in subcontracting activities between large-scale automotive companies and MSMEs as subcontractors in the supply of components and spare parts. In the export sector, only in a few industrial groups are the business linkages between MSMEs and LEs relatively strong. This includes the furniture industry, where MSMEs supply semi-finished goods to exporting LEs.

The above results of the analysis of expected benefits of trade facilitation for MSMEs can also be applied both to MSMEs in the formal sector (MEs and, to a lesser extent, SEs) and to those in the informal sector (mainly MIEs). Trade facilitation can be expected to have different effects in these two categories – enterprises in the formal sector may have greater access to trade facilitation than their counterparts operating in the informal sector. However, trade facilitation may still provide indirect benefits to enterprises in the informal sector that have business linkages with those in the formal sector with access to trade facilitation.

## 5. Surveys: Findings and discussion

This study, with its large sample from two regions of Indonesia, should be considered as an attempt to increase the information available on the impact of trade facilitation improvement in Indonesia. The study addresses the gaps by focusing more on access by MSMEs to trade facilitation, their way of exporting (directly or indirectly) and the main constraints they face, their perception of competition as a direct result of free trade agreements and the impact on their exports.

### 5.1. Sample profile

Two field surveys on export-oriented MSMEs in two different locations/cities in Central Java (Solo and D.I. Yogyakarta) were conducted for this study. The sample included LEs as a comparison.<sup>8</sup> The respondents surveyed totalled 82 producers comprising:

- (a) Solo – 20 LEs and 10 MSMEs;
- (b) D.I. Yogyakarta – 3 LEs and 49 MSMEs.<sup>9</sup>

The respondents were selected randomly, based on the lists of export-oriented MSMEs and LEs as members of the regional chamber of commerce and industry (CCI) in each of the two regions. The total number of respondents differed between the regions because (a) the total number of CCI members in Solo is not the same as in the CCI in D.I. Yogyakarta, and (b) the number of members who were still exporting also varied between the two regions. As a result, the samples of the two regions do not appear to be representative. However, the survey results may clarify this issue.

The commodities produced and exported by the respondents range from wood/bamboo and rattan furniture to clothing and handicrafts. Thus, they are all producers or firms in the manufacturing industry. Among the surveyed LEs, the largest-sized respondent employs more than 1,000 workers, and some LEs have more than one factory located in or around Solo city. The smallest-sized respondent employs 100 wage-earning workers in Solo. Among the surveyed MSMEs, the largest-sized respondent employs 86 workers; one respondent was operating without wage-earning workers (a “self-employment unit”) while

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<sup>8</sup> The initial plan was to have more MSMEs than LEs as respondents in Solo. During the observations and the survey, it was found that some MSMEs were no longer exporting – in some cases, since many years previously – for various reasons, including difficulties in competing, a lack of capital to finance export activities (since getting financial support from the Government or credit from banks was difficult), high transportation/distribution costs and a lack of information.

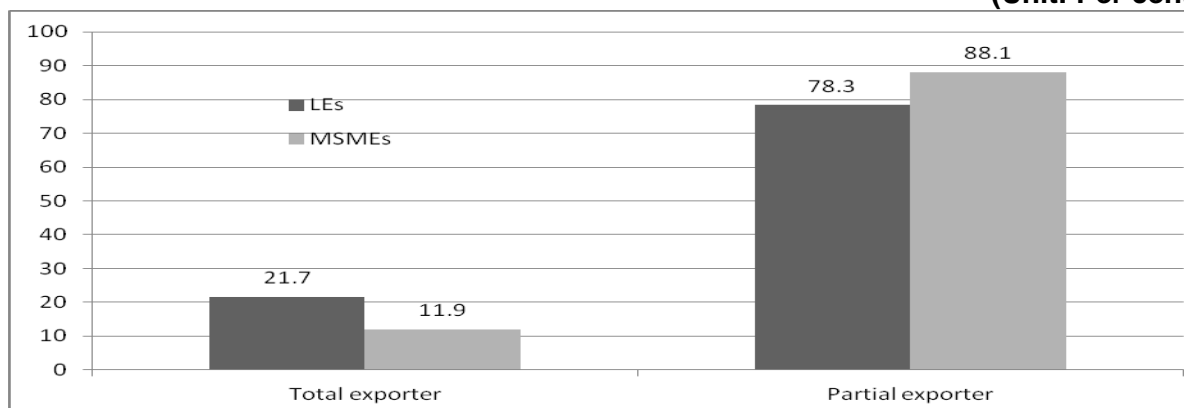
<sup>9</sup> The survey, which took place during May 2012, was conducted in collaboration with local chambers of commerce and industry (CCI). During the survey, focus group discussions with local government officials, some of the respondents and CCI officials were also conducted at the CCI offices during the same month.

many others have only two workers. The majority of the sampled MSMEs are from the MSE category. The sample also includes a large number of women entrepreneurs.

With regard to the degree of involvement in export activities, among the sampled firms the survey found LEs to be more export-oriented, in the sense that there are more LEs than MSMEs in the sample that export 100 per cent of their production output. As figure 3 shows, about 21.7 per cent of the sampled LEs serve only foreign markets, while in the case of MSMEs it is only 11.9 per cent. This finding is not surprising, however, as MSMEs in general (especially MSEs) face greater difficulties than their larger counterparts in exporting due to their lack of skills, information and capital. These are crucial inputs that all firms/producers need, not only for actual exporting, but also to: (a) identify market opportunities; (b) understand current market changes; (c) attain full knowledge of existing rules and regulations related to export activities as well as regulations related to import activities in countries of destination; and (d) undertake promotion and regional/global marketing activities.

