

## **CO-OPERATIVE AND SMALL/MEDIUM ENTERPRISES DEVELOPMENT IN INDONESIA**

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This paper provides an overview of the recent developments in Small and Medium Enterprises policy in Indonesia. After explaining the changing environment in the world economy and the growing awareness of the importance of SMEs, the paper gives an account of the strategies adopted by the Indonesian authorities to improve the competitiveness of SMEs, increase their market share and diversify their products in domestic and international markets.

### **1. BROAD TRENDS AND DEVELOPMENTS IN SME POLICY**

1. Currently, government support to Small/Medium Enterprises (SMEs) has shown a positive impact although it has changed the structure of the national economy. The number of small entrepreneurs increased from 34.2 million in 1993 to 39.7 million in 1997 or an increase of 5.2 million people (15.2%). They engage in various sectors such as agriculture, trading, hotels and restaurants, processing industry and mining. In 1997, the small enterprises contributed 37.96% of gross domestic product (GDP). The GDP further increased to 40.89% and 41.89% in 1998 and 1999, respectively. The contribution of small enterprises in the agricultural sector accounted for 12.54%, while those in trading, hotels and restaurants 11.89%, the processing industry 3.9%, the services 3.08% and the other sectors 6.55%.

In addition, small enterprises were able to absorb 57.48 million labour force or 87.62% of the total labour force accounted for 65.6% million in 1997. The absorption of the labour force further increased to 88.66% and 88.71% in 1998 and 1999, respectively. On the contrary, big enterprises absorbed only 0.6%, 0.56%, and 0.56% in 1977, 1998 and 1999, respectively.

2. From a historical point of view, the initiatives to establish co-operatives generally stemmed from the government. In turn, the co-operatives were further developed as people's participation

increased. This approach was started by the Dutch colonial Administration and subsequently followed by the Old Order, New Order and Cabinet-Reform regimes.

The top-down approach, which emphasises quantitative growth, had resulted in an increase in the number of co-operatives. However, since this approach disregards the quality of co-operatives, it generates weak and unproductive co-operatives.

The transition of business focus from producer to consumer orientation as well as the greater demand of communities to establish co-operatives in the rural sector other than village unit co-operatives (RUDs) require policy adjustment. Consequently, the government policy that is incompatible with current trends should be terminated. Hence, the government invalidated the President Instruction number 4/1984 and enacted President Instruction number 18/1998 to give wider opportunity to the communities to establish co-operatives without regional boundary. The adoption of this new policy is expected to stimulate the co-operatives to become independent and autonomous organisations capable of initiating various business and activities without government intervention. In effect, the enactment of this policy has resulted in an increase in the number of co-operatives, particularly consumer co-operatives that have increased by about 11.6%.

In the meantime, centralised power and conglomeration of the economy during the New Order regime has led to the concentration and control of national productive assets in the hands of a privileged group of elitists in the form of monopoly, monopsony, and oligopoly, thereby creating an extreme gap and disparity between the regions and business players that affect socio-economic and political unrest and welfare of the people. Since the co-operatives and SMEs are severely affected, there is an urgent need to reform legislation and development policies so as to ensure economic democracy and free competition.

During the reform era, a number of laws have been issued on the basis of the Constitution to ensure economic democracy and fair competition. In addition, the Guidelines of State Policy 1999-2004 gives greater attention to the empowerment of people's economy, especially through the development of co-operatives and SMEs. This policy framework calls the community as a whole to play an active role in the

empowerment of co-operatives and SMEs. Hence, the empowerment of co-operatives and SMEs constitutes the task of both the government and the communities. In this regard, under the National Unity Cabinet, the Office of the State Minister for Co-operatives and SMEs is responsible for co-ordinating the formulation and implementation of policies and programmes for the development of co-operatives and SMEs, while the communities are stimulated and given a greater role in developing their own development.

This new paradigm has made a considerable change where government intervention is minimised to give wider opportunity and freedom to the co-operatives movement and SMEs to develop autonomous business activities, while the government role focuses more on providing a conducive climate and an enabling environment that support the growth and development of co-operatives and SMEs business. Simply stated, the government serves as a catalyst, a regulator, a facilitator, a stabiliser and a stimulator for the growth of co-operatives and SMEs in a free market.

3. In the past, co-operatives and SMEs grew and developed, but their growth and progress was slow in comparison to that of big enterprises. Consequently, it caused a structural gap between the role of co-operatives and SMEs and that of large enterprises in the national economy. Therefore, the crucial challenge in national business development is to accelerate the effort on strengthening the structure of the business world where co-operatives and SMEs become the engine of economic growth giving greater attention and concern to poverty eradication and enhancement of business opportunity.

