

## **EFFECT OF EXPORT IMPROVEMENT POLICY THROUGH EXPORT-ORIENTED CREDIT BUSINESS PROGRAMS ON EXPORT GROWTH OF MICRO SMALL MEDIUM ENTERPRISES IN 2016**

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### **Abstract**

Kredit Usaha Rakyat Berorientasi Ekspor (KURBE) is a program aimed at increasing the export of Micro, Small and Medium Enterprises (MSME). KURBE is an implementation of the economic policy volume 11. Credit Financing is given, especially for MSME that has export-oriented. KURBE had not to provide an influence on MSME export growth in 2016. KURBE program faced many obstacles that made its program less effective. Using qualitative methods, we viewed distribution KURBE and its influence on export growth.

Keywords: MSME, KURBE, Export, International Trade, Economic Policy

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## **1. Introduction**

### **1.1. Background**

The global economic crisis of 2008 has waded the economy, but small-sized businesses or known as Small Medium Enterprises (SMEs), demonstrate resistance to the worldwide crisis. Before the 2008 global economic crisis, the existence of these SMEs did not consider to be too critical because it assessed as a small business unit and only a national scale. However, after being successful for being able to survive the global crisis, SMEs became a growing business model. The number of SMEs is increasing in various countries.

SMEs seem to be a new trend in the world of international business post-crisis 2008. Many countries, the World Bank, and also various international organizations are beginning to realize the significance of SMEs. Therefore now SMEs are viewed as a business unit that has its advantages in international business. SMEs now play an essential role in international trade. In addition to being able to survive through two global economic crises in the post-Second World War, the crisis of 1998, and the crisis of 2008, SMEs assessed to encourage a country's economy. In some developed countries, SMEs have a contribution of average gross domestic product (GDP) of 50% (Ayyagari et al. 2005, 56).

The Indonesian government understands how SME's role can stimulate Indonesia's economic growth. SMEs in Indonesia plays a vital role as a country's GDP contributor. In addition to the SME's domestic scale, SMEs export-oriented is also experiencing development. Nowadays, SMEs in Indonesia not only do marketing in the national scope but also extend their market to the international level (Tambunan 2012, 54).

The amount of SMEs exports was much less than the total number of SMEs in Indonesia. Besides, many SMEs still do not yet dare to market their products abroad because of various obstacles, such as capital problems, less competent workers, lack of technology use, and lack of government attention. Whereas, in the era of globalization, local SMEs have the opportunity to climb the classroom into an export-oriented SMEs. But many obstacles caused SMEs to choose to market their products domestically (Kompas.com 2017).

Therefore, governments are instrumental in protecting and encouraging SMEs through a variety of business credit lending programs. The government has issued a regulation contained in Bank Indonesia regulation No. 7, 2005. The LAW explains that every commercial bank is obliged to provide a business credit program to increase the number of SMEs. However, every commercial bank has its criteria in lending, and sometimes those criteria make it difficult for SMEs. Yet, every commercial bank has its standards in a loan, and sometimes those criteria make it difficult for SMEs. The government is instrumental in providing capital assurance to SMEs.

In the year 1999, the Indonesian Government established Bank export Indonesia (IDX). In 2000, the Government was committed to developing the Indonesian Export Financing Institute (LPEI) with the help of the IMF through a Letter of Intent. LPEI operated independently under LAW No. 2/2009. LPEI undertook financing, guarantee, and insurance for the institution or individual exporting (Apki.net 2017).

In the era of President Jokowi, the government emerged the idea of accelerating

national economic development. The deteriorating economy, as a result of the 2008 global crisis, still felt its impact. Therefore, the President has issued a variety of economic policies known as economic policy packages. Specifically, to encourage increased SMEs, the government devises a plan that facilitates the capital for SMEs to have export market. It is in the Economic Policy Package Vol. 11. The policy encourages the provision of business capital for SMEs expected to promote the level of export and improvement of Indonesia's economy indirectly. Through this policy, the number of MSME-oriented exports is encouraged to increase. Besides, the procedure can increase the number of products exported because it is not affected by capital problems. Local SMEs' interests that only conduct national scale business can grow into an international scale by boldly marketing their products abroad.

Through the economic policy package, a volume of 11 local businesses was encouraged to expand towards a broader market, i.e., international trade. The active role of government shown in the efforts to increase SMEs in Indonesia. The government is responsible for 1) providing complete and integrated export financing facilities, 2) set interest rates of 9% and 3) set a maximum limit of the financing of people's enterprises' export-oriented exports (KURBE), in which the Micro KURBE maximum Rp 5 billion, a maximum of KURBE Rp 25 billion, and a maximum intermediate KURBE RP 50 billion with a period KURBE of three years for export working capital Credit or five years for export investment credit This policy applied in the KURBE program. The distribution of the KURBE carried out under the authority and responsibilities of Exim bank Indonesia.

### **1.1. Research Question**

How does the export improment policy affect exports increase through the KURBE financing program on MSME exports growth in 2016?

### **1.2. Objectives and Purposes**

The objective of this research is to know the influence of the policy of export increase by the KURBE program on the export growth of MSME in 2016. Through this research, it informs the reader about the effectiveness of the policy in improving Indonesia's export growth.

First, this study was beneficial, theoretically. This research can broaden the knowledge about theories and concepts in international relations. This research also increases the number of economic policies and strategies of a country to increase its national exports. Both studies are practically beneficial. This research provides knowledge on the influence of plans for expanding the export of MSME exports in Indonesia. This research describes how the SME's level of shipping can be encouraged to increase through the KURBE's provision policy and be a study of the development of the KURBE program for one year.

## **2. Literature Review**

The OECD in the journal titled SMEs and the credit crunch: current financing EBD, policy measures, and a review of literature conducted analysts on lending credit to SMEs in various countries. The research conducted on MSME conditions in multiple

states, difficulties in financing faced as well as policies of some countries to support and facilitate SMEs. European countries introduced a successful credit mediation scheme and continued in many countries. This scheme developed into a long term initiative to support SMEs who faced difficulties in accessing credit and insurance. In running the program, there are also significant contributions made by public financial institutions (PFI) in encouraging MSME access to get credit support. The OECD surveys in various countries about the Government's program in facilitating SMEs to access credit assistance (Wehinger 2014.4).

