

4. The strategic framework and delivery system for SME and entrepreneurship policy in Indonesia

This chapter describes and assesses the legal and policy framework underpinning SME and entrepreneurship development in Indonesia, including existing mechanisms for policy formulation and policy implementation. The chapter shows that SME development is a policy priority in Indonesia, enshrined in Law 20/2008 (also known as the MSME Law) and in the National Medium-Term Development Plan that drives Indonesian development policies in each five-year legislation period. As a result, many ministries implement programmes for SMEs and entrepreneurs. This is generally good for the strengthening of domestic SMEs, but also raises co-ordination challenges and, on occasion, results in some programmes lacking sufficient scale. The chapter suggests that the draft of an SME Strategy and the establishment of an SME Inter-Ministerial Council could add clarity to the SME policy framework and strengthen policy co-ordination. Similarly, an SME policy portfolio analysis would help the government to understand whether SME policy spending is balanced and meets government priorities.

The SME and entrepreneurship policy framework

Indonesia's SME policy framework originates from Law 20/2008, also known as the Micro, Small and Medium Enterprise (MSME) Law, and applies to both central and local governments.¹ The aim of the law is to enhance the participation of Indonesian SMEs in economic growth, job creation, poverty reduction and regional development, with a view to making Indonesia an "equitable economic democracy".²

The main policy areas covered in Law 20/2008 are: SME financing (e.g. through loan guarantees and soft loans, financial literacy, factoring, venture capital development, etc.); facilities and infrastructure (e.g. industrial parks, science and technology parks, etc.); business information (e.g. use of databanks and business information networks); partnerships (among SMEs and between SMEs and large firms); business licensing (e.g. creation of one-stop services and exemption of micro and small enterprises from licensing); access to markets (e.g. public procurement and the reservation of certain sectors for micro and small enterprises); trade promotion (e.g. participation in fairs); and business development services.

Law 20/2008 also stipulates that the ministry responsible for SMEs within the government has the mandate to co-ordinate the empowerment of SMEs, while government Regulation 17/2013 on the implementation of the MSME Law states that this co-ordination is undertaken with technical ministers, non-ministerial government institutions, governors, regents, mayors, the business sector and civil society organisations.³ Law 20/2008, therefore, makes it clear that SME policy is not the prerogative of only one ministry in Indonesia, and that it falls within the responsibility of both national and subnational governments.

The National Medium-Term Development Plan 2015-2019, which is prepared by the Ministry of National Development Planning/National Development Planning Agency (BAPPENAS) and is the main development plan document of Indonesia, also places a strong emphasis on SME development, setting important targets with respect to the contribution of SMEs to the national economy (BAPPENAS, 2014a) (see Table 4.1). These targets seem to be reasonable and in line with past growth rates in the SME sector over the period 2006-2013.⁴

Table 4.1. Economic development targets concerning SMEs and co-operatives in the National Medium-Term Development Plan, 2015-2019

Policy objective	Indicator	Target by 2020
Increase the economic contribution of SMEs	SME contribution to GDP	Average annual growth of 6.5%-7.5%
	SME employment	Average annual growth of 4%-5.5%
	SME (non-oil and gas) exports	Average annual growth of 5%-7%
	SME productivity growth	Average annual growth of 5%-7%
Improve SME competitiveness	Increase number of SMEs meeting quality standards	By 50 000
	Increase proportion of SMEs accessing formal financing	To 25% of total formal financing
Increase the number of new enterprises	Increase the number of new innovative entrepreneurs with support from national and regional governments	By 1 million
	Increase the number of small industry enterprises	By 20 000
	Increase the number of medium and large industry enterprises	By 9 000
Improve the institutional functioning and performance of co-operative businesses*	Increase participation of co-operative members in capital	From 52.5% (baseline) to 55%
	Increase the number of co-operatives (growth)	Annual increase of 7.5%-10%
	Increase the sales volume of co-operative businesses (growth)	Annual increase of 15.0%-18%

Source: BAPPENAS (2014a), "Regulation of The President of The Republic of Indonesia Number 2 Year 2015 about the National Middle Term Development Plan 2015–2019: Book I National Development Agenda", (*Peraturan Presiden Republik Indonesia Nomor 2 Tahun 2015 Tentang Rencana Pembangunan Jangka Menengah Nasional 2015–2019: Buku I Agenda Pembangunan Nasional*), pp. 133–134.

The National Medium-Term Development Plan 2015-2019 sets out five main priorities for SME development:

- *Improving the quality of human resources*, through workforce skills upgrading and vocational training, integrating entrepreneurship education into school and university curricula, and enhancing business coaching and mentoring to upgrade managerial skills.
- *Enhancing access to finance*, through developing special financial institutions for SMEs and co-operatives, promoting non-bank financial instruments, and improving the financial literacy of small business owners.
- *Increasing the value added of SME products and their international market penetration*, through product quality improvements, the development of trading houses, the improvement of market infrastructures, and support of online platforms.
- *Strengthening partnerships and networks to increase the scale of SMEs and co-operatives*, through support measures for co-operatives and clusters and the facilitation of business networks, including supply-chain linkages.
- *Improving rules and regulations for a better business environment for SMEs*, through simplified business licenses, the harmonisation of sectoral and regional permits and the development of a one-stop shop system where entrepreneurs can receive business-relevant information.

Additional policy priorities emerging from other government documents include: entrepreneurship development, SME digitalisation, enhanced access of SMEs to government contracts and sector development.

Entrepreneurship development: A Draft Law on National Entrepreneurship was prepared by the Ministry of Co-operatives and SMEs, in collaboration with other ministries and national stakeholders, in 2017.⁵ The draft law includes chapters on: the preparation of a National Entrepreneurship Masterplan; the establishment of a National Entrepreneurship Task Force; support for social entrepreneurship, innovative entrepreneurship and entrepreneurship education; support for the registration of intellectual property rights; the creation of national entrepreneurship facilities providing business information; easier business licensing for new entrepreneurs; and a list of business sectors reserved for micro and small enterprises.

The 2017 Draft Law on National Entrepreneurship is complementary to the 2008 MSME Law and to the National Mid-Term Development Plan, with some of the items covering the same topics. The most interesting elements of this draft law are its reference to the preparation of a National Entrepreneurship Masterplan and to the creation of an Inter-Ministerial National Entrepreneurship Task Force, which could respectively add clarity to the national SME policy framework and strengthen cross-government policy co-ordination.

SME digitalisation: In the context of Indonesia, this mostly refers to increasing ICT adoption and the use of e-commerce in SMEs. The underlying rationale is that only 9% of the approximately 26 million non-agricultural Indonesian SMEs use e-commerce, and that this is a major barrier to their participation in the ASEAN market (Deloitte, 2015). The leading ministry is the Ministry of Communication and Informatics, which co-ordinates the national E-Commerce Roadmap, with support from 19 other ministries and government institutions. The main programmes in the Roadmap include the SME Go Online Programme, the One Million id. Domain Programme, and the 1 000 Digital Start-up Programme (see chapter 5 for more details).

Enhancing SME access to procurement opportunities: This is achieved by state-owned enterprises (SOEs) being increasingly required to integrate manufacturing SMEs into their supply chains, ministries progressively moving to an online tendering system, and foreign investors being subject to local content requirements.

Sector development: This is a cross-cutting feature of Indonesian SME policies that arise from many programmes for SMEs being run by sector-focused ministries such as the Ministry of Industry, the Ministry of Communication and Informatics and the Ministry of Tourism. Sector priorities are also enshrined in the National Medium-Term Development Plan, which outlines policy directions specific to accelerating growth in natural resources sectors (agro-industry, forest and timber products, fisheries, and mining products), manufacturing, tourism, and the creative economy.