**Figure 3. Market orientation of sample respondents**

(Unit: Per cent)



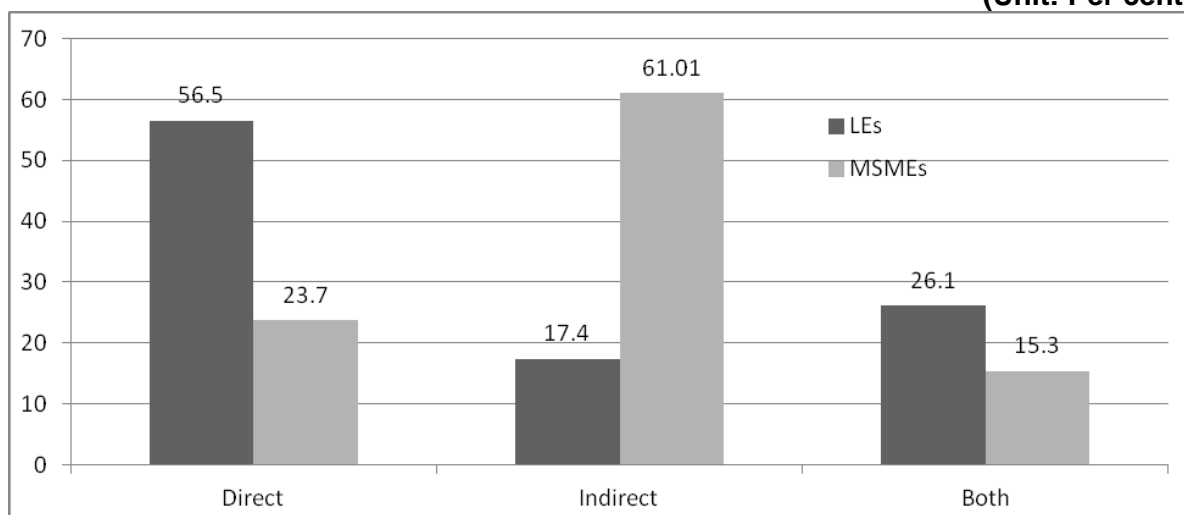
Source: Field surveys in Solo and D.I. Yogyakarta in 2012.

The field surveys also revealed that more sample LEs than MSMEs exported directly without the help of intermediate agents such as traders or trading companies, or collectors. As figure 4 shows, 56.5 per cent of the surveyed LEs export by themselves, compared with only 23.7 per cent of the sampled MSMEs. The reason is the same as that mentioned above as MSMEs in general are not able to export by themselves due to their lack of knowledge about regional/international marketing, bargaining skills and other aspects directly related to export activities as well as the necessary capital to carry out the whole exporting process, from identifying potential buyers abroad and promotion, to export administration procedures and shipping. MIEs in particular, which are mainly run by individuals who are less-skilled with regard to international business aspects and which lack

adequate capital, find it very difficult to export by themselves; even when selling their products domestically most MIEs have to place considerable dependence on traders or collectors.

**Figure 4. Ways of exporting by respondents**

(Unit: Per cent)



Source: Field surveys, 2012.

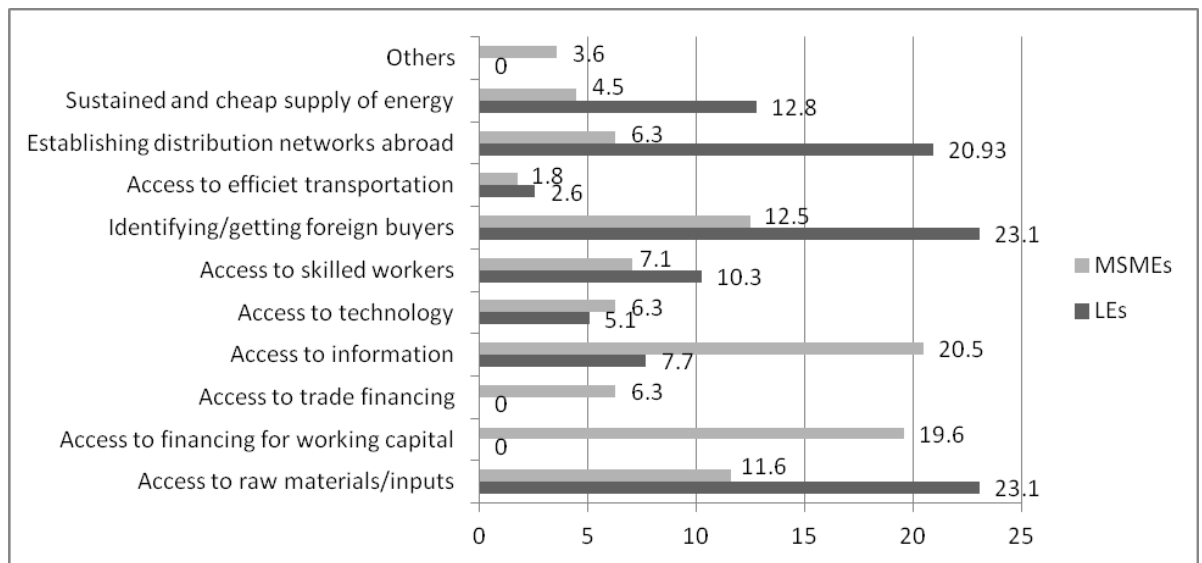
## 5.2. Findings and discussion

### 5.2.1. Main constraints to exporting

National data on MSEs show that the lack of raw materials (shortage in domestic supply, caused mainly by unlimited exports of raw materials, or stocks that are available but too expensive), marketing difficulties and lack of capital are the three main constraints (BPS, 2010). During the survey, the respondents were asked to select two items from a list of problems related to crucial inputs/sources of growth, i.e., raw materials, funds, trade financing, information, technology, skilled workers, transport facilities, energy, markets (identifying/getting buyers), distribution networks and others (if any).

The main constraints identified by the respondents differ between MSMEs and Les (figure 5). With regard to LEs, identifying/attracting buyers abroad appears to be the most problematic for the largest percentage of the respondents. Lack of access to funds/credit, transport facilities, energy and skilled workers appear to be less serious problems for the majority, and none of the respondents said that access to trade finance was a serious problem. This is not surprising in view of the fact that, in general, it is MSMEs and not LEs that have difficulties in getting credit, including trade finance, from banks or financial institutions.