The economic crisis has created a negative impact on the national economy which is indicated by a drastic decrease of the real sector, a collapse of the financial and banking sector, an increase of unemployment and poverty, a decrease of community purchasing power, and a fluctuating exchange rate of the Rupiah against foreign currencies. The crisis has impeded co-operatives and SMEs to retain their businesses. On the other hand, the economic crisis has awakened the awareness of national economic resilience that is determined by the strength and self-reliance of co-operatives and SMEs. Hence, the most fundamental challenge to rebuild the national economy is to recover and develop the capability and viability of co-operatives and SMEs through

various efforts such as rescuing, recovering, stabilising and sustaining their growth so as to enable them to become the basis of resilience of the Indonesian economy.

The setting of the new government after the 1999 General Meeting of the People's Consultative Assembly has increased the confidence of the community in the country and abroad, especially the economic actors, which is indicated by the tendency of investment flows from abroad to preferably big enterprises as their business partners. On the other hand, the ability of the government to finance the development programme becomes limited so that the challenge to empower people's economy through co-operatives and SMEs is getting bigger. Thus, co-operatives and SMEs are required to have a healthy, efficient, strong and self-reliant business, and to become the backbone of the people's national economy.

In entering the third millennium that is indicated by the rapid growth in science and technology, the existence of an open economy regionally and globally along with the WTO/GATT convention, an increasing number of goods and services from overseas will prevail the Indonesian market. In addition, the trend of strategic alliances among businesses following the framework of the APEC and AFTA agreement along with the increase in the number of innovative multinational businesses that are able to offer better products and services, accordingly effect a tighter and stronger competition facing the national businesses in both domestic and international markets. Therefore, the fundamental challenge for co-operatives and SMEs is to increase competitiveness in order to enable them to improve their market share and to diversify their products in domestic and international markets.

4. The most crucial constraint in the development of co-operatives and SMEs is the low quality of the human resources who manage the organisation and businesses. It may be reflected through low entrepreneurial capability, weak innovation and creativity, poor discipline, absence of working ethics and scarcity of professionalism. These weaknesses have impacted business efficiency and productivity, thereby lowering competitiveness and capability of creating and utilising business opportunities.

Moreover, the performance of co-operatives and SMEs is also determined by the availability of various production inputs and of adequate supporting facilities and infrastructure. This is apparent from

the inadequacy of transportation and telecommunication facilities and the limited supply of clean drinking water and electricity. Similarly, co-operatives and SMEs do not receive funding, financial schemes and services proportionately as the funding agencies usually have a bias against their capability. The co-operatives and SMEs are presumed to face similar constraints in the years 2000-2004, i.e., limited and unequal distribution of facilities and supporting infrastructure, unfavourable business climate, inadequacy of institutional empowerment, poor enforcement of regulations and legislation that protect just and fair competition, and disintegrated promotion of national business either inter-sectors or inter-economic groups, and inter-regional co-ordination.

Other constraints facing the development of co-operatives and SMEs are: limited access to raw materials, capital, technology, information, markets for their products; lack of business outlets; and location, as well as networking and partnership problems. The low level of member participation is also an impediment to co-operatives and SMEs development. Therefore, it is necessary to create a conducive climate along with financial and non-financial assistance for the growth and empowerment of co-operatives and SMEs in the future.

In addition, attention and concern of officials and agencies are relatively low on the effort of empowering co-operatives and SMEs, while from the political point of view, demand of the community to empower co-operatives and SMEs is relatively high. To address these issues, there is an urgent need to reinstate Co-operatives and SMEs Services at provincial and district levels that serve as a vehicle for inter-agencies co-ordination and implementation of co-operatives and SMEs empowerment programmes at grassroots level. At the national level, the central government should call for greater attention to and concern for the empowerment of technical departments that relate to co-operatives and SMEs activities, as well as improving the role of the Office of the State Minister for Co-operatives and SMEs.

5. Despite the fact that the economic growth of Indonesia is predicted to be negative during the years 2000-2002, the government will make efforts to develop various new business opportunities, in particular for the co-operatives and SMEs. The government's strong political will and the people's increasing demand for development in a just and transparent manner, as well as the commitment to establish a democratic

economic system based upon the open market mechanism, will create opportunities for the development of co-operatives and SMEs.

Meanwhile, the transformation of the Ministry of Co-operatives and SMEs into the Office of the Minister for Co-operatives and SMEs has changed the co-operatives and SMEs development approach. The role of the Office of the State Minister for Co-operatives and SMEs is carried out in co-ordination, integration and evaluation with other related institutions to generate policies on empowering co-operatives and SMEs. The operational promotion and development of co-operatives and SMEs which is formerly the main task and function of the Ministry of Co-operatives and SMEs is currently shifted to the local government involving the participatory role of the community. Consequently, such a change requires more local participation to empower co-operatives and SMEs.

The enactment of Law 22/1999 on Local government and Law 25/1999 on National and Regional Financial Balance give greater authority to local government in empowering local co-operatives and SMEs. As local government can understand local problems, policies will be more appropriate and effective to enhance and empower local co-operatives and SMEs that can create better opportunity and businesses for co-operatives and SMEs. The availability of a greater amount of local budget revenue will enable the local government to empower co-operatives and SMEs as engines for growth of the local economy.

