

**ASIAN DEVELOPMENT BANK**

**TAR: INO 34113**

**PROPOSED**

**TECHNICAL ASSISTANCE**

(Financed from the Asian Currency Crisis Support Facility)

**TO THE**

**REPUBLIC OF INDONESIA**

**FOR**

**STRENGTHENING BUSINESS DEVELOPMENT SERVICES FOR SMALL AND  
MEDIUM ENTERPRISES**

**December 2001**

## CURRENCY EQUIVALENTS

(as of 12 December 2001)

Currency Unit	–	Rupiah (Rp)
Rp1	=	\$0.00010
\$1.00	=	Rp10,180

## ABBREVIATIONS

ACCSF	–	Asian Currency Crisis Support Facility
ADB	–	Asian Development Bank
BAPPENAS	–	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BDS	–	business development services
EAGA	–	East ASEAN Growth Area
MoIT	–	Ministry of Industry and Trade
MTAP	–	Medium-Term Action Plan
SME	–	small and medium enterprise
SMoCSME	–	State Ministry of Cooperatives and Small and Medium Enterprises
TA	–	technical assistance

## NOTES

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

## I. INTRODUCTION

1. The Government of Indonesia requested the Asian Development Bank (ADB) for technical assistance (TA) to facilitate the delivery of business development services (BDS) to small and medium enterprises (SMEs). This TA aims to support the implementation of the key findings and recommendations of the Government-sponsored task force that formulated the Medium-Term Action Plan (MTAP) for SMEs. The MTAP evolved as a result of a policy dialogue with ADB and other aid agencies conducted as a part of a policy reform framework agreed upon with the Government under the Industrial Competitiveness and SME Development Program<sup>1</sup> and implemented under two TAs.<sup>2</sup> SME sector growth and performance over the years have been affected by a number of structural issues. The most significant ones are (i) complex and costly regulations and licensing requirements; (ii) the lack of adequate BDS, which are largely sponsored by the public sector which have either not effectively catered to SME requirements or being subsidy driven have not been sustainable; and (iii) perception that SMEs are higher credit risks due to absence of adequate credit information. The proposed TA aims to address these three specific issues by rationalizing and streamlining the regulations and procedures for SMEs, developing support for privately-run BDS designed to cater to specific SME needs, and developing a credit information system to enhance access to credit by SMEs. A Fact-Finding Mission was fielded in March-April 2001, with a Follow-Up Mission in October to reach an understanding with the Government on the objectives, scope, and terms of reference of the proposed TA. The TA framework is provided in Appendix 1.

## II. BACKGROUND AND RATIONALE

2. Of the 2.8 million industrial establishments in Indonesia, 2.5 million are microenterprises and 245,000 are SMEs. Only 7,000 are large enterprises having more than 100 workers. Microenterprises and SMEs play a key role by providing most of the employment in Indonesia's manufacturing sector: In 1996, of 10.2 million people employed in manufacturing, 6.6 million were employed by microenterprises<sup>3</sup> and SMEs, and 3.6 million by large enterprises. While accounting for 60 percent of manufacturing employment, microenterprises and SMEs together generate only 15 percent of manufacturing gross domestic product (11 percent and 4 percent, respectively). Microenterprises and SMEs have traditionally exhibited much lower labor productivity than those in large firms. The productivity gap between small and large firms in Indonesia is one of the largest by international standards.

3. Recognizing that SMEs are instrumental in promoting industrial diversification and employment generation, the Government has formulated a comprehensive reform agenda program for SMEs. This program has been developed by an interministerial SME task force led by the State Ministry of Cooperatives and Small and Medium Enterprises (SMoCSME), the Ministry of Industry and Trade (MoIT) and the National Development Planning Agency (BAPPENAS). With the support of TA 3417, the task force has formulated an MTAP that highlights major issues and provides a set of recommendations for SME development over the period 2001-2004. Ineffective and unsustainable BDS, costly regulations, and higher transaction

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<sup>1</sup> Loan 1738-INO: *Industrial Competitiveness and SME Development Program*, for \$200 million, approved in March 2000.

<sup>2</sup> TA 3416-INO: *Promoting Deregulation and Competition*, for \$1.5 million, approved in March 2000; and TA 3417-INO: *Small and Medium Enterprise Development*, for \$2 million, approved in March 2000. Both TAs accompanied to Loan 1738-INO.