Although there are several legal and policy documents in which SMEs feature prominently, Indonesia currently lacks an “SME Strategy” document pulling together the different programmes in a coherent manner. The fragmentation of SME and entrepreneurship policies across many different ministries and the lack of a comprehensive mapping of such policies make it difficult to regularly monitor and evaluate programmes and to hold ministries accountable for the achievement of high-level policy outcomes.

The draft of an SME Strategy document could help clarify policy objectives and policy targets, based on existing and new initiatives. The Strategy would also indicate which ministries and departments are responsible for the implementation of each policy measure and set out key performance indicators to monitor progress and evaluate the outcomes of the Strategy. The preparation of an SME Strategy document would have to be a cross-government effort, reflecting the horizontal nature of SME policy.

The Malaysian experience in developing an SME Masterplan could be a model for Indonesia to craft a more integrated and strategic approach to SME policy (see Box 4.1). Domestically, the experience of Indonesia's E-commerce Roadmap might also prove insightful. In this case, the Indonesian Ministry of Communication and Informatics has worked collectively with 19 other ministries and institutions to pull together elements from four different government ICT plans into an integrated strategy to accelerate the diffusion of e-commerce in Indonesia. A Steering Committee is responsible for co-ordinating and monitoring the implementation of the E-commerce Roadmap. The National Entrepreneurship Masterplan, which is foreseen by the Draft Law on National Entrepreneurship, could provide the basis for the preparation of the future SME Strategy, on the condition that its scope goes beyond business creation and start-ups to encompass existing SMEs as well.

Apart from the lack of a formal SME Strategy document, the current policy framework is in line with the priorities and specifications of the MSME Law, but with a strengthened emphasis on entrepreneurship development. Indeed, the Draft Law on National Entrepreneurship foresees stronger policy initiatives to support innovative and social entrepreneurship. At the same time, given the composition of the Indonesian SME sector, more emphasis could be placed on policy measures that support the scaling-up and formalisation of the myriad of domestic micro-enterprises, encourage the emergence of more high-growth firms, and strengthen more broadly the national innovation ecosystem.

Box 4.1. International inspiring practice: SME Masterplan, Malaysia

Description of the approach

The National SME Development Council (NSDC) is the Malaysian government body responsible for setting the strategic direction and long-term objectives of national SME policies. The first SME Development Blueprint (2006-2008) prepared by the NSDC brought together information from all ministries and agencies on their existing support measures. In 2007, the government established the Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia), under the Ministry of International Trade and Industry, as the single government agency tasked with the formulation of SME policies and the co-ordination of the implementation of programmes across all related ministries and agencies. SME Corp. also performs the role of Secretariat to the NSDC, ensuring that the NSDC's decisions are effectively implemented.

The SME Masterplan (2012-2020) was first launched to enhance the contribution of SMEs to achieving Malaysia's Vision 2020. The Masterplan's vision is to "create globally competitive SMEs that enhance wealth creation and contribute to the social well-being of the nation" (NSDC 2012, p.35). The overarching targets of the Masterplan (adjusted in 2015) are to increase SME contribution to GDP from 32% in 2010 to 41% in 2020, employment share from 59% to 65%, and export share from 19% to 23%.

Four strategic goals of the SME Masterplan	Six focus areas to support the strategic goals
<ul style="list-style-type: none"> • Support a constant stream of new entrants into the market (target of 6% annual increase in the registration of new companies). • Raise labour productivity in SMEs (target of 93% increase by 2020). • Expand the number of high-growth and innovative firms (by 10% per year). • Step up the formalisation of SMEs to promote growth and fair competition (the target is to reduce the size of the informal sector from 31% of gross national income to 15% in 2020). 	<ul style="list-style-type: none"> • Innovation and technology adoption among SMEs. • Human capital and entrepreneurship development among SMEs. • Access of creditworthy SMEs to financing for working capital and investment. • Market access for goods and services produced by SMEs. • Legal and regulatory environment conducive to the formation and growth of SMEs. • Effective infrastructure for the development of SMEs (e.g. construction/upgrading of industrial premises, utilities, incubators, broadband).

The SME Masterplan is translated on an annual basis into the Annual SME Integrated Plan of Action (SMEIPA), which collects information on the policy measures from each of the ministries and agencies in charge of SME programmes. Through the SMEIPA, Malaysian ministries and agencies co-ordinate SME programmes and review their roles and responsibilities pertaining to SME development. Furthermore, the SME Corp.'s website includes a matrix displaying all government programmes by focus area, indicating the sponsoring ministry, the implementing ministry/agency, the objectives, and the sectors and stage of business being targeted (e.g. start-up, growth, exporting). The publication of this information online and in the SMEIPA makes it more easily accessible within the government, as well as by small business owners and private-sector bodies.

SME Corp. also provides updates on the implementation of the SME Masterplan, including how programmes are advancing in relation to quantitative targets and milestones. This enables SME Corp. to co-ordinate the monitoring and evaluation of the SME development programmes implemented by the different ministries and agencies.

Success factors

A national government-wide SME policy has been made possible in Malaysia by the creation of the NSDC and of SME Corp. as the central co-ordinating agency, which has ensured the effective implementation and monitoring of SME policies across various ministries and agencies. The launch of the SME Masterplan and the annual publication of SMEIPA have also enabled the government to enhance collaboration and reduce duplication, to foster greater synergies across ministries and agencies, and to optimise funding allocations. In this context, setting a common SME definition used by all ministries and agencies was also important.

Obstacles and responses

The major obstacle in adopting a cross-government approach to SME policy relates to the formation of a high-level inter-ministerial council with responsibility for crafting and governing the implementation of the national masterplan. This was dealt with in Malaysia by a directive of the Prime Minister requiring the council to be formed and outlining its membership, roles, responsibilities and accountabilities. Moreover, reporting on policy measures requires a commitment from ministries and agencies to co-operate, which is facilitated in Malaysia through the preparation and issuance of the annual SMEIPA publication.

Relevance to Indonesia

The Indonesian government does not currently produce a comprehensive and integrated SME Strategy document. Each ministry/agency proposes and implements its own policy measures, but there is no central platform for the co-ordination of SME policies across ministries and agencies, which can lead to overlaps, inconsistencies and gaps in policy design and implementation. Indonesia could draw inspiration from Malaysia's SME Masterplan to draft a document that comprises all government policy measures affecting and/or supporting SMEs.

Sources for further information

National SME Development Council (NSDC) (2012), *SME Master Plan 2012–2020: Catalysing Growth and Income*, Kuala Lumpur, Malaysia. Online at: <http://www.smecorp.gov.my/index.php/en/resources/2015-12-21-11-07-06/sme-masterplan/>.
Small and Medium Enterprise Corporation (SME Corp.) (2016), *SME Annual Report 2015/16: Breaking Barriers*, SME Corporation Malaysia, Kuala Lumpur.

Policy co-ordination across ministries and agencies

Improving policy co-ordination is one of the main priorities in Indonesia's SME policy. Although there is a dedicated national ministry for SMEs (i.e. the Ministry of Cooperatives and SMEs), it is not the only ministry responsible for SME policy, nor is it responsible for co-ordinating the work of the other ministries that implement SME programmes based on the guidelines of the National Medium-Term Development Plan.⁶

The purpose of the National Medium-Term Development Plan is to lay out strategic directions and specific measures in economic development policy for a five-year period, reflecting development priorities set out at the Presidential level. Based on the objectives of the Medium-Term Development Plan, each ministry is required to develop a "Strategic Plan" to fulfil its mandate relative to such objectives. Each ministerial "Strategic Plan" includes information on policy objectives, programmes, performance targets, and government funding. Since SME development is a priority of the Medium-Term Development Plan, a large number of ministries include an SME policy component in their individual Strategic Plans.

