

**AGENCY FOR INTERNATIONAL DEVELOPMENT
PPC/CDIE/DI REPORT PROCESSING FORM**

ENTER INFORMATION ONLY IF NOT INCLUDED ON COVER OR TITLE PAGE OF DOCUMENT

1. Project/Subproject Number

497-0357

2. Contract/Grant Number

497-C-00-98-00045-00

3. Publication Date

May 2003

4. Document Title/Translated Title

The Environment for Partnership of SME and Large Business in Indonesia

5. Author (s)

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2.
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6. Contributing Organization (s)

Nathan/Checchi Joint Venture/PEG Project

7. Pagination

87

8. Report Number

PEG 122

9. Sponsoring A.I.D. Office

ECG, USAID/Jakarta

10. Abstract (optional - 250 word limit)

By directly observing as many as 45 companies throughout Java active in such industries as textile, garment, paper, furniture and automobile and agricultural machinery, the study attempts to identify the factors conditioning and inhibiting partnerships between SME and large firms. Encouraging partnership between small and big businesses will only work if the partnership is the most profitable path for both partners. Previous government approaches that focused on mandated partnerships between government enterprises and small businesses have proved ineffectual. Most importantly, however, the government needs to invest in overall infrastructure development. This will enable solid support for business development, equitable capital provision, improved education standards, industry promotion and expansion as well as political and economic stability. Nonetheless, it is hoped that the data from this research will enable policymakers, the private sector and the public alike to understand the tools that are needed to assist SME development.

11. Subject Keywords (optional)

1. Indonesia	4. Industry
2. SME	5.
3. Small & Medium Enterprise	6.

12. Supplementary Notes

13. Submitting Official

C. Stuart Callison, Chief of Party

14. Telephone Number

011-62-21-520-1047

15. Today's Date

July 8, 2003

.....DO NOT write below this line.....

16. DOCID

17. Document Disposition

DOCRD [] INV [] DUPLICATE []

Technical Report

The Environment for Partnership of SME and Large Business in Indonesia

By Karen C. Bigler



Prepared for:
Bank Indonesia

Submitted to:
USAID/ECG, Jakarta, Indonesia

Submitted by:
Nathan/Checchi Joint Venture
Partnership for Economic Growth (PEG) Project¹
Under USAID Contract #497-C-00-98-00045-00
(Project #497-0357)

May 2003

¹ PEG is a USAID-funded Project. The views expressed in this report are those of the authors and not necessarily those of USAID, the U.S. Government or the Government of Indonesia.

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2. Comments by Dr. Ir. Sutrisno Iwantono, MA, Member of the Supervisory Commission for Business Competition (KPPU) and Chairman, Indonesian Cooperatives Council, former Deputy State Minister of Cooperatives & SME, “Bahasan Mengenai Undang-Undang Subkontrak” (Discussion on Subcontract Laws)
3. Comments by Ir. Sri Ernawati, Deputy Minister of Cooperatives & SME, “Tanggapan Terhadap Hasil Penelitian tentang Kemitraan UKM dengan Usaha Besar di Indonesia dan Upaya Mempromosikannya” (Comments on the Research Findings about the Partnerships of SMEs and Large Businesses in Indonesia and the Efforts to Promote Them)

Abbreviations

BPPT	Badan Pengkajian dan Penerapan Teknologi (<i>Agency for The Assessment and Application of Technology</i>)
BPS	Badan Pusat Statistik (<i>Central Bureau of Statistics</i>)
KADINDA	The Regional Chamber of Commerce and Industry
LIPI	Lembaga Ilmu Pengetahuan Indonesia
MOIT	The Indonesian Ministry of Industry and Trade
SMEs	Small and Medium Scale Enterprises
SUCOFINDO	Government Institution
SUIK	Facility for Small Industry
UPT	Technical Service Units

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Abstract

The development of Small and Medium scale Enterprises (SMEs) is something very critical in revitalizing Indonesia's economy after being hit by the monetary crisis in 1997. By directly observing as many as 45 companies throughout Java active in such industries as textile, garment, paper, furniture and automobile and agricultural machinery, the study attempts to identify the factors conditioning and inhibiting partnerships between SME and large firms. These partnerships have been identified as a major facilitator of SME development, because these industries are major participants in the subcontracting chain. Also, the study looks at the barriers and problems associated with subcontracting practices and how government policies adversely affect such partnerships. Lastly, the study will make recommendations on what is needed to assist SME development and/or maintain SME growth, e.g., financial and technical support, marketing assistance, and market and technology development.

Despite the monetary crisis, the study team found initially that the supporting industries of textile and garment maintained a solid standing and/or prospered at the onset and during the crisis due to its high level of exports overseas as well as an increase in local consumer demand. It was only after the stabilization of the rupiah and the recession in the US and Europe that these industries began to experience adverse effects with massive drops in orders and production.

In the Machinery and Furniture Industry case, the supporting industries also prospered. Orders for manufactured components in machinery items increased with the high demand overseas, strong economies in Europe and the US as well as a weak local currency. For the Furniture Industry, consumer demand in Japan, Europe, the US and China increased output in both the wood and rattan production. As in the Textile and Garment Industry, the demand dropped as a recession hit the major global economies thus many of the overseas orders were decreased and/or cancelled.

For the Paper Industry, the monetary crisis as well as the elimination of government subsidization of paper products and their raw materials made the biggest adverse impact on their supporting industries. Though the industry has recovered and adjusted to the new policies, the increase in local demand is small and the burden of costs remain high as much of the machinery and its parts are imported.

Overall, the goal of this project is to show that encouraging partnership between small and big businesses will only work if the partnership is the most profitable path for both partners. Previous government approaches that focused on mandated partnerships between government enterprises and small businesses have proved ineffectual. Most importantly, however, the government needs to invest in overall infrastructure development. This will enable solid support for business development, equitable capital provision, improved education standards, industry promotion and expansion as well as political and economic stability. Nonetheless, it is hoped that the data from this research will enable policymakers, the private sector and the public alike to understand the tools that are needed to assist SME development.

Preface

The purpose of this research was to identify the factors conditioning and inhibiting partnerships between small-medium enterprises (SMEs) and large firms, as these partnerships have been identified as a major facilitator of SME development. The Partnership for Economic Growth (PEG) Project of the United States Agency for International Development (USAID) financed it with the hope that the results can provide insight into factors that promote broad-based economic growth and opportunity.

As the project researcher, I would like to sincerely thank the people who directly and indirectly have provided assistance and guidance during the research and the writing up of this report. Particularly, I would like to thank:

- PEG, USAID and Mennekop, for providing the opportunity to undertake this study;
- My Ph.D. supervisor, Prof. Anne Booth, for her support and understanding about the delay in my thesis write-up;
- My parents, Gordon and Marylou Bigler, for their endless encouragement, understanding and support.

My sincerest appreciation goes to Dr. Tom Timberg, the PEG Small Scale Credit Advisor to Bank Indonesia, for providing guidance, constructive feedback and encouragement.

I would also like to thank all the people who assisted me with the project as well as all the respondents who were so generous with their time and information.

Karen C. Bigler
Bandung, Indonesia
July 8, 2003

Chapter 1

Introduction

1.1 Background

As the main player in economic activities, Small- and Medium-scale Enterprises (SMEs) play very important roles in the Indonesian economy. SMEs portion in Indonesian economic activities is high, as they have a large number of enterprises and total amount of the workforce. These potentials have made SMEs considered as one of the ways to revitalize the country's economy post-monetary crisis and to promote industrialization and economic development in longer-term perspective.

To promote the development of SMEs, partnership is important, as the enterprises need to become self-reliant and overcome their limitations and difficulties to cope with sudden market fluctuations. Partnership, as indicated in this study, is defined as relationships between big and small firms, in order to achieve certain capacity of production to meet market demand. This relationship is carried out in the subcontracting of manufacturing production, and related transactions. It occurs between large firms, acting as prime contractors, and smaller firms – in this case SMEs, for the provision of components for the prime contractor final assembly, or for outsourcing particular stages of production. These small-medium scale firms are also known as “supporting industries”, as they support their contractors (firms who gave them subcontracts) by providing subcontracting as needed. The basic subcontract is sometimes accompanied by the provision of technical assistance, raw materials, or financial support in different cases.

However, it is difficult for SMEs with limited financial resources to acquire technology and develop market access on their own. Unlike large conglomerates / firms, SMEs lack what is required to gain bank loans unless they have their larger partners provide supporting documentation.

This study, therefore, attempts to examine the actual status of such partnerships and the financial support needed by SMEs, using a case study of the textile, garment, paper, furniture, and machinery industries.

The following research questions are examined in this study:

1. How many subcontractors do large firms prime contractors typically have? Why do they subcontract components and operations? Are they actually capable of producing the subcontracted items in house?
2. What kind of partnerships do large and small firms undertake with each other? Why do they enter such partnerships?
3. In particular, what support (capital, technical assistance, etc.) do large prime contractors provide their SME subcontractors?

4. How have the terms and conditions of such partnerships/subcontracts changed over time, particularly since the Monetary Crisis of 1997?
5. How is partnership/subcontracting related to employment relationships, particularly to relations with former employees?
6. What are the main problems faced by SME subcontractors and how do they deal with them?
7. What obstacles does mistrust create in subcontracting relationships and how is such mistrust overcome?
8. Have any government programs facilitated the partnerships/subcontracting relationships and of such programs, which ones might be undertaken in the future?

The conclusion of this study strongly supports the idea that partnerships and subcontracting linkages in the private sector are one of the main factors for strengthening SMEs. The focal point in this study is to what extent subcontracting has a function in developing SMEs. What are the barriers to strengthening such partnerships, whether they are financial or technical?

Notably, though there are many definitions used by different agencies and writers of SME in Indonesia, most of them are too restrictive to cover the kinds of firms the researcher encountered.

Nonetheless, the actual situation in which SME partnership occurs in Indonesia is incompletely understood. In fact, it is important to analyze the reasons that more effective policies have not yet been put in place. As such, it is imperative that public and private groups work to define new policies and undertake private initiative to promote such partnerships.

1.2 Objective and Scope of the Study

The specific objectives of this study, are:

1. To collect a set of macroeconomic data on production and organizational arrangements and;
2. To provide a set of up-to-date observations to allow further studies and projects to examine the establishment and function of large conglomerate and SME partnerships and the real need for financing small and medium sectors in Indonesia as well as develop recommendations for promoting partnerships in the form of subcontracting as a means of developing SMEs.

1.3 Methodology of the Study

This study was conducted by reviewing the literature on SME partnership/subcontracting in Indonesia and by conducting a survey of selected subcontractor and contractor firms in West, Central, and East Java. The questionnaires are as shown in Appendix A. The survey was carried out during the period of February 2002 – April 2002. The study focuses on large conglomerate textile, garment, furniture, paper, and machinery companies that subcontract and on small- and medium-scale firms that are locally owned and supply inputs for the large firms.

The sample firms were selected from the researcher's previous contracts, using the criteria of the employment size defined by the Central Bureau of Statistic / BPS (BPS stated that SME are firms with four (4) or less workers, those with 5-19 workers, those with 20-99 workers are house-hold, small-scale and medium-scale enterprises, respectively), investment status (domestic investment), export-orientation and location. As a result, 45 firms were identified and contacted through telephone, facsimile, or direct introductions. Finally, a series of interview and questionnaire surveys were carried out with both contractors and subcontractor firms.

Table 1-1: List of Contractor and Subcontractor Firms Visited

CONTRACTOR FIRMS	SUBCONTRACTOR FIRMS
Textile 1) West Java (1) 2) Central Java (1) 3) East Java (1)	Partnering Firms 1) West Java (2) 2) Central Java (2) 3) East Java (2)
Garment 1) West Java (1) 2) Central Java (1) 3) East Java (1)	Partnering Firms 1) West Java (2) 2) Central Java (2) 3) East Java (2)
Furniture 1) West Java (1) 2) Central Java (1) 3) East Java (1)	Partnering Firms 1) West Java (2) 2) Central Java (2) 3) East Java (2)
Machinery 1) West Java (1) 2) Central Java (1) 3) East Java (1)	Partnering Firms 1) West Java (2) 2) Central Java (2) 3) East Java (2)
Paper 1) West Java (1) 2) Central Java (1) 3) East Java (1)	Partnering Firms 1) West Java (2) 2) Central Java (2) 3) East Java (2)

1.4 Literature Survey

The purpose of this section is to review the recommendations about manufacturing subcontracting already made by various researchers as a step in the process of formulating improved policy and program recommendations. Subcontracting in the following industries has already been researched in Indonesia to some degree by following researchers:

1. Supratikno: motorcycles, diesel engines, brassware;

2. Center for Economic and Social Studies: heavy equipment, rattan handicrafts, light foods, telecommunications equipment;
3. Lembaga Penyelidikan Ekonomi dan Masyarakat: garment and textile, agro, and wood industries;
4. Thee: motorcycles;
5. Sato: machinery components, especially for motorcycles and those produced by small-scale metal processing firms;
6. Van Dierman: garments and furniture.

Below are recommendations for government and non-government actions to facilitate subcontracting in manufacturing by those researchers and several other researchers.

Supratikno surveyed three contractors in Java in the motorcycle, diesel engine and brassware industries and 82 subcontractors to these three contractors. The subcontractors were asked to rank various factors facilitating better subcontracting relations. If a weight of 3 for the most important is given, 2 for the second most important, and 1 for the third most important. Mutual trust was the most important with a weighted score of 180, more continuity of order second with 154, joint planning and problem solving third with 119, and better information sharing fourth with 81 (calculated from table 8.3 on page 128). Supratikno hypothesized that lack of mutual trust is an important factor hindering subcontracting relationships in Indonesia, although this hypothesis was little pursued by any of the authors listed in the bibliography.

The subcontractors were also asked to rank the reasons for why they thought that contractors deal with subcontractors. The most important reason was reliable quality with a weighted score of 177, and second was specific technology with a score of 101 (calculated from table 8.2 on page 127).

The policy recommendations Supratikno makes for the prime contractors are: 1) not to base subcontracting on other than commercial considerations, because “the growth of the subcontractors is purely attributable to their achievement in terms of modern purchasing practices (e.g., cost, quality, delivery) and not the generosity on the part of the large firm nor the spirit of an ancestor” (p.143); 2) the use of a cross-functional team in dealing with subcontractors is one step in the right direction in handling problems in subcontracting relationship; 3) “To better coordinate their supply-chain, the large firm can establish an association for their subcontractors”, which results in better informational sharing, improved lateral inter-subcontractor learning and more efficient technical support (p.143). He also advises the contractors to strengthen their own subcontractors even though other subcontractors may also benefit, and says an incentive scheme should be given by the government to large firms to do so.

After briefly describing GOI (Government of Indonesia) programs to develop a strong small enterprise sector, Supratikno says that there have been many difficulties encountered in implementing such programs. “To be more precise, many programs to support SEs (small enterprises) in one way or another, either directly or indirectly, face the following problems: lack of clarity and focus in defining the real needs of Ses; lack of coordination between departments or institutions; overly ambitious

targets given the limited resources at hand; difficulties in finding well qualified and motivated staff; the tendency to treat SEs as if they are homogenous or as if they can survive in isolation; and a less supportive macro-economic and legal environment.” His interviews suggested that the government bureaucracy was perceived more as a part of the problem than part of the solution.

Supratikno is also sceptical about the benefit from GOI’s official “persuasion” to promote partnership. He asserts “that unless such partnerships gave the way to real economic benefits for the collaborating firms, any type of ‘forced marriages’ will sooner or later be worthless” (p.144). He does, however, think that GOI can make a constructive contribution in the following ways: 1) provide better information for firms and organizing matchmaking activities; and 2) systematically withdrawing from direct involvement in SME promotion activities which could be performed by the private sector. “GOI has to direct its attention and resources towards other more important and urgent tasks such as maintaining conducive macro-economic policies and reforming its bureaucracy to be more service-oriented and efficient.” (p.145)

Although the study by the Center for Economic and Social Studies (CESS) is mainly about the pattern of subcontracting during the monetary crisis period, under the coordination of Mangara Tambunan the research teams do make four policy recommendations. These are: 1) GOI should reorient policies not to force large enterprises to make subcontracts with SMEs which are not based on economic considerations; 2) GOI should not force large enterprises to make subcontracts with SMEs in fields which do not have synergies; 3) GOI must undertake simplification of its bureaucracy and supply information about implementing subcontracting activities which can support the creation of an environment so that SMEs obtain opportunities to open up new markets, whether domestic or foreign, without depending on just one enterprise; 4) GOI should allocate resources which can provide facilities to SMEs to undertake the development of innovations, for example in the supply of their operating equipment.

Lembaga Pendidikan Ekonomi dan Masyarakat (LPEM or Social and Economic Research Institute) of the University of Indonesia in its report on garment and textile, agro and wood industries, discusses both the factors hindering the formulation of strategic alliances and ways to facilitate them. The main author of this report was Achmad Shauki.

In the Bapak-angkat (foster-father) program there is a high possibility that the matchmaking will fail. Enterprises that participate in the program do not have the potential to develop their enterprises through strategic alliance. The government can play a role in assisting the process of forming strategic alliances. Before enterprises make alliances, they need information about prospective partners, which is expensive for them to obtain individually. The government or associations can more efficiently have a role in collecting this information about candidate partners and making it available to the enterprises looking for partners. This information has the nature of a public good (LPEM, p.41-2, 45-6).

Shauki concludes that the main obstacle to the further development of strategic alliance is uncertainty, whether it is caused by legal uncertainty (because of deficiencies in the legal system) or limitations of information, and because of still weak human resources. Limited foreign language capability inhibits alliances

between domestic and foreign enterprises. Because only the government can overcome the obstacle of legal uncertainty it is necessary to undertake legal reform in all aspects not just to support strategic alliances but also to support all economic activities (p.45).

In the section of this report on policy recommendations, five programs that strengthen legal certainty could be carried out by the government are discussed. These are as follows:

1. Become a facilitator (not a regulator) for small and large enterprises, which are going to form alliances through the establishment of an information center about candidate enterprises that have a potential to form alliances. This information would serve as a clearing house. A similar recommendation has been made by Hamid Machrus, a former Director General for Small Enterprises in the Indonesian Ministry of Industry and Trade, in December 1999 when he was still Director General (Ikhwan and Purdie, p.142).
2. Provide public education to SMEs about the benefits from strategic alliances and the size of the potential for forming these alliances. Publicize SMEs, which already have successful alliances.
3. Increase the capacities of SMEs to cooperate with foreign partners. One way to do this is to facilitate the holding of regional workshops with the participation of actual and potential contractors and subcontractors to discuss the factors hindering subcontracting, and ensure that the workshop results are widely publicized, so that the SMEs become more conscious about what is required to become attractive as subcontractors.
4. Facilitate technical assistance to subcontractors by large enterprises that want to increase the technical capacity of their partners. If a large enterprise sees potential for training a small enterprise partner to improve their quality then the government can assist the large enterprise to do so. On economic grounds it is thought that this assistance should be advocated only if some external economies are created.
5. Provide facilities to small and medium foreign enterprises, which want to look for partners in Indonesia (pp.46-47).

In his March 2000 paper Shauki recommends some other programs to help extend alliances, which are not mentioned above. The first is "Assisting small companies to promote themselves for alliances by helping with the formulation of a standard accounting system." The second is "Building a network for assisting small enterprises to help themselves. This network comprises various mutually supporting institutions (creating synergy) such as universities, financial institutions, government, banks and other financial institutions and small companies." (Shauki, March 2000, p. 137).

Shauki ends this LPEM 2000 report with a discussion of six principles, which need to be observed. The first three are: 1) the importance of candidate partners selecting themselves rather than being selected by the government; 2) that the government be a facilitator of alliances and not a regulator; and 3) recognizing the government's own limitations in assisting SMEs. It is not necessary for the government to supply training facilities, but it can make use of facilities available from outside of the government, such as universities, NGOs and large enterprises which desire to form alliances. In order to facilitate subcontracting activities, this report states that

perhaps it is necessary to consider giving tax credits to enterprises, which are ready to invest in developing the human resources of SMEs who become partners. The other three principles are: 4) provide legal certainty to the parties forming alliances; 5) government programs will only be effective if the implementing institutions have credibility and integrity; and 6) authority for implementing government programs to local government institutions which are familiar with the problems of local small enterprise. Dhanani in a UNIDO report also states that the contracting and legal environment is of major importance in the development of inter-linkages between firms, and that therefore the need for a competent commercial court system is a prerequisite for extensive development of network and supplier and support industries (Dhanani, p. 209). In connecting with 4, the report recommends if there is a dispute or violation of the alliance agreement then the government has to become a mediator, and if the dispute goes to court the government must be neutral and support the reaching of a decision which is just and transparent.

