CLUSTERING STRATEGY IN SME DEVELOPMENT:
An Integral Development Supports

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SMEs in Economic Development

1. There is no Regional or Global Consensus on SME. The Coverage of SME definition are Commonly Associated With:

- SMI (Manufacturing Industry)
- SMI + Services (Selected)
- All Sectors Except Agriculture
- All Sectors Include Agriculture
2. Variable to Measure SME
   - No of employee (Industry)
   - Assets (Fixed Asset, Asset other than lands building)
   - Sales
3. The Role of SME in Economic Development

- **Contributor to Value added (Growth):**
  
  About 57% of GDP

- **Provider of Employment:**
  
  Contribute to 99.5% of total employment

- **Potential Contributor to Export:**
  
  Share about 16-21% of total export

- **Flexibility and Resilience to Shocks:**
  
  continue to survive during the crisis, micro and small enterprises more resilience, but medium enterprises are not fully recovered from the crisis up to 2003
SME Cluster Development in Indonesia

- Cluster development approach has been adopted since 1970’s
  * Small industry zone
  * Export processing zone
  * Agglomeration of SME activities
- At present exist about 9800 units of Small Industry Cluster:
  * 78% Low technology group
  * Productivity / worker:
    • Low technology IDR 970 Thousand (100)
    • Medium technology IDR 2 Million (212)
    • High technology IDR 8.24 Million (849)
Government Policies on Informatization

- Providing free access on public information through E-Government;
- Promoting business information system and B2B cooperation through E-Business.
Regulations on Informatization

- Presidential Instruction No.6/2001 concerning Development and Utilization of ICT in Indonesia;
- Presidential Instruction No.9/2003 concerning ICT Coordinating Team;
- Draft Law concerning Information and Electronic Transaction;
- Draft Law concerning Free Access on Public Information.
Programs on SME Informatization

- Related government program on business information;
- Promoting ICT Networking on Micro-Finance Institutions;
- Promoting SME-Bank linkages through the role of CD-SMEs;
- Promoting BDS as focal point for SME informatization in industrial clusters.
Program Priority of SME Development

- The priority toward the achievement of the objectives will be oriented to the maximum exploration resource base activities, greater employment generation and increase export.
- Cluster development strategy has been chosen as one of the priority
- Until now the total number of cluster those have been supported by the Ministry of Cooperative and SME as:
  - year 2001 : 92 Clusters
  - year 2002 : 332 Clusters
  - year 2003 : 375 Clusters
  - year 2004 : 200 Clusters (plan)
SME CLUSTER DEVELOPMENT

KEY STRATEGIES
1) Market – Driven (Private Initiative)
2) Private–Public–Academic Partnership
3) Strengthening Linkages
4) Deregulation and Decentralization
5) Institutional Strengthening

TARGET (Economic)
Lead Economic Growth + Poverty Reduction

Provider Service Facilitator
BDS (Business Development Services)
CDS (Cluster Development Services)

Finance
Bank
Venture Capital
Credit Guarantee
Incubator

Microfinance

SME
Up
Mid
Down

SME (Individual)

Cluster
Up
Mid
Down

Mature
Advance
Survival

Dynamic SME / Cluster

Foreign Market
Local and Domestic Market

Reinforcement/Training (Private/Public/Academic)
Industrial Technology
Information Technology
Marketing
MANAGEMENT OF SME CLUSTER DEVELOPMENT PROGRAM

1. Select from existing cluster (Embryo of Cluster) with the principle of: each district should be allocated; and developed region have a greater quota

2. Select potential institution that ready to joint the program by providing services to the selected cluster (BDS). Government will sign a contract with the institution for three years in services, start up capital provided by government

3. Select potential MFI to serve the micro credit to the micro SE in the cluster
4. Government will organize training to the BDS-P and MFI as well as facilitate regular meeting to cluster stakeholder.

5. Three year transformation process from bureaucracy of SME promotion into market driven services SME development through step by step transfer the actor of SME cluster promotion will be: Association / Organization of SME-BDS-Provider Financial Service Sector.

6. The permanent role of government to support BDS will be:
   - Market development
   - Product development
   - Promotion of standard and performance of services
FIVE CONDITIONS FOR CLUSTER CAPACITY STRENGTHENING

A: Demand conditions
B: Factor conditions (materials, technology, education financial capital, machinery)
C: Firm strategy, structure, and rivalry
D: Related and supporting industries (R&D, BDS providers, etc.)
E: Social capital
BDS IN THE CLUSTER DEVELOPMENT

- BDS is a strategic service sector that provide dynamic progress to the cluster.

- The Pivotal Role of BDS is serving the link between SME in the cluster and centers of SME’s needed supports i.e:
  * Manufacturing Technology
  * Information and Communication Technology
  * Market for output and inputs
  * Financial Institutions.

- BDS is the key element in building autonomous multi stake holder forum, that keep the cluster to be dynamic and serve as a growth point “in a decentralized competitive business in the global economy”
THANK YOU