<sup>3</sup> This TA concentrates on development of BDS for SMEs, which have greater potential to expand and diversify industrial production. ADB has provided technical assistance amounting to \$1.5 million since 1990 for microenterprise development.

costs in the financial sector represent major structural constraints faced by SMEs. Under the decentralization laws,<sup>4</sup> the responsibility for providing BDS has now been delegated to local governments, which have limited capacity to provide high quality services. Also, regulatory powers have been delegated to local governments, creating further confusion and adding more costs to doing business in the regions. Finally, despite extensive subsidized credit programs, SMEs continue to be underserved by financial institutions, which perceive them as risky and expensive credit operations. The MTAP calls for developing capacities in BDS, further streamlining and simplification of the regulatory and policy environment for SMEs under MoIT and SMOCSME, and the establishment of a credit information bureau based on a feasibility study.

4. To compete effectively, SMEs need to bring their production costs down by adopting suitable business technologies. Subcontracting is one common route to reduce such overall costs and has played a central role in the successful integration of SMEs into dynamic export-oriented manufacturing sectors in other countries, such as Japan and the Republic of Korea. Subcontracting is as yet not widespread in Indonesia. Whereas SMEs have subcontracting arrangements in a number of clusters, many of these remain dormant.<sup>5</sup> Effectively designed BDS by professionals would help SMEs improve their subcontractual arrangements with better production technologies, workplace organization, inventory handling, product design, and business planning. The publicly-funded and managed BDS programs have not been successful, as these do not conform to international best practices in terms of outreach, sustainability, and impact.<sup>6</sup> In general, subsidized BDS programs have been unsustainable and have reached few SMEs with services of limited quality and usefulness. These programs have created a culture of “right to free services” among the majority of SMEs. As a consequence, BDS in Indonesia has not been demand driven resulting in waste of scarce fiscal resources.

5. Besides the limited access to information, technology, credit and international markets, the National Development Plan (PROPENAS) acknowledges that Indonesian SMEs face high transaction costs as a result of the cumbersome licensing and regulation requirements, which over the years has encouraged inefficient allocation of resources. Official and unofficial levies are estimated to raise the direct costs faced by SMEs by as much as 30 percent. In some sectors, SMEs have to secure as many as eight licenses, some of which have identical functions but are issued by different agencies. Obtaining licenses takes so long and procedures are so complicated that some business owners choose to operate illegally. Lack of legal status makes it difficult for SMEs to get access to formal services, most notably bank finance. Regulations further obligate state-owned enterprises to contribute funds from their profits to finance myriad unsustainable SME credit and other support programs, perpetuating a deeply rooted tradition of distorted allocation of resources. Other regulations simply create barriers to entry for all enterprises. For instance, some ports refuse to handle cargo other than what they are licensed to handle, even though they have adequate infrastructure facilities, thus limiting competition and increasing the transport costs of all firms, including export-oriented SMEs. Some regulations create monopolistic practices, reducing access for all enterprises, including SMEs, to key industrial inputs such as tin, oil, basic foods, and timber. Removal of these costly regulations will improve SME profitability.

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<sup>4</sup> Laws 22 and 25, enacted in 1999, and effective on 1 January 2001.

<sup>5</sup> Berry et al. 2001. (forthcoming). *Small Industry Dynamics in Indonesia*. Bulletin of Indonesian Economic Studies, Vol. 37, No. 3, 367-88.

<sup>6</sup> See *BDS: A Guide to Donor-Supported Interventions*. 2000. Committee of Donor Agencies for SME Development.

6. Following decentralization, local governments now have the authority to regulate local industry and trade. Districts and municipalities (*kabupaten/kota*) have been delegated with increased fiscal authority which suggests the high probability that the local governments will increase taxes, levies, and other fees. For example, the district of Gorontalo in the island of Sulawesi has introduced 17 new or revised SME-related regulations for 2001. Regional anticompetitive practices will hinder, not promote, SME development.

7. Better access to credit for SMEs can accelerate their development. Banks and other financial institutions generally consider loans to SMEs risky and hence limit their credit exposure to these firms. The Government is keen to develop credit information systems to help reduce the adverse perception of SME credit risk among credit providers, and to promote access to credit, especially for SMEs, according to their credit records. A credit information system will also increase the general quality and efficiency of credit analysis and hence improve the access of creditworthy SMEs to financial resources.