Thee in his chapter on motorcycles discusses in some detail the government's deletion programs started in 1997, a program requiring the production domestically of a long list of component parts which previously were imported. He concludes that over the years these deletion programs "undoubtedly led to the emergence of quite a large number of technically proficient small subcontractors, as indicated by the steady decline in the rejection rates of the components supplied by the subcontractors and their stricter adherence to the right delivery schedules set by the large assembling firms" (119). The lists and schedules of components decreed by the government to be deleted and produced domestically were very specific (see pages 114-6). Although Thee does not discuss this, the government by decreeing those components which had to be deleted must have resulted in much inefficiency through the deletion of components which were high cost to produce in Indonesia, as opposed to ones which could be produced at lower cost. It would have been more efficient if the government had only decreed deletion in terms of targets for the minimum percentage of value to be added locally and left it up to the motorcycle firms to make the decisions regarding the specific components to be deleted.

Sato in discussing the machinery components industry in Indonesia with an emphasis on its emerging subcontracting networks, after giving an overview of the industry, presents case studies of the subcontracting networks of Honda motorcycles, one of its main subcontractors PT Adhi Wijayacitra, and an attempt at suppliers' grouping, PT Usbersa Mitra Logam. This latter enterprise was formed by 10 small-scale metal processing firms in Pulogadung, East Jakarta, with equal shareholding.

Membership in Usbersa yielded three types of benefits, the first two because of support by the Astra group of companies which includes PT Federal Motor and PT Honda Motor. The first benefit has guaranteed access to markets for their products through regular orders from PT Federal Motor and PT Honda Motor. The second benefit was access to bank credits financed by a loan from Bank Universal, which is a private bank affiliated with the Astra Group. "The third benefit from Usbersa that most member firms regard as important is accessibility to information in a wide sense. Information inflows gained by joining Usbersa include formal guidance and training courses on technology, QC and management in UIUKK or under YDBA, market and product information through daily informal conversations among

members, and other various information from the government, private and banking sectors because of the reputation of Usbersa. This fact indicated that the network of Usbersa has functioned as external economies in terms of information flows from each of the member firms” (p. 140). UIUKK is the Small Scale Entrepreneurship and Cooperatives Information Unit under the YDBA (Yayasan Dharma Bhakti Astra — the Astra foundation established to assist SMEs).

Sato makes a number of important points in his conclusion section. One is that the development of subcontracting networks is business-oriented, which explains the limited effects of government linkage-promotion policies. “It also explains why the prime mover of developing subcontractors at present in Indonesia is the private sector — especially some large business groups in the machinery industry and also some subcontractors in the middle stratum themselves — not the government sector” (pp. 412–3). He does not make any government policy recommendations.

One way of creating new subcontractors is for experienced employees and labor to spin-off from larger enterprises to establish them, which he considers, is economically rational (p. 142). He considers the most crucial task for newly emerging subcontractors is to enhance their competitiveness, especially with trade liberalization. “Therefore it is crucial that individual component manufacturers should develop their own competitiveness — lower prices due to cost-saving management, lower reject ratio due to innovative process improvements, more frequent and punctual delivery than others, specific technological capabilities, wide scope of processing and so forth — so as to reinforce the reliable relationship in the existing subcontracting network and further to expand new networks” (p. 143).

As far as it is known, government assisted incubator programs to facilitate the establishment of new SMEs mainly have concentrated on tertiary institution, new graduates and the unemployed. The government should examine the possibilities of facilitating experienced employees to establish their own enterprises, including becoming manufacturer subcontractors, because their experience and financial situation is more likely to result in success. The Astra Foundation, Yayasan Dharma Bhakti Astra, has experience in this area.

As noted by the interviewed respondents, results of the impacts of government policies on small enterprises recently have concluded that the impact has not been large regarding the creation of employment in industrial clusters. Instead of the Bapak-angkat policy which focuses on benefits to the small enterprises in their relationships with big enterprises, relationships created because both parties consider they benefit will be more permanent and continuously benefit small enterprises (1998, p. 263).

Van Dierman’s other policy recommendations are similar to those of Shauki. The relations within enterprises and among enterprises of various sizes have to be naturally developed and cannot be created by fiat. It is also important that government policies create a favorable environment for small enterprises by acting as facilitator, not as regulator. He stated that policy decisions need to be moved to local and regional agencies in order to handle more effectively the special problems experienced by small enterprises in clusters. Experience in other countries suggests

that local and regional policies have a great influence in creating a policy environment, which is conducive for the growth of small enterprises (1988, p. 264).

Van Dierman also relates how in the developed countries there has been the development of specialized flexible production by SMEs using the most recent flexible technologies whereas the enterprises he studied were not very specialized and used simple equipment with relatively old technologies. He considers that it is incorrect to conclude that using specialized flexible production in Indonesia is ideal because this analysis has given little consideration of historical and cultural processes (1998, pp. 271 – 4).

In December 1999, a National Workshop on Small and Medium Enterprise Development was held in Jakarta. This resulted in the volume edited by Peter van Diermen, *SME Policy in Indonesia: Towards a New Agenda, March 2000*. Several chapters are concerned with business alliances, including Chapter 21 by A. Shauki mentioned above.

William Cole in his Chapter on “The Role and Encouragement of Business Alliances” in discussing policy implications suggests that because no one outside of firms themselves needs to “create” business alliances as under conducive conditions they will form automatically. It is less important to establish good proactive policy or programs than it is to remove harmful existing policies and official practice.” He then goes on to list and discuss five Indonesian government policies and official practice which are the most detrimental to the formation of stable, long-term business alliance networks in which large transfers of information, technology, and credit take place, and therefore should be avoided. These are now listed:

1. Forced alliances between large and small firms (kemitraan). Business alliances can only work if built on trust and if they involve clear mutual benefit. “Where government officials become involved in the process, the risk increases tremendously for larger firms. There will be fear of government siding with the smaller firms in disputes, of meddling by officials based on good intentions, but with little competence in business, and in some cases fear of outright corruption. Current regulations requiring kemitraan may in fact be undermining the development of voluntary business alliances by medium scale firms that might otherwise experiment, but now fear intrusive government regulations and official involvement” (Cole, p. 106).
2. The underdeveloped legal system undermines formation of formal types of business alliances.
3. Business-related visa and foreign labor policy is too restrictive. He considers that “Long term business visas are not that easy to obtain for small scale foreign businesses, and large charges for experts aimed at keeping foreigners out of Indonesian labor markets are counterproductive. Both restrain the flow of information and knowledge into Indonesia and are particularly damaging for medium and smaller firms. The ambiguities associated with being a foreign ‘buyer-consultant’ open both foreign experts and Indonesian entrepreneurs they work with to abuse by corrupt officials” (p. 107).
4. Open and competitive markets are essential. He considers that constraints on competition inhibit the kind of business alliance formation in which large-scale transfers take place. Constraints on competition at the national and local levels may result in too few medium firms with which smaller firms can build alliances,

resulting in them having few choices of alliance partners, which results in much less transfer taking place.

5. Complicated and costly licensing, restrictive regulations, and corrupt taxation reduce the value of long-term links to small scale firms. “Each of these factors impose unfair burdens on smaller to medium scale firms, and tend to make those firms less attractive as long term business partners both for larger firms and for foreign companies” (p. 107).

His key recommendation is to concentrate first on finding and removing policy constraints to strong business alliance formation. He also states that in examining possibilities for more proactive intervention, “they should begin with a key principle: do nothing that directly assists individual firms. Rather look for approaches that serve the interests of large numbers of firms in a more general way.” (page 107). Based on this principle he discusses four possible areas for more proactive intervention.

1. Encourage the emergence of independent business associations.
2. Encourage trade shows but let business play the key role in running them.
3. Education on business alliances through mass media. “SMEs could benefit from a better understanding of how to build formal strategic alliances, where to look, what to expect, and where the risks lie.” Making use of mass media channels to improve the knowledge and expectations of smaller firms is likely to be more cost effective and have more widespread impact than direct one-on-one assistance to smaller enterprises.
4. Tax relief on technology. “Use of more advanced technology can be an effective way to improve firm and worker productivity. Reducing the taxes on all forms of technology can promote greater usage, and the reduced costs would encourage medium and larger firms to provide more technology transfers to smaller business partners” (p. 108).

It is my view that tax relief must be used very cautiously. As long as there is much disguised and other unemployment in Indonesia, in general new technologies which mainly replace labor with capital without increasing total factor productivity must not be subsidized. However, the application of technologies which are complementary to the use of labor, rather than substituting for labor, are generally attractive, although in every case the benefit-cost calculations must be done, from the viewpoint of economic policy using both money prices and shadow (accounting) prices.

Andi Ikhwan and Nick Purdie in Chapter 23, “Group Discussion: Collective and Collaborative Business Practices” summarize the discussion in the National Seminar. Several recommendations regarding linkages were also made. One was that the “Government should not create linkages between SME’s and larger enterprises, but there may be a role for technical and financial support once such linkages have been developed successfully by private sector actors.” Another recommendation was that responsibility for showrooms to stimulate exchange of information and business contacts among SMEs and larger enterprises be transferred from the government agencies to the private sector (Ikhwan and Purdie, page. 143).

A third recommendation is to pay more attention to “whether SMEs in western countries can be increasingly matched with their Indonesian counterparts. Indonesia

has favorable experiences with matching schemes that may be expanded.” (page 144).

A conclusion was that it is widely recognized that linkages between large firms and SMEs are underdeveloped in Indonesia. They recommend that “We need to understand better why this is the case, and whether this ‘missing link’ can be addressed.”

Finally, they also concluded that “There is a need for an SME database throughout the country to provide potential foreign and domestic investors (traders and large manufacturing firms) with information on growth prospects of regional SMEs. Such a database should be commercially run.” (page 144).

The previous five reviews were based on empirical sector studies. They have shown that healthy partnerships are based on commercial considerations and government efforts that try to promote them when they are not profitable will and have failed. Perhaps there are several roles that the government could play as a facilitator – providing legal certainty, information exchange, accounting reform, incubator creation, etc.

The following two studies focus on policy surveys. In terms of scope, they are much broader than just looking into partnership. However, they are relevant to address as they discuss pertinent government factors affecting SME development and promotion.

A policy recommendation prepared by Shujiro Urata, in his *Policy Recommendation for SME Promotion in Indonesia*, dated July 26, 2000 address financial aspects of linkages between SME capacity building and SME lending system, leasing as a facilitator of SME activities, and micro finance; non-financial aspects regarding measures to deal with problems faced by individual SMEs, measures to facilitate linkages between enterprises, and measures to promote exports; and policy recommendations regarding the administration of SME promotion measures in Indonesia. Here the focus is on his recommended measures to facilitate linkages between enterprises, in particular the promotion of supporting industries.

Urata analyzed the problems relating to linkages among enterprises and found that there was insufficient development of supporting (subcontracting) industries in Indonesia and a general absence of a layer of medium size enterprises in Indonesia subcontracting to the general machinery, electrical machinery, textile, transport machinery and metal industries (Urata, pp. 102 – 105). He writes that the following are causes of the slow development of supporting industries in Indonesia:

1. “The prohibition of inward investment of less than US\$ 1 million to protect large enterprises has essentially meant the prohibition of inward investment by foreign SMEs,”
2. “The enforcement of a high import duty for final products in an attempt to promote the import of parts for their final assembly in Indonesia has prevented the growth of domestic SMEs in supporting industries (these restrictions on foreign capital were eliminated in 1993 and the import duty on final products and parts now shows a declining trend in line with the WTO rules),”

3. "There has been a lack of incentives on the part of the government to facilitate investment by foreign parts manufacturers,"
4. "The technological level of local SMEs has remained low as these SMEs have had few opportunities to learn casting and metal mould manufacturing technologies which are common basic technologies for all supporting industries of the assembly industry,"
5. "Assembly makers have not provided sufficient support for local SMEs in the form of the active procurement of locally produced parts," and
6. "There has been limited scope for local SMEs to find new trading partners" (Urata, p. 105).

Urata briefly discusses the Foster Parent Program (presently the Partnership Program) and Centra/KOPINKRA measures to facilitate the linkages between enterprises. He finds, "However, the effects of these measures have been somewhat limited because of the fact that their rules consisted of the program tend to hamper the market mechanism and/or their contents do not necessarily meet the market needs. As a result, supporting linkage of enterprises through subcontracting, have not yet been fully developed" (p. 145).

He then goes on to recommend several measures to facilitate subcontracting. The first recommendation is the promotion of inward direct investment by foreign assembly and parts makers through improving the investment environment of Indonesia: the elimination of present practices which incur an unclear investment and operation cost to enterprises, withdrawal of the discriminatory regulations on foreign engineers and a steady reduction of the import duty on finished products and parts. "Moreover, the establishment of a database on local SMEs and the development of SME-oriented industrial estates are important to create a favorable environment to facilitate inward investment by foreign enterprises. In this regard, it is important for the government to actively invite and receive an investment environment study team consisting of owners or senior managers of SMEs from abroad" (p. 147). The study team should also include Indonesian SMEs.

If the objective is the facilitation of the development of Indonesian SME subcontractors, the encouragement of foreign investment in this area may be detrimental to the development of local subcontractors. However, this is not necessarily the case because large assemblers usually subcontract directly with quite large enterprises, which commonly in turn subcontract to smaller subcontractors, and so on through several subcontracting tiers. Foreign investment in first tier subcontracting is likely to facilitate lower level subcontracting with Indonesian SMEs.

Urata considers that casting, forging and metal mould manufacturing industries have the most important common element technologies of supporting industries for the assembly industry. Also metal mould manufacturing and repair technologies are crucial to determine the quality and precision of metal automotive parts and plastic mould parts for electrical appliances. However, the enterprises producing these types of products in Indonesia generally find it difficult to guarantee a stable supply of products which meet the quality and precision standards set by such assembly industries as the automobile, motorcycle, electrical appliance and machinery industries.

In order to remedy the above condition, Urata's second recommendation is the establishment of a supporting industry promotion center to provide SMEs with necessary technical advice and inspection services which are necessary to upgrade the casting, forging and metal mould manufacturing technologies. "For this purpose, the establishment of a model area (for example, in Bandung) may be a good idea to proceed with the prioritized improvement of those factor technologies required by supporting industries" (p. 147). There are reservations about "the establishment of a supporting industry supporting center....". Instead, it is thought the government with private sector assistance should investigate various ways of facilitating private sector provision of most of these technical advices and inspection services in several industrial centers in accordance with the demands and needs of the user enterprises.

Urata found that some assembly makers such as the Astra Foundation provide active support to SME subcontractors in the form of training, etc. Some large foreign enterprises have training facilities not just for their own group enterprise but also for other Indonesian enterprises (for example, National Gobel). Some industrial associations also provide training for employees of their member enterprises. Urata's third recommendation is encouragement of commitment on the part of private enterprises to the development of supporting industries, for example the provision of tax incentives to facilitate the access of SMEs to training facilities established by the private sector (pp. 147 – 148).

Urata points out that an issue of concern to foreign investors is the selection of SMEs that are capable of acting as subcontractors in the target area. His fourth recommendation is the preparation of a matching database and/or directory of local SMEs using information technology, which should prove useful to create effective linkages between foreign investors and local SMEs. "Utilization of the vitality of Chambers of Commerce and Industry, industrial associations and other organizations in the private sector should prove highly effective in this context. Moreover, the expansion of such a database and/or directory to the entire ASEAN, Asia and APEC regions should be considered so that those enterprises which intend to broaden the geographical scope of their business operation can have access to SMEs in these regions" (p. 148).

Finally, Urata makes several other brief recommendations. He writes, "A travelling consultation service for SMEs, the establishment of testing and researching organizations and Reverse Exhibitions (or Procurement Opportunity Exhibition) are also effective means of promoting supporting industries. However, it is not self-evident why a "travelling consultation service" is needed. Given a favorable environment, it is expected that private service providers will develop via the market mechanisms to deliver services to SMEs as demanded. Other important measures to promote the linkage between enterprises are the promotion of the establishment of industrial associations and promotion of the collaboration between industrial associations in Indonesia and their counterparts abroad" (p. 148).

Shafiq Dhanani in a UNIDO report, *Indonesia: Strategy for Manufacturing Competitiveness*, discusses small manufacturing enterprises. He points out that to date they have mainly been producing low-technology and low-productivity

consumer goods. He considers that the major post-crisis challenge and opportunity facing small-and medium-scale manufacturing enterprises is to become integrated in the overall manufacturing sector as suppliers of raw materials, intermediate inputs and components to both large and other small establishments. “The government does not yet have effective programs to promote subcontracting, nor to provide channels for the arbitration between large firms and subcontractors, thus encouraging them to opt for vertical integration or to look for quality suppliers abroad” (Dhanani, p. 210).

Dhanani lists 10 measures which could be undertaken to develop subcontracting arrangements and small and medium industries (SMIs) in general, without going into detail about how and by whom the measures should be effected. Below these measures are presented:

1. “Provide incentives for assemblers to identify potential suppliers for components, and to provide technical assistance to them to develop their capabilities, including the development of a vendor improvement and certification program.”
2. “Encourage local design and engineering capabilities to produce components based on client specifications, and the ability to reverse engineer products or create original designs on the basis of agreed specifications.”
3. “Intensify interaction between the government technology support institutions and the private sector, perhaps through joint management of such institutions with industry associations.”
4. “Deliver a private-sector led active outreach program to SMIs through productivity centers, with qualified and motivated teams visiting the industries, offering free diagnosis and putting together packages of technology, training and finance” (Dhanani, p. 210).
5. “Undertake a thorough evaluation of all existing schemes such as the Technical Service Centers, the Small Industrial Estates and other schemes promoted by UNIDO (clusters), the World Bank (matching grant schemes) and GTZ (Business Advisory Network), and redirect viable schemes to private sector providers.”
6. “Rationalize the SMI-credit programs based on the evaluation of the effectiveness and performance of the numerous existing credit schemes, and improve access to market-based finance.”
7. “Study and seek to adapt successful SMI programs in other countries such as Hong Kong and Taiwan. The latter has provided extensive technical and managerial assistance by matching SMIs in need of services with appropriate consultants in the private sector, and has therefore managed to contract out most of its services to the private sector instead of government agencies.”
8. “Promote business to business electronic commerce (B2B).”
9. “Promote medium-scale technology-based FDI partnerships between foreign and local SMIs.”
10. “Improve the contracting and legal environment to encourage assemblers and principals to establish a close and durable relationship with suppliers, and establish a competent commercial court system” (Dhanani, p. 211).

On measure 4, the merit of offering free services is doubtful, because it is likely to result in the inefficient allocation of these services to SMEs. It is usually preferable that the SMEs be required to pay part of the cost of the services, in order to ensure that they sufficiently value them.

Although measure 9 may be meritorious, there is a danger of overemphasizing B2B, especially in subcontracting relationships. In most cases business between the contracting parties can be carried out efficiently using conventional means. However, electronic websites and portals can perform a useful function in facilitating initial contacts between potential contractors.

As it has been noted throughout the review, extensive work has been done on factors affecting manufacturing subcontracting, and many policies and program recommendations have been made. What actions now need to be undertaken by the government? One is to determine what further research is required with respect to which policies and programs, and then commission it to be done. With so many manufacturing industries and localities in which subcontracting transpires, undoubtedly the factors affecting it vary substantially.

A second action is to formulate more concrete policy and program recommendations, and then discuss them in a workshop(s) with active participation by representatives of all of the affected stakeholders, before finalizing them for submission for consideration by a Minister, a local government department head, the national or local parliaments, etc.