The current effort for economic recovery will eventually increase the purchasing power and diversified demand of the people. The huge number of population will stimulate the growth of the domestic market providing opportunity to develop national business, particularly in co-operatives and SMEs. The availability of increasing skilled manpower and various natural resources is another opportunity to produce various and competitive products.

Similarly, the transformation of the national economic structure from agrarian to industry and services creates such business opportunities for co-operatives and SMEs, mainly in the area of agro-business, agro-industry, craft industry and many other industries that co-operatives and SMEs can operate as strong and efficient-contractors for big industries and businesses.

Also the change of orientation from investment, trade and industrial policies to rural industry and industries that are based on natural resources such as agriculture, forestry, fishery, mining, craft and tourism, provides an opportunity for the local growth of co-operatives and SMEs.

Furthermore, the acceleration of global economic growth and open global market, as well as the growing economic cooperation among countries such as ASEAN and APEC, have also created opportunities for co-operatives and SMEs to become the engine of growth of industry, manufacture, crafts, agro-industry, non-oil products, and create new employment opportunities.

Lastly, the increasing concern of international and non-governmental organisations toward empowering co-operatives and SMEs has provided opportunities for the growth and development of co-operatives and SMEs to become self-reliant, independent and competitive business entities in the future. Last but not least, these opportunities should be optimised and implemented responsively by co-operatives and SMEs in the most effective and efficient manner in order to increase productivity and competitive advantages.

## **2. OBJECTIVES AND THE DEVELOPMENT OF SMEs POLICY**

1. The aims of co-operatives and SMEs development for the year 2000-2004 are:

- a. An increased participation of the people and the business world in the improvement and development of co-operatives and SMEs.
- b. Improvement of productivity, competitiveness and market share of co-operatives and SMEs in several sectors and businesses activities.
- c. An improved access for co-operatives and SMEs to several productive and economic resources.
- d. An improved image of co-operatives and SMEs as strong economic, professional, self-reliant business players and as a basis for the development of people's economy.
- e. The development of the economic system supported by a fair market mechanism on the basis of natural resources and productive, self-

reliant, advanced human resources that have high competitiveness and greater attention to and concern about environmental sustainability and preservation.

2. The performance of co-operatives and SMEs development can be measured by: 1) the increased market share for co-operatives and SMEs with the formation of PDB/PDRB; 2) the increased absorption of labour forces and the improvement of the quality and qualification of manpower; 3) the increase of productivity that is measured by the added value ratio per worker, the profit ratio to assets, the sales ratio to assets, and the sales ratio to cost; 4) the improvement of competitiveness that is measured by the increase of market share of co-operatives and SMEs, the increase in volume rural trading, the increase of the value and export market share for co-operatives and SMEs, and the fulfilment of international qualifications and quality standards; and 5) the development and sustainability of business can be measured by the increase of investments, the total sales turnover, the total assets, and business expansion which is indicated by product diversification, business network, stability and corporate culture.

3. The quantitative operational targets of the co-operatives and SMEs development in the year 2000-2004 are as follows:

- a. The increase of co-operatives and SMEs contribution to the formation of PDB/PDRB accounts for 2% per year.
- b. The increase of market shares for co-operatives and SMEs in the domestic as well as foreign market accounts for 5% per year.
- c. The increase of exports by co-operatives and SMEs accounts for 5% per year.
- d. The increase in the absorption of the labour force by co-operatives and SMEs accounts for 1% per year.
- e. The increase of investment growth of co-operatives and SMEs accounts for 5% per year.
- f. The increase of member participation in co-operatives as measured by the increase of transaction value per member accounts for 10% per year.



g. The increase of co-operatives holding annual general meetings actively and providing member services accounts for 5% per year in every district.

### **3. REINFORCEMENT SUPPORT TO CO-OPERATIVES AND SMEs**

The programme of reinforcement support is to empower co-operatives and SMEs to enable them to compete with other business actors in a fair market mechanism. The aim of the reinforcement is to improve the fairness of the market mechanism for co-operatives and SMEs as they experience an imperfect market. Co-operatives and SMEs do not have the same resources as big and foreign companies. Therefore, the reinforcement should be selective as it should not create market distortions. There are two categories in the reinforcement support; they are: (a) support in financial delivery mechanism, and (b) support in non-financial delivery mechanism, usually in the form of business services. The programmes are as follows:

#### **3.1. Financing programme**

In strengthening the capital and access to finance for co-operatives and SMEs aiming to achieve strong and healthy co-operatives and SMEs capital structure, and to increase the access to fund resources in accordance with the needs so as to support the co-operatives and SMEs business development, the programmes are:

a. Simplification and improvement of the existing credit schemes to increase the effectiveness, efficiency and benefit of the scheme on financing co-operatives and SMEs based on their business development needs. The needed schemes are those that are able to increase access to capital in accordance with the amount and time appropriate to needs and repayment time schedule. Subsidy on interest should be given selectively, particularly in market imperfection, and should be gradually reduced.