In research conducted by OECD, government assistance in facilitating the export of SMEs divided into three, namely: 1) increased capital from institutions that provide export capital to SMEs. The government serves as a bridge that connects SMEs and credit institutions, both banks and non-banks. 2) Provision of export credits, in the form of capital assistance for the production of export goods, transportation financing, to the acceptance of products in the destination country. SMEs that do export, in particular, will usually have difficulty in the turnover of business capital. 3) Export and insurance guarantee: The amounts of insurance exported goods also complicate SMEs. In many countries, the government also provides guarantees and insurance for exports. Various countries began to view SMEs as an essential business unit in conducting international trade, and the government began to conduct programs to facilitate the shipping of SMEs.

Japan Overseas Development Corporation conducts other research on the granting of government credit to SMEs (JODC) under the title A Survey Research Project on "Small and Medium Enterprises Development Policies of 4 ASEAN Countries": Brunei Darussalam, Cambodia, Lao PDR, Myanmar." In the research, there are statistical data on the number of SMEs in four countries as well as government programs in supporting SMEs in their country. In Brunei Darussalam, the government facilitates and supports SMEs with various applications, both training and providing credit assistance. The Government of Brunei Darussalam has a credit financing scheme for SMEs through the Export Refinancing Scheme (ERS) program. The ERS Program provides loans with a maximum limit of half a million Brunei dollars for each borrower (i.e., MSME). This is to help SMEs who can export their products into international markets to be able to compete in the free trade arena in the ASEAN region, with Indonesia in particular and global markets. ERS provides financing for direct and indirect exporters. They can also obtain funding before and after they make deliveries. This facility was presented to the registered MSMEs and to get certified as an exporter (Polsaram et al. 2011, 87).

The concept of Small Medium Enterprises (SMEs) used to explain the definition and characteristics of SMEs. Although economic, social, cultural differences affect the different meanings of each country. For many years, each state has a different approach that has begun since the emergence of MSME trends. But generally, SMEs are classified by the number of employees, the amount of sales turnover, and the industry.

The difference in SME definitions divided into three actors: definitions by international organizations, definitions by national legislation, and industry definitions. The definition of SME that often used as a reference is the definition of the European Union, international organizations, such as the World Bank, the United Nations (PBB), and the World Trade Organization (WTO). The IFC defines SMEs in a more conventional business unit with the number of employees under 250 people (IFC 2009, 3). The definition of MSMEs generally based on several employees, sales, and loan

amounts. However, the most commonly used descriptions are the numbers of employee criteria (Ardic et al. 2011, 8).

Some countries in Asia have slightly different definitions, where its industrial type determines the SME category. In China, there are regulations regarding the standard group of SMEs divided into three categories: medium, small, and micro. Japan uses the same type but is more straightforward than China. According to the second article on MSME Law, Japan has the main criteria for category based on three indicators: Activity branch, turnover, and several employees.

In the U.S. States (US), the MSMEs category determined by a body called the Small Business Administration (SBA). In general, SMEs in the U.S. has a total number of employees under 500 people (Berisha and Shiroka 2015, 46). Meanwhile, the European Commission has compiled an SME definition based on employee count, annual income, and annual balance sheet. But the criteria based on the number of employees are considered more important as reference (European Commission 2005.9). While the world Bank uses three quantitative measures to define SMES, namely the number of employees, total assets in and annuaU.S.saU.U.U.S.s in the US \$. A company must meet the criteria of the number of employees and at least one financial criterion to be categorized as micro, small and medium enterprises (IEG 2008, 9).

In Indonesia, the LAW governing MSMES is LAW number 20 in the year 2008. The ACT describes SMES as a company classified as MSMES is a small company owned and managed by a person or owned by a small group of people with a certain amount of wealth and income (Bank Indonesia 2015.15).

**Table 1. Definition SMEs Indonesia**

Type of Business	Assets (excluding land and Building place of business)	Annual Sales
Micro Enterprises are	less than Rp. Fifty million	less than Rp. 300 million
Small Enterprises	between Rp. 50-Rp. 500 million	between Rp. 300-Rp. 2.5 billion
Medium Enterprises	between Rp. 500-Rp. 10 billion	between Rp. 2.5-Rp. 50 billion

Source: Kemenkop, 2008

Furthermore, MSMES oriented export is micro, small, and medium enterprises that do marketing abroad. The goods and services produced are goods that:

- 1) They directly exported (Direct Export).
- 2) Support exports, including export stub, where the business unit is a supporter of large companies that export so that this business unit is called plasma (Indirect Export).

But in defining an MSMES-oriented export, LPEI has a slightly different classification to the government LAW. If the Indonesian LAW uses per year sales and total MSME assets as a parameter in categorizing MSMES, then LPEI uses total sales per year as the primary measuring instrument in the SME category of exports. SME category of exports, according to LPEI, done with the adjustment and conditions of export-oriented MSME in the field. According to LPEI, the division determined from the maximum sales limit per year, micro-scale business amounting to Rp 10 billion; Small scale business of Rp 25 billion, and medium scale enterprises amounted to Rp 50 billion. The study used the export-oriented MSMES definition of LPEI since the research object is an MSME-oriented export of KURBE receivers from LPEI. If the

analyst conducted on export-oriented MSMEs, the export-oriented MSME is an SME based on the category above.

The next concept is the credit financing concept. Capital availability has become a significant factor in the development, growth, and success of SMES. The financing methods used by SMES are varied, starting with internal sources such as business capital owned by SMES owners and also external sources such as capital loans, trade credits. One source of financing for MSMEs is trading credit. For example, A. Berger and G. Udell (2006:45) estimate that trade credits represented one-third of the total MSU.U.U.S.S in the US in 1998.

In China, one of the factors causing the acceleration of the country's economic growth is financing from trade credit to SMES (Allen et al. 2005, 12). Both in developed and developing countries, the government has acknowledged that the MSME sector often has difficulties in accessing capital financing. Therefore, there have been many initiatives and government programs that have implemented to ensure that SMES is more comfortable to obtain the funding and get guaranteed credit loans. Besides, financing awarded for MSME export. But for MSMEs exports, it should also be taken into account that not all companies are in the same phase of export development, so it is vital to have a set of programs that target companies at various stages of export development (Albaum 1983, 23).

One example of government assistance programs in industrialized countries is a small business financing program in Canada. In this program, the Canadian government can guarantee up to 85 percent of loans less than 250,000 Canadian dollars. During 2006, the program allowed SMES to reach more than 10,000 credits with a value exceeding 1 billion Canadian dollars. Another example is the SME guarantee in the UK that aims to facilitate the access to SMES to finance by providing collateral for SMES loans (OECD 2000, 34).