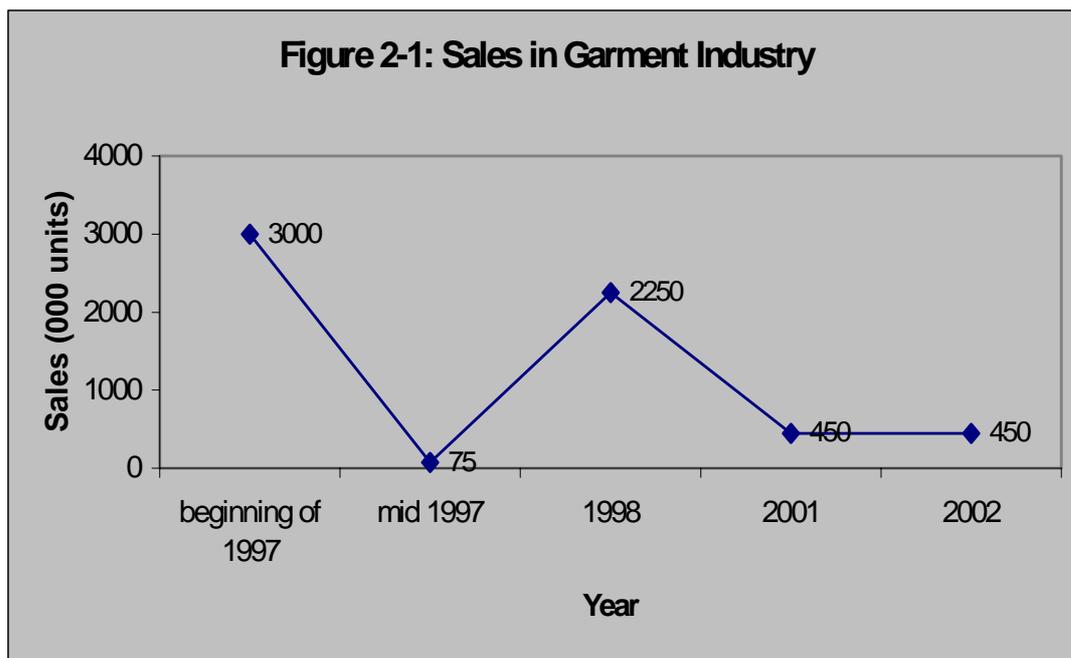
Overall, the purpose of this section was to review the recommendations about manufacturing subcontracting already made by various researchers as a step in the process of formulating improved policy and program recommendations. The recommendations for government and non-government actions to facilitate subcontracting in manufacturing by these researchers will enable new discussions to develop with the hope that new government policy and references will be made to support SME development and promotion.

Chapter 2

Garment and Textile Industry

2.1 Current Condition in the Garment Industry

According to the research results, the demand for garment products at the onset of the financial crisis in 1997, shown by volume of transactions, declined initially by 10% to 15%. Immediately thereafter, demand rose by 10% to 40% for some companies as the rupiah declined against the dollar. Since the beginning of 2001, export demand has decreased from 5% to 35% due to decrease in demand from the US, Japan and Europe. Though many direct exporters have been able to cover unexpected expenses by using income from sales, it has been difficult to keep ahead production costs as there is an increasing amount of new conditions (international buyers are more selective and demand improved quality) to meet. For the local market, demand has increased to the point where many small manufacturers have to outsource their CMT (cutting, marking and training/trading) to smaller firms or home industries.



Note: The sales figures remained stable from 2001 to the beginning of 2002.

Some of the smaller SME's and home industries are totally dependent on their contractors for orders, market information, and capital investment. If a SME gets an order from a large manufacturer, produces a decent quality product, with a low rejection rate within an efficient time schedule then demand is fairly continuous.

In terms of competition, large manufacturers investigate which potentially subcontract in the top positions in the market then prioritize quality, efficiency and price. The large enterprises are willing to pay higher prices if they are compensated

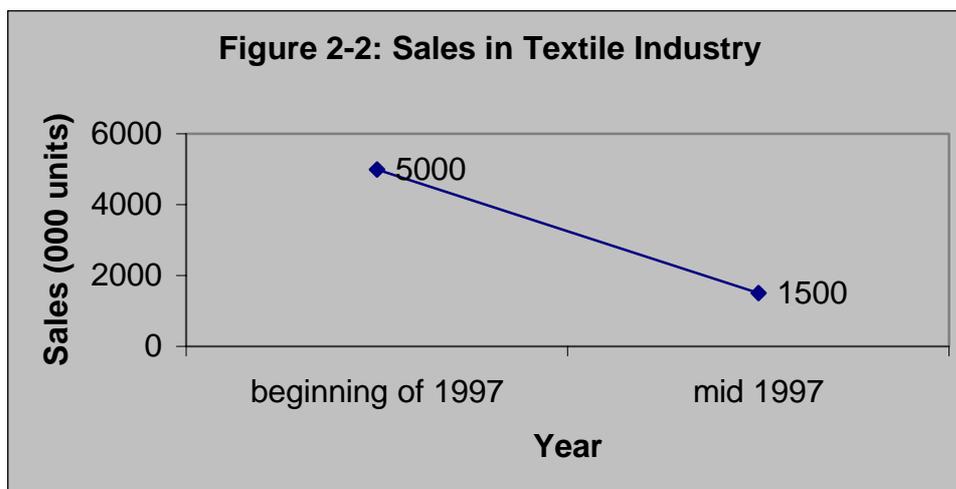
by higher quality and durability. They demand current technology, which follows developments in the market. For small and medium enterprises, the important points are quality, delivery and skilled labor. If these are satisfactory and orders are finished then pricing and other competitors do not pose threats in obtaining orders from large companies.

In garment production, the main processes are cutting, sewing and finishing. The longest process is sewing as there are many subprocesses for different types of clothing. There are two ways to guide the processing of product (a) by sending samples and (b) sketching for details. The production process must be done consecutively.

The most important thing is to maintain production flow and balance. Technology is not dynamic though there are automatic machines for many functions.

2.2 Current Conditions in the Textile Industry

In the Textile Industry since 1997 sales have been declining between 20% to 60%, though sales have recently stabilized amidst the fluctuation of the rupiah. Exports have increased for cheaper products though profits are less. So, it is better to place oneself in a value-added market position and specialize on certain products only.



Note: After 1997 until 2002, sales increased slowly but it has not recovered to pre-crisis levels.

Meanwhile, the Textile Industry remains a very competitive business. Globally, demand is larger than supply. Indonesia has a lot of growth potentially in the textile business. Fortunately, textile companies transfer their technology. This creates stiff competition that in turn channeled demand into cheaper and more accessible products. So, the biggest challenge is to compete in technology, raw materials, prices and quality. At the moment, China is the main competitor.

Textile production is a straight-line process-it must be done step by step. Most important is the transfer of technology so machines can be operated laterally within the enterprise. There is not a special need for the latest technology as the processes within textile production do not often change and manual labor remains economical.

The obstacles for the medium level technology being used are lack of a support infrastructure, namely, lack of strong power supply, clean air, controlled and dust-free environment.

2.3 Characteristics of the Garment Industry

In this study, primary data through direct interviews were collected from Garment SMEs. Some key features of the samples are as shown in Table 2.1.

Table 2.1: Characteristics of the Garment Samples

Characteristics of the Samples	Sample SMEs: Garment Industry (n=9)
<u>Size: Number of Employees*</u>	
0-19	11%
20-49	45%
50-99	11%
Over 100	33%
Total	100%
<u>Year Established</u>	
Before-1979	22%
1980-1989	56%
1990-1996	22%
1997-(up to present)	0%
Total	100%
<u>Status of Company</u>	
Foreign Company	0%
Joint Venture	0%
Local/Indonesian Registered	100%
Total	100%
<u>Export %</u>	
None	67%
Below 50%	11%
50%-100%	22%
Total	100%
<u>Length of Time in Subcontracting</u>	
0-5 years	34%
5-10 years	33%
10-15 years	11%
More than 15 years	22%
Total	100%
<u>Why Subcontract</u>	
Lack of in-house capacity	56%
Costs too high in-house	11%
Not time efficient in-house	22%
Lack of skilled labor in-house	11%
Total	100%

The 9 sample enterprises include some companies that produce components for non-garment industry, but the main product category is still garments.

2.4 Characteristics of the Textile Industry

In this study, primary data through direct interviews were collected from textile SMEs. Some key features of the samples are as shown in Table 2.2.

Table 2.2: Characteristics of the Textile Samples

Characteristics of the Samples	Sample SMEs: Textile Industry (n=9)
<u>Size: Number of Employees*</u>	
0-19	22%
20-49	11%
50-99	0%
Over 100	67%
Total	100%
<u>Year Established</u>	
Before-1979	45%
1980-1989	0%
1990-1996	33%
1997-(up to present)	22%
Total	100%
<u>Status of Company</u>	
Foreign Company	0%
Joint Venture	0%
Local/Indonesian Registered	100%
Total	100%
<u>Export %</u>	
None	67%
Below 50%	22%
50%-100%	11%
Total	100%
<u>Length of Time in Subcontracting</u>	
0-5 years	67%
5-10 years	22%
10-15 years	0%
More than 15 years	11%
Total	100%
<u>Why Subcontract</u>	
Lack of in-house capacity	78%
Costs too high in-house	0%
Not time efficient in-house	22%
Lack of skilled labor in-house	0%
Total	100%

2.5 Supporting Industry

Several company directories and information from the garment and textile manufacturers/contractors in Indonesia indicated that until recently the supporting industry in this sector continues to exist and expand despite the financial crisis.

During the interview survey, many SMEs noted that they have had relatively consistent flow in orders. However, it was found that there have been persistent problems faced by most SMEs, especially during the economic crisis. Some of the problems SMEs have been facing are:

- 1) an increase in raw material prices due to the depreciation of the Rupiah;
- 2) credit services previously secured from banks were either halted or made impossible to obtain;
- 3) a decrease in consumer demand by reason of a fall in consumer purchasing power;
- 4) much of the financial transactions such as the purchase of raw materials have to be done in cash for it is no longer possible to purchase on credit, whereas the payment made by contractors is only done one or two months after delivery of goods.

In other words, the most serious problems faced by SMEs are lack of capital and financing connected problems (more serious than the problem of demand). So in order to deal with such problems, some of the affected SMEs that have the capacity and flexibility have undertaken new measures. They have focussed on finding and/or developing new markets for export; made use of inexpensive or previously used raw materials to cut overhead costs (especially for components that do not require high quality raw materials); and they have put effort into producing new niche products that are in high demand or specializing in new non-mainstream products.

2.6 Inter-industry Partnerships in Garment and Textile

Business relationship among companies in the Garment and Textile industries can be analyzed as follows:

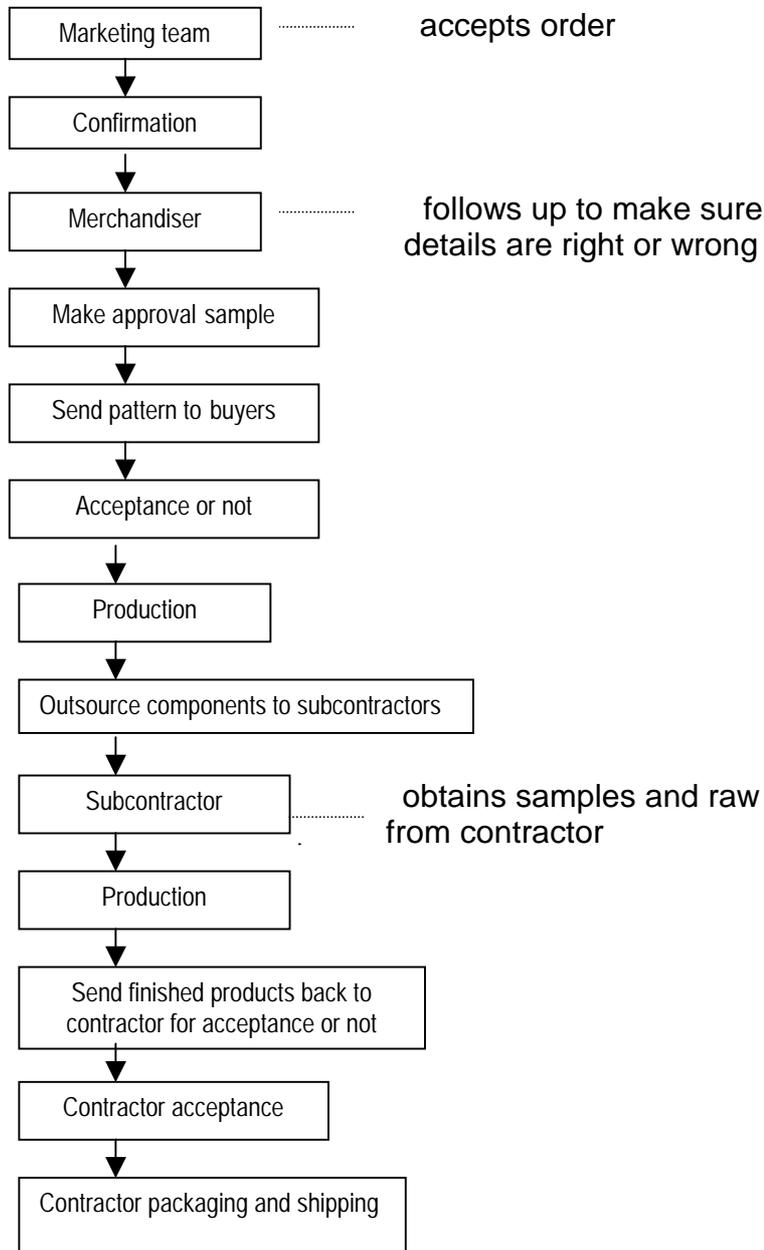
1. Subcontracting Structure

On the survey and interviews carried out for this study, I found out that the subcontracting structure in the Garment and Textile industry involves up to two levels, namely:

- 1) The first level subcontractor; local SMEs whose product or service are similar to the ones done by the prime contractor but in smaller volume.
- 2) The second level subcontractor; companies belonging to this level are usually companies providing services that are the finishing touches of the work process such as embroidery or dyeing, and in several cases, had a narrower range of products than the prime contractor.

As an illustration Figure 2-3 shows the subcontracting structure in Indonesia.

Figure 2-3: The Subcontracting Structure for the Garment Industry



Box 2-1: Subcontractor Development (a case study in the Garment Industry)

A large garment manufacturer in East Java encourages their internal staff to become entrepreneurs by providing inputs necessary for home industry development. It started four to five years ago when the company directors decided that though they could produce everything in-house, it was time to find new ways to stimulate the local economy (besides focusing on profit margins).

The employees who agreed to the home industry program, the former staff, saw it as a way to increase their personal income, develop their local community, work at home and spend more time with their children. The contractor provided capital and inputs to renovate the employees houses in order to provide for the installation of roughly 30 machines and new staff. Then the contractors provided transportation to deliver raw materials and take orders back and forth from the company to the home industries. To insure the quality in the production process, the company provided training and quality control teams to set the standards. Training on the machinery and character building were emphasized as important factors for manufacturing success, e.g. such as employee empowerment seminars. The contractor's team checked the material piece by piece so when the finishing time came, the final product met everyone's standards.

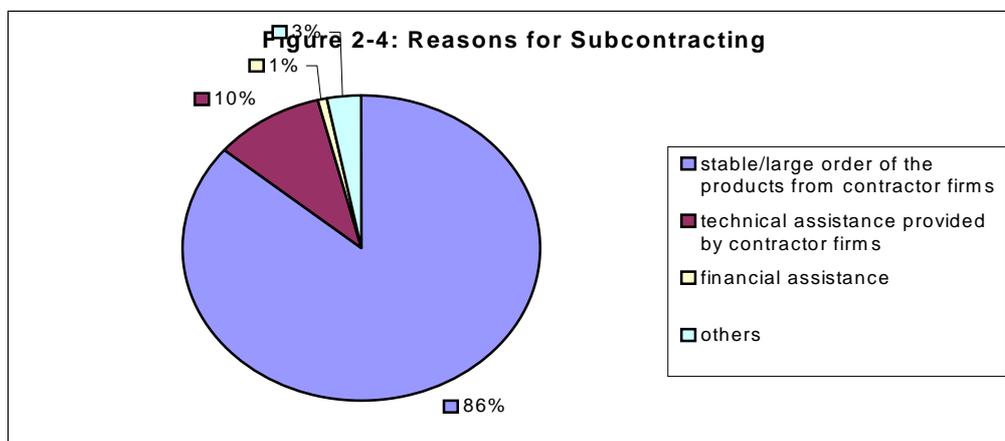
In the end, a well-organized home industry was developed by a large garment company's former employees, providing new employment and empowering new entrepreneurs. The contractors found a way to save time in production as well as save money in their costs (considered as a benefit).

2. Subcontracting Agreement

a. Reasons for Subcontracting from Point of View of SMEs

The survey found, as indicated in Figure 2-4, that the main reasons for SMEs to start a subcontracting relationship with contractors are (1) in order to receive stable and/or large orders of goods (86%), (2) to obtain technical assistance and/or training (10%), (3) to have access to financial assistance and/or programs available (1%), and (4) various other minor aspects (3%). Notably, the factors considered represent main reasons only to be engaged in subcontracting relationships with large manufacturers/contractors.

Figure 2-4: Reasons for Subcontracting



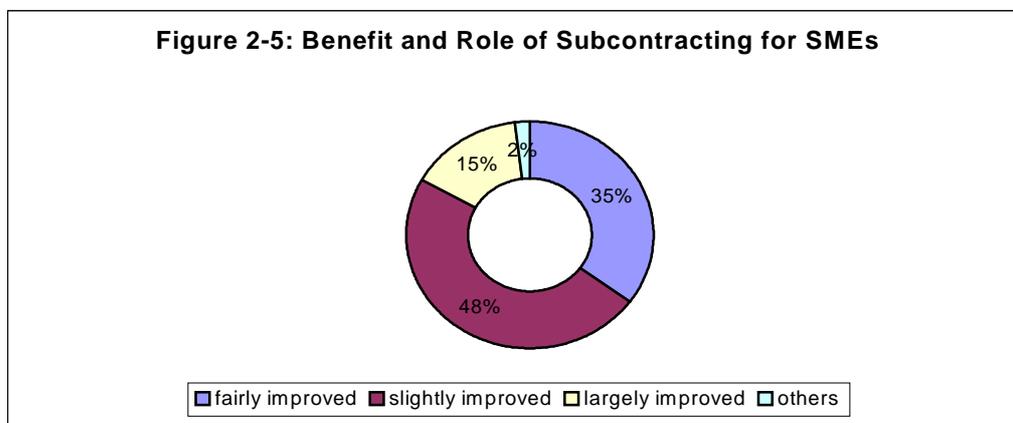
This figure demonstrates the role of subcontracting in providing for small and medium sized garment and textile producers.

Subcontracting has played an important part in terms of technology support or technical assistance. However, the chart exhibits that financial support from contractors has not been a major contributor to the development of small and medium firms.

b. Benefit and Role of Subcontracting for SMEs

Though they differed among themselves most of the subcontracting SMEs agreed that the subcontracting they did helped their firms, as can be seen from figure 2-5 below.