## 5. Percentage of total respondents by size and category of main constraint



Source: Field surveys, 2012.

For MSMEs, a lack of access to information either on market conditions and changes or potential and current trade policies and regulations/deregulations was identified by many respondents as the most serious constraint. More interestingly, access to financing was not identified by many of the MSME respondents as the top-most constraint. This finding is in line with the figure at the national level as shown by national data (BPS) regarding the main constraints faced by MSEs in the manufacturing industry in Indonesia (table 6).

The BPS data show that many of the surveyed MSMEs identified difficulties in doing marketing as their most serious problem; such difficulties could, among other factors, be caused by a lack of access to information about outside markets. Many respondents either did not know how to explore new markets abroad or they had never heard about many new regulations on trade issued by the Ministry of Trade. Their lack of information was caused by a variety of factors, ranging from having insufficient money to use/purchase information and communications technology to having no knowledge about how to get the right information or how to communicate with government officials or related departments. The main reason for this is their low level of formal education. In the case of MIEs in particular, which is the dominant category within MSMEs in Indonesia, the owners/producers only had a primary education, and many of them never finished their schooling. As a result, it is difficult (if not impossible) for someone with only a primary education to read very well and understand the meaning of information that he/she can get, or even communicate, especially in English.

One interesting finding during the field survey was that the majority of the respondents said that they were not aware of the current government regulations that affected their export activities or the current programmes initiated or designed by the Government specifically to support exporters.

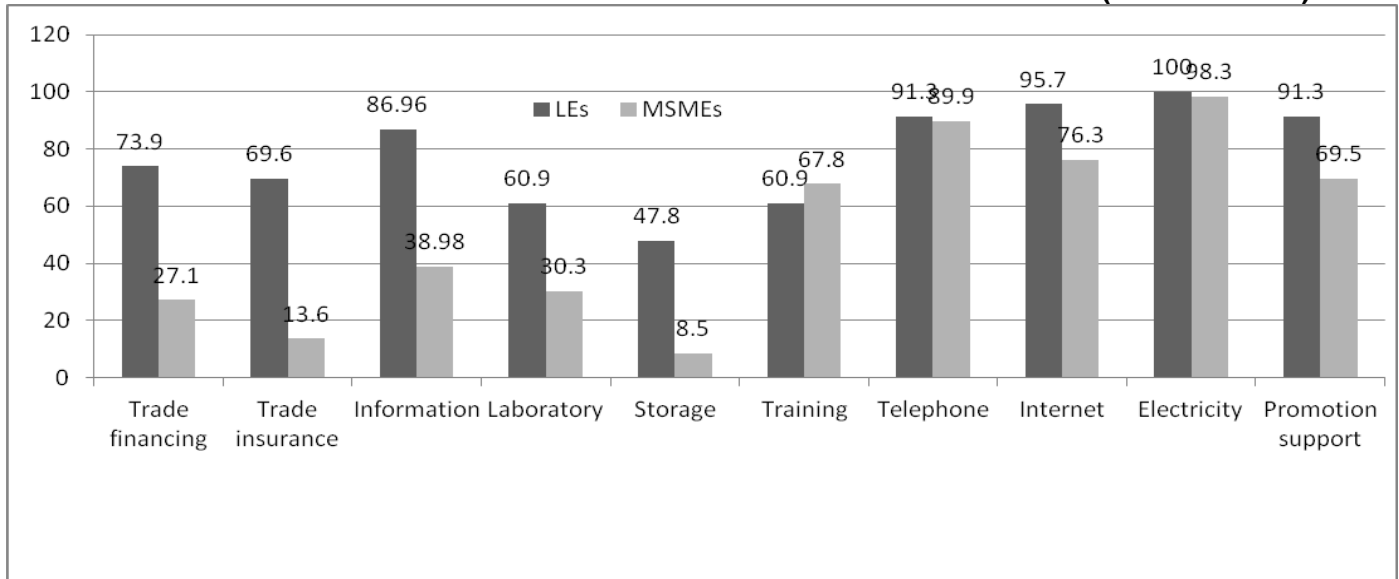
### **5.2.2. Access to trade facilitation**

Undoubtedly, in this era of trade liberalization, the importance of trade facilitation is increasing, especially in the areas of trade finance, trade insurance, information and testing laboratories, which have become more crucial than ever before.

During the field surveys, the respondents were given a list of facilities/measures for making international trading easier. The measures, which can be considered as trade facilitation, included export and/or import financing, trade insurance, information, laboratories for quality testing, storage before shipping, training on exporting, communications (e.g., telephone and Internet), electricity supply and support for promotional activities. The respondents were asked to answer “yes” or “no” to each of those facilities (see annex). If an answer was no, the respondents were asked to give the main reason, e.g., because the procedure was too complex or too expensive, because they did not know that a particular facility existed or other reasons. The findings appear to suggest that LEs have better access to all trade facilitation support that they need for their export activities compared to their smaller counterparts.

As indicated in figure 6, 73.9 per cent of the 23 LEs but only 7.1 per cent of the 59 MSMEs surveyed said that they had access to export financing. Almost 70 per cent of the sampled LEs had access to trade insurance compared with only around 3.6 per cent of the sampled MSMEs. In the case of information, almost 87 per cent of LEs versus almost 39 per cent of MSMEs had access. With regard to the remaining categories, figure 6 reveals a similar scenario, in that LEs are much better prepared than MSMEs. If these findings represent the real situation of MSMEs in general and the export-oriented businesses in particular in Indonesia, it is not surprising that the national data show that the export share of MSMEs in the manufacturing industry is much smaller than that of LEs.

