

DEVELOPMENT AND SOME CONSTRAINTS OF SME IN INDONESIA

Tulus Tambunan

Center for Industry, SME & Business

Competition Studies University of Trisakti

Key Characteristics

- Mainly traditional/primitive units or microenterprises, i.e. less than 5 workers or asset value Rp 50 million (or US\$ 5,000 at Rp 10,000 per 1 US\$), dominated by self-employment units with the help of non-paid family members
- Mainly located in rural areas and concentrated in agriculture
- Mainly conducted by low income/poor households, as primary or secondary source of income
- Most producers and their workers are low educated (mostly primary school)
- Women are actively involved as producers or workers only in certain industries especially textile and garment, food, leather products and handicrafts.

- Act as the ‘last resort’ for unemployed labour force: reflecting more poverty rather than entrepreneurial spirit
- In manufacturing, mainly produce simple. Low technological based consumption goods/household items.
- Subcontracting is still underdeveloped.
- Low export intensity, and export is mostly done indirectly.
- The existence of SMEs is still regarded very important as a source of employment, and hence to reduce poverty, not as a source of competitiveness improvement or innovation or source of entrepreneurship development or a source of export.

SNAPSHOT

Total Enterprises by Size Category, Indonesia (mill. units)

Size Category	2000	2003	2005	2007	2008
MIEs & SEs	39,7	43,4	47,01	49,7	51,2
MEs	0,1	0,1	0,1	0,1	0,04
LEs	0,01	0,01	0,01	01	0,00
					4.
Total	39,8	43,5	47,1	49,9	51,3

Structure of Enterprises by Size Category and Sector, Indonesia, 2008 (%)

	MIEs	SEs	MEs	LEs	Total
Agriculture	52.1	0.2	4.3	5.54	51.5
Mining	0.5	0.4	0.7	1.8	0.5
Manufacture	6.3	10.3	20.6	29.9	6.3
Elect, gas & water sup.	0.02	0.1	0.8	2.9	0.02
Construction	0.3	2.4	4.7	5.6	0.3
Trade, hotel & restau.	28.4	73.5	50.9	28.7	28.9
Transport & commu.	6.3	3.4	3.4	7.3	6.3
Finance, rent & service	1.9	4.5	10.02	13.7	1.9
.Services	4.2	5.3	4.5	4.5	4.3
Total	100.00	100.00	100.00	100.00	100.00