Because of the importance of government roles in credit financing, it is not uncommon for governments to intervene in SMES credit financing. For the SME financing scheme to be effective, government programs must meet two main criteria. Firstly, it provides funding to SMES following their financial needs, and both financing policies must be sustainable (OECD 2000, 35).

The definition of "credit" itself is the provision of money or bills based on approval or agreement lending between the bank and the other party that obliges the loan party to pay the debt after a certain period of interest with the B.B.B.B.I. warding (BI 2007). Based on the purpose of its use, Bank Indonesia differentiates credit into three, namely: Consumptive credit, working capital credit, and investment credit. Based on the Asian Development Bank Institute Research, credit financing affects MSME export growth. MSMEs that export need funds on a larger scale. Therefore, the request for external funds from the bank is also needed larger, and there should be clear availability of credit (Wignarja and Jindistance 2015, 19).

Another concept is the SME as a global economic mobilizer. MSMEs is often regarded as the backbone of the economy, both referring to each country as well as globally, an essential source of economic growth in developed and developing countries. MSMEs is the dominant form of a business organization representing about 95%-99% of all companies in the world. According to the OECD, SMES represent more than 95% of the company and provide 60-70% of job pitch (OECD 2014, 34). According to Ayyagari et al. (2011:5), about 95% of all businesses in the world are SMES. SMES become the dominant type of business in various countries.

MSMES is considered a global economic mobilizer because of its role in the national scale economy and international level. In the national scope, SMES become commercial drivers in different countries, even with varying degrees. SMES nationally contribute to GDP in various countries and absorb human resources. As for the higher level of international level, MSMES encourages international trade between countries and their export-import activities. Worldwide trade turnover covers a wide range of business units, both large and small businesses. Some SMES also serve as suppliers of the Global Value Chain. So, some of the needs of large companies supplied by various SMES that were scattered worldwide. The contributions given by SMES are enormous in different countries and areas. Therefore, SMES plays an essential role in some countries with high per capita income, as well as in countries with a low per capita income rate (Edinburgh 2012.7). To see the SMES to be a global economic driver, you can identify it from three aspects, namely (Asianentrepreneur.org 2017):

- SMEs Contributions to GDP

SMEs contribution to GDP differs in every country, where SMES contribute only about 16%, or there is also a high contribution of about 51%. MSMES becomes a machine in the sustainability of long-term economic growth in developing countries. As economic growth grew stronger, SMES had a vital role in the development of the industry. They can meet increasing local demand as well as support more massive company demand (Fjose et al. 2010, 34).

- SMES Contribution in the Absorption of Labor

The World Bank survey mentioned that 47,745 small-scale businesses in 99 countries in the world absorb 67% of the workforce (Ayyagari et al. 2011.15). SMES also creates more labor than large corporations. Among the years 2002-2010, an average of 85% of the total workforce growth caused by SMES. A study conducted by Ayyagari and DEMIGUC by observing 47,745 companies from 99 countries during the year 2006-2010 proved that SMES are the most significant contributors in the absorption of the state workforce (Ayyagari et al. 2011, 44).

- The Role of SMEs in International Trade

The average SME contributed 15-50% of the country's exports and 20-80%. SMES are instrumental in the sustainability of exports in various countries in Asia. In India, SMES accounted for 38-40% of the total exports of the country. In China, SMES contributed 60% of China's total exports (Tambunan 2009, 34). SMES provides 30% of commodities worldwide. SME exports also promote international business growth (Fedex, 2015, 2). SMES contributes to many economic activities in the world. SMES also play a role in the global supply chain. SMES in the worldwide supply chain serves as suppliers of large industrial materials and components so that international business turnover can be well-run. The following data on the global supply chain of SMES contribution (in percent) that is China by 25%, Japan amounted to 7.9%, South Korea amounted to 4.8%, ASEAN amounted to 9.3% including Malaysia (2.7%), Thailand (2.0%), Singapore (1.7%), Vietnam (1.1%), Philippines (1.0%), Indonesia (0.8%) and Cambodia (0.2%), India amounted to 0.8% and Pakistan by 0.1% (Yoshino and Wignaraja 2015, 3)

MSMEs conducts trade internationalization while engaging in global supply chains. The internationalization of SMEs in the production network interpreted it into three activities, namely: 1) direct export or import activities; 2) Indirect export activities or use of large companies as exporters; 3) Foreign investment abroad by SMEs (Wignaraja et al. 2014, 34). The author's mindset begins with collecting data on the

KURBE program to an MSME-oriented export. Based on existing MSME concepts, the identification of the MSME in this study is visible. Then, from several SMEs that have hardened it into an export-oriented MSMEs, namely MSMEs oriented to international market and trade internationally through export and import activities.

The result of this study was the influence of KURBE on MSME exports growth in 2016. It will get viewed from the comparative data before and after the application of KURBE. The impact of KURBE administration will be seen as an increase in the turnover of the business itself, increasing the number of MSMEs that change from domestic MSMEs to SMEs with export and MSME facilities in conducting international trade. This research also analyzes how the effectiveness of the KURBE program in driving the increase in Indonesian SMEs exports.

### **3. Research Method**

The author uses a qualitative methodology to look at the condition of natural objects. Researchers are the principal instruments and data collection techniques carried out by triangulation (combined). Data analysis is inductive, and qualitative research results emphasize actual conditions in the field (Sugiyono 2014, 1). Qualitative research provides an accurate description of specific individuals or groups about the circumstances and symptoms that occur (Koentjaraningrat 1993, 89). The author uses qualitative research methods to determine how to search, collect, process, and analyze research data. Through a qualitative approach, the writer seeks and collects data about the object of research. The objective of this research is the KURBE Program and MSME export growth. This study also looked at the symptoms that occurred in the distribution of KURBE.

The study uses primary and secondary data sources. Primary data obtained directly from the study. Primary data collected from interviews, field observations, and informant data (Hasan 2002, 82). In this study, primary data sources obtained through interviews with related parties' KURBE program. Interviews conducted with Mr. Adipati, SE.MM, as a staff specifically for the UKME / KURBE LPEI financing. Some research data also obtained from the Ministry of Cooperatives and Small and Medium Enterprises and LPEI. Secondary data is data received or collected by people who research existing sources. Secondary data used to support primary data. A literature study is to conducted with the sources of information from various books, journals, and news from the internet (Hasan 2002, 58).