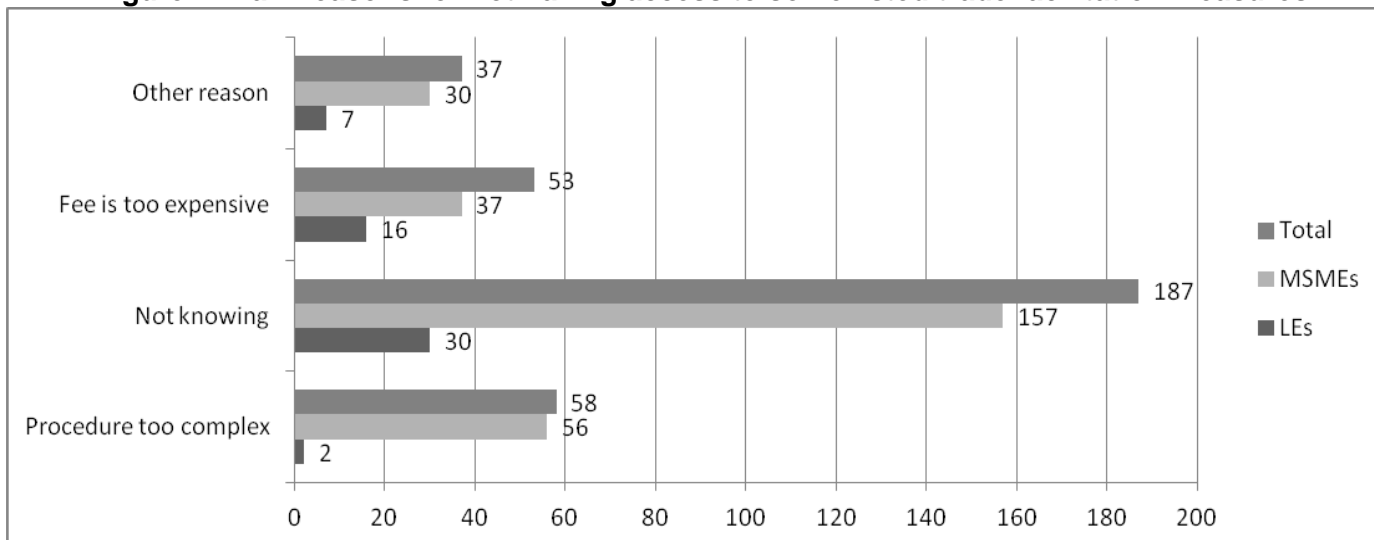
**Figure 6. Percentage of respondents with access to selected trade facilitation measures (Unit: Per cent)**



Source: Field surveys, 2012.

With regard to the main reason for not having access to some of the listed trade facilitation measures (figure 7), not knowing or not having been informed that the facilities/services exist was the main reason indicated, both by LE and by MSME respondents. In percentage terms, more MSME than LE respondents (84 per cent versus 16 per cent) said that they had never heard or did not know about the facilities as the main reason for not making use of such services. In comparison, national (BPS) data for 2010 on MSEs in the manufacturing industry support this finding. This suggests that many MSMEs, and especially MSEs, in Indonesia do not make a good use of existing facilities simply because they are not aware that such facilities exist or do not know the access procedure.

**Figure 7. Main reasons for not having access to some listed trade facilitation measures**



Source: Field surveys, 2012.



First, the data show that 2,172,753 out of total 2,732,724 MSEs surveyed by BPS did not borrow money from banks or non-bank financial institutions, and around 17.5 per cent of them said that not knowing the procedure was their main reason. Second, the data also show that only 208,305 of the surveyed MSEs received business support. Of the remaining 1,964,448 MSEs that did not receive such support, 386,605 respondents said that although they were aware that such services existed they did not know the procedure for obtaining it. Having no knowledge at all about such services was the main reason for the other 1,489,106 respondents. Thus, for around 95.5 per cent of MSEs, the lack of information/knowledge was the main reason for not receiving business support.

There are two possible reasons for this result – a lack of information from the government side about the existence of particularly facilities and/or a lack of activeness on the part of the producers in looking for information about facilities provided by the Government. In many cases, owners of MSEs do not even know what type of support or facilities they really need and which are good for their business performance. On the other hand, supporting facilities for MSMEs introduced/provided by ministries often lack wide promotion/socialization. As a result, only a small number of MSMEs – not just those located in Jakarta and other big cities but also those whose owners have good connections or have built strong networks with ministries – know about such facilities and have better opportunities to access them.

So far, the above findings and discussion suggest that not having access to information or not being informed about existing trade facilitation appears to be a very serious problem for many MSMEs. However, national data do not indicate that access to information is more important than access to capital for those enterprises. Table 6 lists constraints facing manufacturing MSEs in Indonesia. It shows no indication of a lack of information being a serious problem, although marketing difficulties may be caused by the lack of information, among other factors.

**Table 6. Constraints on Indonesian micro and small manufacturers, 2005 and 2010**

(Unit: No. of respondents)

<b>Constraint</b>	<b>2005</b>	<b>2010</b>
No serious obstacles	674 135	599 591
Serious obstacles	2 054 565	2 133 133
Lack or high prices of raw materials	421 277	483 468
Marketing	629 406	495 123
Lack of capital	714 629	806 578
Transportation/distribution	54 945	39 571
Energy, high prices or short supply	55 420	34 759
Labour – high cost or lack of skills	16 650	89 046
Other	162 238	184 408
Total	2 728 700	2 732 724

Source: BPS, 2010.

Within the group of MSMEs, the next most important reason for not making use of existing facilities is difficulty with procedure (I) at 96.6 per cent of the total sampled respondents saying this as their most important reason compared with only 3.4 per cent among LE respondents. The difficulty in procedure is also an important reason for many MSMEs not making good use of existing facilities, including credit schemes from banks. This finding is supported by the national data for 2010 from BPS, which show that approximately 9.8 per cent of the sampled MSMEs that did not have loans from banks or non-banking financial institutions said that difficulty in following or understanding the application procedure for credits was the main reason.

This finding is understandable, given the fact that the majority of MSME owners, particularly MSEs, have only primary education that often makes it difficult for them to understand the application procedure or the system for using a facility. Too expensive (III) was the next main reason given for not having access to some of the listed trade facilitation measures while some other respondents said the main reason was that they had no need yet (IV).