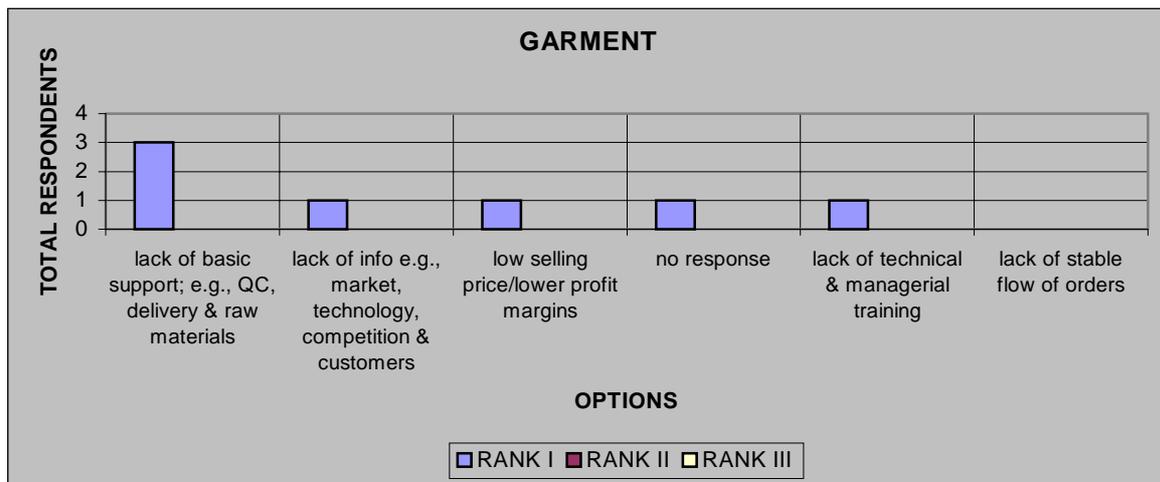
Figure 2-5: Benefit and Role of Subcontracting for SMEs



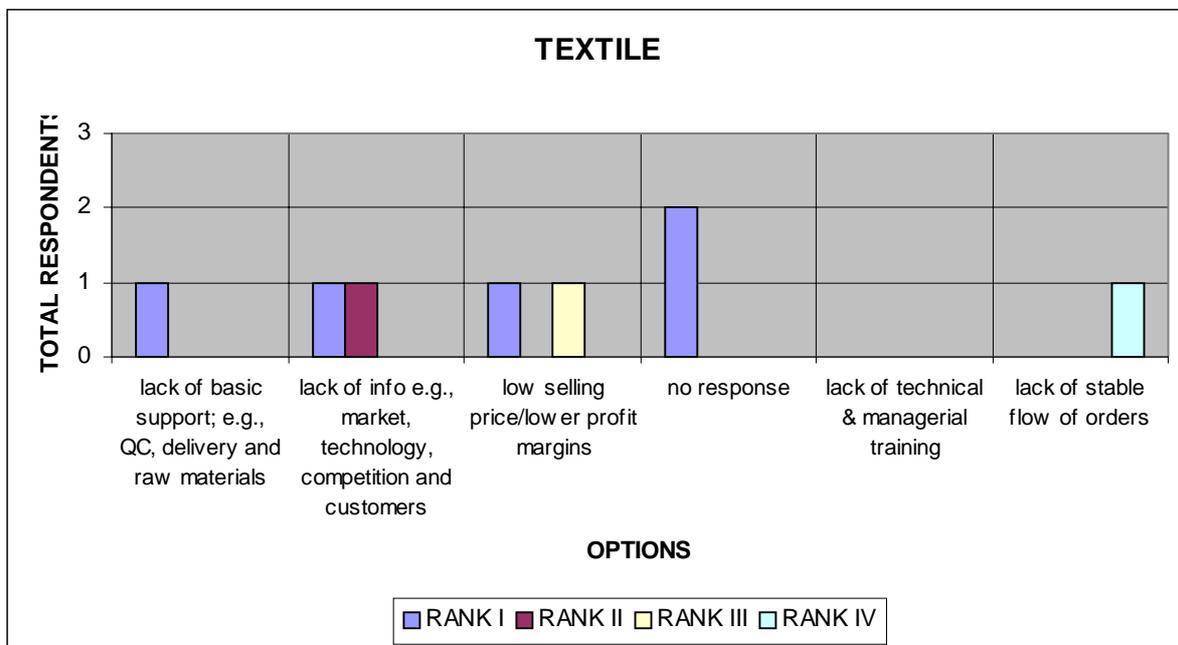
As compared with the Paper Industry, which will be analyzed later, this figure shows that the benefit of subcontracting in the Garment and Textile Industry is considerable. Besides gaining financial benefits and continuity of order in their production, they also got to develop character building, through man empowering efforts, such as training programs and information sharing in terms of their operations.

3. Difficulties in Developing Subcontracting Agreements

As shown in Figure 2-6, SMEs experienced some difficulty in subcontracting relationships. The three main difficulties were (1) lack of basic support in quality and delivery standards as well as raw material availability; (2) lack of information on market, competition, potential customers and technology; (3) low selling price and/or lower profit margins. In addition, there is a lack of technical and managerial training as well as a lack of a stable flow of orders.

Figure 2-6: Difficulties in Developing Subcontracting

Note: There was no response for Rank II and Rank III.



Furthermore, contractors demand high quality standards and tight delivery schedules so such conditions can create difficulties in meeting such standards in the initial development or expansion of subcontracting business. On the other hand, competition among SMEs forces them to make improvements in terms of quality, delivery and production efficiency.

If the government and/or private sector decides to establish improved conditions for subcontracting, some of the SMEs interviewed recommend these pertinent measures:

- (1) develop an information networking system with reliable and up-to-date information on subcontracting business and potential partners;
- (2) provide inexpensive and accessible technical assistance for SMEs;
- (3) establish programs with banks or micro-credit firms in order to provide SMEs with better access to financial services/credit;

- (4) promote programs and/or services aimed at improving SME business skills and/or capabilities such as managerial training.

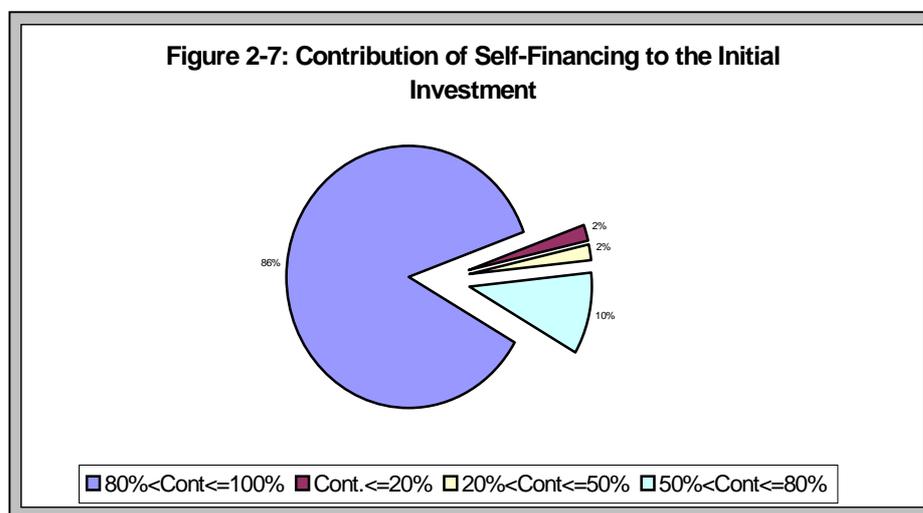
2.7 Financial Needs

The survey team attempted to elucidate some data regarding the financial needs of the surveyed SMEs as follows:

1. Contribution of Self-Financing to Initial Investment

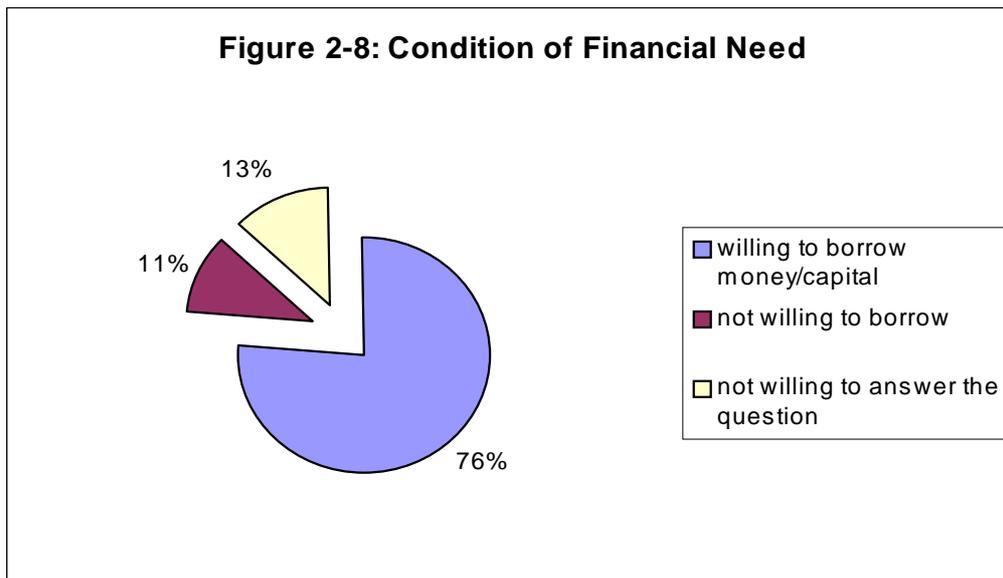
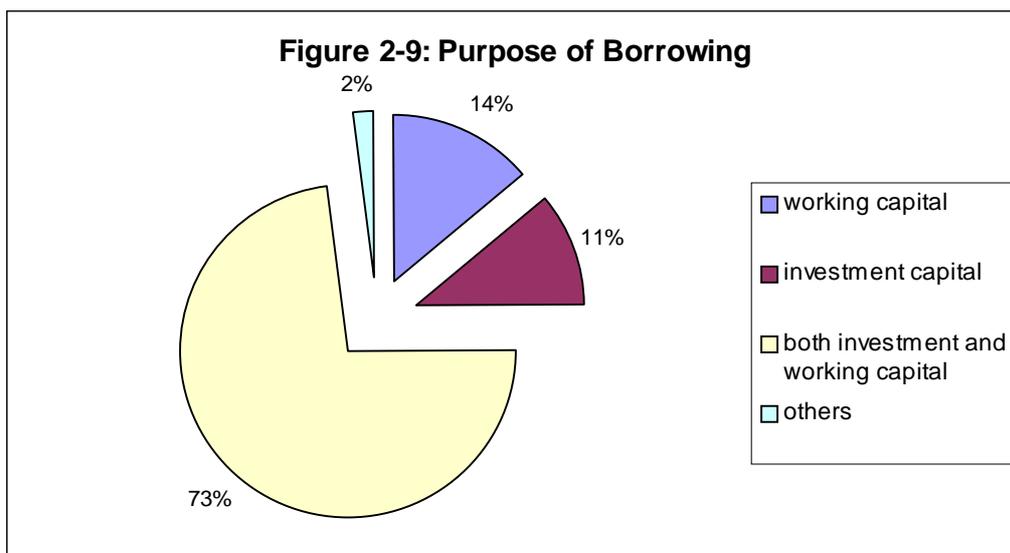
One of the most difficult barriers faced by SMEs is an investment problem in starting their business. Most of the firms utilize their own savings or financing for their initial investment.

Figure 2-7: Contribution of Self-Financing to Initial Investment

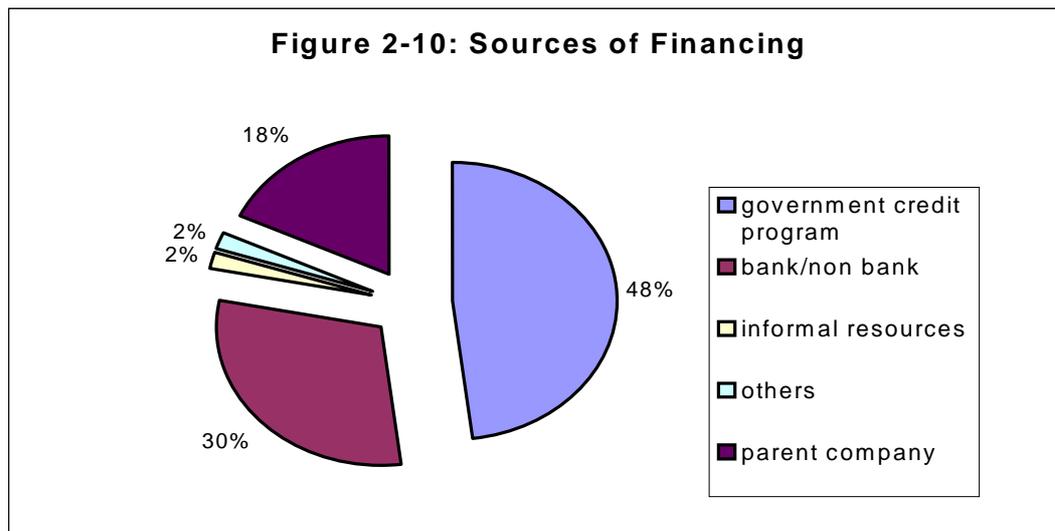


2. Condition of Financial Need

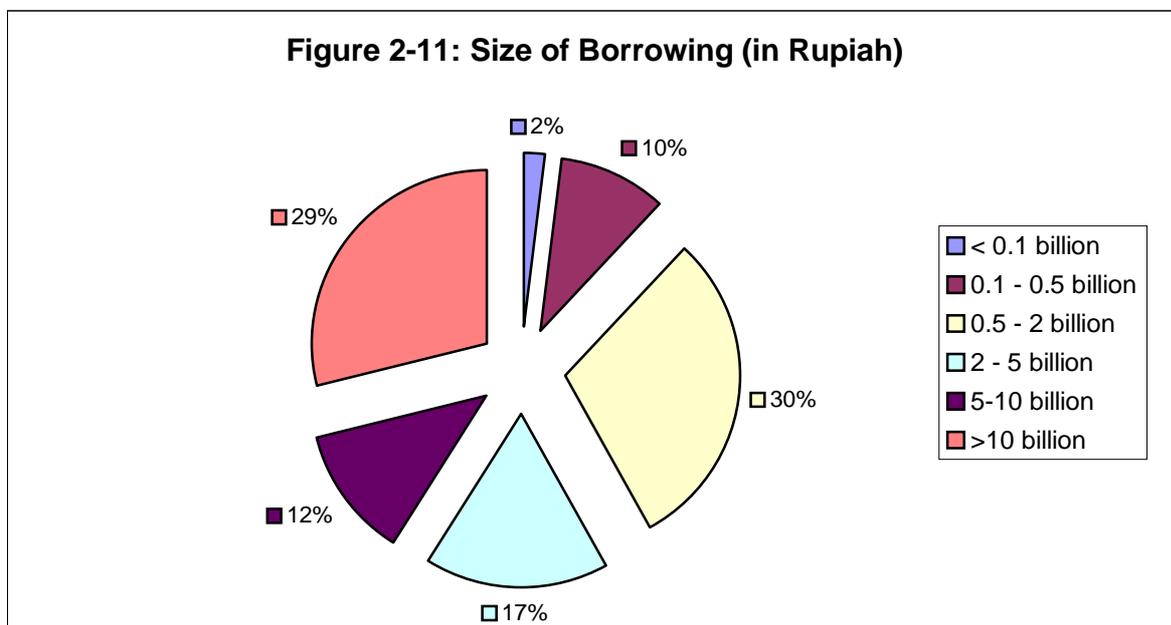
Figure 2-8 shows that 76% of firms are willing to borrow money or capital, 11% are not willing to borrow money or capital, and others are not willing to answer the question. What is regarded by 'not willing to borrow money or capital' means that 11% of the interviewed companies are not going to borrow any money or capital for the purpose of production. They feel that they do not need it due to their ability to possess enough capital to either start production or to maintain operations.

Figure 2-8: Condition of Financial Need**Figure 2.9: Purpose of Borrowing**

Government credit programs (53%) and financial institutions/banks (33%) are the two largest financing sources chosen by firms. Compared with the market rates, government credit programs have lower interest rates, however, many of the firms noted that finances from government sources were not adequate in volume. If firms require borrowing large sums, they prefer to obtain bank/non-bank financing.

Figure 2-10: Sources of Financing

As shown in the Figure 2-11, the most common loans sought are in the range of 500 million-2 billion rupiah, the next most common is more than 10 billion rupiah, followed by loans in the range of 2 billion-5 billion rupiah. Indeed, these larger amounts can be borrowed only from banks/non-banks at normal market rates. The maximum loan from Government Programs, albeit at lower rates of interest than banks, is usually under 500 million rupiah.

Figure 2-11: Size of Borrowing by SME Subcontractors (in rupiah)

Compared with subcontractors overall, contractors have had easier access to banks and financial institutions, most likely due to their size, capacity, potential and market position. For SMEs, bank/non-bank services have not been easily accessible. Throughout the interviews, many of the SMEs mentioned that there was a lack of information on bank/non-bank services, and problems with extremely high financial

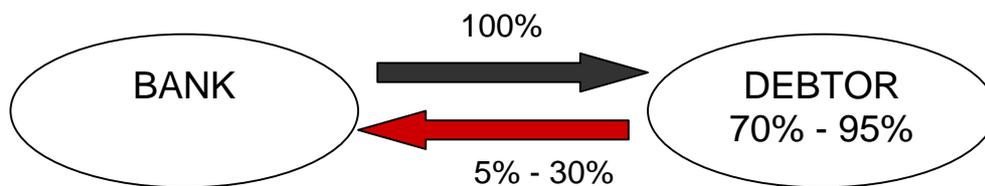
costs such as high interest rates, high collateral and high unofficial commissions in banks/non-banks. For financial assistance from contractors, it is usually in the form of setting up better payment conditions and the provision of raw materials, dies or machinery. However, in some rare cases, contractors do sign as guarantors for bank loans for their subcontractors.

3. High Cost Involved in Illegal Commission Payments for Bank Loans and Subcontract Orders

a. Red Tape Money in the Banking System

Expensive business costs can occur both in the banking system and in subcontracting arrangements among companies. The real amount of loan received by a debtor from the bank is only around 70% to 95% of the original amount which means that it is impossible for any debtor to receive the whole amount of the loan borrowed as illustrated in Figure 2-12.

Figure 2-12: Loan Deals and Personnel Levy in Banks

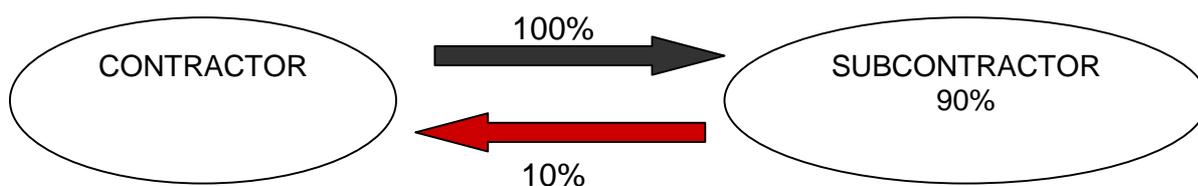


For bank personnel, they often receive from 5% to 30% of the original loan amount as a fee for their services. Such deals are not official or part of the loan process so it is difficult to lodge complaints or prove of its existence. Nonetheless, knowledge of such unofficial processes can be useful when deciding on new ways to distribute credit to SMEs.

b. Red Tape Money in Subcontracting Business

Within the subcontracting environment, such type of unofficial behavior can take place as well. When the decision is made on which product passes the quality test and/or who wins the deal, if the subcontractors do not pay the middle management, who are often the decision-makers, fees for their services, the SME does not get the contract in the end. As in the banking example, the subcontractors usually have to spend around 10% of the total agreement for such contracts.

Figure 2-13: Personnel Levy in Subcontracting Business



So, in the end, the real amount received by the subcontractor is only about 90% of the total agreement.

Chapter 3

Furniture and Machinery Industries

3.1 Current Condition in the Furniture Industry

According to the research results, the Furniture Industry in Indonesia has a potential market for expansion with both global and domestic demand. Therefore, many foreign manufacturers such as Japanese, American and European businesses enter this market besides locally owned Indonesian companies.

Pre-and post-crisis production of furniture was relatively high. However due to the WTC (World Trade Center, New York) tragedy, sales fell dramatically to 50% of original production in the fall of 2001. Since then the industry has been able to make back 20% or 40% of the total loss. This condition is due to the fact that most of the manufacturers in this field are large companies whose products are primarily designed for the export market.

3.2 Current Condition in the Machinery Industry

Machinery industry is an industry that has the minimum of 50 machines, using high technology support in its production, based on International Standard Operation (ISO). This type of industry, which supports Furniture Industry, has also been badly affected by the crisis. Sales decreased between 30% to 50% within the first two years thereafter. After a slight recovery in 1999, with sales increasing around 13%, sales are down again, because of depressed external demand.

Due to the recent downturn of the global market, demand has decreased significantly. Overall, orders are down by 25% or more. Though global demand has dropped, the decrease is also due to new competition. Much of the market has been taken over by the Chinese with more efficient production, higher quality and lower costs. Though the Indonesian producers can compete on the basis of quality, due to higher production costs, prices cannot compare with those in China.

Before the crisis much technology was transferred via imported machinery. Though there is much new technology introduced in the world market-it is not accessible for small Indonesian producers due to increased prices of imported machinery and lack of capital to invest. Production costs remain high due to imported raw materials and/or imported machinery components. This is due in turn to the poor quality of local material that does not meet the standards for export quality goods.

3.3 Characteristics of the Furniture Industry

In this study, primary data was collected through direct interviews with furniture SMEs, and some of the key features found are included in Table 3-1 listed below:

Table 3.1: Characteristics of the Furniture Samples

Characteristics of the Samples	Sample SMEs: Furniture Industry (n=9)
<u>Size: Number of Employees*</u>	
0-19	22%
20-49	22%
50-99	22%
Over 100	34%
Total	100%
<u>Year Established</u>	
Before-1979	66%
1980-1989	0%
1990-1996	0%
1997-(up to present)	34%
Total	100%
<u>Status of Company</u>	
Foreign Company	0%
Joint Venture	11%
Local/Indonesian Registered	89%
Total	100%
<u>Export %</u>	
None	33%
Below 50%	45%
50%-100%	22%
Total	100%
<u>Length of Time in Subcontracting</u>	
0-5 years	78%
5-10 years	22%
10-15 years	0%
More than 15 years	0%
Total	100%
<u>Why Subcontract</u>	
Lack of in-house capacity	56%
Costs too high in-house	11%
Not time efficient in-house	22%
Lack of skilled labor in-house	11%
Total	100%

3.4 Characteristics of the Machinery Industry

Primary data through direct interviews were also collected with machinery SMEs and found some key features of the samples are shown in Table 3.2.