Based on the concepts and framework of thinking, the researcher compiles the following hypothesis. The KURBE program provided to export-oriented MSMEs will increase sales or turnover of the company itself. When viewed from MSMEs that receive credit assistance, the KURBE program is very helpful in growing exports. However, this program is not capable of increasing MSME export growth significantly. And the reason is because of the shipping of overseas products also depends on general market conditions, competition with other countries, and worldwide market demand.

### **4. Results and Discussions**

#### **4.1. Export-Oriented People's Business Credit (KURBE)**

KURBE is export financing distributed by LPEI to business entities (including

individual / micro businesses) that have export-oriented businesses. The KURBE program is a form of implementation of the 11th economic policy package to increase national competitiveness in the global economic struggle. The economic policy package released by the central government aims to encourage MSME exports. The vision and mission of the President direct policies in increasing the competitiveness of MSMEs and cooperatives so that they can grow into a sustainable business with a larger scale (upgrade) to support the independence of the national economy (Kemenkop 2016,11).

In line with the direction of the central government's economic policy, the Ministry of Trade has developed a policy strategy that supports the existing commercial policy package. The Directorate General of National Export Development at the Ministry of Trade said that Indonesia's trade policy aimed at increasing national exports. The government is pushing for increased exports at various business scales, both large businesses, and medium and small scale businesses. The existence of MSMEs that dominate markets in Indonesia provides ideas to increase national exports by encouraging MSME exports. The value of Indonesia's exports in the last seven years (2010-2016) tends to decrease. The decline in the number of exports occurred in the oil and gas and non-oil sectors.

MSME exports included in the category of non-oil and gas exports, which are relied on by the government because they have a more significant proportion of the oil and gas sector. The importance of encouraging MSMEs to increase their exports based on several reasons. MSMEs need to expand their trade through exports as a form of the internationalization process. Many countries promote MSMEs to export, even though the export market is very competitive with procedures that are not simple. There are several reasons, both macro reasons, namely for the benefit of national development, and micro reasons for the benefit of MSMEs. From a macroeconomic point of view, one source of national income is the difference between exports and imports, so it is essential to encourage a higher level of exports than imports. The contribution of MSMEs in exports has an important role not only for foreign exchange earnings but also the double impact that results. The government encourages MSMEs to contribute more to increasing national exports.

MSMEs expected not only to be the driving force of the national economy but also in the international market. Of course, to encourage MSMEs to be at this stage, the government must help MSMEs face obstacles that often encountered. Some of the problems that hamper MSMEs in expanding into international markets are capital, lack of competitiveness, lack of production technology, and lack of knowledge about global markets. In support of increasing MSME exports, the government issued the Export-Oriented People's Business Credit program (KURBE). The KURBE program targets export-oriented MSMEs, both to shipping directly and to support exports (Adipati 2017)

KURBE is financing for micro, small and medium businesses but is specifically for export-oriented MSMEs. Unlike the People's Business Credit (KUR), where funding channeled through various banks, both private and government-owned. The KURBE distribution performed under the responsibility of LPEI. In the KURBE program, there are two types of financing, namely Export Working Capital Credit (KMKE) and Export Investment Credit (IEC). Both of these financings certainly have some differences, namely the loan period and the loan lending function. The maximum period of KMKE administration is three years, and IEC is a maximum of 5 years.

KMKE is given to finance business/production movements, for example, for the need to buy raw materials, pay employee salaries, and pay utility bills and others. In

producing an item, there is a term called the trade cycle. The trade cycle is the turnover of the process of creating a raw material into semi-finished goods and then becoming finished goods that are ready for sale. This trade cycle may not run well if the export MSMEs lacks the capital to produce. For the production cycle to continue, export MSMEs need to get funded through KMKE. IEC financing is a credit given to export MSMEs to purchase the production equipment required, such as drying machines, cutting machines, computers, and office equipment. The material included in the fixed assets of the export MSME. The plan to purchase investment goods can be attached to the KURBE proposal so that LPEI can assess and calculate the amount of IEC financing that is required.

KURBE financing divided into three categories based on the size of the MSME business scale. The KURBE interest rate is 9%, and the financing currency is in rupiah. The following is the maximum funding limit for KURBE, namely:

1. Microscale: ceiling to Rp. 5 billion (KMKE and IEC)
2. Small scale: ceiling to Rp. 25 billion (KMKE maximum of Rp. 15 billion and IEC maximum Rp 10 billion)
3. Medium-scale: ceiling to Rp. Fifty billion (KMKE maximum of Rp. 25 billion and IEC a maximum of Rp. 25 billion).

Export-oriented MSMEs who wish to obtain KURBE financing must fulfill the requirements and completeness of the documents specified by LPEI, namely: 1) application letter; 2) reports of management and business owner identity; 3) business legal documents; 4) financial statements or other financial data, and other data needed.

In general, MSMEs export directly and indirectly. Indirect exports are activities in which SMEs sell their products to exporters. Exporting companies export abroad. Indirect exports can also occur if a large company/ Exporter Company gets orders from abroad. However, at the production stage, various MSMEs around them were asked to do it. Therefore, MSMEs that export indirectly was called export-supporting MSMEs. UMKM supporting trading not only helps domestic exporters but can also support MNCs abroad. An MNC cannot produce all components or its production needs independently but requires ingredients imported from abroad, for example, from MSMEs. This MSME called the MSC supporting export MNC.

After collecting the documents of the requirements for KURBE submission, LPEI will analyze the feasibility of export MSMEs to receive KURBE. This assessment analysis scheme called the 5C assessment; this scheme is also commonly used by other banks when assessing the feasibility of prospective recipients of the KURBE program. The 5Cs analyzed are Character, Collateral, Capacity, Capital, and Condition.

### **1. Character**

LPEI collects various information from several parties involved with export MSMEs who submit KURBE facilities. This information gathering is related to the character of the business owner to test the feasibility of the business receiving KURBE financing. Next is BI Checking, which is seeking information from the Central Bank (BI) to find out whether the owner and the business have had a history of bad credit with other banks before or not.

### **2. Collateral**

KURBE recipient candidates must have collateral. In the collateral points, three things can get analyzed. The first relates to insurance owned by UMKM prospective KURBE recipients. The second is that MSMEs can use margin deposits as guarantees.