**Structure of real GDP by Size of Enterprise and Sector, Indonesia,
2008**

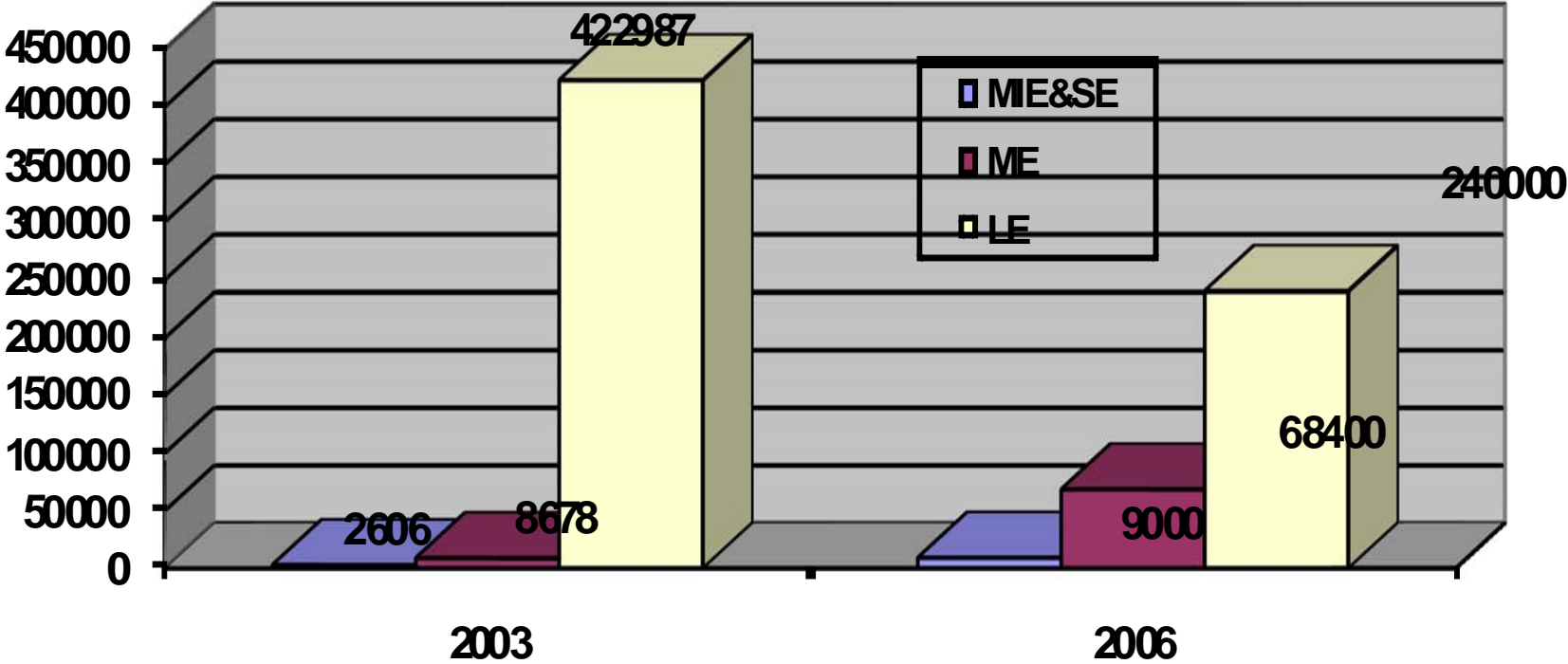
	MIE&SE	ME	LE	Total
Agriculture	87.37	8.57	4.06	100.00
Mining & quarrying	10.52	2.07	87.41	100.00
Manufacture	18.86	12.01	69.13	100.00
Elect., gas & water supply	1.36	6.87	91.77	100.00
Construction	16.37	21.47	62.16	100.00
Trade, hotel & restaurant	83.41	12.52	4.07	100.00
Transport & communication	25.40	15.81	58.79	100.00
Finance, rent & service	21.19	42.45	36.36	100.00
Services	83.50	12.00	4.50	100.00

MAIN CONSTRAINTS

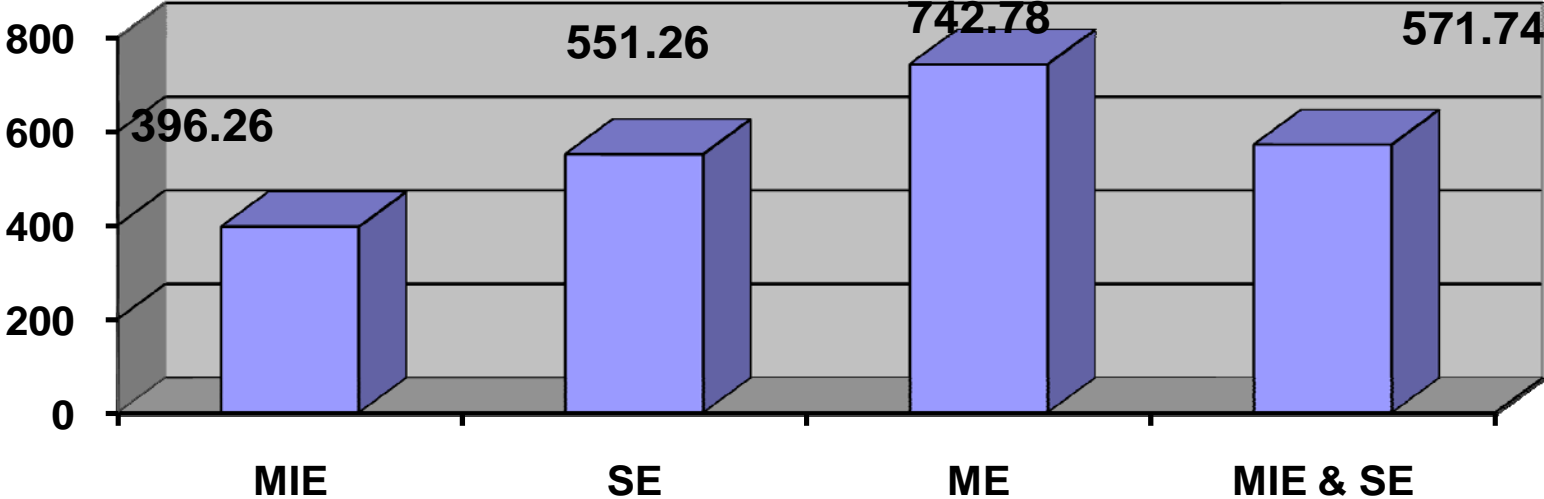
Number of SEs and MIEs in the Manufacturing Industry by Main Problem