Additionally, four national Co-ordinating Ministries play an important role in setting national policy directions and co-ordinating the work and budget of technical ministers: the Co-ordinating Ministry for Economic Affairs; the Co-ordinating Ministry for Human Development and Culture; the Co-ordinating Ministry for Political, Legal and Security Affairs; and the Co-ordinating Ministry for Maritime Affairs and Natural Resources.

The Co-ordinating Ministry mostly responsible for SME policy is the Co-ordinating Ministry for Economic Affairs, which also oversees the work of the Ministry of Cooperatives and SMEs. The Co-ordinating Ministry for Economic Affairs prepares "SME policy packages" for each of the relevant technical ministries and agencies, taking into consideration the policy directions of the National Medium-Term Development Plan and budget allocations decided by BAPENNAS and the Ministry of Finance. However, some ministries involved in SME policy fall under the responsibility of a different co-ordinating ministry. For example, the Ministry of Youth and Sports and the Ministry of Research, Technology and Higher Education fall under the remit of the Co-ordinating

Ministry for Human Development and Culture; the Ministry of Tourism and the Creative Economy Agency fall under the responsibility of the Co-ordinating Ministry for Maritime Affairs and Natural Resources; and the Ministry of Communication and Informatics reports to the Co-ordinating Ministry for Political, Legal and Security Affairs. Table 4.2 offers an overview of the main government institutions and programmes in support of new and small businesses in Indonesia.

Table 4.2. An overview of main SME and entrepreneurship programmes in Indonesia

Category	Programmes
Entrepreneurship development and start-up support	<p>Ministry of Youth and Sports – offers Youth Entrepreneurship Development Programme; supports more than 60 Youth Entrepreneurship Centres.</p> <p>Ministry of Co-operatives and SMEs – operates 51 Integrated Business Services Centres (PLUT-KUMKM Centres); Entrepreneur Incubators Programme; Start-up Incubator Programme; Co-operatives Training Programme.</p> <p>Ministry of Home Affairs/Ministry of Co-operatives and SMEs – Free Business License Programme (Presidential Regulation 98/2014 on Licensing for Small and Micro-enterprises).</p> <p>Ministry of Communication and Informatics – National 1 000 Digital Start-up Programme; support for start-up ecosystems in ten major cities.</p> <p>Ministry of Industry – offers New Industry Entrepreneur Training Programme; Incubator Business Centres; Bali Creative Industry Centre and Incubator (for fashion and crafts sectors).</p> <p>Creative Economy Agency (BEKRAF) – delivers entrepreneurship training for SMEs in creative industries.</p> <p>Ministry of Manpower – offers Entrepreneurship Development Programme and Start-up Business Advisory Programme.</p> <p>Ministry of Social Affairs – provides entrepreneurship training for people with disabilities.</p> <p>Ministry of Women’s Empowerment and Child Protection – offers enterprise development programmes for women.</p> <p>Ministry of Agriculture – delivers Young Agricultural Generation to increase the entrepreneurial skills of young farmers.</p> <p>Ministry of Education – delivers Community Entrepreneurship Programme to encourage entrepreneurial spirit and provides entrepreneurship education through educational institutions and training centres.</p> <p>Financial Services Authority (OJK) – delivers financial education and entrepreneurship training for SMEs and working-age youth.</p> <p>Bank Indonesia – delivers the Entrepreneur Development Programme.</p>
Business management skills	<p>Ministry of Co-operatives and SMEs – operates 51 Integrated Business Services Centres (PLUT KUMKM Centres); partners with the Association of Business Development Services of Indonesia (ABDSI) to provide consultants for the PLUT-KUMKM Centres.</p> <p>Ministry of Industry – operates more than 40 SMI Technical Services Units (i.e. SMIs are industry-based SMEs); supports 7 400 SMI <i>sentras</i> through technical advice (<i>sentras</i> are self-help groups of companies in the same or related sectors); delivers management training for industry SMIs.</p> <p>Ministry of Youth and Sports – delivers Business Development Programme for Young Entrepreneurs.</p> <p>Ministry of Agriculture – delivers SME/Entrepreneurship Support Programme for Farmers.</p> <p>Ministry of Trade – delivers Business Meeting (<i>Temu Usaha</i>) Coaching Programme to connect SMIs with modern retailers.</p> <p>Ministry of Manpower – operates 22 Productivity Centres (productivity training and consulting for SMEs).</p> <p>Ministry of State-Owned Enterprises – operates 145 Creative Houses (launched at end of 2016) in 145 districts with target of 514 Creative Houses nationwide.</p> <p>Bank Indonesia – delivers SME clinics using coaches/mentors to help SMEs develop their businesses.</p>
Market development support and access	<p>Ministry of Industry – provides assistance with product certification and SME participation in exhibitions.</p> <p>Ministry of Co-operatives and SMEs – manages the Small and Medium Enterprises and Co-operatives Indonesia Company (SMESCO), an agency to promote SMEs’ products; SME Gallery in Jakarta; SME product exhibitions.</p> <p>Ministry of Co-operatives and SMEs – operates the Marketing Service Agency for Co-operatives and SMEs (i.e. trading house for products of co-operatives and SMEs); partners with other entities on marketing and design training; promotes the use of e-commerce.</p>

Innovation and technology upgrading	<p>Ministry of Trade – provides coaching and other forms of internationalisation support for groups of SMEs; operates Export Communication Forum for SMEs, SME Export Training Centre, and Online Trade Facilitation Programme.</p> <p>Ministry of Women’s Empowerment and Child Protection – organises trade expos for women entrepreneurs.</p> <p>Creative Economy Agency (BEKRAF) – provides technical guidance on marketing of SMEs’ creative goods and services.</p> <p>Ministry of State-Owned Enterprises – operates 145 Creative Houses to help SMEs with online marketing of products, training and coaching. It also manages the Business Aggregator Programme whereby SOEs act as trading houses for smaller companies.</p> <p>Telekom Indonesia – supports Digital SME Village Programme to foster online market access for SMEs (in co-operation with PLUT-KUMKM Centres).</p> <p>Eximbank – offers a range of export-related financial services. It also delivers the Coaching Programme for New Exporters, i.e. a capacity-building programme for SMEs looking to export.</p> <p>Ministry of Research, Technology and Higher Education – delivers the Techno-Entrepreneurship Programme (in co-operation with 20 universities). It also operates the Business Innovation Centre providing assistance to innovative companies; Technology Business Incubation Centre; Technology Business Incubation Programme; and the Technology-Based Start-up Company Programme.</p> <p>Agency for Assessment and Application of Technology – provides technological advice and guidance. It operates the Centre for Development, Education and Training; the Centre for Technological Services; and the Centre for Information Management (launched in 2017) (but not focused specifically on SMEs).</p> <p>Ministry of Communication and Informatics – delivers SME Go Online Programme; One Million id. Domain Programme; 1 000 Digital Start-up Programme.</p> <p>Indonesia Stock Exchange (IDX) – operates IDX Incubator.</p>
Access to finance	<p>Bank Indonesia – requires banks to allocate 20% of total business loans to SMEs; delivers policy for SME access to finance (research, training, information, facilities, co-ordination, regulation).</p> <p>Ministry of Finance – supervises the People’s Business Credit/<i>Kredit Usaha Rakyat</i> (KUR) Programme, in collaboration with Bank Indonesia and national credit guarantee institutes.</p> <p>Ministry of Co-operatives and SMEs – supports savings and local co-operatives and is responsible for the Revolving Fund Management Agency (LPDB). It also delivers the Beginner Entrepreneur Programme.</p> <p>Ministry of Industry – offers financing through Start-up Capital Assistance Programme and the Restructuring Machinery and Equipment Programme.</p> <p>Ministry of Research, Technology and Higher Education – offers seed funding component of the Technology Business Incubator Programme (IDR 50 million per tenant).</p> <p>Ministry of Youth and Sports – responsible for Youth Entrepreneurship Capital Institutions.</p> <p>Financial Services Authority (OJK) – delivers financial education initiatives for SMEs; operates Centre for Education, Consumer Services and Financial Access for SMEs (PELAKU Centres) located in 35 OJK regional branches.</p> <p>Indonesia Eximbank – extends financing to SMEs for export activities; delivers KUR financing for export-oriented SMEs (KURBE Programme).</p>

Note: Some of the programmes fall within more than one category.