Table 3.2: Characteristics of the Machinery Samples

Characteristics of the Samples	Sample SMEs: Machinery Industry (n=9)
<u>Size: Number of Employees*</u>	
0-19	22%
20-49	11%
50-99	11%
Over 100	57%
Total	100%
<u>Year Established</u>	
Before-1979	56%
1980-1989	33%
1990-1996	11%
1997-(up to present)	0%
Total	100%
<u>Status of Company</u>	
Foreign Company	0%
Joint Venture	22%
Local/Indonesian Registered	78%
Total	100%
<u>Export %</u>	
None	45%
Below 50%	22%
50%-100%	33%
Total	100%
<u>Length of Time in Subcontracting</u>	
0-5 years	22%
5-10 years	11%
10-15 years	11%
More than 15 years	56%
Total	100%
<u>Why Subcontract</u>	
Lack of in-house capacity	67%
Costs too high in-house	0%
Not time efficient in-house	0%
Lack of skilled labor in-house	33%
Total	100%

3.5 Supporting Industry

The Furniture supporting industry actually has been fairly stable since many of the companies were established in the early 1980's as indicated in the previous Table 3-1. However, the structure of its supporting industry has only one level. It means that every SME has a direct relationship to the contracting firm. The supporting industry that was already weak before the Monetary Crisis, has remained so.

The weakness of the supporting industry in Machinery is caused by the following factors: (1) the output of machinery itself is still low compared to the economy as a

whole. (2) Local manufacturers make parts in-house, even items that foreign export manufacturers procured locally. This is because of problems with quality and difficulty in production control with subcontractors. (3) Imports are often the only products available, or it is feared that domestic products will not be available on a timely basis, e.g., some spare parts, machines and material can only be available by importing them. This causes the price to be more expensive. (4) Only small parts and components of machinery with low technology were contracted out to SMEs.

Local manufacturers understand that to foster the supporting industries and the subcontractors is desirable, but the priority for them is to sustain overall production levels.

3.6 Inter-industry Partnerships in Furniture and Machinery

Relationships in the above industries could be explained as follows:

1. Subcontracting Structure

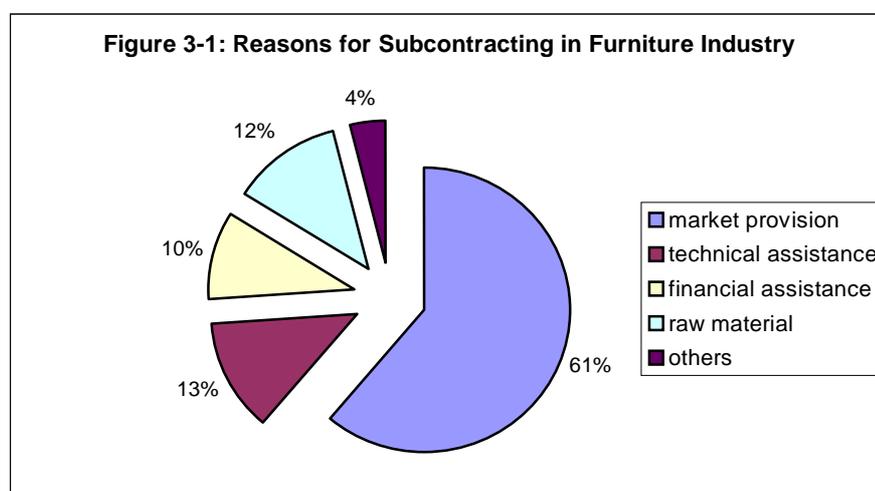
The subcontracting structure in the Furniture Industry has only one (1) level, as illustrated earlier. On the other side, the subcontracting structure in Machinery has two (2) levels. For example, in the Machinery Industry, one of the respondents produces their own diesel engine. They subcontract to certain SMEs for some of the components of the engine in order to make the final product.

2. Subcontracting Agreement

a. Reasons for Subcontracting

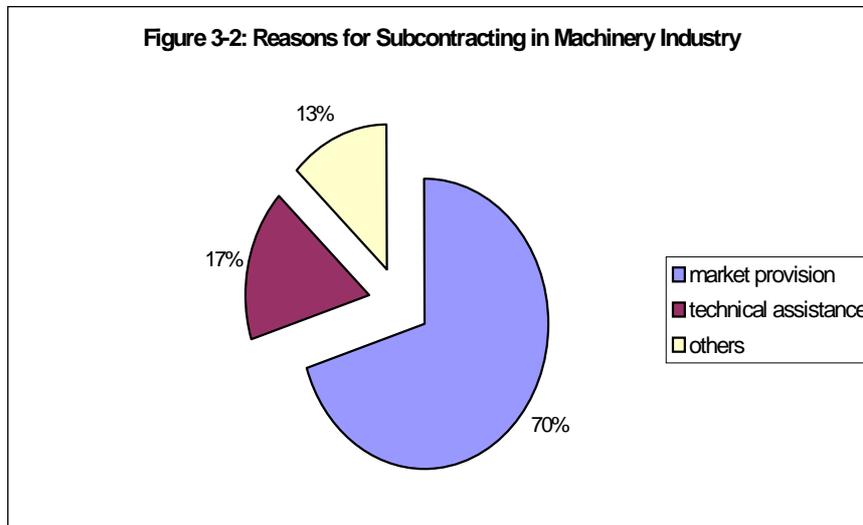
Much of the subcontracting in the Furniture Industry is stimulated by stable and large orders. Direct orders from contractors represent 65% of assistance/transaction. The remaining percentage/amount have been provided by technical assistance (13%), raw material provision (10%), and financial assistance (12%) respectively.

Figure 3-1: Reasons for Subcontracting in Furniture Industry



For the Machinery Industry, the break down for market provision is 70%, 17% for technical assistance and 13% for others.

Figure 3-2: Reasons for Subcontracting in Machinery Industry



b. Benefit and Role of Subcontracting for SMEs Firms

On average, subcontracting in the Furniture Industry is not as common as in garments and textiles. This situation is influenced by two factors, namely, the contracting firms want to produce a diversified product mix themselves and control the dissemination of technological information.

As indicated in Figure 3-3, 43% of the total notes that subcontracting does not benefit them, 47% that it did benefit them slightly and 10% that it benefited them substantially.

Figure 3-3: Benefit of Subcontracting to Furniture SMEs.

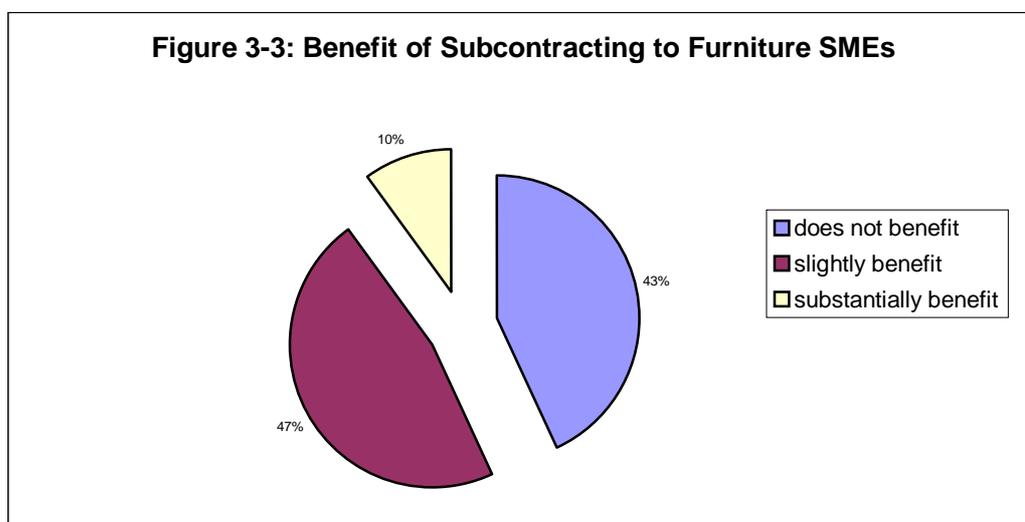
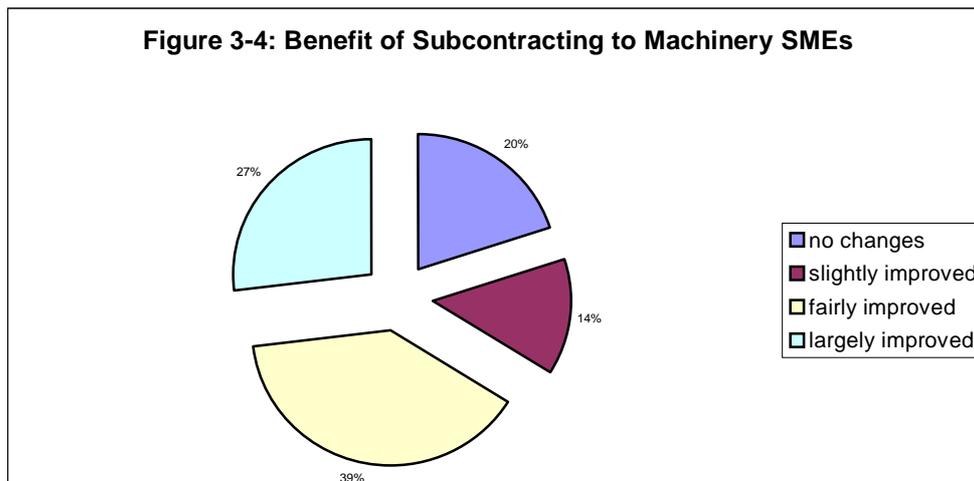
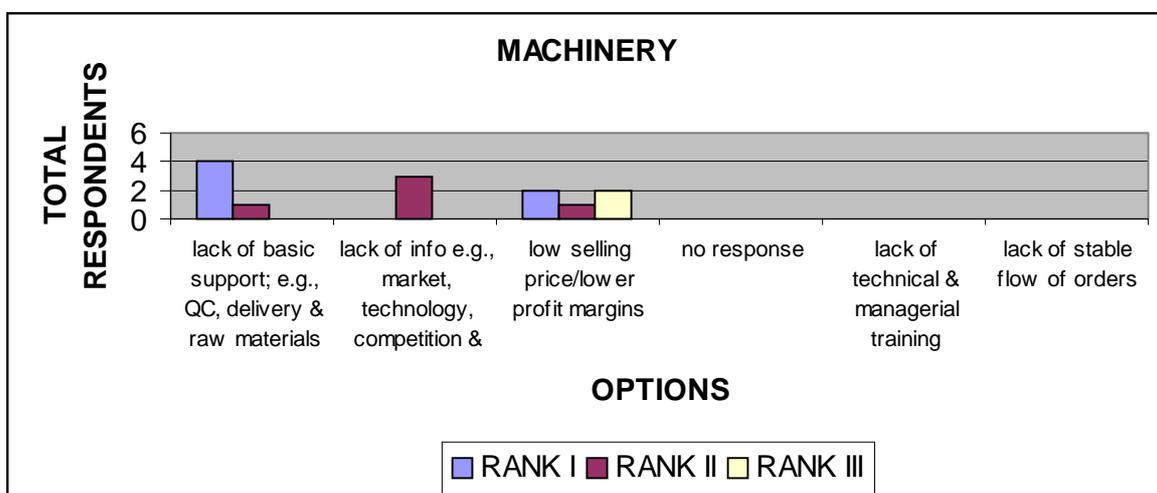


Figure 3-4: Benefit of Subcontracting to Machinery SMEs

As a general rule, the role of subcontracting in the Machinery Industry is perceived as beneficial by the SMEs.

3. Difficulties in Developing the Subcontracting Agreement

As a proportion of National Income, the total sales of Machinery are relatively low in comparison to total industry. Such a low figure influences subcontracting promotion and development. As shown in Figure 3-5, there are two barriers hindering subcontracting in the Machinery Industry. First, there is much stiff competition among SMEs and second, there is inadequate production technology available. The limited market environment has created tough competition among SMEs therefore this results in SME reluctance to invest much in new technology in order to compete more effectively. Also the high volumes of imported components has also discouraged and impeded the pursuit of producing more higher quality products.

Figure 3-5: Difficulties in Developing the Subcontracting Agreements in the Machinery Industry

3.7 Financial Needs

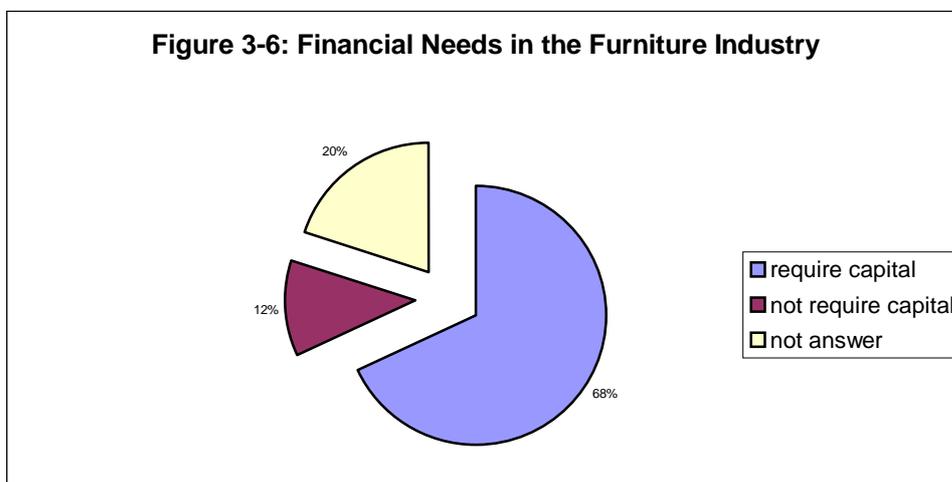
1. Contribution of Self-Financing to Initial Investment

The surveyed firms utilized their own money (100%) without any borrowing from outside parties to start their businesses. This is a normal way to set up a company.

2. Financing Needs

According to the research results, figure 3-6 shows that 68% of SMEs wanted financial assistance, 12% of SMEs did not require such assistance and 20% did not answer. Thus it appears that most of the firms are optimistic about their future prospects and want to obtain financial assistance for expansion.

Figure 3-6: Financial Needs in the Furniture Industry



In the Machinery Industry, Figure 3-7 indicates that 50% of SMEs wanted financial assistance, 20% of SME did not want it and 30% did not answer. Even though the Monetary Crisis had some effect, firms in the machinery industry were still interested in borrowing for expansion.

In fact, in order to obtain financial assistance, certain requirements such as a larger market share or an increase in orders, is necessary for firms. In reference to the preference to financial resources, the data shows that most of the firms (70%-80%) are more willing to borrow from financial institutions than from government programs/credit or contracting partners.

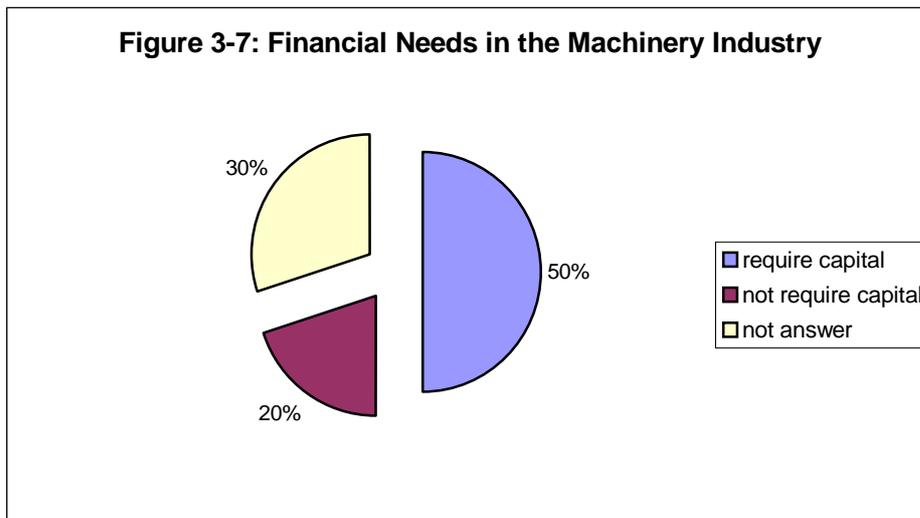
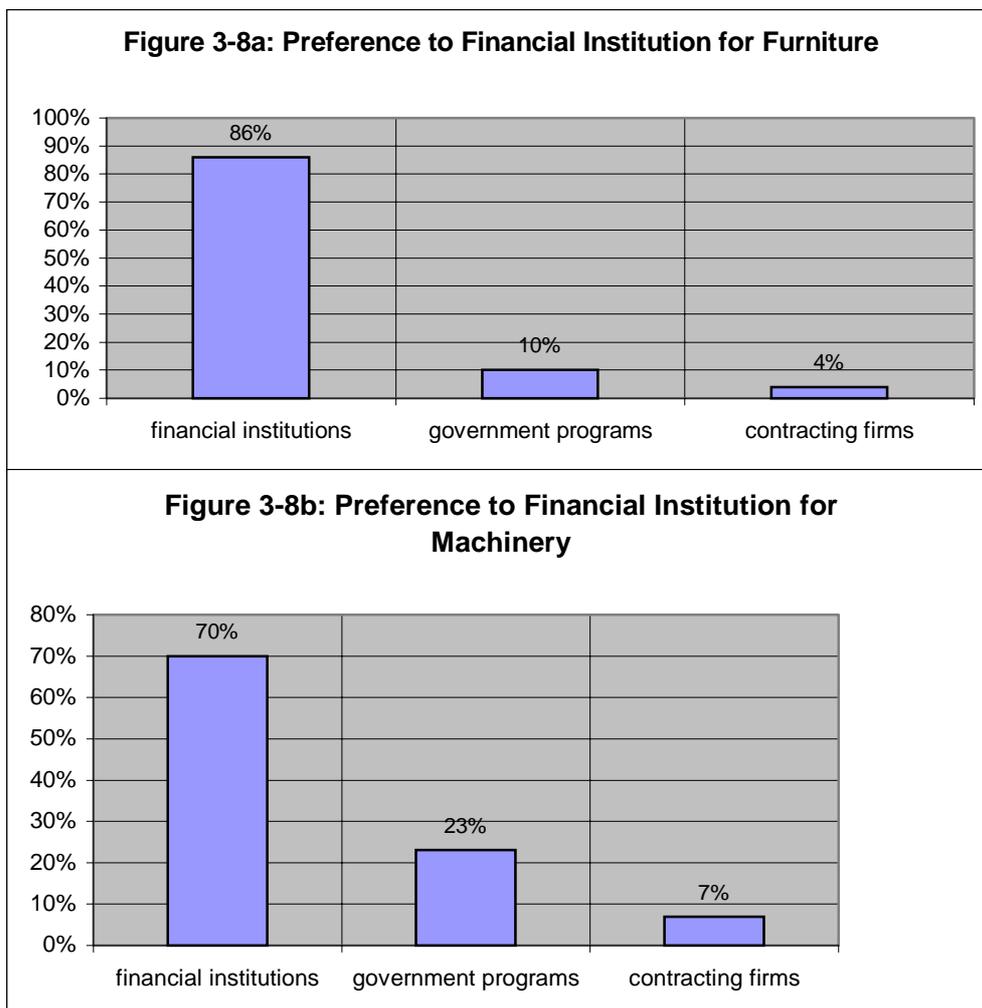
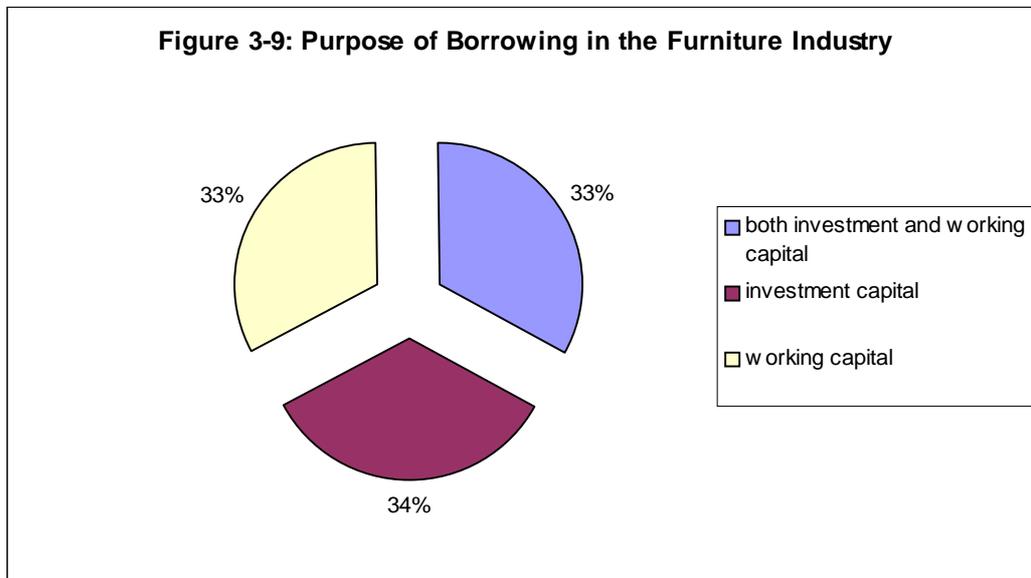
Figure 3-7: Financial Needs in the Machinery Industry

Figure 3-8 displays that only 10%-23% of SMEs borrow from government resources due to low interest rates. Finally, 4%-7% of respondents rely on financial resources from their contracting partners. Nevertheless, for the most part, contractor financial assistance is usually in the form of raw materials or machinery, not cash or credit.