b. Development of a co-ordination mechanism among the Office of State Minister for Co-operatives and SMEs, Ministry of Finance, the Office of State Minister for State-Owned Enterprises Affairs, Local Government, Executing Bank, Co-operative movements and other agencies. Concern in the implementation, monitoring and evaluation of the performance of

credit schemes for co-operatives and SME's so as to increase its effectiveness.

c. Implementation of the co-ordination of finance segmentation to co-operatives and SMEs based on their stage of business development. The segmentation could be conducted in accordance with the stage of community development, which is the establishment of the sustainability of empowerment and continuous availability of fund resources. The scheme is as follows:

1) Empowering the poorest in the community through a social intervention programme, such as a social safety net, and financed by the government and donor institutions.

2) Empowering subsistence community and pre-co-operative groups through a group dynamics programme and using a business financing model from certain programmes such as Welfare Business Group (Kukesra), Community Welfare Programme (Prokesra), Presidential Instruction for Remote Area (IDT), Applied Appropriate Technology, Credit Scheme for Poverty Eradication (KPPTG-Taskin) and many others.

3) Empowering micro business groups through a co-operative development programme, using the model of saving and loan co-operatives (KPS), saving and loan business activity (UPS), small credit scheme for small business (PUKK), Smallholder Credit Bank (BPR), Credit Scheme for co-operatives and SMEs (KPKM) and others.

4) Empowering small enterprises and co-operatives whose turnover is between Rp.50 million and Rp.1 billion per annum through an intensive programme for business development, using model of credit for co-operatives scheme (KKOP), credit for members of primary co-operatives scheme (KKPA), Working Capital for SMEs scheme (KMK-UKM), and credit from Commercial Bank and Venture Capital.

5) Empowering medium enterprises and co-operatives whose turnover is between Rp.1 billion and Rp.50 billion per annum through a business co-operation programme and linkages adopting such financing models as venture capital, leasing, credit scheme for working capital to co-operatives and SMEs (KMK-UKM), export financing and credit from commercial banks.

6) Empowering medium enterprises and co-operatives whose turnover is between Rp.50 billion and Rp.200 billion per annum through business linkages and joint ventures with financing from banks, leasing institutions, the stock exchange (Surabaya Stock Exchange) and others.

7) Empowering medium enterprises and co-operatives whose turnover is more than Rp.200 billion per annum through joint ventures with financing from banks, the stock exchange (Jakarta Stock Exchange) and international financing sources.

d. Improvement of the role of local government to participate in providing a fund for co-operatives and SMEs in the region through: (1) development of a guarantee mechanism, (2) establishment of institutions that deal with venture capital, leasing and trust, (3) increase of the APBD allocation to strengthen the capital of savings and loan co-operatives or other local financial institutions that are proven to finance micro, small enterprises and co-operatives in the region concerned, (4) establishment of guarantee institutions in every province to increase the capability of co-operatives and other alternative financial institutes in capital building and fund that will be redistributed to co-operatives and SMEs in the forms of stockholders and credit, and (5) establishment of national credit guarantee institutions to reguarantee credit. The expectation of this approach is to increase access to finance for co-operatives and SMEs through the market mechanism.

e. Empowerment of banking and other financial institutions to enable them to finance co-operatives and SMEs effectively through (1) simplifying the process to open branches in several regions, (2) establishing a co-operation programme with local financial institutions or banks, (3) developing a guaranteed programme of local government or regional owned company (BUMD), (4) developing institutions for co-operatives and SMEs business performance rating, (5) providing information on profile and business prospect of co-operatives and SMEs, and (6) enacting regulation to bank branches and other financial institutions to redistribute most of the fund collected from the community back to the area.

f. Development of an integrated co-operative financial system through: (1) consolidation of savings and loans co-operatives (KPS) or savings and loan units (USP), (2) arrangement of vertical and horizontal

networks of KSP and USP, (3) arrangement of co-operative financial institutions such as Co-operative Financial Development Corporation (Perum PKK), Indonesian Life Insurance Co-operative (KAI), Askindo, Audit Service Co-operative and Swamitra Bukopin, (5) stabilisation of supervision and evaluation system of saving and loan, and (6) development of a network of banks and other financial institutions.

g. Facilitation of outstanding co-operatives to issue bonds and other commercial papers in the Stock Exchange through the development of the guarantee programme of RT. Permodalan Nasional Madani and other guarantee institutions.

h. Re-capitalisation of selected KSP, UPS and other financial institutions at grassroots level with a healthy performance and good prospects in business. The provision will be selective and transparent in the forms of stockholders for the period of 5-7 years.

i. Assisting the implementation of the restructuring of the debt of co-operatives and SMEs whose turnover is less than Rp.25 billion through the provision of PT. Permodalan Nasional Madani and Prakarsa Jakarta.

j. Provision of pre-shipment fund for co-operatives and SMEs that export local superior commodities.

k. Facilitating the establishment of banks and venture capital institutions for co-operatives and SMEs.