Source: OECD elaboration.

The involvement of such a large number of ministries in SME policy illustrates the importance of SMEs within Indonesian economic development policies, but also comes with the risk of policy overlaps and duplications, thus raising a co-ordination challenge within the government.

Reflecting this fragmentation, on occasion, SME programmes in Indonesia lack sufficient scale, reaching only a limited number of recipients nationwide. This points to the importance of policy consolidation through the merge of programmes sharing similar objectives and activities, but which are currently implemented by different ministries. Two cases in point are business incubators and business development services, with many ministries actively engaged in these two areas (see chapters 5 and 7 for further details).

The Ministry of Co-operatives and SMEs seeks to promote policy co-ordination by holding at least one meeting a year with all ministries and agencies delivering SME

programmes, as well as four regional meetings a year with provincial governments. Moreover, Memorandums of Understandings (MOUs) are also commonly used to co-ordinate the implementation of cross-cutting SME policy initiatives (see Box 4.2). Moving forward, co-ordination in SME policy would be enhanced by the establishment of an Inter-Ministerial SME and Entrepreneurship Policy Council, following, for example, the model of Spain's State Council on SMEs and Entrepreneurship (Box 4.3).

Box 4.2. The Ministry of Co-operatives and SMEs' MOUs and co-operation agreements to co-ordinate SME policy delivery

Memorandums of Understanding (MOU) are commonly used by the Ministry of Co-operatives and SMEs to co-ordinate the implementation of SME policies and programmes with other government entities. Some of the main MOUs in place are the following:

- MOU with the Ministry of Home Affairs and the Ministry of Trade on the implementation of the Micro and Small Business License (IUMK) Programme.
- MOU with the Ministry of Home Affairs and the National Land Agency on the certification of land rights for micro and small enterprises to enable them to obtain certificates of ownership to use as collaterals.
- MOU with the Ministry of Law and Human Rights to streamline, in terms of cost and time, the application process by co-operatives and SMEs for intellectual property rights (IPR).
- MOU with the Ministry of Women's Empowerment and Child Protection, whereby the Ministry of Co-operatives and SMEs supports the participation of women in co-operatives and facilitates their access to finance and markets.
- Co-operation Agreement with *Bank Rakyat Indonesia* (BRI), which specialises in microcredit, to assist the Integrated Business Services Centres for Co-operatives and SMEs (PLUT-KUMKM Centres) in facilitating access to bank credit.
- MOU with Telkom Indonesia to develop the Digital SME Village Programme within each of the operating PLUT-KUMKM Centres.
- Co-ordination with the Ministry of Religious Affairs, Ministry of Manpower, the Indonesian Association of Islamic Microfinance Institutions and other entities to develop Sharia financing literacy and growth of savings and loans co-operatives focused on Sharia financing principles.

Box 4.3. Inter-Ministerial State Council on SMEs and Entrepreneurship, Spain

Spain's State Council on SMEs and Entrepreneurship is attached to the Ministry of Economy, Industry and Competitiveness and is the government body in charge of planning and co-ordinating all policies and actors affecting the creation, growth and competitiveness of SMEs in Spain.

The Council was created and is regulated by Royal Decree 962/2013. It is responsible for: informing the multi-annual SME support plan; developing recommendations and proposals on priorities, policy actions, regulatory changes and implementation arrangements necessary to improve the competitiveness of Spanish SMEs; co-ordinating the policies undertaken by different government authorities and harmonising eligibility criteria and quality standards in SME support measures; monitoring the application of the EU Small Business Act (SBA); promoting entrepreneurship in education, the media and society at large; and reporting on regulatory projects and regulatory improvements.

The Council is chaired by the Head of the Ministry of Economy, Industry and Competitiveness and consists of 52 members: 13 members representing ministerial departments (e.g. Ministry of Justice, Ministry of Finance and Public Administration, Ministry of Education, Ministry of Agriculture, Ministry of Foreign Affairs and Co-operation, Ministry of Employment and Social Security), 8 representatives of state agencies (e.g. State Society for the Management of Innovation and Tourism Technologies, Centre for Industrial Technology Development, Spanish Patent and Trademark Office, Spain Exports and Investments, Official Credit Institute), one representative from each autonomous region, selected representatives of local governments, representatives of business and labour organisations, and the Council of Chambers of Commerce and Industry.

The plenary body of all Council members meets at least once a year as a consultative and advisory body on all matters affecting SMEs, as outlined above. It also promotes dialogue among public administrations and stakeholders in order to provide greater rationality and efficiency to SME policies and to formulate relevant proposals for action by the public authorities and intermediary agents. The work of the Council is supported by a Standing Committee, which is chaired by the General Directorate of Industry and SMEs and comprises representatives from the Ministry of Economy, Industry and Competitiveness and the Ministry of Energy, Tourism and Digital Agenda. This committee is responsible for co-ordinating and enforcing the work approved by the plenary body. The plenary body is also empowered to establish working groups to carry out specific tasks relative to the work of the Council that require special technical analysis or expertise, as deemed appropriate.

Source: Website of the Council:

<http://www.ipyme.org/esES/PoliticasyMedidasPYME/ConsejoGeneralPYME/Paginas/ConsejoEstatalPYME.aspx/>.

The Draft Law on National Entrepreneurship includes provisions for the establishment of a National Entrepreneurship Task Force, which is expected to decide on cross-sectoral policies affecting entrepreneurship. The draft law proposes that the Task Force be headed by the Co-ordinating Ministry for Economic Affairs, with the remaining members to be stipulated by a Presidential decree. The National Entrepreneurship Task Force will be

responsible, among others, for drafting the National Entrepreneurship Masterplan, based on inputs from ministries and other parties.

The creation of a National Entrepreneurship Task Force is a positive development which is expected to strengthen policy co-ordination in Indonesia, although it is recommended that the policy focus of the Task Force be extended to measures supporting existing SMEs and not only new entrepreneurs, as the former account for a much larger share of government programmes and funding. One of the first assignments of the Task Force could be the draft of a national SME Strategy document.

The work of this enhanced National Entrepreneurship Task Force could be supported by the creation of an “SME and Entrepreneurship Policy Working Group” comprising the existing SME focal points from other relevant ministries/agencies (e.g. director generals and/or directors of SME programmes). The role of the Policy Working Group would be to organise regular meetings (e.g. between twice and four times a year) to discuss issues affecting SME development, to share information on existing policy measures, and to identify opportunities for co-operation. The establishment of a small technical unit, either at the Co-ordinating Ministry for Economic Affairs or at the Ministry of Co-operatives and SMEs, could serve as the secretariat of the Task Force and the Policy Working Group, preparing the work of both on a regular basis.