Figure 3-8: Preference as to Financial Institution in Both Industries

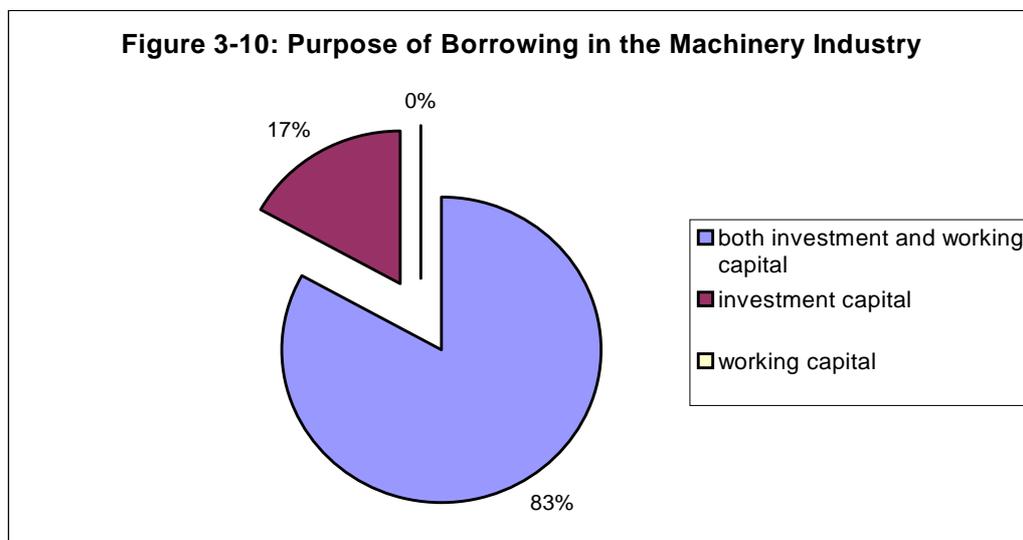
In the Furniture Industry, it appeared that there were nearly the same share for each purpose of borrowing namely for investment capital, working capital and for both investment and working capital as indicated in Figure 3-9. However, the respondents noted that they were not able to borrow the money so this breakdown only represents responses for anticipated borrowing.

Figure 3-9: Purpose of Borrowing in the Furniture Industry



In the Machinery Industry, SMEs purpose in borrowing money represents several factors, i.e., both investment and working capital (83%) and investment only (17%). The factors for borrowing are (1) the need to improve and/or update existing facilities and (2) the desire for future expansion of their operations. So, they direct their capital to anticipate the growth of business by replacing existing machinery/structures with new and improved technology/facilities.

Figure 3-10: Purpose of Borrowing in the Machinery Industry



3. High Costs Involved in Illegal Commission Payments for Bank Loans and Subcontract Orders

Expensive business costs in the Furniture and Machinery Industries were not as much as a factor as in the Garment and Textile Industries. Nonetheless, it is still the case that commissions have to be paid for loans and orders.

Chapter 4

Paper Industry

4.1 Current Condition

According to the research results, in the Paper Industry, demand fluctuates with the local market as most of the production is for local consumption. After the paper subsidy was lifted in 1999, production cost decreased income by 70%. However, after market and production adjustments were made, costs stabilized and sales/income increased at a rate of 15% a year.

4.2 Characteristics of the Samples

In this study, primary data was collected through direct interviews with paper manufacturer SMEs. Some of the key features found are listed below.

Table 4.1: Characteristics of the Samples

Characteristics of the Samples	Sample SMEs: Paper Industry (n=9)
<u>Size: Number of Employees*</u>	
0-19	22%
20-49	22%
50-99	11%
Over 100	45%
Total	100%
<u>Year Established</u>	
Before-1979	33%
1980-1989	22%
1990-1996	45%
1997-(up to present)	0%
Total	100%
<u>Status of Company</u>	
Foreign Company	0%
Joint Venture	0%
Local/Indonesian Registered	100%
Total	100%
<u>Export %</u>	
None	89%
Below 50%	11%
50%-100%	0%
Total	100%

<u>Length of Time in Subcontracting</u>	
0-5 years	22%
5-10 years	34%
10-15 years	22%
More than 15 years	22%
Total	100%
<u>Why Subcontract</u>	
Lack of in-house capacity	89%
Costs too high in-house	0%
Not time efficient in-house	11%
Lack of skilled labor in-house	0%
Total	100%

Source: Interviews by Karen Bigler

4.3 Inter-industry Partnerships

The Paper Industry does not have much of a supporting industry or external subcontracting relationships, so the nine small enterprises reviewed are all subsidiaries of parent paper companies. The parent companies subcontract their production of specific processes to in-house subsidiaries, due to overall efficiency, i.e., location expenses, time effectiveness and lack of technical expertise or machinery needed for certain parts of the manufacturing process. This means that there was no subcontracting to independent SMEs located in the paper industry, and thus the subcontract production is conducted in-house.

Chapter 5

Government Policies in Promoting SMEs

5.1 Policies toward SMEs

In the past, the Indonesian Government has launched some programs geared to developing small-scale industry. Such programs dealt with overall matters, financial policies and technical assistance.

During the interviews, large conglomerates and SME respondents noted and referred to the government supported technical assistance programs. The reason such programs are necessary to highlight is due to the lack of SME real involvement or inclusion in most of the government sponsored programs.

5.2 Some policies of the Indonesian Government toward Small-Scale Enterprise

1. Small Enterprise Policies

- 1967 - Law on cooperatives
- 1969 - Establishment of Directorate of Light Industry (PERINGKRA)
- 1978 - Directorate General for Small Scale Industry (DJIK) was established in Dept. of Industry.
- 1979 - Preferentially placing order to small enterprises for the government procurement
- 1979 - Certain lines of business (37 industries) reserved for small business (investment by large/medium companies prohibited)
 - Starting award program (UPAKARTI)
- 1993 - Dept of Cooperatives / Small Enterprises (DEPKOP / PPK) by reforming organization as small business development was added to the task of Dept. Cooperatives, then established Dept. of Cooperatives and Small Enterprises
- 1994 - Establishing BAPIK in Dept. of Industry
- 1995 - Dept. of Industry/ Dept. Trade integrated into one Dept.

- Basic Law to promote small enterprise stipulate
- Established JIMBARAN group fund conglomerates gathered at Bali Hotel established a fund for small business credit

2. Financial Policies

- 1971 - Established of Indonesia Credit Guarantee Company (PT. ASKRINDO) up to 75% guarantee for credit
- 1973 - Investment Credit (KIK) started
 - Working capital credit started
 - Establishment of development fund company (PT. BAHANA) business expansion through long-term credit and equity participation
- 1974 - Credit Mini Small scale credit for rural areas
- 1980 - Credit Midi Small scale credit for rural areas
- 1984 - KEPEDES (rural credit)-integration of Credit Mini and Credit Midi
- 1989 - Established Dana BUMN 1-5% of state owned companies profit allocated for small enterprises.
- 1990 - New credit under KIK / KMKP stepped
 - A part of KLIK modified (credit limit increased, 200 million rupiahs to 250 million rupiahs)
- 1995 - KKU (credit without collateral) started
- 1997 - A part of KLIK modified (credit limit increased 250 million rupiahs to 350 million rupiahs)

3. Technical Assistance Policies

- 1974 - BIPIK small-scale industry promotion program started. Technical assistance by field extension service personal (TPL)
- 1979 - Establishment of LIK as of 97 existing in 13 locations in 5 provinces
 - Starting to establish UPT as of 97 existing in 85 locations

- Foster father company program (Perusahaan Bapak Angkat) implemented particularly among state owned companies
- Sentra organized into KOPINKRA (small handicraft cooperatives). As of 96, 1165 KOPINKRA existing throughout Indonesia
- 1994 - PIKM started, continuation of BIPIK human resource, entrepreneurship, QC level development
- 1997 - Partnership program originating from Foster Father Program, started

5.3 Forms of Government Technical Assistance

Indonesian Government policies toward SMEs are indicated in Table 5-1. It shows how the Indonesian Government tries to support the development of small-scale industries by establishing institutions, awards, as well as co-operate with conglomerates to establish funds for small business credit. They also develop financial policies such as the creation of PT Askrindo that gives up to 70% guarantee in credit packages; and several types of credits for small-scale industries, such as Kredit Investasi Kecil (KIK)/ Small Investment Credit, KMKP (Kredit Modal Kerja Permanen) / Permanent Working Capital Credit, etc. These policies are established as government services.

The utilization rate of government programs is very low at less than 6%. The reasons are as follows:

- 1) Lack of information on government institutions, their services and locations (inconvenient for SME access).
- 2) Using public services is considered as a waste of time.
- 3) Technology provided by government is not compatible with the needs of SMEs.

Table 5-1: Utilization of Governmental Technical Assistance

Ever Utilized	5%
Never Utilized	95%
TOTAL	100%

The biggest issue faced by SMEs is related to standardization of quality for their product as noted by the respondents involved in the survey. This is one of the most vital things that should be addressed by governmental institutions, which could be done by providing facilities for testing raw materials, and final products. In fact, supporting facilities regarding such functions already are in place, e.g., BPPT (Agency for the Assessment and Application of Technology), SUCOFINDO (Indonesian Government Institution), LIPI (Indonesian Institute of Sciences), BPPIP (a department established under the Ministry of Trade and Industry). Unfortunately, SMEs have lack of access to these institutions due to bureaucratic and complicated procedures, and lack of clarity about the mechanism for certifying the results of the

tests. The improvement of these government programs is important for the development of SMEs.

As long as potential SME subcontractors cannot provide inputs to contractors of a solid and standard quality, it will lower their attractiveness as subcontractors. The government needs to facilitate the improvement efforts in quality although private sector providers will provide much of the technical assistance to SMEs.

Furthermore, the small enterprise respondents from this study noted that they tried to utilize UPT (Technical Service Unit) as a function of technical assistance. Unfortunately, they received little or no response and/or assistance. As a result, they became weary of following up so they decided to look to other sources in the private sector or gave up altogether. Notably, it might be that government agencies should not supply such services, but rather that most of them might be provided more efficiently by private sector providers, even though they may be subsidized by the government.

Chapter 6

Conclusion and Recommendations

The responsibility of the Indonesian government to create a productive environment and sound investment atmosphere is essential for SME development. For large-scale contractors, such an environment is necessary to develop subcontracting business with SMEs. This type of development can enable solid growth thereby ensuring access to such services as financial resources, market information, training programs and vital industry inputs and information.

Highlighted below are the outlying themes obtained from the various interviews with the large companies (contractors) and the SMEs (subcontractors). All of these points are considered to be the main obstacles to partnership between large conglomerates and small- to medium- companies as well as problems facing economic stability and progress for business development in general.

From the financing points of view, the support of contracting firms through subcontracting linkages has not highly contributed to the development of small-to-medium SMEs. Commercial loans from banks and financial institutions have not been accessed by most SMEs due to the difficulty in obtaining the credit, expensive fees and bureaucracy associated with the process. There has been much discrimination against SMEs as banks do not feel they can make a profit - they have been too concerned about quantity, not quality or potential production. Regardless, such financing sources are not sufficient enough for SME development. Self-financing and informal financing have supplemented the shortcomings of such formal and external financial support.

As noted by many SMEs, it is better to institute a non-profit private micro-credit program with low interest and long-term loans, as SMEs need capital for industry investment (new technology) in order to compete efficiently and effectively, e.g., on-line industry databases. This affects the standard of products compared with quality and efficiency of others like China - SMEs need market information to know more about their competitors and their products.

In terms of government loans, many SMEs feel that obtaining a loan from the government is bureaucratic, time consuming and complicated, regardless of their relatively low interest rates. Notably, government credit programs should be easy and fair with controlled loan distribution channels for SMEs.

Further, bank/non-bank loans and subcontracting contracts often require unofficial and/or personal fees. Such illegal behavior can be a burden and disrupts secure SME and business development overall. Real effort must be made to eliminate such unofficial costs by both banking institutions and large firm management.

The government has not created effective or stable regulations for business development as they often change rules without appropriate warning and often without direction – thus it does not stimulate appropriate development in industries nor encourage trust in government certainty or support. The government needs to

focus on developing infrastructure – not creating new burdens such as inappropriate tax regulations that laden small businesses.

For industry development, contractors and SMEs alike have been forced to import much of their inputs. The consistency of locally produced inputs are poor and cannot compete with those imported so government needs to focus on local industry development and infrastructure to build consistent quality products. For example, much of Indonesia's high quality raw materials are for export only – the government should set aside a certain proportion for local industry development.

To support SMEs in order that SMEs can develop their product, government should provide supporting facilities with reasonable price. Providing of testing facilities is one of the important supports for upgrading the products of SMEs. Therefore, the existing facilities such as BPPT, LIPI, SUCOFINDO, BPIP, etc. should be optimized and improved to meet SMEs requirement.

The government needs to promote the establishment of more effective training schools, and programs for SME development. Training should not be from government organizations as the training has not been practical – it has been too theoretical, and expensive. As such, government has not provided enough exposure about programs they have sponsored as many SMEs complain about the lack of information on training programs. In-house or specialized technical assistance training from foreign or private companies is preferred. Such training as business management (customer service, negotiation, communication, presentation, and human resource and time-management skills) needs to come from the private sector. Also, SMEs need business mentality and/or professionalism seminars in order to be more competitive. This type of training needs to come from stronger standards in education, and business development training and programs. Universities can provide more supportive facilities for practical applications but they require encouragement to work together with industry.

SMEs believe government interference in legal disputes is not an effective solution. It is better to utilize channels within the company as there is a lack of a strong and established legal system to support such services. The government should focus to erect a stronger legal infrastructure not mediation services for private business. This will only add more costs, longer procedures (more bureaucracy), and lack of clarity as it will be difficult to know whom the mediators are representing. Such legal arbitration can only be effective if the courts can work in an honest and neutral way.

On issues of trust, it is needed to build relationships in business. Honesty, capability, commitment and enthusiasm can develop trust between businesses. If a company cannot trust another one then they cannot work together no matter how good the product. Trust worthiness determines the level of business between companies – reputation is an important factor for building trust. Regardless, no government program or training can take away mistrust between businesses – it must be determined by performance and reputation alone.

Moreover, in addition, it is apparent that the supporting industry for Garment and Textile Industry is still strong despite the crisis. Data from three contractors show that there are several hundred SMEs and home industries engaged in subcontracting

their services. This is confirmed by the direct interviews with as many as nine SMEs throughout Java. Also, there is a significant decrease in transaction value, which forces several companies to change the core business of their firms, such as producing new components for garment or textile.

As for the Furniture and Machinery Industries, there are also many SMEs specializing in producing supporting components, however, the industries are not strong enough and depend too much on their contracting partners. Moreover, as for the paper industry, the contracting firm carries out the total process of manufacturing. As such, there is almost no supporting industry in the paper industry in Indonesia especially for large locally owned companies.

Finally, as noted by other researchers, there is great potential for increasing prosperity through improved and increased subcontracting. However, it cannot be expected to happen overnight. It will take substantial time to design and effect some of the most important changes needed to help achieve it, such as improving the business infrastructure and developing it, focusing on relevant aspects of macro development, and increasing the technical and other capabilities of SMEs.

Questionnaire – Contractor (oral interview)

A. About your company

1. When was the company established?
2. How many employees does your company have?
3. What and how many types of products do you manufacture?
4. How is your production process organized?
5. Why do you organize your production process in this way?
6. How much do you export? What percentage of the business is for export only?

B. Subcontracting of Production Items/Activities.

1. What subcontracted items do you have?
2. How many subcontractors do you have? How long have you worked with them?
3. Why do you subcontract those items? Are you capable of producing these items in-house?
4. Do you plan to increase the value/portion of the subcontracted items?
5. If yes, what are the reasons; if no, why is it?
6. There are several kinds of support a company can give to its subcontractors. Please indicate which support your company gives and judge its intensity (in terms of establishment support, location choice, demand information, machinery/equipment, raw materials, quality control, training, financial assistance, market diversification, pricing assistance, etc.).
7. In regard to training for subcontractors, what sort of training needs to be addressed and who do you think should be supplying the training? What type of training is considered as high priority? Who should supply such type of training:
a) government, b) independent private providers, c) relevant industry associations, d) others?

C. Subcontracting Relationships

1. What are the requirements to be a subcontractor of your company?
2. The selection of subcontractors:
 - a) What steps are followed?
 - b) Who makes the selection?

-
- c) What factors are considered important in the selection process?
3. Do you have any recommendations to make about how to find appropriate contracting partners? If yes, what?
 4. Do you think having an online database of possible contractors and subcontractors for and of various kinds of intermediate inputs would be of much use?
 5. Under what conditions do you use a single subcontractor for a certain component/part, and under what conditions do you use multiple subcontractors?
 6. The coordination of subcontractors:
 - a) How does your company synchronize various orders?
 - b) Does your company allow the subcontractors to further subcontract the works to other subcontractors?
 7. Please rate your perceived degree of dependence on your subcontractors at present compared with five years ago:
 - a) strongly dependent
 - b) dependent
 - c) hard to say
 - d) less dependent
 - e) not dependent
 8. How do you describe the changes in your subcontracting arrangement with respect to:
 - a) Number of subcontractors
 - b) Contract volume (% of sales)
 - c) Types of components/parts
 9. What changes have you ever made with respect to the policies of subcontracting?
 10. If things go wrong with your subcontractors, for instance they do not match your requirements, whose responsibility are they?
 11. Have any of your former employees formed their own enterprises and become subcontractors to your enterprise? Are you in favor of this happening? Why? Have any of your employees ever raised the possibility of forming their own companies and becoming subcontractors to your enterprise? If yes, what was your response? Why?

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12. According to your observation, how would you rate your satisfaction with your subcontractors at present compared with five years ago?
- a) not satisfied
 - b) less satisfied
 - c) hard to say
 - d) satisfied
 - e) very satisfied
13. In your experience, how do you judge the performance of your subcontractors in terms of:
- a) rejection rate
 - b) improvement in quality control
 - c) delivery timeliness
 - d) price competitiveness
14. In your experience, what are the particular strengths of your subcontracting arrangement?
15. In your experience, what are the main problems faced by your subcontractors?
16. In your experience, what are the principal disadvantages associated with subcontracting?
17. In your opinion, what conditions would make for a more successful contractor-subcontractor relationship?

D. Issues of Trust Between Contractors and Subcontracts

1. Have you ever had bad experiences dealing with your subcontractors?
2. Mutual trust is very important in relationships, do you see this as a problem in your relationship with subcontractors?
3. How does mistrust of potentially contracting parties hinder manufacturing subcontracting? Through what ways can this hindering be decreased?
4. Have you seen the capabilities of your subcontractors increase over time?
5. How do you benefit from your subcontractors besides in sales?
6. Do you expect your relationships with your subcontractors to be long-standing? What are the reasons?
7. In your experience, if there were companies that quit the relations, what were the reasons?

8. Are there any government or private sector policies, programs, projects or activities/actions (PPAs) which can be efficiently and effectively undertaken to address these problems of mistrust?
9. Is the problem of mistrust greater when the contractor is a foreign enterprise, indigenous Indonesian firm, or non-indigenous Indonesian firm? Does the mistrust stem from problems of discrimination against certain and from certain ethnic groups?
10. What have been the most important factors hindering contractors from doing more subcontracting to enterprises in Indonesia, or of potential contractors not doing any subcontracting to enterprises in Indonesia?