Margin Deposit is money received by banks as collateral that will get calculated at the time of transaction settlement (Mediabpr.com, 2017). Finally, there is a third party guarantor or credit guarantor (guarantor). This guarantor can be in the form of an institution or also an exporter company that houses exports MSMEs.

### **3. Capacity**

The third point analyzed is the capacity of an export MSME. LPEI assesses whether an export MSME can create profit margins. The profit can get shown in the financial statements, which can get viewed how the sales turnover of the UMKM. LPEI also analyzes whether MSMEs that apply for KURBE financing have sales trends that tend to rise or not. The sales trend is very dependent on market conditions, especially the international market.

### **4. Capital**

LPEI needs to know the amount of capital owned by export MSMEs that apply for KURBE. The amount of money and total sales of MSME, which will affect the amount of KURBE facilities, will be provided. LPEI analyzes the risk of extending credit to MSMEs based on the amount of capital and the amount of the proposed loan.

### **5. Condition**

In the Condition point analysis, and export MSME will get examined in the field or type of business. There are various types of companies available, but not all types of companies have the same business conditions and prospects. In the economic sector, a sector or type of business is categorized into three categories of business conditions, namely increasing, neutral, and declining business conditions.

## **3.2 KURBE Recipient SMEs**

The amount of KURBE financing gets based on the size of the business scale of an export MSME. In classifying an MSME that includes micro, small or medium enterprises, LPEI has its policy. LPEI divides MSMEs into three categories based on gross annual sales. This division is different from the Indonesian Law, which categorizes MSMEs based on assets owned and annual sales turnover. Although the maximum annual sales limit for LPEI's export MSMEs is considered very high, LPEI has its own opinion. According to LPEI, in carrying out foreign trade (trading) activities, and export MSME usually has a higher sales turnover than MSMEs that trade on a domestic scale.

According to the LPEI, the classification of export MSMEs carried out with adjustments and conditions of export-oriented MSMEs in the field. The maximum limit of sales per year is IDR 10 billion for micro-businesses, IDR 25 billion for small businesses, and IDR 50 billion for medium companies. The maximum sales limit per year calculated in one year. Because the export MSKM sales limit is not determined, micro-scale businesses (individuals) also have the opportunity to apply for KURBE financing while conducting trading activities with an export orientation

In 2016, 60 UMKM export KURBE recipients spread throughout Indonesia. LPEI explained that there were 17 MSMEs included in the 2017 pipeline financing planning (preliminary data). LPEI does not specify the number of MSMEs that have applied for KURBE financing but failed to fund it. The lack of data explains the comparison of proposals for KURBE funding submissions that enter the LPEI with MSMEs that finally receive KURBE. Twenty-one businesses are obtaining KURBE financing under Rp.5 billion (micro-enterprise), 18 small-scale MSMEs get funding

under Rp. 25 billion, and 21 medium-sized MSMEs get funding under Rp. 50 billion. KURBE funds channeled in 2016 amounted to Rp. 830,348,000,000. Microbusinesses received funding of Rp 210.398 billion, while small businesses reached Rp 164.95 billion, and the highest financing for medium businesses was Rp 455 billion. The highest KURBE financing gets channeled to medium businesses. (Adipati 2017).

Two thousand two hundred twenty export-oriented MSMEs spread throughout Indonesia. However, the distribution of MSMEs judged to be uneven in all regions (Kemenkop 2015e, 2). The spread of export MSMEs tends to center in the Java region. However, the distribution of KURBE recipients evenly distributed than the delivery of export MSMEs in 2015. The portion of KURBE recipients reached 25% in the eastern region, which means that KURBE distribution well distributed to east Indonesia. Thus export credit financing does not necessarily have to be focused in the Java region with the most significant number of export MSMEs.

The destinations of the UMKM export countries which received KURBE facilities in the first place were states in the Southeast Asian region, such as Singapore, Malaysia, and Brunei Darussalam, by 36%; second in Europe at 15%. China and Japan have the same portion size, which is 12%. The commodity of types of goods exported by KURBE recipients is dominated by seafood trade by 33%. The trading of marine products in the form of flying fish eggs originates mostly from Sulawesi. The flying fish egg trade primarily directed to China, Korea, and Japan. In addition to exporting sea products, KURBE recipients export in the industrial and furniture sectors with the same percentage of 28%. In the industrial area, business commodities are as diverse as the packaging industry, automotive metal parts, and electrical devices. The destination countries for KURBE recipient industrial goods include several countries, such as Italy, Japan, Bangladesh, and the Southeast Asian region.

#### **4.2. MSMEs Export in Indonesia**

Export-oriented MSMEs carry out foreign trade activities. Although MSMEs have often seen as small business units, export-oriented MSMEs must still get categorized as international business people. Tulus Tambunan, in his book entitled "Small and Medium Micro Enterprises in Indonesia," Tulus Tambunan analyzes the characteristics of export-oriented MSMEs in Indonesia, namely (Tambunan 2012, 83):

1. Most of them do not export directly, but through partnerships with or major exporting companies or sell locally to foreign tourists.
2. Not all Indonesian MSMEs involved in export activities are fully export-oriented because of many exports a fraction of their production output. For example, SMEs that are engaged in handicrafts hand has a proportion of marketing its products for domestic by 75% and 25% for marketing abroad.
3. In general, MSMEs involved in export activities concentrated in the same location for the same product by forming clusters.

Tambunan (2012,85) also writes the characteristics of Indonesia's export-oriented MSMEs as follows): first, most of the categories of goods are middle-low technology; secondly, MSME exports concentrated in labor-intensive industrial groups where wages are the primary source of determinants of global competitiveness; third, most MSMEs that export is in industrial clusters or centers; MSME exports during the 1998 crisis period were not reduced or stagnated; most of the MSMEs that are exporting

are not fully export-oriented because they still ship a small portion of their production quantities and most of the export-oriented MSMEs do export indirectly.

However, export MSMEs in Indonesia experienced a development that was not too significant. In 2014, export-oriented MSMEs were 2,118 MSMEs, and in 2015 there were 2,220. Some provinces experienced an increase in the number of export MSMEs; some experienced a decrease in the total export MSMEs in 2015.