8. ADB's country operational strategy supports SME development to ensure pro-poor sustainable growth. The strategy addresses identified constraints affecting SMEs such as ineffective BDS, anticompetitive regulations, and lack of access to credit. The strategy also emphasizes support for SME development at the regional level consistent with the objectives of poverty reduction and decentralization. In line with this strategy, the TA will extend regional coverage to the island of Java, which has the highest concentration of poor. ADB is also developing a regional SME strategy for the East ASEAN Growth Area (EAGA), that focuses on the island of Sulawesi.<sup>7</sup> SME development in these two regions will help alleviate poverty.

9. ADB has effectively coordinated its SME development support with other multilateral and bilateral agencies. The World Bank and International Finance Corporation have supported promotion of information technology for SMEs. Japan will launch a study of industrial clusters and expand its training centers in Sumatra, Kalimantan, Java, and Sulawesi. The United States Agency for International Development focuses on strengthening democratic transition, which supports stakeholder participation in SME policy making. The German Agency for Technical Cooperation is assisting BAPPENAS in the preparation of a regional SME promotion strategy with focus on Central Java. Swisscontact and Asia Foundation are working on SME policy reform and nonfinancial services for SMEs in Java, Bali, Sumatra and Sulawesi.<sup>8</sup> The proposed TA complements and supplements the various initiatives of ADB and other aid agencies.

### III. THE PROPOSED TECHNICAL ASSISTANCE

#### A. Objectives

10. The proposed TA aims to promote the growth and development of SMEs by strengthening their capacities for managing their businesses efficiently and improving facilitation through simplification of regulations as well as access to credit. The TA will offer, on a pilot basis (i) demand-driven quality BDS in line with SMEs' specific requirements and international best practices; and (ii) one-stop facilitation to overcome the regulatory hurdles faced by SMEs, while carrying forward the efforts launched to simplify regulations and licensing procedures. The

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<sup>7</sup> The Kalimantan provinces are also included in East ASEAN Growth Area (EAGA), but the potential of Sulawesi's SMEs is greater than those in Kalimantan at present.

<sup>8</sup> *Small Businesses during the Crisis*. (forthcoming). ADB, Asia Foundation and Swisscontact.

TA will further improve access of SMEs to credit by offering banks a credit information system that will help them better assess SME credit risk.

## B. Scope

11. The TA has three components:

- (i) **Component A: Facilitation of Regional BDS.** This involves provision to selected privately-run BDS for SMEs in four local governments (districts/municipalities) in the provinces of Central Java and South Sulawesi. Under this component, the TA will provide capacity building/training to a core group of BDS providers to train SMEs in a wide range of areas such as international marketing, basic accounting, preparation of feasibility studies and business plans, and use of information technology in business operations. Besides improving SMEs' and local governments' exposure to private business practices, this approach to BDS will generate a core group of service providers who will emerge as professionals in BDS offering privately managed services in line with market requirements. The evolution of role-model service providers will have a demonstration effect, offering other service providers (both private and public) an opportunity to learn how to structure BDS in an effective way.
- (ii) **Component B: Regulatory Climate for SMEs.** This component will provide capacity building in the four selected districts/municipalities to develop one-stop service centers for licensing. In addition, this component will support local governments, in coordination with MoIT and SMOCSME, in the review and monitoring of business regulations that hinder SME development at the national and local levels.
- (iii) **Component C: Development of a Credit Information System.** The TA will provide advice to the steering committee led by Bank Indonesia to prepare a blueprint for the establishment and future operationalization of a credit information bureau that will manage credit histories of all enterprises, including SMEs.

12. This TA aims at complementing initiatives led by ADB and other aid agencies in the SME sector (see para. 9). The TA targets localities other than those already being targeted by other aid agencies operating on the islands of Java and Sulawesi to provide training and finance to SMEs. A proposed regional TA<sup>9</sup> is intended to support coordination of SME policies with other parts of EAGA in 2002. Effective coordination with other aid agencies in EAGA will be maintained during the implementation phase of this TA to exploit synergies. ADB is also planning an advisory TA<sup>10</sup> to MoIT for export-oriented SMEs to encourage environment-friendly production and ecolabeling to gain access to export markets.