E. Legal Aspects of Contracting/Subcontracting Relationships

1. With respect to the contracts between your company and the subcontractors:
 - a) Do you use the same contract for all subcontractors?
 - b) What aspects (clauses) are included in the contract?
2. Who is (are) responsible for the subcontracting relationships in your company?
3. How do you control the activities of the subcontractors? What means are used?
4. To what extent does the difficulty of enforceability of contracts through the legal system hinder manufacturing subcontracting? Or have the contractors found other mechanisms to enforce effectively these contracts?
5. Can the difficulty of legally enforcing business contracts to a large degree be remedied by enterprise associations or other non-government parties establishing their own means for mediation and arbitration of contracting disputes? To what extent has this been done already?

F. Governments Supports of Contracting/Subcontracting Relationships

1. What, if any, government assistance has encouraged them to undertake subcontracting. Which type of government assistance was the most useful? Could the effectiveness of that government assistance be improved? If so, how?
2. In terms of difficulties with subcontractors, what, if any, are the way(s) which government can help directly or indirectly (through assistance to the private sector) to overcome these difficulties?
3. Have you ever hired a foreigner (or wanted to hire a foreigner) from overseas? If yes, did you have difficulties in obtaining the necessary permits for them to work

and live in Indonesia? If yes, what were these difficulties and how serious were they? If not, why haven't you hired foreigners from overseas? Have you ever wanted to hire a foreigner(s) from overseas but were unable due to the difficulty in obtaining permits or discouraged to obtain them? If yes, what positions did you want the foreigners to fill and how did not hiring these foreigners affect the competitiveness of your business?

4. Are there ways in which taxation policies and regulations inhibit contracting? How? Please explain.
5. (Machinery and Metal industries only) Have you ever experienced difficulties to obtain locally produced inputs made by Indonesian casting, forging and metal mould manufacturing enterprises? If yes, what have been the difficulties in order of importance? How can these difficulties be lessened? What, if any, actions do you recommend the government to undertake? Are more or improved inspection services needed? If yes, who should supply them (government, private enterprises, industry associations, etc.)?

G. About Industry and Competition

1. In your opinion, what are the characteristics of the industry in terms of:
 - a) demand conditions;
 - b) intensity of rivalry;
 - c) technological changes;
 - d) supplier market constraints;
 - e) government regulation.
2. In the last five years has your company sales, in real terms, grown or declined?
 - a) grown;
 - b) declined;
 - c) stayed roughly the same.

Please specify the approximate size of the change %.

Questionnaire – Subcontractor (oral interview)

About your Company

1. When was the company established?
2. Your company is a:
 - a) proprietorship
 - b) partnership
 - c) closed-corporation
 - d) co-operative
3. How many employees does your company have?
 - a) at present?
 - b) when it was established?
4. What and how many types of products do you produce?
5. How is your production process organized?
6. Why do you organize your production process in this way?

About Industry and Competition

1. In the last five years, has your company sales, in real terms, grown or decline?
 - a) grown
 - b) declined
 - c) stayed roughly the same

Please specify the approximate size of the change:...%

2. In the last five years, has your company ever changed the machineries/equipment used in your production processes?
 - a) more than one time
 - b) one time
 - c) never

Subcontractor/Contractor Relationship

1. The selection of contractors:
 - a) What steps are followed?
 - b) Who makes the selection?
 - c) What factors are considered important in the selection process?

2. Do you have any recommendations to make about how to find appropriate contracting partners? If yes, what?
3. Do you think having an online database of possible contractors and subcontractors for and of various kinds of intermediate inputs would be of much use?
4. Are the number of potential contracting partners reduced by constraints and restrictions on competition among assemblers and other contractors? If so, what are the effects of these constraints and restrictions on competition?
5. How long has your company been working as subcontractor of PT X?
6. How many employees did you have at that time?
7. Before your company got in-touch with PT X, did it have experience working for other contractor(s)? Yes or no.
8. What types of products does your company produce for PT X, how large are they as percentages of total contract from PT X, and how are their order frequencies?
9. Does PT X currently produce in-house, import and/or buy similar inputs to yours?
10. Do you intend to diversify by serving other contractors?
11. Do you see much benefits of being the subcontractors of this specific contractor?
12. What kind of support do you expect to be received from the contractor?
13. Listed are several kinds of support a subcontractor can receive from PT X. Please indicate the support your company receives and judge its intensity (in terms of establishment support, choice of location, demand information, machinery/equipment, provision of raw materials, quality assistance, training, financial assistance, market diversification and others).
14. Do you see training from the contractor necessary for your company to improve the quality of the delivered products?
15. In regard to training, what are your training needs and whom do you think is best able to supply such training? Do you have any recommendations in regard to training matters?
16. Do you see any differential treatment between subcontractors in your contracting firm? Why is it so?

Dynamics and Outcomes of Contracting Relationships

1. Listed are several kinds of problems that might arise in subcontracting relationships with PT X. Please indicate which problems are relevant for your

company, how frequent and how serious (in terms of quality, delivery, pricing, payment, communication, and personal relations)?

2. Please indicate your company's relationship with PT X at present compared with five years ago in the following dimensions (in terms of scope of items produced, contract value, rejection rate, frequency of delivery, and investment in equipment).

Issues of Trust Between Contractors and Subcontractors

1. Are there any government or private sector policies, programs, projects or activities/actions (PPAs) which can be efficiently and effectively undertaken to address these problems of mistrust?
2. Is the problem of mistrust greater when the contractor is a foreign enterprise, indigenous Indonesian firm, or non-indigenous Indonesian firm? Does the mistrust stem from problems of discrimination against certain and from certain ethnic groups?

Legal Aspects of Contracting/Subcontracting Relationships

1. To what extent does the difficulty of enforceability of contracts through the legal system hinder manufacturing subcontracting? Or have the contractors found other mechanisms to enforce effectively these contracts?
2. Can the difficulty of legally enforcing business contracts to a large degree be remedied by enterprise associations or other non-government parties establishing their own means for mediation and arbitration of contracting disputes? To what extent has this been done already?

Government Supports of Contracting/Subcontracting Relationships

1. Have you experienced any overlapping of government programs for assistance or any lack of coordination in the supply of government services? If so, please elaborate and what suggestions can you provide to improve such services.
2. Has any of the government assistance not been sufficiently focussed on the particular difficulties faced by them but rather was too general to be of much value? If so, please elaborate.

3. What difficulties have you faced in improving your product quality? Lowering the variations in product quality? Delivering on schedule? Lowering their cost of production? Other difficulties? What, if any, are the way(s) which government can help directly or indirectly (through assistance to the private sector) to overcome these difficulties?
4. Are you doing any subcontracting with foreign enterprises? If so, what, if any, difficulties have you had? If not, why are you not doing any subcontracting for foreign enterprises? Have you tried to establish subcontracting relationships with foreign enterprises? If so, why haven't you been able to establish this relationship(s)? What, if anything, can the government do directly or indirectly to facilitate subcontracting with foreign enterprises?
5. Have you ever hired a foreigner (or wanted to hire a foreigner) from overseas? If yes, did you have difficulties in obtaining the necessary permits for them to work and live in Indonesia? If yes, what were these difficulties and how serious were they? If not, why haven't you hired foreigners from overseas? Have you ever wanted to hire a foreigner(s) from overseas but were unable due to the difficulty in obtaining permits or discouraged to obtain them? If yes, what positions did you want the foreigners to fill and how did not hiring these foreigners affect the competitiveness of your business?
6. Are there ways in which taxation policies and regulations inhibit contracting? How? Please explain.

Questionnaire - Subcontractors (written interview)

1. What are your company's reasons for engaging in subcontracting relations?

Please number them in the order of importance.

- continuity of order
- lower marketing costs
- punctuality of payments
- reputation
- contractor's assistance
- market diversification
- other (specify)

2. In your own assessment, what are the reasons of PT X to appoint your company as its subcontractor. Please rank them in the order of importance.

- lower wage cost
- lower investment cost
- specialized technology
- capacity constraint
- timely delivery
- buffer against fluctuation
- social image
- government regulation
- product reliability
- other (specify)

3. Does your company further re-subcontract the works received from PT X? Yes, sometimes or no.

4. In your opinion, how difficult were the requirements to be accepted as the subcontractor of PT X?

- a) very easy
- b) relatively easy
- c) it is hard to say
- d) difficult
- e) very difficult

4. Below are a number of statements. Indicate whether you agree or disagree

with each.

1: strongly agree

2: agree

3: hard to say

4: disagree

5: strongly disagree

- a) Your products sold to PT X are basically standardized products which can easily be bought from someone else ().
 - b) Your company has made significant investment in tooling and equipment dedicated to your relationship with PT X ().
 - c) The location of your firm plays an important role in the relation with PT X ().
 - d) Your company starts trading with PT X in the hope of establishing a long-term relationship ().
 - e) Your company works with PT X towards the common goal of making good quality products for your ultimate customers ().
 - f) If your relation with PT X breaks, you will face many troubles in finding a comparable buyer ().
 - g) Your company is more dependent on PT X than PT X is on your company ().
6. How would you rate your company's dependency on PT X?
- a) at present: strongly dependent, quite dependent, hard to say, a bit dependent, not dependent
 - b) five years ago: strongly dependent, quite dependent, hard to say, a bit dependent, not dependent
7. According to your evaluation, how would you rate your satisfaction working as a subcontractor of PT X?
- a) at present: not satisfied, less-satisfied, hard to say, satisfied, very satisfied
 - b) five years ago: not satisfied, less-satisfied, hard to say, satisfied, very satisfied
8. In your experience, what are the principal advantages in working as a subcontractor? Please number them in their order of importance.
- a) continuity of order ()
 - b) lower marketing costs ()
 - c) punctuality of payments ()
 - d) technological up-grading ()
 - e) market diversification ()

-
- f) other (please specify) ()
9. In your experience, what are the principal disadvantages in working as a subcontractor? Please number them in their order of importance.
- a) increased dependence ()
 - b) less-initiative ()
 - c) lower profit ()
 - d) other (please specify) ()
10. In your evaluation, the growth of your company is mainly caused by:
- a) market diversification
 - b) part diversification
 - c) your specific relations with PT X
 - d) other (please specify)
11. What conditions would make for a more successful contractor – subcontractor relationship?
- a) better information-sharing ()
 - b) more assistance from the contractor ()
 - c) joint-planning ()
 - d) joint-problem solving ()
 - e) trust development ()
 - f) continuity of orders ()
 - g) other (please specify) ()

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PENCIPTAAN IKLIM USAHA YANG KONDUSIF UNTUK KEMITRAAN

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Mei 2003

Kebangkitan kembali ekonomi Indonesia sangat ditentukan oleh ketersediaan dalam jumlah yang memadai para wirausahawan — yaitu kelompok masyarakat yang cekatan dalam memanfaatkan peluang bisnis, berani mengambil risiko usaha dan tak cepat merasa puas dengan hasil yang telah dicapainya. Usaha kecil dan menengah (UKM) sangat diharapkan untuk berperan sebagai lokomotif kebangkitan ekonomi ini, karena UKM merupakan “laboratorium” atau “pabrik” untuk mengembangbiakkan jiwa dan semangat kewirausahaan tersebut.

Sebagaimana sering dikemukakan, UKM memiliki sejumlah keunggulan dibanding usaha skala besar. Rothwell (1989) mengemukakan pandangan yang sederhana sebagai berikut: *“the advantages of large business are material (resources) and those of small business behavioral (motivation and flexibility)”*. Jadi, keunggulan UKM pertama-tama terletak pada aspek motivasi dan kelenturannya. Aspek motivasi menunjuk kepada kenyataan bahwa unsur kepemilikan dalam UKM biasanya belum terfragmentasi, sehingga tindakan-tindakan si pemilik langsung berhubungan dengan manfaat yang diperoleh dan kinerja usaha yang dikelolanya. Sedangkan aspek kelenturan berkaitan dengan kemampuan UKM untuk menyesuaikan diri dengan perubahan-perubahan yang terjadi di lingkungan sekitarnya.

Meski demikian, UKM memiliki sejumlah kelemahan. Kelemahan utama berkaitan dengan apa yang disebut sebagai *“scale-related disadvantages”*, seperti tidak dicapainya skala produksi yang menguntungkan, kelemahan akses terhadap bahan baku dan sumber-

sumber pendanaan, kelemahan dalam bidang mutu dan pemasaran, dan sebagainya¹. Untuk mengatasi hal ini UKM memiliki sejumlah pilihan strategik, antara lain memilih bidang usaha di mana fenomena skala ekonomi bukan merupakan penentu kinerja usaha (misal bergerak dalam industri yang terfragmentasi atau *fragmented industries*), memilih relung pasar tertentu sebagai target pasarnya (*market-niches strategy*), melakukan upaya clustering untuk memperoleh efisiensi kolektif, mengadakan kerja sama sinergistik dengan usaha besar dalam rangka penciptaan komplementaritas dinamik (*dynamic complementarity*) antar unit usaha dengan berbagai skala, dan melakukan strategi imitasi atau strategi inovasi terbatas secara terus menerus.

Makalah singkat ini memusatkan perhatian kepada aspek penciptaan lingkungan bisnis yang kondusif bagi kemitraan usaha. Kemitraan sendiri didefinisikan secara longgar sebagai pola atau bentuk kerja sama antar perusahaan yang didasarkan atas asas saling membutuhkan, saling memperkuat dan saling menguntungkan.

KEBIJAKAN PENGEMBANGAN UKM

Pemerintah Indonesia telah mengeluarkan banyak kebijakan bagi pengembangan UKM. Hampir semua jenis kebijakan untuk derajat dan intensitas yang berbeda-beda pernah dilakukan. Kita mencatat misalnya: kebijakan pengembangan sentra-sentra industri kecil sejak tahun 1960-an, pengembangan berbagai program kredit bersubsidi bagi usaha kecil (KIK, KMKP, KUK, dsb) berikut pendirian lembaga penjamin kreditnya (seperti PT Askrimdo tahun 1971); kebijakan penanggalan wajib (*mandatory deletion program*) untuk mengembangkan jaringan pemasok lokal sejak akhir tahun 1970-an; kebijakan pengembangan pola keterkaitan (UU No.5/1984), Program “Bapak Angkat” (tahun 1991) dan

¹ Dalam teori ekonomi Neoklasik, daya saing suatu usaha bisnis merupakan fungsi dari skala produksi yang dicapainya. Dengan demikian solusi terhadap permasalahan usaha menjadi sangat sederhana, yaitu meningkatkan skala ekonomi (*economies of scale*) dan teba ekonomi (*economies of scope*).

Program Pola Hubungan Inti-Rakyat (PIR); kebijakan alokasi kredit untuk usaha kecil (sejak Paket Deregulasi Januari 1990); kebijakan pengentasan kemiskinan (Inpres No.5/1993); kebijakan alokasi dan pemanfaatan 1-5% keuntungan bersih BUMIN untuk usaha kecil (SK Menkeu No.1232/1989); kebijakan penjualan saham usaha-usaha besar untuk koperasi dan usaha kecil (Himbauan Tapos awal 199&); kebijakan usaha kecil melalui modal ventura (PP No.62/1992), melalui waralaba (PP No.17/1997) dan kemitraan dengan usaha besar (PP No.44/1997); kebijakan pemberian prioritas bagi UKM untuk berpartisipasi dalam tender-tender proyek pemerintah (Keppres No.16/1994 dan No.24/1995); kebijakan pemberian skema reservasi usaha bagi usaha kecil (Keppres No. 54/1993 dan No.31/1995); kebijakan untuk mempermudah ekspor usaha kecil (Paket Deregulasi Juli 1997), UU Usaha Kecil (UU No.9/1995); kebijakan ekonomi kerakyatan (Tap MPR No.XVI/MPR/1998); dan rangkaian kebijakan lain dalam Era Reformasi yang saat ini sedang berjalan.

Selain kebijakan pemerintah, lembaga-lembaga swasta juga tak kalah seru dalam menelorkan intensi dan upaya untuk pengembangan UKM, Kelompok Usaha Astra, telah lama dikenal dengan YDBA-nya (Yayasan Darma Bakti Astra). Kita juga pernah menyaksikan gebrakan Kelompok Jimbaran dan Kelompok Kakunas (1995-1996). Agenda pengembangan UKM juga banyak disuarakan oleh kalangan LSM, partai-partai politik, kalangan perguruan tinggi, dan sebagainya.

Tidak jarang, melihat demikian derasnya perhatian UKM, kita memperoleh kesan bahwa program pembinaan UKM telah menjadi “lahan” laris untuk melahirkan proposal dan proyek baru. Dalam kultur birokrasi di Indonesia, istilah “proyek” hampir-hampir identik dengan kebocoran dana. Kesan lain yang sering muncul adalah adanya mentalitas dirigistik yang pada dasarnya menganggap seakan-akan pengembangan UKM musti diatur.

Sjaifudian, Haryadi dan Maspiyati (1995) menginventarisir berbagai ciri kebijakan usaha kecil selama ini, seperti lemahnya konsistensi dan koordinasi, lebih bersifat politis

daripada strategis, bias sisi penawaran, bias kepada sektor industri pengolahan, dan sebagainya. Supratikno (2000) juga menyebutkan berbagai kebijakan pengembangan UKM yang sarat romantisme dan tidak bersahabat dengan pasar. Para pelaku bisnis bahkan menilai bahwa pemerintah adalah “bagian dan masalah, bukan bagian dan solusi”, dan bahkan menilai bahwa interaksi dunia usaha dengan pemerintah identik dengan biaya atau beban usaha².

POTENSI DAN KONDISI RIIL KEMITRAAN

Dalam banyak diskusi tentang kemitraan, perhatian biasanya dipusatkan kepada pembicaraan mengenai kemitraan antara berbagai perusahaan dengan skala usaha yang berbeda (kemitraan antara usaha besar-menengah-kecil). Hal ini bisa dimengerti, mengingat selama ini unit-unit usaha besar sangat dominan dalam percaturan bisnis. Dalam konstelasi yang demikian, pengembangan UKM memang dianggap sulit dilakukan tanpa melibatkan partisipasi usaha-usaha besar. Berbeda dengan fenomena di negara maju, di banyak negara sedang berkembang atau negara miskin, mayoritas UKM dapat bertahan pertama-tama karena ketersediaan bahan baku lokal yang murah, tenaga kerja murah dan pasar lokal. Selain itu, karena diferensiasi kegiatan ekonomi masih relatif terbatas, sering UKM harus bersaing secara frontal dengan usaha besar, dan pemenang persaingan tersebut dalam banyak kasus adalah usaha besar.

Kemitraan usaha besar-kecil memang diharapkan dapat menciptakan komplementaritas dinamik sebagaimana dinyatakan oleh Rothwell (1989) di muka. Selain itu, dengan melibatkan usaha besar, keuntungan lain juga bisa diperoleh. Pertama, jika muncul masalah-masalah teknis dan operasional bisnis, pemecahan masalah yang kemitraan tersebut,

² Adaa pengusaha yang mengatakan, bagaimana pemerintah bisa diharapkan mengembangkan UKM, kalau untuk menangani WC di kantor-kantor mereka sendiri belum mampu. Pernyataan ini merupakan tanggapan atas tidak terawatnya fasilitas umum di kantor-kantor pemerintah.

masalah yang sering muncul dalam pengembangan usaha kecil bisa diatasi, yaitu masalah “..that small firms are offered assistance before they realize they need it, and they only realize they have a problem only when orders have already been lost” (Humphrey dan Schmitz, 1995).

Hubungan kemitraan yang sehat antara usaha besar-kecil oleh Botkin dan Matthews (1992) disebut sebagai “kewirausahaan gelombang ketiga”, di mana kekuatan “Goliath” dapat dipadukan dengan kelincahan “David”. Mereka menulis:

The first was garage-shop entrepreneuring, where the inventor tried to develop a start-up company in his garage, largely alone and working against great odds. The second was intrapreneuring, where large corporations tried to encourage employees become more inventive and behave like entrepreneurs. The third wave, entrepreneurial partnership between large and small companies, might be categorized as extrapreneuring (1992: 261).