Dialogue with the private sector

The government of Indonesia consults with private-sector stakeholders mostly on an ad-hoc basis. The Indonesia Chamber of Commerce and Industry (*Kamar Dagang dan Industri*, KADIN), which is the largest national business association, holds regular meetings with government officials and is invited to comment on draft laws affecting the business sector. The Indonesia Co-operative Council also has a close relationship with the Ministry of Co-operatives and SMEs; for example, the Council was extensively consulted during the process of redrafting the Co-operatives Act. The Indonesia Business Women Association (IWAPI), which represents around 40 000 women entrepreneurs and has more than 250 branches in 32 Indonesian provinces, has a close relationship with both the Ministry of Women’s Empowerment and Child Protection and the Ministry of Co-operatives and SMEs, mostly on initiatives to support access to markets for women entrepreneurs. BAPPENAS, too, holds sessions with these associations and other private-sector stakeholders when it develops the National Medium-Term Development Plan.

These consultation practices are noteworthy, although the Indonesian government could also benefit from more formal and regular mechanisms for public-private sector dialogue to incorporate the views of entrepreneurs and small business owners more consistently in the policy-making process. For example, many OECD governments have established SME advisory committees to allow for a more structured public-private dialogue with SME associations. The membership of these committees is generally broad and includes chambers of commerce and industry, small business associations, business support organisations, SME financing institutions, business leaders, and independent experts (OECD and UNIDO, 2004).

The SME policy portfolio

An SME policy portfolio consists of an analysis of the distribution of government spending by main policy area (e.g. access to finance, business development services, export development and internationalisation, etc.) and by main targeted population (e.g. potential entrepreneurs, new start-ups, micro-enterprises, high-growth firms, innovative

SMEs, etc.). This approach involves mapping all SME policy measures across ministries and agencies, categorising each programme by policy area and targeted stage of enterprise development, and attaching budgets to each policy measure. An SME policy portfolio analysis is helpful in understanding whether government spending for SMEs is balanced and reflects government priorities. Together with the monitoring and evaluation of programmes, it can help channel government resources into the measures with the greatest social and economic benefits. A methodology to build an SME policy portfolio is outlined in Box 4.4.

Box 4.4. A portfolio approach to SME and entrepreneurship policy and its evaluation

The basic framework for the policy portfolio approach entails an analysis of all entrepreneurship and SME policies and measures by policy category and by stage of entrepreneurship and SME development. Focusing on the enterprise life cycle allows the development of an integrated set of supports to take “would-be” entrepreneurs from the pre-nascent stage to start-up, expansion and internationalisation, with business support systematically addressing market failures in key areas of each life cycle stage. These might include education and training, advice and counselling, and finance, as common examples. This type of categorisation is important because nascent entrepreneurs are, for example, more likely to need training and advisory/mentoring support, while an established SME is more likely to warrant strategic government interventions to promote productivity, for example through technology upgrading or internationalisation support. Thus, tailored policy responses are required to address the specific needs of each life cycle target. Combined with budget detail, the policy portfolio is also a useful tool for managing the distribution of spending across projects and programmes in line with the government’s policy priorities for SME development.

The resulting framework (a matrix of cells reflecting the types of policy measures by entrepreneur/enterprise development stage) can be adapted to the policy context of any particular country.

The first step would be to prepare a description of all relevant policy measures and programmes, with each policy/programme assigned to a main policy focus and a stage, or stages, of enterprise development which the policy measure appears to target. Budget figures would then fill the cells, based on the list of projects and budgets from all programmes (see table below).

Thus, the total for cell 1A would represent the total budget for all programmes and projects which provide education or training to pre-nascent entrepreneurs. The subsequent analysis would help identify where there are relative gaps in programme activity, and where a reallocation of resources could improve the balance of the whole policy portfolio. Nonetheless, a portfolio analysis should recognise that different interventions have different objectives and that, according to government priorities, certain objectives may be worth greater spending than others.

Proposed portfolio framework for SME and entrepreneurship policy intervention

Policy and programme categories (focus areas)						
Enterprise segments (A-G) (enterprise development stages)	1 Education training, human capital development	2 Information knowledge	3 Finance	4 Market access/ development	5 Technology innovation	Total by business stage
A Pre-nascent	1A	2A	3A	4A	5A	
B Nascent	1B	2B	3B	4B	5B	
C Start-up	1C	2C	3C	4C	5C	
D Operation	1D	2D	3D	4D	5D	
E Growth	1E	2E	3E	4E	5E	
F International	1F	2F	3F	4F	5F	
G Adjust exit	1G	2G	3G	4G	5G	

If coupled with an impact evaluation of government programmes, the policy portfolio analysis can help assess not only the distribution of government spending, but also its effectiveness, i.e. whether government spending is more effective in certain policy areas than others. Indeed, the policy portfolio categorisation can facilitate programme evaluation by allowing more precise identification of the target segments (such as start-ups), making the allocation and management of the entire budget portfolio more transparent, and clarifying which market failures policy funding is intended to address.

By way of example, a policy portfolio analysis was undertaken in the framework of the OECD Review of SME policy in Thailand, revealing gaps in the funding of projects related to the pre-nascent, start-up and enterprise growth stages, as two-thirds of the budget expenditure (excluding financial assistance programmes) was directed to existing SMEs. The analysis also revealed that the bulk of the SME Development Agency's total project budget (again excluding finance measures) was spent on education and training, with considerable gaps in the internationalisation stage and in support of technology and innovation. In the Thai context, gaps in addressing the needs of start-ups and the growth-phase of existing SMEs were identified as requiring further attention by the government.

Source: Adapted from OECD (2011), *Thailand: Key Issues and Policies*, OECD Studies on SMEs and Entrepreneurship, <http://dx.doi.org/10.1787/9789264121775-en>

There are two main factors that hinder a full SME policy portfolio analysis in Indonesia. First, the SME policy budget, which is developed by BAPPENAS and the Ministry of Finance, is distributed across a large number of ministries and agencies, each of which has an “SME Policy Package” prepared by the relevant Co-ordinating Ministry (mostly the Co-ordinating Ministry for Economic Affairs). Second, an effective co-ordinating mechanism to calculate total spending allocation by programme activity is currently missing.

On the whole, however, there are signs that government spending on SMEs has declined for some programmes and increased for others in recent years. For example, spending by the Ministry of Co-operatives and SMEs was IDR 971 billion in 2017, down from IDR 1.49 trillion in 2015 (Ministry of Co-operatives and SMEs, 2017; 2016). By the same token, the Ministry of Industry's budget for the “Small and Medium Industry Growth and Development Programme” was IDR 258 billion in 2017 (i.e. 8.14% of the Ministry's total

budget), down from IDR 530 billion in 2016 (i.e. about 13.5% of the Ministry's total budget) (Ministry of Industry, 2017; 2016). On the other hand, the budget of the KUR Programme (i.e. *Kredit Usaha Rakyat*, or People's Business Credit Programme) has been ramped up since a reform in 2015 which added an interest rate subsidy on top of the original loan guarantee of the programme (see chapter 5 for more details).

A preliminary illustration of how the policy portfolio analysis could be approached in Indonesia uses the example of the budget of the Ministry of Co-operatives and SMEs (Table 4.3 and Table 4.4).

Table 4.3. Allocation of the Ministry of Co-operatives and SME budget by activity/ programme, 2016 and 2017

Percentage of total actual expenditure (2016) and percentage of budget (2017)		
	2016	2017
1. Management Support Programme and implementation of other technical tasks	18.6%	23.6%
2. Programme for Improving Facilities and Infrastructure	9.4%	9.2%
3. Programme for Increasing Competitiveness of SMEs and Co-operatives	50.1%	53.4%
4. Co-operatives Institutional Strengthening Programme	8.5%	5.6%
5. Micro-Based Business Sustainable Livelihood Enhancement Programme	13.3%	8.2%
Total	100.0%	100.0%

Source: OECD calculations based on budget and expenditure figures outlined in Annual Report 2016 (*Kementerian Koperasi dan Usaha kecil dan Menengah*, 2016) and Quarter II Results 2017 (*Kementerian Koperasi dan Usaha Kecil dan Menengah*, 2017) of the Ministry of Co-operatives and SMEs.