	SEs	MIEs	Total SEs & MIEs
Have no serious problem	46,485	627,650	674,135
Have serious problems	192,097	1,862,468	2,054,565
- lack of/high price of raw m.	20,362	400,915	421,277
- marketing difficulties	77,175	552,231	629,406
-lack of capital	71,001	643,628	714,629
-transportation/distribution difficulties	5,027	49,918	54,945
-high price of/short supply of energy	4,605	50,815	55,420
-high labor cost	2,335	14,315	16,650
-others	11,592	150,646	162,238
Total SEs & MIEs	238,582	2,490,118	2,728,700

Labor Productivity of MIEs, SEs, and MEs in Indonesia (Rp/worker)



Average Income per Worker in MIEs, SEs and MEs, 2006 (000 rupiah)



Share SME in Exports in Selected ADCs, average for 1990s-2006

Country	Share (%)
China	60
India	38-40
Chinese Taipei	56
Vietnam	20
Singapore	16
Malaysia	15
Indonesia	18
Thailand	46
Philippines	22
Pakistan	25

Three Questions and Three answers:

1) Q: Can Indonesian SMEs benefit from APEC?

A: Yes

2) Q: in what form?

A: -larger (external) market opportunities

**-lower prices for raw materials/inputs as more
easy/free to import from other APEC economies**

-transfer of technology/knowledge

3) Q: so, what should be done to achieve question 1?

A.:

- Indonesian SMEs must be involved directly as well as indirectly with all activities generated by APEC.: regional trade and regional investment;
- With respect to regional trade, especially export, the Indonesian SMEs must also have part of the action. Governmentd of individual member countries must give the highest priority to their national firms, including SMEs, instead of multinational companies (MNCs) located in their countries (especially MNCs from countries of origin outside APEC region) to be engaged in exports activities or in regional production/supply chains.

- Indonesian government should support the capacity building in local SMEs in order to make them ready as efficient and highly global competitive exporting companies;
- Indonesian government should promote with various facilities subcontracting arrangements between local SMEs and domestic located export-oriented MNCs. The facilities may include tax incentives for MNCs to encourage them to use components, spareparts or semi-final goods made by local SMEs.
- with respect to investment cooperation, local SMEs should be promoted to actively engage in any investment projects through e.g. subcontracting activities, joint venture, strategic alliance and other forms of business linkages/cooperations.

The problem: no evidence yet of the positive impact of the presence of APEC on local SMEs, either in terms of output growth, export increases, more supply/available of raw materials

Even, not only SME but ordinary people in general in Indonesia do not have any idea what is APEC or ASEAN.

Our task: how we can convince local SMEs that there is APEC for them or there are greater market opportunities for them because of APEC.

Thank You