Other facilities that are also important are services for getting an export licence, transportation (in quantity and quality) to a harbour, airport or hub, and shipping. With regard to services for export licence applications, the three main questions for the respondents were (a) how much did they have to pay, (b) how many documents were required and (c) how many days did they have to wait before receiving a licence? The findings show that the total number of days that LE respondents needed to deal with export licence applications varied from only one day to 30 days; interestingly, for MSME respondents it was between 1 and 10 days.

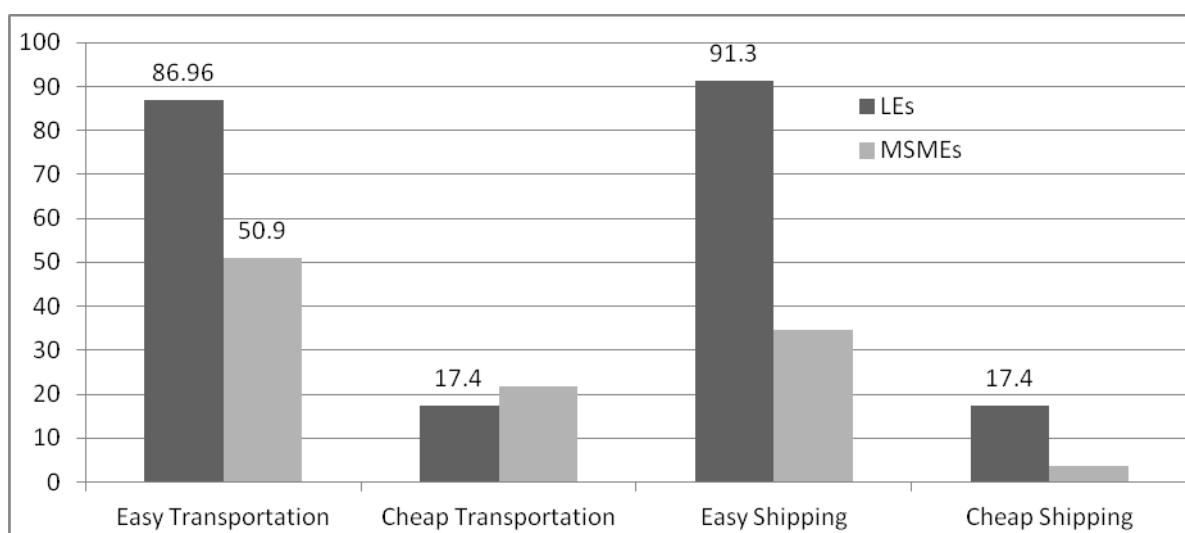
With regard to the cost, the amount varied, ranging from a minimum Rp 100,000 to more than Rp 10 million for both categories of respondents. The total number of documents required ranged from 1 to 8 for the LE respondents and from 1 to 12 documents for MSMEs.

For a broader picture of this issue, the World Bank report, *Doing Business, 2012* gives the total days for exporting, i.e., starting from the final contractual agreement between the exporter and the buyer (importer) in Indonesia, was 17 days, compared with APEC (average) - 14 days, OECD - 10 days and the European Union - 11 days. The number of documents required for exports from Indonesia was 4 days compared with APEC - 5, OECD - 4 and the European Union - 0.5 days. The cost of exporting per container in Indonesia was US\$ 644 while for APEC it was US\$ 836, OECD – US\$ 1,032 and the European Union – US\$ 1,024.

One important aspect of trade facilitation improvement in Indonesia is related to transportation and logistics. The key question for the respondents in that regard was whether they found that it was easy and cheap to transport (including shipping) their products.

As figure 8 shows, the finding was that more LEs than MSMEs said that transportation was easy. However, they had different opinions on costs. More MSMEs than LEs said that land transportation was cheap, while it was the opposite for shipping costs. However, this is not really a surprising finding. The reason could be that the average export volume per individual firm was relatively smaller than that of individual LEs, so they did not need large trucks, and they often used/hired non-modern trucks to transport their goods to ports. Also, many MSMEs export indirectly, so they are not directly involved in shipping.

**Figure 8. Percentage of respondents by ease and cost of land transportation and shipping**



Source: Field surveys, 2012

Finally, those respondents with access to some or all of the listed trade facilitation measures were asked whether those measures were helpful to their export activities ( e.g., enabled more exports, lowered export costs and/or made it easier to export). The results show that

the almost 96 per cent of all LE respondents had access; in the case of MSMEs, 93 per cent had access.

### 5.2.3. Government and private sector support

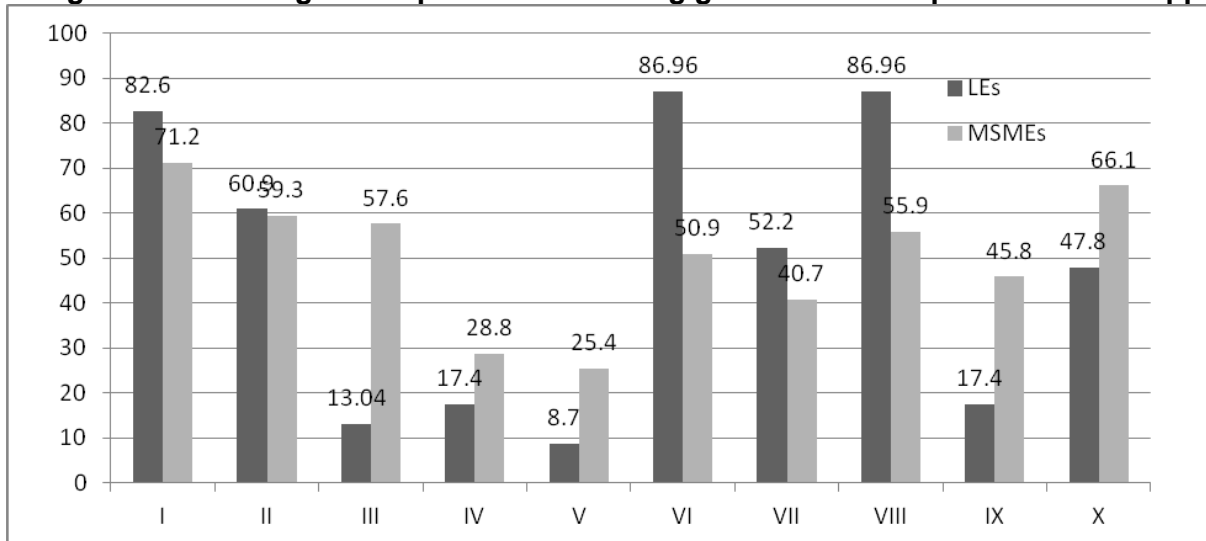
Trade facilitation measures may also include special measures provided by government institutions and private organizations that support exporting by MSMEs (figure 9), i.e., departments/ministries of trade (I), industry (II), and cooperative and SMEs (III); R&D institutes (IV); universities (V); chamber of commerce and industry (*Kadin*) (VI); business associations (VII); banks and/or non-bank financial institutions (VIII); state-owned companies (BUMN) (IX); and local government (*Pemda*) (X). The respondents were asked the following question: Had they (ever) received support from these bodies and if so, in what form(s)?