The uneven distribution of export-oriented MSMEs is a constraint. This shows that the difference in the readiness of MSMEs between regions to conduct international trade is different between one area and another. The use of technology, understanding of exports, financing of MSME credit, training of MSME exports has not evenly distributed in all regions. Regional differences also affect the ease of the delivery of goods (transportation) process, so some areas have less number of export MSMEs (Kemenkop 2015e, 3).

Overall, MSMEs experienced growth in 2015, rising by 2.42% or an increase of 1,435,975 MSMEs, while export MSMEs experienced a very slight increase from 2014 to 2015 (Kemenkop 2015, 4). Indonesian MSMEs tend to produce, and market products only domestically. Even though a large number (almost 99% of all business units) MSMEs can expand into the global market. Expansion to international markets can increase Indonesia's exports. A large number of MSMEs should be an economic force. The country that has successfully developed small scale industries in China. Just like Indonesia, China also has many MSMEs that seen as international business opportunities. Now China's MSMEs are not only the drivers of the country's economy but also the drivers of the world economy.

Commodities of goods exported by Indonesian MSMEs are very diverse. The most exported commodity goods are furniture and processed wood by 31% of the total commodity goods exported by MSMEs. Many MSMEs in Java and Bali produce and ship wood products, such as furniture, household appliances, wood carvings, and paper products. Meanwhile, the second-largest commodity exported by MSME is handicraft by 30% of the total products shipped. Crafts that transported are very diverse in types, such as silver, glass, lamp accessories, and household decoration. The province that exports the most handicraft commodities is Bali.

Meanwhile, commodity commodities in the industrial sector were 11%. In industrial products, the exported goods are semi-finished goods and additional components of industrial equipment such as copper, electrical equipment, and automotive parts. MSME exports also found in other commodities such as food processing commodities by 8%, agricultural products by 8%, textiles by 9%, and sea products by 3%.

### **4.3. MSMEs Contribution to Export**

MSME export contributions increased in 2016 by 16% from the previous 15.7% in 2015. Growth in the participation of MSME exports increased in the last four years. The growth of export contribution is not very significant, because it grows below 1%. In 2013 the contribution of MSME exports was 15.8% of all non-oil and gas exports, while in 2014, it was 15.73%; in 2015, it was 15.8%, and in 2016 it was 16% (Kemenkop 2017).

MSME export growth is in line with the growth of national non-oil and gas exports which increased by 0.22% or reaching a value of 145 US. billion US\$ in 2016.

While the domestic exports (oil and gas and non-oil and gas exports) overall experienced a decline. It all happened due to a decrease in exports of oil and gas commodities. Indonesia's national export growth is slowing in the oil and gas sector and a slight increase in the non-oil and gas sector (BPS 2016).

Exports in the non-oil sector are essential for Indonesia. Because non-oil exports have a more significant contribution compared to oil and gas exports, therefore, it is vital to improve and develop existing sectors in the non-oil and gas sector, including contributions from MSME exports. Although to date, the gift of MSME exports is not too large (with an average of 15%), it is vital to encourage MSMEs to contribute more to national exports.

Likewise, the contribution of MSMEs to energy absorption by MSMEs has fluctuated since the last four years. The most prominent absorption of labor is absorbed in the micro-business sector, then small businesses and finally medium businesses.

The increase in labor absorption from 2014 to 2015 also did not experience significant growth because it only grew by 0.3%. The level of absorption of Indonesian labor through MSMEs is higher compared to ASEAN countries and China. Indonesia has a 97% employment rate, followed by China and Thailand. In addition to the contributions made, MSMEs face their challenges, especially in seizing the international market, which still considered burdensome. MSMEs in Indonesia, on average, still use low technology (traditional). The use of technology in the production of goods requires a high cost, while capital problems still constrain many MSMEs. As a result, even though open market opportunities are unable to be fulfilled because of reduced productivity (Basri 2009, 32).

Concerning the general problems experienced by MSMEs, the Central Statistics Agency identifies them into several points. The results of the study revealed that MSMEs experienced business difficulties of 72.47%, while 27.53% had no business difficulties. The following are the percentage of obstacles faced by MSMEs: capital constraints (51.09%), marketing (34.72%), raw materials (8.59%), employment (1.09%), transportation distribution (0.22%) and others (3.93%).

While the Ministry of Cooperatives and SMEs identified the obstacles faced by SMEs in expanding into the global market are financial, non-financial problems, and the problem of linkage with large companies (exporters). MSME financial problems are related to obstacles in accessing financing loans for MSMEs. The loan application process is complicated, has no collateral/guarantor, and burdensome interest rates. Even though Indonesia lowered its credit interest for MSMEs from 12% to 9% in the People's Business Credit program, it still considered being much higher than other ASEAN countries. MSME loan rates in Malaysia range from 3.5% to 7%, while Singapore is 4% (Kemenkop 2008, 111).

The government must develop policies that provide prospects for MSMEs to develop and contribute to the global economy. The development of export MSMEs through policy interventions in developing countries focused on the most common problems such as MSME capital financing, business licensing, market information, especially foreign markets, training, and technology issues (Wignaraja et al. 2014, 27). To support increasing MSME exports and national exports, it is essential to provide access to MSME exports through financing sources. Through developing business capital, export MSMEs can improve their business volume and can meet export demand. So that export MSMEs can play a role as a national and international economic driving wheel (Kemenkop 2011b, 12). Therefore, to support the export of MSMEs, the

government issued a KURBE specifically intended for export-oriented MSMEs. With this capital financing, it hoped that export-oriented MSMEs could reduce obstacles that are commonly experienced by export MSMEs, namely the problem of limited capital.

The obstacles faced by export MSMEs are very diverse. It is crucial to explore the characteristics and challenges often faced by export MSMEs so that policies made by the government can be appropriate in encouraging export-oriented MSMEs to be more developed. Each UMKM export has different financial conditions. There are export MSMEs that are strong because they have significant capital, but there are also export MSMEs that lack capital. Export MSMEs on a medium scale tend to have more stable financial conditions when compared to micro-scale MSMEs. Differences also were seen in collateral ownership, which often used as a condition for applying for business credit. Most MSMEs at medium scale can meet the collateral ownership requirements, while micro MSMEs have difficulty in applying for a loan because they do not have collateral.

Another obstacle is the issue of export licensing, not all MSMEs know the process and flow of export licensing well. Because most export MSMEs in Indonesia generally make indirect exports, especially micro and small scale MSMEs. The export procedure also considered being complicated, especially when compared to marketing in the country. Trading and shipping goods overseas also carry high risk (Hsh.co.id, 2017).