In 2016 and 2017, the Ministry of Co-operatives and SMEs implemented five major programme activities. Of the total budget allocated to the Ministry, slightly less than one-quarter was used in 2017 to cover the administrative costs related to programme management, with the rest spent on programme activities. The largest programme of the Ministry of Co-operatives and SMEs was aimed at increasing the competitiveness of co-operatives and SMEs and absorbed about half of the total budget (53.4%).

A further disaggregation of the 2017 budget of the Ministry of Co-operatives and SMEs reveals that 33.3% of programme funding was allocated to financing measures, 18.8% to support access to markets, 17.3% to human resource development, 16.5% to business development services (BDS) facilities, and 3.7% to improvements in the regulatory environment for co-operatives and SMEs (Table 4.4). Altogether, programme spending by the Ministry of Co-operatives and SMEs appears to be balanced. Similarly to other countries, access to finance, which is a key enabler of investment and cash-flow management, is the main programme area, followed equally by promotion of access to markets, human resource development and BDS.⁷

A full policy portfolio analysis should include the SME and entrepreneurship policy measures of all ministries and agencies. While this is a complex exercise, findings from this analysis would help the government to analyse whether the distribution of resources reflects existing policy priorities and the most pressing development needs of Indonesian SMEs. For example, the analysis may reveal a disproportionate allocation of the total SME support funding to the KUR Programme and underspending on certain other priorities that would create a greater impact on growth-oriented entrepreneurship and SMEs. On the policy side, one of the important questions for the central government is

which SMEs to support, i.e. which SMEs will have the most impact, as well as the extent to which SME development in lagging regions should be targeted. Answers to these questions would be facilitated by the policy portfolio analysis.

Table 4.4. Ministry of Co-operatives and SME programmes by type of support, 2017 budget

Type of policy support	Financing/ access to financing (IDR)	Marketing/ access to markets (IDR)	Human resources capacity development (IDR)	Product development/ production issues (IDR)	BDS (IDR)	Regulatory environment (IDR)	Other (IDR)
Programme							
Management Support Programme and Implementation						2 985 520 000	
Improving Facilities and Infrastructure					89 079 292 000		
Increasing Competitiveness of SMEs and Co-operatives	197 365 152 000	72 839 182 000	115 000 000 000	2 312 343 000	18 458 313 000		4 263 305 000
Co-operatives Institutional Strengthening	18 342 887 000					22 238 931 000	22 576 029 000
Micro-Based Business Sustainable Livelihood Enhancement	11 819 485 000	54 960 647 000		5 440 940 000	4 546 718 000		
Total (IDR)	227 527 524 000	127 799 829 000	117 397 320 000	7 753 283 000	112 084 323 000	25 224 451 000	26 839 334 000
Total (%)	33.3%	18.8%	17.3%	1.1%	16.5%	3.7%	4.0%

Note: The totals in Indonesian rupiah are based on the total Ministry of Co-operatives and SMEs budget of IDR 926 052 494 000. Sub-programmes under the Finance heading include management and distribution of the Revolving Fund Management Agency, the Capital Support for Beginner Entrepreneurs, etc. Marketing/access to markets includes promotion and marketing services of the Marketing Services Agency and quality standardisation and product certifications. Human resources capacity development includes the Entrepreneurship Development Programme, the SME Training Centre, etc. Product development/production issues include strengthening of business and production systems in micro-enterprises, production of environment-friendly products, etc. BDS includes programmes to increase the range and quality of the Integrated Business Services Centres and capacity building of business coaches and mentors. Regulatory Environment includes preparation of legislation, rules, and regulations in support of co-operatives and SMEs. Other includes research and policy analysis and general promotional measures to strengthen the co-operative movement.

Source: OECD calculations based on figures from the Quarter II 2017 Results of the Ministry of Co-operatives and SMEs (*Kementerian Koperasi dan Usaha Kecil dan Menengah*, 2017), <http://www.depkop.go.id/berita-informasi/data-informasi/laporan-triwulanan/>.

Policy delivery arrangements

Policy delivery arrangements refer to how government programmes are effectively implemented on the ground. This section examines the delivery arrangements for SME policy measures in Indonesia, i.e. the organisations involved in delivering policy measures and the different policy implementation arrangements. Detailed descriptions and assessments of SME and entrepreneurship support programmes are presented in chapter 5 and chapter 7 (business development services).

Delivery of SME financing programmes

Governments can deliver SME financing programmes directly through centrally-managed agencies and funds, or use an incentive system to encourage private-sector financial institutions to channel more credit into SMEs. Indonesia uses both approaches in different programmes.

In the case of the large *Kredit Usaha Rakyat* (KUR) Programme, financing to eligible micro and small enterprises is delivered through partner banks (mostly state-owned banks) with a government-backed guarantee, facilitated by state-owned guarantee agencies, and an interest rate subsidy. Funding for the KUR Programme comes from the Ministry of Finance and supervisory functions are within the remit of the Finance and Development Supervisory Agency. The Ministry of Co-operatives and SMEs promotes the programme to potential users and delivers advisory services to KUR clients through the Integrated Business Services Centres for Co-operatives and SMEs (i.e. PLUT-KUMKM Centres). Bank Indonesia monitors the implementation of the programme at partner banks (see chapter 5 for more details).

In other instances, ministries manage finance programmes through an internal agency, with funding still distributed by financial institutions. For example, the Revolving Fund Management Agency at the Ministry of Co-operatives and SMEs disburses its funding through more than 600 microfinance institutions and savings and loan co-operatives (see chapter 5 for more details).

Ministries also directly execute some of their own financing programmes. Examples include the Beginner Entrepreneur Programme at the Ministry of Co-operatives and SMEs; the Capital Assistance for New Entrepreneurs in Industry Programme at the Ministry of Industry; and the Technology Business Incubator Programme at the Ministry of Research, Technology and Higher Education, which offers seed funding to tenant entrepreneurs.

Delivery of business development services

Governments can provide business development services (BDS) directly through government-operated centres staffed with government employees, indirectly through public or private-sector intermediaries, or through a mixed approach in which the government delivers some of the services, usually the initial or the simplest information and advisory services, while drawing on private-sector expertise to provide more sophisticated technical advice.

Three main reasons for governments to partner with third-party organisations in delivering BDS are: the high fixed costs of establishing a widespread regional presence through government-operated centres, whereas partner organisations may already have a consolidated regional presence through their branch offices; leveraging the expertise of private-sector organisations, especially where technical advice is concerned; and fostering the development of a local market for BDS by incentivising demand for such services.

In cases where the government works in partnership with third-party organisations to deliver BDS, the relationship tends to be governed by formal agreements that lay out the nature of the services, delivery standards, performance expectations and reporting requirements. Furthermore, it is common for governments to provide capacity building for staff in intermediary organisations to ensure consistency in the quality of the services being offered.

The government of Indonesia uses a mixed approach in delivering BDS nationwide. It has a network of government-operated centres that are managed by different ministries and that, to varying degrees, draw on the expertise of private-sector organisations, including the Association of Business Development Services Indonesia (ABDSI). In particular:

- The Ministry of Co-operatives and SMEs has recently launched the “Integrated Business Services Centres for Co-operatives and SMEs” (PLUT-KUMKM Centres) to improve the co-ordination and standardisation of BDS across Indonesia. The Ministry collaborates with ABDSI to recruit qualified consultants and advisors from its members for the PLUT-KUMKM Centres. This ensures access to a pool of existing expertise and minimises the negative effects from the possible crowding-out of the private-sector consultancy industry (see chapter 7 for further details).
- The Ministry of Industry operates more than 40 Small Medium Industry (SMI) Technical Services Units to facilitate product development, intellectual property acquisition, design and product marketing in industry-based SMEs through a network of 500 technology extension workers (see chapter 5). In addition, it also manages SMI *Sentras*, which are groups of at least five industry-based SMEs which share similar raw material needs, production processes or end products and which come together to receive technical assistance. The work of the former programme is somewhat similar to that of the PLUT-KUMKM Centres, although it is confined to industry-based SMEs.
- The Ministry of State-Owned Enterprises (SOEs) runs “Creative Houses” to support product development, access to finance and skills development in SMEs through partnerships with large SOEs. The Creative Houses have more recently developed collaborative arrangements with the PLUT-KUMKM Centres to further enhance the integration of BDS delivery in Indonesia.