At least three very interesting findings, as shown in figure 9, came out of the answers to that question. First, in percentage terms, more respondents from MSMEs than from LEs had received support or assistance from R&D institutes and universities. However, it is generally expected that R&D institutes and universities will be more willing to collaborate with LEs rather than with MSMEs (especially MSEs), for at least two main reasons: (a) it provides a more profitable market in the long term (i.e., more demand opportunities from other LEs to collaborate); and (b) LEs have sufficient capital to invest in such collaboration.

Second, Indonesian chambers of commerce and industry, and business associations, especially at the regional/local levels, are supposed to play a key role in supporting MSMEs; however, the survey indicated the opposite – there were more respondents from LEs who enjoyed services/supports from these two private organizations.

Third, there were more respondents from LEs than from MSMEs who had received financial support from banks or non-bank financial institutions. This may suggest that despite government efforts to increase the role of financial institutions in supporting enterprises, including the introduction some years ago of a special non-collateral-based credit scheme known in Indonesia as *kredit usaha rakyat* (KUR), many MSMEs in the country still have no access to financial institutions, especially commercial banks.

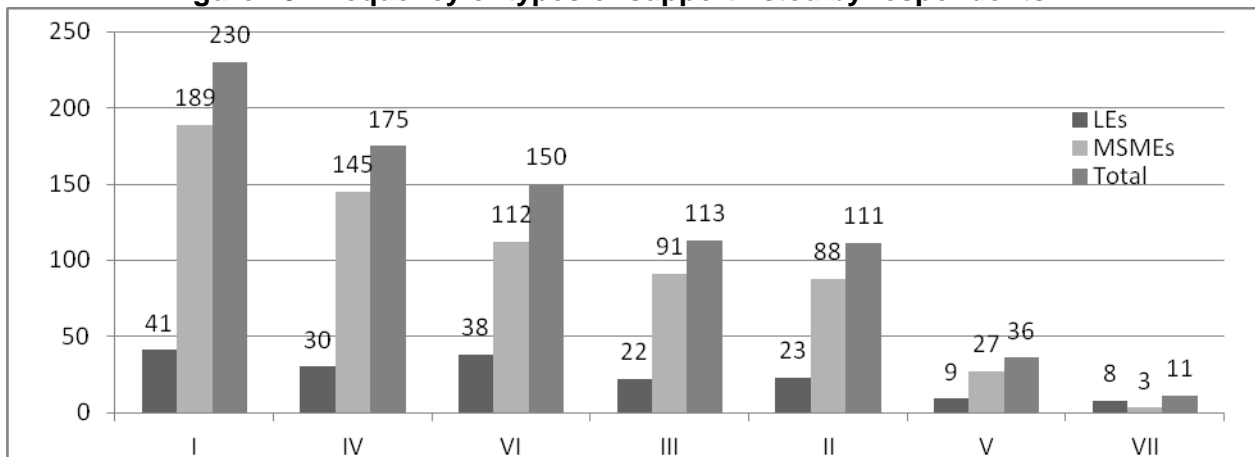
**Figure 9. Percentage of respondents receiving government and private sector support**



Source: Field surveys, 2012.

With regard to the form of support received from all providers (if any), the respondents were given a list of the types of support in which they could indicate the type(s) of support they had received at any time (figure 10), i.e., training (I), financing (II), technical assistance (III), marketing/promotion (IV), procurement of raw materials/inputs (V), market information (VI), and others (if any) (VII). Based on the number of times individual types of support were listed by each respondent, training was revealed as the most popular form of support, with a total mention of 230 times. Indeed, the most popular form of support was training, provided by both the government and private sectors, especially for MSMEs (189 respondents) compared with LEs (41 respondents). The second-most important type of support, from the MSMEs' perspective, was in marketing/promotion, followed in the third place by marketing information. With regard to "other" types, help in applying for export licences was the most frequently listed.

**Figure 10. Frequency of types of support listed by respondents**



Source: Field surveys, 2012.

The results show that financing was not the most important type of support received by the sample MSMEs. This is in line with national data from BPS, which show that in 2010 of 559,971 MSEs in the manufacturing industry that used external sources of finance, only 112,627 (about 20 per cent) used credit from banks. The percentage, however, varies not only by industry group but also by province. By industry group, the highest percentage was in industries producing other chemical products, which indicates that in this group almost all existing MSEs made use of credit from banks, while in the basic chemical industry, no existing MSEs had used that bank facility. Surprisingly, Papua province recorded the highest proportion of existing MSEs with credit from banks. The variation by province can be explained by various factors, including the scattered locations of MSEs and banks, types of constraints faced by the enterprises and products they produced (which determine their need for external capital), and the active roles of local government officials and staff of local banks in promoting existing credit schemes among local MSEs.