### **3.2. Quality improvement of business development services**

In regard to the strategy on increasing the quality of business development services that aims to assist co-operatives and SMEs to effectively compete within an imperfect market and limited access to information and technology, several programmes are considered as follows:

a. Development and empowerment of professional business development centres (BDS) in all districts and municipalities that apply the following principles:

1) Oriented to the needs of co-operatives and SMEs.

2) Focused, applied strategic collective approach where the BDS should have competence in certain specialities and conduct a co-operation network with other BDSs in providing services to co-operatives and SMEs.

3) Recommended a private BDS that runs business and located relatively near to the co-operatives and SMEs that will receive the service.

4) Oriented to market and business that perceive SMEs as customers who will pay for the services.

5) Focused on cost efficiency by setting up a small organisation with strong permanent staff.

6) Crossed subsidy between client and service that a BDS adheres to collectivity approach to make cross subsidy among client possible and so for services provided.

7) Sustained and financial institutions that BDS must be able to develop as a result of continued business services.

8) Continuously monitored and evaluated performance of RBS on the scope of services, efficiency, effectiveness and business sustainability.

b. Empowerment of Business Consultation Clinic (KKB) and Peoples Economic Post (PER) as professional BDS that apply the above principles. Therefore, it is necessary to provide accreditation and certification to the existing KKB and PER, improve and stabilise their network.

c. Decreasing the provision of direct BDS by the government and replacing it with a voucher system that will encourage the growth of BDS industry empowering simultaneously SMEs in accordance with their needs through the market mechanism.

d. The role of the government in BDS industry is to apply the accreditation and certification to BDS, to conduct and distribute a voucher system to SMEs that are in need of assistance of BDS, and to conduct monitoring and evaluation of the BDS performance and of the increasing SMEs performance that received services of BDS.

e. Empowerment of local government in the quality improvement of the BDS through a transparent, fair, and effective voucher system.

### **3.3. Quality improvement of co-operatives and SMEs human resources**

In relation to the strategy of increasing the quality of human resources of co-operatives and SMEs that aims to stabilise the professionalism and capability of co-operatives and SMEs, programmes are drawn up to enable co-operatives and SMEs to develop and manage efficient and effective institutions and business, and to establish their main role in all areas of the economy. The programmes are as follows:

a. Improvement of national movement to socialise and civilise entrepreneurship to the community, especially to high school and university students, young generation, and professional groups.

b. Formulation of education, training and accredited modules for co-operatives and SMEs to increase their capability and quality of management, market share and expansion, technology for production, maintenance of raw materials, capital, finance, and development of network.

c. Empowerment of community institutions (especially NGOs, universities, vocational training institutes, co-operative movement) to conduct education, training, advocacy, and business consultancy in accordance with the needs of co-operatives and SMEs development.

d. Development of institutions for accreditation to improve quality standard of education, training, advocacy and consultancy for co-operatives and SMEs.

e. Improvement of professionalism of co-operatives and SMEs through incentive systems of management or consultancy assistance, profit sharing with big and foreign companies, and employment of professional managers.

f. Improvement of qualification and quality of trainers, tutors, and field consultants.

g. Development of career planning for co-operative managers in accordance with their qualification and experience in the co-operative that will stabilise the process of sustainable prospects of manager cadres.

### **3.4. Programme on improving mastery of technology**

To improve the technology mastery that aims to increase efficiency, productivity, and competitiveness, the strategy to gain the added value of the co-operatives and SMEs products is as follows:

- a. Development of an Information Centre for Technology Services at the centres of co-operatives and SMEs development projects as a means of dissemination of market information, technology, design and quality.
- b. Assessment of research and the application of appropriate technology to increase productivity, efficiency and competitiveness of co-operatives and SMEs, especially at the centre of rural superior products.
- c. Socialisation of quality management system of ISO 9000 and ISO 14000, and of industrial standards to co-operatives and SMEs.
- d. Empowerment of co-operatives and SMEs to encourage mastery and transfer of technology for development and improvement of design quality, processing, products, and services to meet international quality standards.
- e. Improvement of Rural Movement on Technology Mastery (Gerakan Desa Cerdas Teknologi).
- f. Establishment of technological innovation centres.
- g. Development of a national productivity centre.
- h. Development of business incubators.
- i. Development of design centres.
- j. Reorientation of research and development to improve the effectiveness of the empowerment programme to co-operatives and SMEs, and to improve the competitiveness of co-operatives and SMEs.