Delivery of business incubators

Presidential Regulation 27/2013 governs business incubation activity in Indonesia, allowing the central government, universities and the private sector to operate incubators and setting the parameters of business incubators in terms of space, facilities and services. According to the Association of Indonesian Business Incubators (AiBI), there are about 100 active business incubators in Indonesia, i.e. one incubator per 2.61 million people, much less than in the United States (one incubator per 290 000 people) or the United Kingdom (one incubator per 402 000 people).⁸ The AiBI additionally reports that three-quarters of the business incubators are university-based, 14 are operated by ministries, state-owned enterprises or regional governments, and the rest belong to the private sector. Government funding for incubators generally includes a portion to cover the management costs of the host organisation, with the rest assigned on a per-tenant basis.

Similarly to what has been observed for BDS, the Ministry of Co-operatives and SMEs has developed a partnership with AiBI to develop an accreditation programme for incubators and a certification programme for incubator managers with the aim of ensuring consistency in the quality of the services offering. Moreover, with the intention of building a comprehensive national system of business incubators, the Ministry of Co-operatives and SMEs and the Co-ordinating Ministry for Economic Affairs have produced a Roadmap for Incubator Development 2014-2029 and issued Regulation 24/2015 on the norms and standards for the activity of business incubators.⁹ Regulation 24/2015 states, *inter alia*, that each province/special region will have at least five

incubators, and each reGENCY or municipality will have at least one (see chapter 5 for more details).

Delivery of other technology and innovation policy measures

Two Indonesian ministries strongly involved in technology and innovation policy are the Ministry of Research, Technology and Higher Education and the Ministry of Communication and Informatics.

The Ministry of Research, Technology and Higher Education delivers its programmes mostly through the university system. For example, both the Techno-Entrepreneurship Programme and the Technology-Based Start-up Company Programme are based on competitive funding for which universities can apply (see chapter 5).

The Ministry of Communication and Informatics, on the other hand, often works with private-sector companies, such as KIBAR (a technology start-up ecosystem builder) and Telkom Indonesia, to encourage SME digitalisation and the creation of new digital start-ups.

The way forward: an online web portal dedicated to SME programmes

The large number of SME support programmes available in Indonesia and their distribution across many ministries, government agencies and subnational entities make the compelling case for a web portal to collect information on such programmes. In Indonesia, many SMEs are, indeed, unaware of support institutions and programmes and, even when they are aware, find it difficult to obtain information about how to participate (Burger et al., 2015).

A web portal (and mobile phone application) could include information on existing regulations and support programmes from different ministries and levels of government, with information on how to apply, including web links to apply directly from the portal. In addition, it could include simple guidelines on how to start, manage and grow a business through videos, tutorials and case studies. Because of the many institutional actors involved in SME policy, the creation of such a portal should be a collaborative endeavour involving national and subnational governments.

The Draft Law on National Entrepreneurship provides for an entrepreneurship information system that should include data and information on regulations, administrative procedures, initiatives and programmes of both national and local governments. This initiative is a step in the right direction and should include information on programmes not only aimed at new entrepreneurs, but also at existing SMEs.

Web portals of this nature already exist in Southeast Asia, such as Singapore's SME Portal (<https://www.smeportal.sg/>) and Malaysia's SME Info (<http://www.smeinfo.com.my/>). The Canadian experience of building a multi-channel information system for entrepreneurs and SMEs through the Canada Business Network is presented in more detail in Box 4.5, as both Canada and Indonesia are federal countries with national and subnational governments actively involved in SME policy. This system consists of a comprehensive web portal (www.canadabusiness.ca) collecting information on federal, provincial and territorial government programmes and services, a call centre, and a network of one-stop shops for walk-in assistance.

Box 4.5. International inspiring practice: The Canada Business Network and web portal

Description of the approach

In 2000, the Canadian federal government, under the “Government Online Programme”, funded the development of the online “Business Gateway Initiative”, a federal internet portal for business information and services, led by Industry Canada (now called the Department of Innovation, Science and Economic Development, ISED), to create a national website bringing together a number of different federal, provincial and territorial websites. In 2004, the Business Gateway Initiative was combined with the Canada Business Centres (CBC) Programme, the national network of physical business information offices which had been in place since 1992, to form the Canada Business Network (CBN), thus creating a so-called “click, call, and visit” business service nationwide.

Beyond the general “how-to” information that is applicable to anyone seeking guidance and information on planning, starting, growing and closing a business, the CBN portal links visitors to the appropriate sites for information on government programmes and services, both at the federal and provincial levels, as well as to the sites of local community and non-profit organisations, many of which are partners with the government in providing business-related services. The visitors of the web portal can also search for programmes and services specifically tailored to young entrepreneurs, students, women, disabled people, indigenous people, and immigrants. Online services such as interactive business planners and workshop materials are also available. In 2005, the Business Gateway web portal was enhanced through an online service for accessing information on business permit and licensing requirements at the federal, provincial and municipal levels (i.e. the BizPaL service, see Box 3.1 for more details).

The development of the Business Gateway portal received CAD 20 million of federal funding from Fiscal Year 2000-2001 to Fiscal Year 2005-2006. The Canada Business Network receives an average of CAD 15 million a year for ongoing operations, which includes some cost-sharing arrangements with the provincial governments.

The Canada Business National Secretariat (housed in ISED) is responsible for developing policies, standards and practices to promote a consistent national network operation. Activities of the network are co-ordinated nationally through the Canada Business Managing Partner Committee, which is instrumental in developing consensus on major operational decisions and defining new services, products, and standards.

Success factors

In Fiscal Year 2012-2013, the national web portal recorded 2.2 million visits, with another 1.7 million visits to regional sites maintained by the CBCs, compared to 153 000 officer-assisted client interactions in the CBC physical centres. Over time, the website has been the major point of contact for business-related information, including on SME support programmes and services, supplemented with use of the call centres. In fact, some regions have closed their CBC physical centres because the walk-in traffic did not warrant their continuation. Internet users value the single-window design of the web portal to access advice and information and links to government programmes, which they would otherwise find difficult to navigate given the large number of government entities they would have to interface with.

More specifically, the success of the CBN and its web portal is based on the partnership between federal and provincial/territorial governments (co-location, shared services, co-funding), outreach to other regional SME support organisations, training and ongoing professional development of CBC staff, and innovation in the use of information technology platforms to consolidate a variety of business-related government databases.

Obstacles and responses

One of the initial challenges for the federal government was to convince some of the provincial governments to partner with them on the CBC initiative, especially with respect to cost-sharing arrangements. In cases of reticence, the federal government moved ahead and eventually all provincial and territorial governments realised the benefits of co-operation and became partners, agreeing to cost-sharing arrangements for the CBCs and collaboration on the web portal.

Initially created before the emergence of the Internet, the CBN has strived to transform its business model to one that produces information and services that can be easily consumed on the Internet. Efforts have been made to apply user-designed practices for this purpose, including better access to the website from mobile devices, and increased use of video conferencing, webinars and YouTube. According to recent evaluations, the awareness of the CBN and the canadabusiness.ca website could be stronger. ISED and partners are focusing more on online advertising campaigns, including social media, besides promotion at trade shows and events, to raise the awareness of services.