## C. Cost Estimates and Financing Plan

13. The TA is estimated to cost \$1.9 million equivalent, comprising foreign exchange cost of \$1.181 million and local currency cost of \$0.719 million equivalent. The Government has

<sup>9</sup> Proposed RETA for expansion of the SME development strategy in EAGA to Malaysia and Brunei, based on RETA 5880: *SME Development in EAGA*, for \$300,000, approved in December 1999.

<sup>10</sup> Proposed TA 35145: *Improving SMEs' Environmental Performance through Cleaner Production*.

requested ADB to finance \$1.5 million equivalent, to cover the entire foreign exchange cost of \$1.181 million, and \$0.319 million equivalent of the local currency costs. The TA will be financed by ADB on a grant basis from the Asian Currency Crisis Support Facility (ACCSF), funded by the Government of Japan. The Government will finance the remaining \$0.4 million equivalent of local costs. The cost estimates and financing plan of the TA are given in Appendix 2.

#### **D. Implementation Arrangements**

14. The Executing Agency for the TA will be BAPPENAS, which will coordinate with the three key implementing agencies at the national level—MoIT, Bank Indonesia and SMOCSME. MoIT and SMOCSME will work closely with local governments and Bank Indonesia will lead a steering committee to oversee the work on credit information. BAPPENAS will select four local governments to participate in the TA, based on their preparedness to adopt the Government's reform plan contained in the MTAP. The selected local governments, with support of the consultants, will select BDS providers, in accordance with guidelines agreed with ADB.

15. The three TA components will require 118 person-months of consulting services, including 40 person-months of international consultants, and 78 person-months of domestic consultants over a period of 30 months. The TA will commence in June 2002 and be completed by December 2004. All consultants will be selected in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB. The consultants will be expected to provide inception, quarterly, and final reports. The terms of reference for the consultants are provided in Appendix 3.

#### **IV. THE PRESIDENT'S RECOMMENDATION**

16. The President recommends that the Board approve the provision of technical assistance, on a grant basis, to the Government of Indonesia in an amount not exceeding the equivalent of \$1,500,000 for the purpose of Strengthening Business Development Services for Small and Medium Enterprises.

### TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goal</b></p> <ul style="list-style-type: none"> <li>Improved competitiveness of small and medium enterprises (SMEs) in selected areas by creating a conducive SME environment with regard to regulatory framework, access to business development services (BDS) and finance</li> </ul>	<ul style="list-style-type: none"> <li>Long-term SME performance in selected municipalities (annual growth rates in sales, exports, and employment)</li> </ul>	<ul style="list-style-type: none"> <li>Baseline assessment at project start and end</li> </ul>	<ul style="list-style-type: none"> <li>Overall favorable economic conditions</li> <li>The Ministry of Industry and Trade (MoIT) and the State Ministry of Cooperatives and Small and Medium Enterprises (SMoCSME) will continue to support a market-friendly approach to SMEs</li> </ul>
<p><b>Purpose</b></p> <p><b>A. BDS</b></p> <ul style="list-style-type: none"> <li>Improve BDS market for SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>4-6 BDS providers per area offer commercial services to SMEs</li> <li>Multiple services sold by individual BDS providers</li> <li>30-50 SME customers per provider and year</li> </ul>	<ul style="list-style-type: none"> <li>Project Monitoring and reporting</li> <li>Providers' database and monitoring</li> <li>Field visits</li> </ul>	<ul style="list-style-type: none"> <li>Central and local government support for promotion of privately run BDS providers</li> <li>Limited market distortion by services delivered for free</li> </ul>
<p><b>B. Regulatory Environment</b></p> <ul style="list-style-type: none"> <li>Improve the regulatory framework.</li> </ul>	<ul style="list-style-type: none"> <li>2-4 regulations on special business licenses revised at national level</li> <li>2-4 functional one-stop service (OSS) per area at local level</li> <li>2-4 local regulations revised per year and area</li> <li>10-20% improvement in business</li> </ul>	<ul style="list-style-type: none"> <li>Government decrees revised or revoked</li> <li>OSS monitoring reports</li> <li>Regular survey SME environment</li> </ul>	<ul style="list-style-type: none"> <li>Local governments will continue to support market-friendly policies for SMEs.</li> </ul>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>C. Finance</b></p> <ul style="list-style-type: none"> <li>Mitigate the risk perception of SMEs among credit providers.</li> </ul>	<p>environment rating</p> <ul style="list-style-type: none"> <li>Credit information system functional on pilot base</li> <li>5% increase of lending to SME in participating banks</li> </ul>	<ul style="list-style-type: none"> <li>Documentation for credit information system</li> <li>Reports from steering committee</li> <li>Reports from consultants</li> </ul>	<ul style="list-style-type: none"> <li>Bank Indonesia's support for an independent credit information bureau</li> </ul>
<p><b>Outputs</b></p> <p><b>A. BDS</b></p> <ol style="list-style-type: none"> <li>Concept of BDS facilitation is developed and introduced in Government.</li> <li>Potential BDS providers in municipalities are selected.</li> <li>BDS providers are trained.</li> <li>Networks among BDS providers are established, and promotion activities are supported.</li> <li>Links between banks and BDS providers are established.</li> </ol>	<ul style="list-style-type: none"> <li>Concept of privately run BDS disseminated in municipalities</li> <li>10-20 BDS providers per province</li> <li>Training of BDS providers conducted in coordination with local governments</li> <li>Quarterly meetings with BDS providers</li> <li>Workshops</li> </ul>	<ul style="list-style-type: none"> <li>Identification and selection of BDS providers</li> <li>Handouts and training reports</li> <li>Workshop reports</li> </ul>	<ul style="list-style-type: none"> <li>Government willing to retain form of direct BDS delivery</li> <li>BDS providers exist in municipalities and are willing to participate</li> </ul>
<p><b>B. Regulatory Environment</b></p> <ol style="list-style-type: none"> <li>Regulation monitoring units in MoIT and the municipalities are trained and supported in methodology to assess regulations.</li> <li>Advocacy for change of regulations is</li> </ol>	<ul style="list-style-type: none"> <li>Staff assigned and training conducted</li> <li>Rapid assessment of 3-5 regulations per semester</li> <li>Guidelines developed for OSS and registration</li> </ul>	<ul style="list-style-type: none"> <li>Organization chart for monitoring units</li> <li>Documentation on methodology and training reports</li> <li>Reports on review assessment of regulations and action plan for modification or revocation</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring units are adequately equipped to identify regulations affecting businesses</li> <li>Local governments are willing to implement OSS</li> <li>Concept of business registration accepted</li> </ul>

<b>Design Summary</b>	<b>Performance Indicators/Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<p>supported.</p> <p>3. Support for implementation of OSS in selected municipalities</p> <p>4. Introduction of business registration supported to be used in OSS</p>	<ul style="list-style-type: none"> <li>• Legal requirements approved by local and central governments</li> <li>• Support provided to four OSS</li> <li>• Homepage and other information operational</li> </ul>	<ul style="list-style-type: none"> <li>• Survey results and dissemination reports</li> </ul>	
<p><b>C. Risk Mitigation-Finance</b></p> <p>1. Approaches towards risk mitigation for market-based lending are promoted.</p> <p>2. Support for development of credit information system is provided.</p>	<ul style="list-style-type: none"> <li>• Feasibility study on credit information systems</li> <li>• Training on credit information requirements and uses with selected banks and Bank Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>• Progress reports by Steering Committee on Credit Information Systems</li> </ul>	<ul style="list-style-type: none"> <li>• Institutional support for the formation of a credit information system by Bank Indonesia and banks represented in the Steering Committee</li> </ul>
<p><b>Activities</b></p> <ul style="list-style-type: none"> <li>• For all components: Concept development, capacity building measures, dissemination activities, support for implementation</li> </ul>	<p><b>Inputs</b></p> <ul style="list-style-type: none"> <li>• 118 person-month of consulting services (40 international and 78 domestic)</li> </ul>	<ul style="list-style-type: none"> <li>• Inception, quarterly and final reports by consultants.</li> <li>• Review missions</li> </ul>	<ul style="list-style-type: none"> <li>• Availability of counterpart staff and office space to support consultants</li> </ul>