### **3.5. Improvement of the management information system**

Improving the information command aims to enable co-operatives and SMEs to realise, evaluate and understand the surrounding development

and change and respond quickly to anticipate and adapt to new situations. Therefore, the programmes on information command are as follows:

- a. Development and improvement of a database and an information system on co-operatives and SMEs to accelerate the process of empowerment of co-operatives and SMEs in the future.
- b. Development of information and publication on superior products, export, import, partnership, technology, entrepreneurship and human resources information.
- c. Development of information service centres that provide information, business facilitation and promotion of co-operatives and SMEs to support the development of business partnership and transaction.
- d. Empowerment of co-operatives and SMEs to make use of publication and internet facilities as the resource of business information and be capable to utilise E-commerce as a means of extending and expanding access to market.
- e. Development of an information network among co-operatives and SMEs.
- f. Development of a sustainable and routine forum and inter-sector and regional communication of co-operatives and SMEs.

### **3.6. Market domination programme**

In this strategy of controlling the market that aims to access, manage, and develop the market for co-operatives and SMEs, particularly the domestic market with efficient and high competitive products, several programmes have been drawn up as follows:

- a. Fair accessibility for co-operatives and SMEs as working clients of local government in spending the regional revenue and expenditure (APBD).
- b. Development of the facilities of a trading house and joint-marketing forum through the programme of partnership among co-operatives, SMEs, state-owned companies (BUMN), regionally-owned companies (BUMD) and big enterprises.



- c. Provision of certain business locations or market outlets for co-operatives and SMEs.
- d. Provision of broader roles for co-operatives and SMEs in access and management of distribution, wholesale and retail business to fulfill the basic needs and others of the community.
- e. Development and dissemination of price and business information of various commodities.
- f. Development of inter-co-operatives and SMEs marketing network between co-operatives, SMEs and other related business agencies.
- g. Increasing business promotion and focusing on local superior commodities of co-operatives and SMEs.
- h. Enhancing the role of the local government in improving business on local superior commodities particularly commodities that are favourable for export, and facilitating the development of finance, design, processing, quality standard and markets.
- i. Assistance to co-operatives and SMEs in conducting trade or exhibition abroad.
- j. Increasing the role of the representatives of the government of the Republic of Indonesia (embassies and consulates) in promoting co-operatives and SMEs products on international markets.
- k. Provision of incentives for business agents successful in improving the competitiveness and share of co-operatives and SMEs in international markets.
- l. Effective usage of foreign assistance to develop co-operatives and SMEs in regional and international markets.

### **3.7. Programme on investment business location**

In the strategy of investing a business location that aims to provide a strategic and permanent business location for co-operatives and SMEs so they could run their business particularly in marketing their products without any constraints, the following programmes are:

- a. Providing a straightforward business licensing procedure by the government at certain locations for co-operatives and SMEs.
- b. Development of business capacities through the development of SMEs industrial centres to increase efficiency in distributing raw materials, quality control and marketing.
- c. Development of business capacity through promotion and protection of traditional markets.
- d. Providing business facilities and infrastructure for co-operatives and SMEs.

### **3.8. Programme on protection against unfair competition**

In the strategy of protection against unfair competition that aims to protect co-operatives and SMEs as they are limited in capital, information, technology and markets in comparison with other business agents, and to protect the business that is the mainstay for survival of co-operatives and SMEs and to prevent the domination of big enterprises or establish partnerships with co-operatives and SMEs, the programmes are as follows:

- a. Increasing community participation in advocacy for the development of co-operatives and SMEs, particularly through protection from unfair competition practices by other business agencies.
- b. Development of specific institutions that function in monitoring the implementation of the Law on Anti-monopoly and Fair Competition to protect co-operatives and SMEs from unfair competition practices.
- c. Provision of facilities for a straightforward licensing procedure that is needed by co-operatives and SMEs.
- d. Provision of facilities for the development of mainstay business of co-operatives and SMEs that should not be managed by big companies.
- e. Provision of facilities to develop business partnerships between co-operatives, SMEs, and other business agencies.
- f. Enactment of legislation on sub-contracting, franchising, trade agreement, and regulations that prohibit and give sanctions to big businesses that distort business performance of co-operatives and SMEs.

### **3.9. Programme on improving co-operatives management and organisation**

To improve co-operative organisation and management that aims to sustain the employment of co-operative principles and basic values -- that are different from other business enterprises -- and to strengthen co-operatives in the competitive market environment, the following conditions are needed:

a. A co-operative is a distinct economic organisation, so that corporate philosophy, corporate culture and business practices of co-operatives should represent values that can develop co-operatives in the competitive market environment.

b. Values in co-operative organisation and management are indicated by the capabilities of self-help, democracy, fairness and cohesiveness.

c. As an economic organisation that is established by, from and for the members, co-operative performance and activities should represent the interest of the members which are generally distinguished into 3 categories:

1) A producer co-operative is a co-operative that provides services to the members who have the same interest and activities as the producer.

2) A consumer co-operative is a co-operative that provides services to members who have the same interest and activities as the consumer of goods and services. In this context, a profession's co-operative, such as the co-operatives of armed forces, civil servants, and employees are not relevant to this category.