Di Indonesia, melalui kemitraan (dan keterkaitan usaha), diharapkan agar struktur ekonomi yang selama ini dinilai rapuh (seperti dicirikan “*the hollow middle*”, sosialisme di hulu dan kapitalisme di hilir, struktur piramida terbalik, dsb), dapat bertambah kuat. Jaringan kemitraan usaha yang luas akan membuat perusahaan-perusahaan besar memiliki akar domestik yang kuat, karena kebutuhan dan risiko investasi untuk mengerjakan segala sesuatu sendiri bisa ditanggung oleh lebih banyak pemain. Kemitraan dan keterkaitan usaha akan menciptakan ekologi industrial (*industrial ecology*) yang memungkinkan organisasi usaha dengan skala yang berbeda-beda melakukan spesialisasi sesuai dengan keunggulannya masing-masing.

Namun sayangnya, kemitraan usaha yang terjadi di Indonesia selama ini belum mencerminkan ideal suatu kemitraan. Kemitraan usaha yang ada sering disebabkan oleh “persuasi” yang dilakukan oleh pihak birokrat dan bukan atas dasar perhitungan yang jelas (Thee, 1992: 22). Prof. Soemitro bahkan tidak percaya dengan berbagai konsep kemitraan yang banyak dibicarakan. Katanya, “Mana ada pengusaha besar yang mau membantu pengusaha kecil. Kalaupun toh ada, bantuan itu sifatnya seperti permen atau gula-gula saja” (*Kompas*, 17 Desember 1996).

Kemitraan usaha besar-kecil juga mempunyai risiko tersendiri. Bagi usaha besar, kemitraan dengan usaha kecil sering dinilai menyita banyak waktu, perhatian dan tenaga.

Tidak jarang, dalam beberapa hal, usaha besar harus sedikit berkompromi dalam hal mutu, biaya dan waktu penyerahan (QCD). Bagi usaha kecil, risiko yang dihadapi antara lain risiko ketergantungan dan keuntungan batas (*profit margin*) yang lebih kecil. Berbagai penelitian menunjukkan hal ini, di mana kemitraan berevolusi menjadi hubungan yang “eksploitatif”, dan dalam hubungan ini usaha kecil menerima distribusi manfaat yang kecil³. Kemitraan bergeser dan “kuasi internalisasi” menjadi “*de-facto internalization*” (Hamel, 1991).

IKLIM USAHA YANG BAGAIMANA?

Memang harus diakui, kemitraan usaha besar-kecil yang sehat tidak mudah untuk dikembangkan. Ada banyak prasyarat untuk itu. Pada dataran para pelaku kemitraan, harus ada komitmen yang kuat dan pihak-pihak yang bermitra. Mengharapkan hasil seketika dari suatu kemitraan adalah sikap yang keliru. Investasi dalam kemitraan hanya akan berubah menjadi keunggulan kolaboratif setelah melewati periode saling belajar. Kemitraan yang sehat juga harus bergerak di luar “suasana pemanjaan” (*no-sugar coated policies*). Pihak-pihak yang bermitra harus menjaga dan menghormati prinsip “*business is business*”. Mereka harus tunduk kepada “bahasa bisnis” yang sama. Karena dalam suatu kemitraan tetap berlaku diktum bahwa posisi tawar tergantung kepada siapa yang lebih membutuhkan siapa (*who need whom the most*), maka UKM harus lebih sensitif terhadap tuntutan dan kebutuhan usaha besar, rajin mawas diri terhadap kinerja usahanya, dan melakukan proses belajar agresif.

Apa peran Pemerintah? Pertama, kebijakan pemerintah seyogyanya bersifat komplementer terhadap strategi perusahaan yang menjadikan (memilih) kemitraan sebagai jalur (*trajectory*) pengembangan usahanya. Ini berarti, intervensi pemerintah hendaknya ditujukan untuk meningkatkan efisiensi pasar. Pasar akan semakin efisien apabila biaya-biaya untuk melakukan transaksi, seperti pencarian informasi yang akurat, biaya negosiasi dan perijinan, biaya kontrak usaha, penyelesaian sengketa, dan sebagainya, dapat ditekan serendah mungkin. Tugas utama pemerintah adalah menciptakan dan menjaga struktur pasar dan iklim persaingan yang sehat dan menciptakan layanan-layanan publik yang bermutu dan efisien.

Pemerintah dapat berfungsi sebagai pemasok informasi yang akurat tentang peluang dan kebutuhan-kebutuhan kemitraan usaha, dan bila diperlukan mengadakan “bursa-bursa kemitraan” (*matchmaking activities*). Pemerintah dapat pula mendorong kemitraan dengan

³ Lihat misalnya penelitian Bachriadi (1995) dalam hubungan kemitraan “plasma” dan “inti”.

pemberian insentif yang transparan dan konsisten, misalnya dengan mengaitkan porsi pasokan yang berasal dari UKM dengan suatu skema keringanan pajak, atau menjadikan biaya pelatihan bagi pengembangan kapabilitas UKM sebagai biaya pengurang pajak.

Pemerintah juga diharapkan membangun infrastruktur ekonomi yang bermutu tinggi dan kerangka hukum (aturan main) yang handal. Koordinasi antara berbagai program pengembangan UKM juga harus ditingkatkan dengan fokus intervensi yang lebih jelas dan tegas (misalnya: modernisasi permesinan dalam industri tekstil UKM, penataan pasokan kayu dalam industri furnitur, standarisasi mutu dalam industri logam cor, dsb). Gagasan dan eksperimen “pelayanan satu atap” harus juga dijalankan dengan mendorong Pemda memayunginya dengan Perda yang tegas. Berbagai unit pelayanan teknis (UPT) harus dimodernisasi dengan instrumen teknologi dan SDM yang lebih bermutu.

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BAHASAN MENGENAI UNDANG-UNDANG SUBKONTRAK*

Dengan referensi hasil penelitian:
The Environment for Partnership of SME and Large Business in Indonesia

Oleh: Sutrisno Iwantono**

1. Pertama-tama saya mengucapkan terima kasih atas studi yang dilakukan oleh Bpk. Karen C. Bigler yang berjudul STUDY ON THE ENVIRONMENT FOR PARTNERSHIP ON SME AND LARGE BUSINESS IN INDONESIA. Saya yakin studi ini akan memperkaya referensi kita dalam pengembangan UKM di Indonesia. Isu-isu yang dikemukakan adalah isu-isu mendasar yang selalu kita diskusikan selama ini dan bahkan sejak dulu ketika kita menyiapkan Undang-Undang Usaha Kecil pada tahun 1995 lalu. Persoalan-persoalan yang berkenaan dengan iklim usaha, pemberdayaan UKM, masalah dukungan keuangan, kelemahan dalam akses pasar dan pemasaran, persoalan teknologi, organisasi dan manajemen termasuk rendahnya kualitas sumber daya manusia, jaringan usaha dan system informasi adalah isu-isu yang hingga kini tidak pernah surut seiring dengan bertambahnya waktu. Isu-isu ini diangkat kembali dalam studi ini yang tentu dengan harapan ada kemajuan dalam praktek di lapangan.
2. Kedua, saya berpendapat bahwa pada kesempatan hari ini kita akan mendiskusikan tentang persiapan kita untuk menyusun draft mengenai Undang-Undang Subkontrak. Sehingga input-input yang berhasil kita himpun pada hari ini dapat memperkaya muatan yang seharusnya tertuang dalam tangcangan undang-undang dimaksud. Sepanjang yang saya ikuti, undang-undang ini dibatasi pada

* Disampaikan dalam Workshop on The Environment for Partnership of SME and Large Business in Indonesia, Jakarta 29 Mei 2003.

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subkontrak dan bukan undang-undang kemitraan, karena dalam Undang-Undang No. 5 Tahun 1995 memang dibedakan antara kemitraan dan subkontrak. Subkontrak adalah bagian dari kemitraan. Pengalaman di beberapa negara kegiatan subkontrak memang cakupannya lebih sempit, terbatas pada suatu sektor tertentu. Di Jepang misalnya hanya terbatas pada industri pengolahan. Tampaknya kita perlu mendiskusikan cakupan atau pembatasan mengenai kegiatan atau sector yang menjadi wilayah yurisdiksi dari undang-undang subkontrak.

3. Kita paham bahwa kegiatan subkontrak akan membawa dampak bagi peningkatan efisiensi, secara makro efisiensi ekonomi nasional dan secara mikro efisiensi perusahaan; akan memperkuat struktur ekonomi nasional; dan mewujudkan demokrasi ekonomi. Saya tidak ingin mendiskusikan kembali mengenai hal ini, karena sudah sangat sering dibahas. Kini pada tahap bagaimana program aksi dilapangan untuk mendorong prosesnya.
4. Dalam banyak diskusi yang saya juga menyetujui bahwa kegiatan subkontrak sifatnya haruslah bebas tidak merupakan kewajiban. Bahwa kegiatan subkontrak adalah proses alamiah bisnis dimana kedua belah pihak memang punya kepentingan untuk melakukannya. Karena itu dasarnya adalah saling menguntungkan dan saling membutuhkan. Ada juga yang *strongly advocate* bahwa usaha besar harus di beri insentif misalnya pajak. Menurut saya tidak perlu, karena dalam ekonomi yang sehat normal memang subkontrak adalah kebutuhan. Dalam hal ini pemberdayaan subkontraktornya sudah menjadi insentif untuk hal itu.
5. Saya berpendapat terdapat 4 substansi, paling tidak yang harus ada dalam undang-undang subkontrak yaitu: 1) iklim usaha; 2) pemberdayaan subkontraktor (UKM); 3) kelayakan (fairness) dalam bertransaksi; dan 4) asosiasi subkontrak.

6. Iklim usaha lebih menunjuk pada *political will* dari negara untuk mendorong proses subkontrak, yang secara praktis harus diwujudkan dalam bentuk kebijakan publik (*pubic policy*). Undang-undang ini menjadi alas hukum atau perintah kepada penyelenggara negara agar menetapkan dan melakukan langkah tertentu guna mendorong proses subkontrak. Paling tidak ada 3 isu dalam kaitan ini, yaitu isu mengenai (a) regulasi dan deregulasi; (b) kebijakan moneter; (d) kebijakan fiscal. Regulasi dan deregulasi menyangkut perintah untuk mengeluarkan suatu peraturan tertentu yang bersifat memudahkan pelaku usaha dalam melakukan kegiatan subkontrak, misalnya dalam kegiatan investasi untuk sektor-sektor tertentu harus dilakukan dengan cara subkontrak. Deregulasi, adalah menyederhanakan atau meniadakan peraturan-peraturan yang menghambat atau menghalangi kegiatan subkontrak. Misalnya berbagai bentuk prosedur dan perizinan yang rumit, panjang, memakan waktu, dan berbiaya tinggi. Perintah undang-undang untuk hal ini sangat penting terutama pada masa otonomi daerah yang kini berlomba-lomba membuat Perda, yang sering kali bersifat distortif pada kegiatan ekonomi secara nasional. Perlu dicatat bahwa Perda mempunyai kedudukan hukum lebih tinggi dari Keputusan Menteri.

Untuk bidang moneter adalah adanya perintah dari undang-undang agar kegiatan subkontrak didukung oleh sistem keuangan yang memadai. Di Jepang misalnya didukung oleh adanya sumber pendanaan yang dialokasikan untuk membiayai kegiatan subkontrak, adanya suatu lembaga keuangan yang berfungsi dalam penyalurannya, ada mekanisme penjaminan dan bahkan asuransinya.

Untuk fiscal adalah perintah undang-undang tentang adanya anggaran pemerintah yang dialokasikan guna mendorong atau memberdayakan pelaku usaha sehingga mempunyai kemampuan dalam melakukan

kegiatan subkontrak. Misalnya bentuk-bentuknya adalah pelatihan SDM, penyediaan informasi usaha/subkontrak, modernisasi dan perbaikan teknologi, konsultasi usaha, promosi pasar dll.

7. Mengenai pemberdayaan lebih ditujukan pada kegiatan mikro yang harus dilakukan agar UKM dapat menjadi pelaku usaha yang *capable* dalam kegiatan subkontrak. Terdapat beberapa isu dalam kaitan pemberdayaan antara lain: (a) peningkatan produktivitas, kualitas produk, pengembangan produk, dan upaya pemberdayaan yang berkaitan dengan kegiatan produksi; (b) perbaikan/promosi/penemuan teknologi; (c) pengadaan/perbaikan/modernisasi peralatan; (d) manajemen dan organisasi: termasuk a.l. kalkulasi harga, pemasaran, efisiensi keuangan, efisiensi penggunaan tenaga kerja dan peralatan, kontrol dalam mata rantai produksi hingga penyerahan (*delivery*), dan usaha-usaha untuk mengefektifkan manajemen; (e) informasi dan konsultasi a.l: data base perusahaan kontraktor dan subkontrak, system dan informasi mengenai usaha (termasuk pasar sumber pendanaan dll), dan upaya mendorong pembentukan lembaga-lembaga pelayanan konsultasi usaha. Substansi mengenai pemberdayaan ini merupakan alas hukum dan perintah kepada pemerintah baik pusat maupun daerah agar mereka menjadikan substansi tersebut dalam formulasi kebijakan maupun program kerjanya.

8. Selanjutnya yang berkenaan dengan kelayakan (*fairness*) dalam bertransaksi menyangkut hubungan yang sehat antara kedua partai yaitu kontraktor dan subkontraktor. Ini dilatar belakangi bahwa bahwa perusahaan kontraktor (pemberi kontrak) umumnya lebih besar atau bahkan berada pada posisi dominan Struktur pasarnya biasanya *imperfect*, oligopoly atau oligopsoni. Dalam struktur pasar demikian secara teoritis maupun praktis ada kecenderungan penyalahgunaan posisi dominan. Bentuk-bentuk **penyalahgunaan** posisi dominan

tersebut misainya: pengikatan (*tying*), diskriminasi (*price discrimination* atau *behavioral discrimination*), penutupan pasar atau pengadaan barang (*close agreement*), pengaturan harga jual atau harga beli (*resale and repurchase price*), penolakan barang atau hasil kerja, jangka waktu pembayaran dan keterlambatan pembayaran. Hal-hal semacam inilah yang perlu diatur dalam substansi mengenai kelayakan bertransaksi. Dalam hal ini harus dilakukan penyelarasan dengan Undang-Undang No. 5 Tahun 1999 tentang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat.

9. Yang keempat adalah tentang Asosiasi Subkontrak. Di beberapa negara khususnya Jepang adanya asosiasi ini memang perintah dari undang-undang. Fungsi utamanya adalah untuk memfasilitasi hubungan subkontrak antara kontraktor dengan subkontraktor. Anggotanya terdiri dari perwakilan kedua kelompok yang diusahakan secara seimbang dalam proses pengambilan keputusan. Dibentuk baik ditingkat local maupun nasional. Kegiatan utamanya antara lain: memfasilitasi hubungan subkontrak; menyelenggarakan konsultasi bagi mereka yang akan melakukan hubungan subkontrak; menyediakan data dan informasi mengenai potensi subkontrak melakukan bimbingan dan pembinaan; pada tahap awal memfasilitasi perundingan jika terjadi perselisihan (sebelum jalan Bantu dan di selesaikan menurut hukum). Untuk menjalankan asosiasi ini sebagian disubsidi oleh anggaran pemerintah dan bagian lain diperoleh dari iuran anggota maupun fee yang dipungut dari setiap transaksi.
10. Demikianlah masukan untuk penyusunan rancangan undang-undang subkontrak semoga bermanfaat.

**TANGGAPAN TERHADAP HASIL PENELITIAN
TENTANG
KEMITRAAN UKM DENGAN USAHA BESAR DI INDONESIA
DAN UPAYA MEMPROMOSIKANNYA**

1. Sub Kontrak sebagai suatu kemitraan antara usaha besar Dan usaha kecil merupakan suatu praktek usaha yang dapat mendorong daya saing UKM, membantu penyerapan tenaga kerja, serta memberikan nilai tambah dan produk di level nasional, sehingga dengan demikian sangat penting bagi perekonomian nasional suatu negara, khususnya dalam situasi pasca krisis di Indonesia.
2. Hasil penelitian tentang praktek Kemitraan, khususnya tentang sub kontrak di Indonesia ini merupakan materi yang sangat penting bagi Kementerian KUKM yang mempunyai tugas dalam menyiapkan Rancangan Undang Undang tentang Sub Kontrak. Oleh karena itu sangat kami hargai.
3. Beberapa materi yang kami perlukan dalam penyiapan Undang-undang tentang sub kontrak seperti informasi tentang peran apa yang seharusnya dilakukan, dan tidak boleh dilakukan oleh pemerintah. Tentang peran apa yang seharusnya dilakukan oleh swasta, khususnya usaha besar dalam meningkatkan kinerja dari Usaha Kecil Dan Menengah sub kontraktor disampaikan dalam hasil penelitian ini yang tentunya sangat membantu kami. Namun demikian kami juga memerlukan perbandingan praktek di negara lain yang situasinya relevan dengan di Indonesia, Dan berhasil mengembangkan sub kontraknya. Informasi seperti ini tidak tersedia dalam hasil penelitian ini, dengan demikian diharapkan dapat muncul dalam diskusi.

4. Hal yang ingin diketahui oleh kami antara lain juga adalah mengenai insentif atau fasilitas apa yang diperlukan dari pemerintah ? Secara bisnis kita telah paham bahwa sub kontrak hanya akan bisa terjadi apabila kedua belah pihak mempunyai kepentingan. Bagi usaha besar kepentingannya adalah efisiensi usaha, sementara bagi usaha kecil adalah adanya akses terhadap sumber daya, baik itu informasi, jaringan pasar, teknologi, pembiayaan, dsb. Dalam prakteknya, untuk mendapatkan kepastian usaha melalui sub kontrak kepada usaha kecil, usaha besar perlu melakukan transfer know how, teknologi, manajemen, dsb. Upaya pemberdayaan semacam ini merupakan kegiatan yang sangat memberikan kontribusi pada pemberdayaan UKM. Agar upaya tersebut dapat terjadi dengan baik apabila secara proporsional pemerintah perlu memberikan fasilitas atau insentif secara wajar, maka hal tersebut harus merupakan materi yang disebutkan dalam rancangan undang-undang.
5. Fasilitas atau insentif yang perlu diberikan tersebut tentunya harus tidak menjadi faktor yang menimbulkan kontra produktif. Karena biasanya fasilitas yang berlebihan atau tidak proporsional justru akan menyebabkan ketergantungan atau moral hazard yang mengurangi daya saing,
6. Hal lain yang belum disampaikan dalam makalah ini adalah bagaimana masing-masing sektor usaha yang melakukan sub kontrak mengatasi masalah fairness. Masalah fairness ini sangat penting bagi keberlangsungan sub kontrak dalam jangka panjang, karena bila salah satu pihak merasa dirugikan atau tidak aman, maka praktek sub kontrak hanya akan berlangsung sesaat. Masalah fairness ini dapat berkaitan dengan sistem pembayaran, ataupun dengan mutu produk. Untuk itu

bagaimana menetapkan standar produk, mengawasinya, dan bagaimana menyelesaikannya apabila terjadi persengketaan dalam penetapan mutu ini ?

7. Sub kontrak dengan ketergantungan yang sama antara pihak pemberi kontrak dengan sub kontraktor seyogyanya berlangsung secara fair. Bagaimana caranya agar terjadi keuntungan yang fair ? Bagaimana agar terjadi fairness dalam hal pembayaran ? Bisakah dilakukan transparansi di kedua belah pihak ?
8. Bagaimana pula tentang akses terhadap sumber pembiayaan ? Apakah usaha besar dapat berperan sebagai sumber pembiayaan, atau apabila memerlukan lembaga keuangan, apakah peran usaha besar dalam membantu akses UKM terhadap lembaga pembiayaan ini ?
9. Terakhir, mengingat praktek-praktek sub kontrak ini sangat bervariasi sesuai dengan nature of business nya masing-masing , kondisi sosial budaya dimana UKM sub kontraktor berada, maka diperlukan rekomendasi yang bersifat general yang relevan bagi semua aktivitas sub kontrak.
10. Pemerintah juga memerlukan rekomendasi bagaimana tahap-tahap yang perlu dilakukan untuk mempersiapkan UKM sub kontraktor agar secara minimal siap menjadi mitra dari Usaha Besar. Hal ini penting sebagai salah satu upaya untuk mengundang Foreign direct investment baru yang diperlukan untuk menumbuhkan perekonomian Indonesia.
11. Mudah-mudahan pertanyaan-pertanyaan yang diperlukan dalam mempersiapkan Rancangan Undang Undang yang belum terjawab dalam

penelitian ini dapat kami terima jawabannya baik melalui workshop ini atau di luar workshop. Atas partisipasi dan sponsorship dari USA1D atas terselenggaranya penelitian ini kami mengucapkan terima kasih.

Jakarta, 28 Mei 2003

Sri Ernawati