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing (Asian Currency Crisis Support Facility)</b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	937.5	0.0	937.5
ii. Domestic Consultants	0.0	236.3	236.3
b. International and Local Travel	56.0	0.0	56.0
c. Reports and Communications	3.8	3.8	7.6
2. Equipment <sup>a</sup>	37.5	0.0	37.5
3. Training, Seminars, and Conferences			
a. Facilitators	18.8	9.4	28.2
b. Training Program	56.0	0.0	56.0
c. Study Tours	7.5	9.4	16.9
4. Surveys	18.8	18.8	37.6
5. Miscellaneous Administration and Support Costs	3.8	3.8	7.6
6. Representative for Contract Negotiations	3.8	0.0	3.8
7. Contingencies	37.5	37.5	75.0
<b>Subtotal (A)</b>	<b>1181.0</b>	<b>319.0</b>	<b>1500.0</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0.0	160.0	160.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	200.0	200.0
3. Others	0.0	40.0	40.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>400.0</b>	<b>400.0</b>
<b>Total</b>	<b>1181.0</b>	<b>719.0</b>	<b>1900.0</b>

<sup>a</sup> Equipment includes computers, printers, photocopiers and airconditioners as indicated in the Asian Currency Crisis Support Facility application, to be handed over at the end of the technical assistance in accordance with the Asian Development Bank's procedures.

## **OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES**

1. The proposed TA has three components which will be undertaken by a team of international and domestic consultants.

### **A. Facilitation of Regional Business Development Services (BDS)**

2. This component will build on the findings and recommendations from Asian Development Bank (ADB) technical assistance (TA) to help the Ministry of Industry and Trade (MoIT) to operate as a facilitator of business advisory services, not as a direct provider. The focus will be on districts/municipalities (*kabupaten/kota*) in the provinces of Central Java and South Sulawesi. The consultants will be part-time at MoIT in Jakarta and part-time in the regions to serve as liaison among MoIT officials, regional officials and BDS providers. A team of one international and three domestic consultants will be responsible for this component as follows:

#### **1. BDS Specialist/Team Leader (international, 20 person-months)**

3. The team leader should be an experienced BDS specialist with extensive experience in BDS delivery in Indonesia or other Asian developing member countries. The specific tasks will include

- (i) coordinating and supervising the three sub-teams in BDS, regional regulations, and credit information systems, and preparing regular progress reports to MoIT and ADB;
- (ii) coordinate regular updating of MTAP in cooperation with the SME Task Force and liaise with donors in complementing the MTAP with a donor matrix in order to coordinate support activities;
- (iii) supporting MoIT in the identification and selection of local governments to participate in this project;
- (iv) supporting local government officials in preparing and implementing a work plan to facilitate commercially based BDS provision in their localities;
- (v) developing, implementing and supervising training programs for BDS providers to improve their basic BDS for SMEs such as international marketing, basic accounting systems, trade finance, feasibility studies, business plans, information technology (IT) in business operations, and basic accounting, among other relevant areas for small and medium enterprise (SME) development according to a training needs assessment, and training for BDS providers to improve their own marketing and delivery of these services on a commercial basis to SMEs;
- (vi) liaising with BDS providers and local financial institutions to introduce prospective top performing SMEs looking for access to credit; and
- (vii) liaising between MoIT and its BDS activities, with other related initiatives being undertaken by the private sector and international aid agencies, in particular other ADB initiatives for SME development such as those in the EAGA and those related to environment (para. 12).

## **2. BDS Specialists (domestic, 30 person-months total)**

4. Two specialists will work under the supervision of the team leader in the selected municipalities in Central Java and South Sulawesi. The specialists will need to have experience in the particular business services and licenses relevant to the dominant industry in the SME sector of the selected municipalities. The specific tasks will be to

- (i) support local governments in implementing the performance targets in their respective work plans as facilitators of privately run BDS;
- (ii) identify BDS providers suitable for SMEs in these municipalities;
- (iii) assess the local needs of SMEs and the potential of BDS providers;
- (iv) assist the team leader with developing and implementing training programs for identified BDS providers in specific BDS such as international marketing, basic accounting systems, trade finance, feasibility studies, business plans, IT in business operations, and basic accounting, among other relevant areas for SME development according to the training needs assessment;
- (v) build capacity to implement concepts of monitoring and performance of BDS providers and SMEs served by these providers; and