3) A credit or financing co-operative is a co-operative that provides funds for the members, either producers or consumers, who conduct economic activities.

d. The management and organisation of co-operatives is adjusted to the members' economic activities to strengthen their bargaining power. Therefore, co-operative organisation structure is flexible, it does not necessarily follow the regional administrative principle but follows the industrial structure.

e. Optimal services are provided to the members, among others, by establishing vertical and horizontal networking with specific attention to:

Subsidiarity principle, that distinguishes between the roles and functions of co-operatives from different levels. For example, a secondary co-operative handles business that cannot be handled by primary co-operatives.

The establishment of secondary co-operatives is based on the principle of necessity and feasibility, so that the location and scope of operational areas do not necessarily follow the government administrative boundaries.

Business activity of secondary co-operatives can be different to a certain extent from that of primary co-operatives, and is meant to be specific.

Based on its needs and interests, a primary co-operative may join several secondary co-operatives' memberships.

A co-operative must be able to initiate joint business with other types of business enterprises in the form of a limited company (PI).

To improve co-operative organisation and management, the following programmes need to be adopted:

Inventory and improvement of regulations and legislation that obstruct the development of co-operatives, and their adjustment to the dynamics of co-operative development.

Development of an organisation model and a working mechanism scheme in accordance with the co-operative principles and basic values as well as the principle of fair market competition.

Development of schemes for co-operative promotion in order to stimulate effective co-operative management mechanism in accordance with the co-operatives principles, such as annual meetings, Board of Directors, Board of Supervisors, and Manager.

Adoption of a co-operative classification and a mechanism that reflects the interest of members.

Arrangement and improvement of the organisational structure of primary and secondary co-operatives that drives the effort to achieve economies of scale, the function of subsidiarity, and the improvement of co-operative competitiveness.

Enhancement of technical skills, managerial competence along with the application of co-operative principles and basic values to enable co-operatives to improve efficiency, productivity and competitiveness through expansion of business scale, and merger of members' activities.

Development and increase of accredited modules, training programmes, guidance, consultancy, information systems, and decision making to improve co-operative productivity and competitiveness.

Arrangement of co-operative organisation through merger, amalgamation and/or horizontal and vertical acquisitions to improve cooperative competitiveness.

### **3.10. Improvement of the quality of co-operative membership**

To improve the quality of the co-operative members, a number of programmes are adopted:

- a. Improvement of co-operative member education to enhance members' understanding of the basic values of co-operative principles, co-operative working mechanisms, their rights and obligations, so that members are capable: (1) as the owners and users of the co-operative; (2) to fight for their rights; (3) to operate the co-operative businesses, and (4) to fulfil their obligations.
- b. Enhancement of members' participation in the Annual Members Meeting, management, monitoring, business activities and capital building through the improvement of co-operative services to the members, and the development of participatory business management.
- c. Improvement of co-operative members' welfare through the identification of business opportunities, business networking, increasing surplus, and other benefits for the members.

### **3.11. Improvement of by-laws of co-operatives**

In the strategy of improvement of co-operative by-laws and internal regulations that aims to enrich the existing corporate culture in the co-operatives to strengthen and develop self-reliant business enterprises, the programmes are as follows:

- a. Empowerment of co-operatives to enable them to adjust co-operative by-laws, internal regulations, and other regulations to the needs of co-operative development and the interest of the members, particularly those that deal with members association, such as the relation between members and Board of Directors, members and the management officers, board of directors and the management.
- b. Empowerment of members, board of directors and the management to exercise their duties and obligations correctly and effectively.
- c. Provision of assistance and facilities for co-operatives to improve by-laws and internal regulations and other related regulations.
- d. Empowerment of the members of the community to increase their understanding of co-operative principles so that they are able to establish co-operatives with their own by-laws and internal regulations.

### **3.12. Empowering the co-operative movement**

To empower the co-operative movement to enhance the participation of co-operatives in the Indonesian Co-operative Council, the following programmes are adopted:

- a. Empowerment of the Indonesian Co-operative Council, both at national, provincial and district levels to enable them to: (1) fight for and address the co-operative's aspiration, (2) stimulate awareness of the community to join a co-operative, (3) conduct co-operative training and education for community and other co-operatives, and (4) develop co-operation among co-operatives, between co-operatives and other business enterprises in regional, national and international levels.
- b. Empowerment of the co-operative movement to address members' aspirations effectively through: (1) the development of a flexible

organisational structure that is responsive to and compatible with various possible changes or dynamics of global socio-economic community, (2) the development of reliable human resources that improve intellectual, mental and spiritual capabilities, and (3) improvement of co-operation with various related agencies.

c. Empowerment of the co-operative movement to increase community awareness through: (1) inventory of potential community leaders, (2) extension to members of co-operatives and community, (3) improvement of co-ordination with various organisations to socialise the co-operative benefits to communities, and (4) development of innovative and effective education and training on co-operative entrepreneurship.

d. Empowerment of the co-operative movement to improve the image and role of co-operatives in the community through: (1) participation in co-operative associations at regional, national and international levels, (2) dissemination of information on various activities and success stories of co-operatives, (3) establishment of strategic alliances with international co-operatives, and (4) enhancement of business co-operation with other business institutions.