Finally, with regard to the role of other non-financial organizations (including government agencies), the BPS data for 2010 show that of the total 2,732,724 MSEs, only 83,196 enterprises (or about 3 per cent) ever received assistance or other types of support from the Government. Next were 30,697 enterprises (1.1 per cent) with support from the private sector (e.g., universities, chambers of commerce and industry as well as business associations) and 8,207 enterprises (0.3 per cent) with support from non-governmental organizations. Of course, the importance of these organizations to MSEs varies not only by industry group but also by province.

#### **5.2.4. Policies with positive effects on exports by MSME**

With regard to government policies (e.g., regulations, laws, decisions and ministries/presidential decrees), the respondents were requested to identify policies that: (a) had a positive impact on their exports; (b) had a negative impact on their exports, and (c) the types of incentives that they needed most to increase their exports. Many respondents, especially from the MSE category, had difficulty in answering these three questions, as many of them were either not really aware of the existing government regulations that directly or indirectly affected their exports or had no any idea of what types of incentives or policies were good for their export activities. Consequently, many of the respondents in the MSME category did not give clear answers to these questions. Nevertheless, those who were able to give answers, provided a clear picture of the “positive” policies required (table 7).

**Table 7. "Positive" policies needed by respondents**

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

Source: Field surveys, 2012.

### **Conclusion and policy recommendations**

Based on the primary and secondary data from the field survey in two locations, this study reveals five interesting facts about export-oriented MSMEs in Indonesia. First, only a small percentage of the respondents export all their products. A major reason is the lack of information, capital and skills among MSMEs that are 100 per cent export-oriented. Another reason is the existence of a huge domestic market. The majority of the Indonesian population is in the middle- to low-income group, from which there is always large demand for their products; selling to the domestic market is much cheaper, less risky and easier than selling to foreign markets. Moreover, many owners of MSEs are not really "entrepreneurs" in the sense that they do not attempt to improve their businesses, introduce innovation and expand their markets, including foreign markets.

The second impediment that the MSMEs face relates to the lack of information about potential buyers abroad and the lack of availability of export finance, especially for working capital and marketing.<sup>10</sup> Many of the respondents, especially those in the MSE category, do

<sup>10</sup> Since the focus of this study and the field survey was on MSMEs in the manufacturing industry, it remains questionable as to whether a lack of information is also a serious problem for enterprises in other sectors.

not have enough capital to explore export markets. The lack of information can be caused by the poor skills of the owners or the lack of available information.

The third obstacle concerns their utilization of trade facilitation measures. As evident from the survey, the LEs are better equipped than MSMEs to use such facilities. MSMEs are not well-informed about the various existing trade facilitation measures and therefore are unable to reap the benefits. This fact is supported by national data, which suggests that many MSMEs, and especially MSEs, in Indonesia do not make good use of existing facilities simply because they are not aware that such facilities exist or do not know the procedure for accessing them.

The fourth interesting fact revealed by this study concerns the role of the Government, such as the Ministry of Trade, the Ministry of Industry and the Ministry for Cooperative and SMEs, as well as private organizations such as the Indonesian Chamber of Commerce and Industry, business associations and commercial banks, in supporting MSMEs. It has been found that not all of the MSMEs respondents had received government support (not even from the Ministry for Cooperatives and SMEs) or private organizations. It is evident that many government supported/initiated facilities, including trade facilitation, have yet to reach many MSMEs in Indonesia, especially those located in rural or rather isolated regions. On the contrary, more respondents from LEs than from MSMEs enjoyed support from these private organizations. In addition, more respondents from LEs than from MSMEs had received financial support from banks or non-bank financial institutions.

It is difficult to measure any correlation between access by MSMEs to trade facilitation measures and the impact on their exports. However, the finding regarding the question of whether or not the respondents were satisfied with the trade facilitation services they received may suggest that trade facilitation services have had some positive effects on exports of most of the respondents. The finding also suggests that although having access to improved trade facilitation is important to MSMEs, ultimately their capability to increase exports will also depend on whether they can meet other export requirements such as having sufficient production capacity and the ability to innovate.

Based on the above findings, this study suggests that the following three policy measures will be necessary for MSMEs to benefit from existing trade facilitation initiatives.



### **6.1. Increasing awareness among MSMEs**

As the lack of awareness by MSMEs about trade facilitation measures is a major issue, the most important policy measure should involve “reaching out to MSMEs”. As trade facilitation generally concerns dealing with international trade, the Ministry of Trade should be made responsible for the dissemination of information about existing trade facilitation measures and how the measures will help in promoting exports. The Ministry for Cooperatives and SMEs, as the leading department responsible for providing support to MSMEs or formulating MSME policies, should also increase awareness about existing trade facilitation as well as about other policies, regulations and international trade agreements.

Other facilities/programmes that would be important to MSMEs involved in international trade transactions could be a specially-designed single portal that enables full links to websites of all government departments and other stakeholders that are providing/initiating trade facilitation measures and provides access to regular publications (e.g., newsletters and bulletins). This single portal must be user-friendly and fully accessible, regularly updated, and with interaction limited to requests for information on certain trade facilitation measures. In doing so, the ministry should maintain close coordination with local government offices and the private sector, especially chambers of commerce and related business associations. With regard to trade facilitation initiatives in the context of ASEAN and APEC, the ministry should maintain close coordination with the ASEAN Secretariat in Jakarta and the APEC Secretariat in Singapore.

### **6.2. Training on accessing trade facilitation information**

Each government department related to those sectors in which many MSMEs are carrying out international trade transactions, and especially the Ministry of Industry, should provide training for MSMEs, with or without cooperation from the private sector, on how to access information about trade facilitation. The training should be coordinated by the Ministry for Cooperatives and SME.

### **6.3. Promotion of ICT**

Since MSMEs, especially MIEs, in Indonesia still have difficulties in accessing ICT or adjusting their “traditional business approach” to “ICT-based modern business”, the Government of Indonesia (in this case, the Ministry for Cooperatives and SMEs) should take affirmative action, or introduce “positive discrimination” policies that tackle factors related to the limitations resulting from their small size and other “inadequate” characteristics such as

low-educated owners and employees. They should also promote awareness of the importance of using ICT to make it easy for them to integrate into ICT-based trade facilitation. Affirmative action for MIEs should include (a) free, or at least low-cost, ICT workshops and training, (b) technical assistance/consultation services during the adoption process, (c) a special credit scheme with a low interest rate and simple administration requirements for financing development of the ICT system in MIEs, and (d) low fees for e-mail and Internet connection for a limited period for beginners.