## **3. Market Research/Media Specialist (domestic, 20 person-months)**

5. The specialist will have experience with socio-economic surveys and dissemination of findings to different audiences and media. Specific tasks will include

- (i) undertake regular surveys of the business climate in Central Java and South Sulawesi for the regulatory component;
- (ii) disseminate findings of surveys and case studies to different audiences such as local government officials and small entrepreneurs, as well as international agencies;
- (iii) maintain the website developed by ADB under the current TA 3417-INO to provide continuity of assistance efforts, and to expand it with new training and promotion materials;
- (iv) monitor SMEs with BDS assistance through satisfaction surveys;
- (v) prepare regular reports on business climate to be posted in the TA website to promote quick dissemination and transparency; and
- (vi) further develop the website towards a SME portal according to MTAP.

## **B. Regulatory Climate for SMEs**

6. This component will focus on promoting a conducive business climate for SMEs in the regions through the review and strengthening of regulations to streamline licensing and

registration procedures for SMEs. The component will build on the current work under TA 3416-INO and TA 3417-INO, which has proposed a monitoring unit to identify laws and regulations affecting SME development. This TA will continue the policy reform work in the regions through regular surveys of business climate and preparation of case studies of regulations affecting SMEs in the selected locations.

7. One international consultant, based at MoIT in Jakarta and the selected districts/municipalities, will interact with regional and national government agencies responsible for legislation identified as hindering local SME development. The consultant will work with the market research specialist and will liaise with the SMoCSME and the National Development Planning Agency (BAPPENAS).

#### **1. Legal and Regulatory Senior Advisor (international, 12 person-months)**

8. The advisor will have had extensive experience with Indonesia's business regulations and licenses. Specific tasks include

- (i) identify key regulations that hinder SME development at the central and local levels;
- (ii) prepare an action plan for improving the legal and regulatory environment for SMEs at the regional level by recommending streamlining and modification of regulations, licensing and registration requirements, and possible elimination of unnecessary procedures;
- (iii) prepare selected regulatory case studies to discuss with central, provincial, and local governments the proposed changes in regulations and licenses;
- (iv) supervise dissemination of findings for policy reform; and
- (v) supervise establishment of one-stop shops for business licenses.

#### **2. Regulatory Environment Specialist (20 person-month)**

9. The specialist will have extensive experience with Indonesia's regulatory environment as well as with concepts of one-stop-services. Specific tasks include:

- (i) support the international expert in identifying key regulations that hinder SME development on national and local level;
- (ii) support local Governments in reviewing local regulations in close cooperation with Regulation Review Unit at MoIT; and
- (iii) assist with the establishment of one-stop-services in selected municipalities in Central Java and South Sulawesi.

### **C. Development of a Credit Information Bureau**

10. This component aims to develop a blueprint and structure for a credit information bureau, including the administrative arrangements for its operationalization. Bank Indonesia will lead a steering committee represented by the bankers' association, SMoCSME, MOIT and other

technical ministries. The steering committee will serve as a technical team in charge of overseeing a feasibility study for the formation of a credit information bureau. This team of consultants will be based in Jakarta and will be responsible for assisting the steering committee.

**1. Credit Information Expert (international, 8 person-months)**

11. The expert will have extensive international experience in credit information reporting systems. Specific tasks include

- (i) define the specific services to be provided by the credit information bureau based on the present needs of commercial banks and the present information available based on work under TA 3417-INO;
- (ii) review, in coordination with the steering committee, the experience of other credit bureaus in Southeast Asia, and make recommendations concerning best practices;
- (iii) design a blueprint for a credit information bureau that will operate on a commercial basis;
- (iv) discuss with all banks and agencies in the steering committee the technicalities of a credit bureau, and review the legal and regulatory matters that may affect the establishment and operationalization of a credit bureau; and
- (v) discuss proposals with relevant government and international agencies to prepare funding for the credit information bureau.

**2. Information Technology Specialist (domestic, 8 person-months)**

12. The specialist will have had experience in IT applied to large credit and noncredit data bases. Specific tasks will include

- (i) support the credit information expert;
- (ii) review current Indonesian credit information data sources, including other non-credit information such as business registries.
- (iii) provide a blueprint for the IT needs of the credit bureau, including software for databases and reporting; and
- (iv) assist in discussions with banks and government agencies concerning the operationalization of the credit information system.