### **3.13. Maintaining a co-operative identity programme**

To maintain co-operative identity as business entity for the members in accordance with the co-operative principles, economic principles and business ethics, the following programmes are adopted:

a. Improvement of co-operative business efficiency through the increase of business scale, expansion of business coverage, and the establishment of new businesses for members that need assistance from co-operatives. These efforts can be established through capital formation to enable the members in identifying business opportunities or new markets.

b. Arrangement of co-operative businesses that are supplementary and not competing with members' businesses. The business activities should comply with members' interest in merging business scale, market, and resources, and improve the bargaining power of the members in facing market competition.

- c. Specialisation of co-operative business in accordance with the competency of the Board of Directors and the members and for the interest of the members.
- d. Improvement of quality and scope of business services to members and immediate community.
- e. Empowerment of co-operatives to enable them to increase their role in the distribution of goods, especially in basic needs through increasing access to producers and access to capital sources and logistics.

#### **3.14. Improvement of the partnership programme between co-operatives and SMEs**

The improvement of partnership between co-operatives and SMEs is aimed to establish an efficient business scale of co-operatives and SMEs based on mutual benefit and support. To achieve this goal, the following programmes are adopted:

- a. Arrangement and improvement of the management and the performance of secondary co-operatives to facilitate the process of business integration either vertically, horizontally or diagonally.
- b. Empowerment of secondary and primary co-operatives at the national level to improve the quality and scope of businesses to serve the members in procurement, financing and marketing.
- c. Development and maintenance of co-operative networking vertically, horizontally and diagonally to increase the business scale of co-operatives.
- d. Development of associated business among co-operatives, SMEs, big companies and state-owned enterprises in the form of partnership or sub-contracting.
- e. Development of business co-operation with other business enterprises.

#### **3.15. Improvement of local resources-based business of co-operatives and SMEs**

The improvement of co-operatives and SMEs business based on local resources is intended to maintain the sustainability of potential local



resources for business development prior to co-operatives and SMEs such as agriculture, forestry, mining, maritime fishery, tourism, industry and crafts. A number of programmes are adopted:

Empowerment and development of agriculture co-operatives to stimulate the development of an agribusiness system in rural areas so as to increase farmers' income, and to improve services in agricultural inputs procurement and products marketing along with the development of vertical, horizontal and diagonal business network.

Empowerment and development of forestry and estates co-operatives and SMEs.

Empowerment and development of mining co-operatives and SMEs as means to: (1) ensure business for miners (smallholders mining), (2) increase efficiency and productivity of the members, (3) improve and secure working safety and natural conservation and, (4) improve the welfare of the members.

Empowerment and development of marine and fishery co-operatives and SMEs in exploring the marine potential to earn foreign exchange revenue, and as a source of nutrition for the community that, in turn, will enable to empower coastal and fisherman community.

Empowerment and development of tourism co-operatives and SMEs and related supporting industries such as small trade, restaurants, lodges and transportation.

Empowerment and development of co-operatives and SMEs that deal with industry and small-scale handicrafts to improve services in raw material procurement, financing and marketing of members products.

## APPENDIX

### A1. Establishment, Employment and GDP Contribution of SMEs to National Economy

Number/Value In Year 1999	Small	Medium	(Small+ medium)	Large	Total
Number	36.761.689 (99,85%)	51.889 (0,14%)	36.813.588 (99,99%)	1.811 (0,01%)	36.816.409 (100%)
Employees	57.965.368 (88,71%)	7.009.393 (10,73%)	64.974.761 (99,44%)	364.975 (0,56%)	65.339.736 (100%)
GDP (million Rp)	462.549.297 (41,89%)	183.395.096 (17,47%)	638.240.342 (59,36%)	436.901.970 (40,64)	1.075.142.312 (100%)

Source: Central Bureau of Statistic and Ministry of Co-operatives and SMEs.

Note: Definition of the scale of enterprises:

Small : Sales of less than 1 billion rupiah.

Medium : Sales of more than 1 billion rupiah but less than 50 billion rupiah.

Large : Sales of more than 50 billion rupiah.

### A2. Data on Indonesian Co-operatives, 1999-2000

No	Items	1999	2000
1.	Total Corporate (Unit)	89.939	99.765
2.	Total members (People))	22.529.199	22.976.539
3.	Total volume of business (Rp. Million)	22.244.849.49	22.507.336.48
4.	Total net profit (Rp. Million)	557.086.73	561.543.42

Source: Bureau Planning and Data, State Ministry for Co-operatives and SMEs.