Relevance to Indonesia

In Indonesia, a partnership between central and regional governments could build on the PLUT-KUMKM Centres model to create a national network of business support centres that provide a unified and co-ordinated point of entry for information and services to SMEs and entrepreneurs.

At the same time, it would be beneficial to create an SME web portal displaying the range of financial and non-financial assistance programmes and supporting organisations throughout the country. A web portal (and mobile phone application) would create more transparency regarding government support programmes and the organisations delivering the support, thus helping entrepreneurs seeking information on the available programmes and services. Critical to designing the web portal will be cross-government collaboration, as well as mapping all the financial and non-financial support programmes and services. Funding arrangements will also be required from the national budget.

Sources for further information

Small Business Policy Branch, ISED Canada, Ottawa, Canada and the Canada Business website at: <https://canadabusiness.ca/>.

AEB (Audit and Evaluation Branch) (2014), *Evaluation of the Canada Business Network*, Final Report, May, Presented to the Departmental Evaluation Committee on 20 May 2014, ISED Canada, Ottawa. [https://www.ic.gc.ca/eic/site/ae-ve.nsf/vwapj/CBN_Evaluation_Report_eng.pdf/\\$file/CBN_Evaluation_Report_eng.pdf/](https://www.ic.gc.ca/eic/site/ae-ve.nsf/vwapj/CBN_Evaluation_Report_eng.pdf/$file/CBN_Evaluation_Report_eng.pdf/)

Conclusions and policy recommendations

The Indonesian SME policy framework reflects the policy directions stipulated in the 2008 MSME Law and in the current National Medium-Term Development Plan (2015-2019). Many ministries are involved in the design and implementation of SME policies in Indonesia which, on occasion, leads to fragmentation in SME support measures.

Co-ordination would be reinforced by the adoption of an SME Strategy document that outlines main priorities, objectives, targets and support measures, as well as by the creation of a high-level Inter-Ministerial SME council in charge of overall policy co-ordination. Proposals for a similar structure are laid out in the Draft Law on National Entrepreneurship, which provides for a National Entrepreneurship Task Force and an Entrepreneurship Masterplan whose mandate should, however, be extended to cover existing SMEs. Enhanced co-ordination would also help the government to undertake a full policy portfolio analysis to clarify whether spending on SMEs reflects the main government priorities and responds to the main challenges facing new and small businesses in Indonesia. A very simple analysis of budget figures, for example, suggests that a large share of government funding is spent on the KUR Programme supporting access to finance for micro and small enterprises, while programmes aimed to encourage productivity growth at the firm level (e.g. R&D and innovation measures) receive less attention.

The Indonesian government often partners with third-party organisations to implement some of its main programmes, especially with regard to programmes upgrading managerial skills, such as BDS and business incubators. Similarly, SME finance is typically disbursed via partner banks and other financial and non-financial institutions. Partnerships with third-party organisations allow the government to leverage existing technical expertise from the private sector and to create a local demand for such expertise. Moving forward, strengthening the presence of facilities such as one-stop centres and incubators will improve access to information, advice and training for entrepreneurs, although the government should continue its efforts to consolidate and simplify the delivery of these services across the country. Moreover, the launch of a web portal and mobile phone application with information on national and subnational regulations and SME support programmes would help entrepreneurs to find relevant information on the web.

Based on this analysis, the following recommendations are put forward to strengthen the strategic framework and delivery arrangements of SME policy in Indonesia.

Recommendations on the strategic framework and delivery system for SME and entrepreneurship policy

- Prepare an SME Strategy document that outlines the main SME policy objectives, targets and support measures and that defines roles and responsibilities of implementing ministries and agencies.
- Establish an Inter-Ministerial State Council on SME Policy to strengthen cross-government co-ordination on SME policy. The newly created National Entrepreneurship Task Force could play this role if its mandate were extended to encompass existing SMEs and not only new entrepreneurs and start-ups.
- Adopt an SME policy portfolio approach to better assess whether spending on SMEs adequately reflects government priorities and the perceived needs of SMEs.
- Explore opportunities for integrating and merging programmes offering similar services with the aim to rationalise the national SME policy offer.
- Create a national web portal and mobile phone application to collate and display business regulations and SME assistance programmes in an accessible way for small business owners and entrepreneurs.

Notes

¹ National recognition of the importance of SMEs to the Indonesian economy gained earlier prominence in 1995 with Law 9/1995 regarding small enterprises. This was subsequently replaced by Law 20/2008.

² “Law of the Republic of Indonesia Number 20/2008 Regarding Micro, Small, and Medium Enterprises”, promulgated in Jakarta on 4 July 2008, State Gazette of the Republic of Indonesia Year 2008, Number 93, Minister of Law and Human Rights, Republic of Indonesia, Jakarta. <http://eng.kppu.go.id/newkppu/wp-content/uploads/2016/11/LAW-OF-THE-REPUBLIC-OF-INDONESIA-20-OF-2008.pdf>

³ “Government Regulation Number 17/2013 on the Implementation of the Law of the Republic of Indonesia Number 20/2008 on Micro, Small, and Medium Enterprises”, promulgated on 1 March, State Gazette of The Republic of Indonesia Number 40/2013, Republic of Indonesia, Jakarta. <http://bppm.kaboki.go.id/index.php/investasi/regulasi?download=7:pp-no-17-2013/>

⁴ Over the period 2006-2013, employment in SMEs has grown at an annual average rate of 4%, GDP generated by SMEs at an annual 6%, and SME exports at an annual 8%.

⁵ Draft Law on National Entrepreneurship, House of Representatives (*Rancangan Undang-Undang Tentang Kewirausahaan Nasional, Dewan Perwakilan Rakyat*), Republic of Indonesia. <http://dpr.go.id/doksileg/proses2/RJ2-20160226-015135-1145.pdf/>

⁶ The National Medium-Term Development Plan, prepared by BAPPENAS, states that increasing the competitiveness of SMEs and co-operatives requires the synergy and co-operation of many core institutions, involving the Ministry of Industry, the Ministry of Trade, the Ministry of Communication and Informatics, the Ministry of Manpower, the Ministry of Youth and Sports, the Ministry of Tourism, the Ministry of Agriculture, the Ministry of Marine Affairs and Fisheries, the Ministry of Environment and Forestry and the Ministry of Villages, Disadvantaged Regions and

Transmigration (BAPPENAS, 2014b, p. 3-129). In addition, the National Medium-Term Development Plan points to other ministries that have a role in enabling easier access to technology, partnerships, and the application of product quality standards, such as the Ministry of Research, Technology and Higher Education, the Ministry of Law and Human Rights, and the Agency for the Assessment and Application of Technology.

⁷ Policy programmes are implemented by the various divisions and agencies of the Ministry of Cooperatives and SMEs according to their areas of responsibility (e.g. Finance Division, Production and Marketing Division, Human Resource Development Division, Institutional Affairs Division, etc.), which cross-cut the policy programmes. The categorisation of policy support by programme area is an estimate for illustrative purposes.

⁸ Density figures are approximations based on populations of the United States (323.1 million), the United Kingdom (65.6 million) and Indonesia (261.1 million) and the estimated number of incubators of 1 115 for the United States (National Business Incubator Association reports), 163 for the United Kingdom (not including accelerators as per Bone et al., 2017), and 100 for Indonesia (AiBI data).

⁹ A copy of Regulation 24/2015 can be viewed at: <http://smecda.com/wp-content/uploads/2015/11/PERMEN-permen-kukm-nomor-24-tahun-2015-tentang-nspk-inkubator.pdf/>

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