Therefore, it is vital to know the conditions and characteristics of MSMEs in preparing MSME credit financing policies because the constraints outlined are the obstacles that are generally faced by export MSMEs in Indonesia. However, when examined more deeply, MSMEs have more various barriers and challenges. This phenomenon has become necessary in the formulation of policies relating to export MSMEs so that the plans made can be in line with the actual needs and conditions of export MSMEs. MSMEs also face these obstacles in several other developing countries in Asia. Based on a BPS survey in 2005, constraints in developing countries related to capital, raw material, marketing, technology, and expertise problems (Tambunan 2009, 75).

MSMEs faced the challenges in various countries, including ASEAN. The development of MSME varies in each state. The difference between MSMEs in Indonesia and ASEAN countries can get viewed from the number of MSMEs, employment rates, and export comparisons between countries. Although the countries in ASEAN are developing countries (except Singapore), they have different MSME export levels. This phenomenon influenced by government policies of each country in encouraging increased exports, such as credit financing policies for MSMEs. Although financing for MSMEs has a similar concept in various countries, the results are not necessarily the same when applied in systems in each state. The contribution of MSMEs in each country is also diverse; in China, the gift of MSMEs is 60%, Japan 53%, South Korea 30%, Malaysia 19%, India 40%, and Indonesia 16% (Vandenberg et al. 2016).

#### **4.4 Effect of KURBE on MSME Export Growth**

A country's policies are taken based on national goals and interests, likewise the KURBE program, which has economic importance to increase MSME and national export. These financial interests aim to improve the overall Indonesian economy by empowering all existing business units, including small and medium businesses. The

role of the government is essential in making policies that encourage the growth of MSME exports. Export-oriented MSMEs certainly face various types of obstacles, such as capital constraints experienced by many exporters of MSMEs in the world. Many countries are aware of this and develop special financing schemes for MSMEs that export. This scheme successfully carried out in several countries in developing export-oriented MSMEs. So that export SMEs in the country can have a high contribution in their countries, such as China, Germany, and the United States.

In encouraging MSME export growth, the government intervenes in its policies, for example, in developing credit financing schemes for MSMEs. Credit financing schemes are not only determined by credit distribution institutions, such as private banks but also by the government. The government determines the maximum amount of financing provided in the KURBE program and the amount of credit interest on the funding. The Indonesian government sets an interest rate of 9% and with a maximum financing limit included in the KURBE program. Through the KURBE program, one of the expectations is to be able to encourage an increase in MSME exports.

MSME export growth over the past five years has not experienced a significant increase. From 2010 to 2016, the average growth of MSME exports did not exceed 1%. The development of export contributions after the enactment of the KURBE program only increased by 0.3% in 2016 (Kemenkop). KURBE has not been able to encourage an increase in the value of MSME exports. Even though an increasing UMKM export is the primary goal of the KURBE program, with the growing contribution of MSME exports, it hoped that this would encourage an increase in exports nationally. UMKM export contribution is not the largest foreign exchange contributor sector in the non-oil and gas sector, but through the KURBE, commodities should experience a significant increase.

MSME export growth over the past four years has experienced a very minimal increase. In 2013 the percentage contribution of MSME exports to GDP was 16.8%. While in 2014, it was 15.73%; in 2015, it was 15.8%, and in 2016 it was 16% (Kemenkop). However, the increase in the contribution of MSME exports over the past four years is no more than 1%.

The number of MSMEs exporting also influences the export of MSMEs. Increasing the number of MSMEs that export it will encourage an increase in MSME exports. It can also be seen through the number of MSMEs that start exporting or in the pioneering stage of exports. The KURBE program encouraged five MSMEs to begin shipping. These five MSMEs were previously domestic and turned into export-oriented MSMEs. However, this is far compared to the total export MSMEs as a whole in Indonesia, amounting to 2,220. This event shows the small participation of MSME export.

The KURBE program should be able to encourage many MSMEs on a domestic scale to start daring to market their products abroad. The doubts of MSMEs in Indonesia to market products in the international market are due to the risk of international trade that is greater than marketing on a domestic scale. This phenomenon is shown by the comparison of MSMEs in Indonesia as a whole compared to export-oriented MSMEs. MSMEs in Indonesia reach more than 50 million, while MSMEs export only two thousand MSMEs (Kemenkop).

The KURBE program expected to encourage domestic MSMEs to expand their trade to international markets. Through KURBE, there should be a change in the trend where local MSMEs change to export MSMEs. The KURBE program should be able to

attract MSMEs to export, whereas LPEI does distribute not only KURBE but also export guarantee facilities, export insurance, and training for new exporters. However, these facilities have not been able to increase the interest of domestic MSMEs to turn into export MSMEs.

KURBE has not been able to increase the number of export-oriented MSMEs and the value of national exports. The KURBE program is not valid because there are obstacles in the distribution of KURBE, so the KURBE program absorbed by only a few MSMEs exported in Indonesia. The constraints on KURBE distribution will get explained in the next section. Whereas the increase in the number of export MSMEs becomes significant because if the number of export MSMEs increases, the value of MSME exports will also increase.

The credit financing for the export of MSMEs hoped to increase the contribution of national exports. MSME not only has a role in driving the domestic economy but also plays a role in the international marketplace. Some countries provide credit financing for export MSMEs to be able to encourage international business between countries and regions, in the ASEAN region, MSME credit financing schemes offered in Malaysia, Singapore, and Brunei Darussalam.

The significance of MSMEs is not only realized by various countries but also by various regional organizations, such as ASEAN. ASEAN understands the importance of MSMEs in the local economy. ASEAN developed the ASEAN Policy Blueprint for SME Development (APBSB) 2004-2014 and The Strategic Action Plan for ASEAN SME Development (SAPASD) 2010-2015. The policy prioritizes MSMEs in ASEAN to get access to credit financing, technology development, and others to improve MSME competitiveness (Harvie and Chye 2015, 27). Meanwhile, the contribution of MSME exports in ASEAN considered being still small in each country. Notably, the role of Indonesia's MSMEs in driving the ASEAN economy still has a small contribution to international trade (Tambunan 2009, 16).