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## Annex

### Survey questionnaire for export-oriented MSMEs in Solo and D.I. Yogyakarta

#### I. Profile

1. Name of company (if any):
2. Name of respondent: (Owner/manager)
3. Address of company: City: Province:
4. No. Tel/HP:
5. Year of establishment:
6. Number of fixed workers: persons

#### II. Marketing (place "X" in only one box per question)

1. Market area:
  - 100 per cent domestic market
  - 100 per cent foreign market
  - Partly domestic market
2. Way of exporting:
  - Direct abroad
  - Indirect via trader, trading company, others
  - Both direct and indirect ways

#### III. Main constraints (place "X" in only one box)

1. Having serious problems:
  - Yes
  - No
2. Indicate only two serious constraints on exports (place "X" in only two boxes)
  - Easy access to raw materials/other inputs
  - Easy access to fund/credit to financing working capital
  - Easy access to trade financing
  - Easy access to information on market, trade policy/regulation and others
  - Easy access to technology
  - Easy access to workers with high skills
  - Identifying/getting potential buyers in abroad
  - Easy access to efficient transportation facilities
  - Establishing distribution networks abroad
  - Sustained and cheap supply of energy
  - Others, if any (please specify):

#### IV. Trade facilitation services

1. Having access to:

(a) Export financing from banks/other sources

Yes

No

If no, the main reasons (select only one box):

Procedure is too complex

Do not know/never heard

Expensive

Other reasons

(b) Trade insurance

Yes

No

If no, the main reasons (select only one box):

Procedure is too complex

Do not know/never heard

Expensive

Other reasons

(c) Information ( e.g., via website) on market, regulation etc.

Yes

No

If no, the main reasons (select only one box):

Procedure is too complex

Do not know/never heard

Expensive

Other reasons

(d) Laboratories/quality test facilities

Yes

No

If no, the main reasons (select only one box)

Procedure is too complex

Do not know/never heard

Expensive

Other reasons

(e) Storage facilities (e.g., in harbour)

Yes

No

If no, the main reasons (select only one box):

Procedure is too complex

Do not know/never heard

Expensive

Other reasons

(f) Efficient transport facilities to harbour/airport

Easy:

Yes

No

Cheap:

Yes

No

(g) Shipping facilities to abroad



Procedure is too complex  
Do not know/never heard  
Expensive  
Other reasons

2. Are the TRADE FACILITATION services to which you have access helpful to your export activities?

Yes  
No

### **V. Impact of Free Trade Agreements**

1. Do you feel competition with imported products in the past one decade has become heavier?

Yes  
No

2. With the increasingly imported products, your production/revenue in domestic market has

Declined  
Not changed  
Increased

3. Do you feel competition with your products abroad in the past one decade has become heavier?

Yes  
No

4. In the past 10 years have your exports:

Declined  
Increased  
Remained unchanged

### **VI. Role of institutions**

Are the following institutions very active/helpful in supporting your export activities?

#### **TRADE DEPARTMENT**

Yes

Not at all

If yes, in what forms? (Can be more than one):

Training  
Financing  
Technical assistance  
Marketing/promotion  
Procurement of raw materials/inputs  
Market information  
Other

#### **DEPARTMENT OF INDUSTRY**

Yes

Not at all

If yes, in what forms? (Can be more than one):

Training  
Financing  
Technical assistance  
Marketing/promotion



Procurement of raw materials/inputs  
Market information  
Other

**DEPARTMENT OF COOPERATIVES AND SMES**

Yes

Not at all

If yes, in what forms? (Can be more than one):

Training  
Financing  
Technical assistance  
Marketing/promotion  
Procurement of raw materials/inputs  
Market information  
Other

**R&D INSTITUTES**

Yes

Not at all

If yes, in what forms? (Can be more than one):

Training  
Financing  
Technical assistance  
Marketing/promotion  
Procurement of raw materials/inputs  
Market information  
Other

**UNIVERSITIES**

Yes

Not at all

If yes, in what forms? (Can be more than one):

Training  
Financing  
Technical assistance  
Marketing/promotion  
Procurement of raw materials/inputs  
Market information  
Other

**CHAMBER OF COMMERCE AND INDUSTRY (KADIM)**

Yes

Not at all

If yes, in what forms? (Can be more than one):

Training  
Financing  
Technical assistance  
Marketing/promotion  
Procurement of raw materials/inputs  
Market information  
Other

**RELATED BUSINESS ASSOCIATIONS**

Yes

Not at all

If yes, in what forms? (Can be more than one):

- Training
- Financing
- Technical assistance
- Marketing/promotion
- Procurement of raw materials/inputs
- Market information
- Other

#### **BANK/NON-BANK FINANCIAL INSTITUTIONS**

Yes

Not at all

If yes, in what forms? (Can be more than one):

- Training
- Financing
- Technical assistance
- Marketing/promotion
- Procurement of raw materials/inputs
- Market information
- Other

#### **STATE-OWNED COMPANIES**

Yes

Not at all

If yes, in what forms? (Can be more than one):

- Training
- Financing
- Technical assistance
- Marketing/promotion
- Procurement of raw materials/inputs
- Market information
- Other

#### **LOCAL GOVERNMENT (*PEMDA*)**

Yes

Not at all

If yes, in what forms? (Can be more than one):

- Training
- Financing
- Technical assistance
- Marketing/promotion
- Procurement of raw materials/inputs
- Market information
- Other

### **VII. Policy impact**

1. List several government policies ( e.g., regulations, laws, decisions and ministries/presidential decrees) that have a positive impact on your export business:
2. List several policies (e.g., regulations, laws, decisions and ministries/presidential decrees) that have a negative impact on your export business:

3. What types of incentives do you need most to increase your exports?

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