SMEs that carry out indirect exports (indirect exporters) are suppliers of larger companies or even suppliers of multinational companies (MNC). ASEAN MSMEs begin to supply goods across national borders, so this is a form of MSME participation in the global production network. The role of a country's MSMEs in the worldwide production network can get seen from the types of commodity commodities traded by MSMEs on the global market. A country where MSMEs play a role in the international production network tends to export component goods such as machinery, electronic and automotive components. In the ASEAN region, several countries such as the Philippines, Singapore, Malaysia, and Thailand have begun to export machinery components actively. Likewise, like Japan, China, and Korea, whereas Indonesia, Vietnam, Myanmar, and Laos are still in the stage of increasing participation in regional production networks (Harvie and Chye 2015, 22).

There has been a change in commodity trading patterns in the global market, where primary commodities (raw goods), processed products, and consumer goods have decreased. While the trend of component goods that complements a machine or electronic item has increased, the decline and increase in trade trend patterns show the importance of these commodities in the global supply chain. Therefore, many countries have begun to encourage MSMEs to become export supports in machine component commodities, so that the MSME can become an MNC supplier and enter the global supply chain (GSC).

Regional economic integration in ASEAN has opened opportunities for MSMEs

to expand their business markets into global markets. There is also an opportunity to participate in the worldwide supply chain (GSC). But to arrive at that stage, MSMEs must have a business relationship with MNC as a recipient of the supply of goods. Two things determine the strength of MSMEs in globalization, and the first is the ability to export and import between countries. Secondly, the ability of MSMEs to engage with the big corporation (MNC), which in practice needs the existence of MSMEs (Kemenkop 2012c, 63).

Indonesian MSMEs must have a role in regional and global supply chains. The government must give top priority to these state-owned businesses, including MSMEs and also large companies involved in export activities or local production supply chains. Policy priorities are carried out not only in the form of trade protection and discrimination but in the form of business assistance, export training, export financing schemes, global market information, and the ease of obtaining raw materials (Tambunan 2015, 7). The government can also play a role in promoting MSMEs to be suppliers in commodity machine components. This medium can be an effective strategy in developing the part of export MSMEs as suppliers in international trade chains (Harvie and Chye 2015, 78).

While Indonesia's MSMEs tend to export primary commodities and processed goods. Likewise, KURBE financing dominated by the primary goods sector, such as fisheries. One-third of KURBE recipient export MSME businesses are engaged in fisheries commodities. In the processing industry, there are only two MSMEs that export machinery components, such as the export of automotive metal parts and INKA power tool suppliers. In comparison, the 58 other MSMEs do not export machinery component commodities.

KURBE distributed to MSMEs, which have an upward trend in sales. LPEI is not aware of any shift in commodity trading patterns in the global market. So that LPEI does not see current international trade opportunities. Developing countries like Indonesia cannot directly control international trade. Indonesia's export MSMEs should be able to take a role in the global supply chain. So that even though Indonesia does not have many multinational companies (MNCs), Indonesian MSMEs can still have an essential part as suppliers of MNCs. Therefore, the government must encourage MSMEs to start becoming suppliers of component goods or at least export in intermediate products that have higher economic value.

The tendency of SMEs in ASEAN to export goods out of ASEAN countries (extra-ASEAN), this is an obstacle in driving the economy in ASEAN. Although ASEAN has formulated various policies and schemes in developing export MSMEs, it would be less effective if ASEAN did not push MSMEs into the global supply chain. Two KURBE recipients in the industrial sector export out of the ASEAN region, such as Italy, Japan, and Bangladesh. Many MSMEs export machinery components, but the goal is MNCs outside the ASEAN region. The global supply chain runs but takes place outside ASEAN, thus providing benefits for MNCs outside ASEAN.

Doing extra-ASEAN exports does not harm Indonesia's export MSMEs, as long as they are still able to export and become suppliers of global supply chains. But it will have an impact on the ASEAN economy. ASEAN must increase Foreign Direct Investment (FDI) in the ASEAN region so that the export and import of machinery component commodities can take place in the ASEAN region, and this will encourage the economy in ASEAN. The vision of the KURBE program has not been able to drive the regional economy, but only to increase the growth of MSME exports in Indonesia.

Encouraging MSMEs to enter the global supply chain is a shared responsibility between ASEAN and member countries. But the percentage of ASEAN MSME exports is still minimal in global supply chains. The percentage of the contribution of MSMEs to the ASEAN global economic supply chain contributed 9.3% to the global supply chain. The percentage of Malaysian exports was 2.7%, Thailand 2.0%, Singapore 1.7%, Vietnam 1.1%, Philippines 1.0%, Indonesia 0.8%, Cambodia 0.2%, Myanmar, Laos and Brunei 0.

The ineffectiveness of KURBE assessed because the KURBE Program does not affect MSME export growth. LPEI, as KURBE distributor, is not aware of the opportunities in international trade that are currently developing. Various obstacles cause KURBE cannot reach the MSME export increase target, namely:

### **1. The problem of KURBE Target Recipients**

The lack of clarity about the definition of MSMEs does not only occur between various experts but in Indonesia, the uncertainty of the meaning of MSMEs occurs between the Government and LPEI. The Indonesian MSME definition based on Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises. The government's definition of export-oriented MSMEs remains the same in general MSMEs, and it's just that export-oriented MSMEs carry out international trade activities. Export-oriented is a business that produces goods and services that directly exported and support exports.

Meanwhile, the definition of export-oriented MSMEs, according to the LPEI, is based on Gross Annual Sales. LPEI categorizes export MSMEs into three business scales, namely: the maximum annual sales limit of Rp 10 billion for micro-businesses, Rp 25 billion for small businesses, and Rp 50 billion for medium companies.

The government and LPEI have an export-oriented MSME definition with annual sales limits that differ from Law No.20. LPEI raises the standard of sales per year of export MSMEs because export MSMEs considered having a higher sales turnover compared to domestic MSMEs. But this difference in definition, will confuse the distribution of KURBE to MSMEs. This medium is because the export MSMEs referred to by the government will be different from the export MSMEs referred to by LPEI.

LPEI assesses that export MSMEs tend to have high sales turnover due to international trade. But in reality, many export MSMEs have annual sales turnover below 10 billion. So that many MSMEs can only include in the micro category by LPEI, the maximum financing is solely at the micro maximum limit of five billion.

The difference in this definition will affect the amount of KURBE financing received by MSMEs. If a business gets categorized as a medium business, the MSME will receive KURBE financing only a maximum of five billion (the maximum limit of micro-business funding) even though the government categorizes the industry into the middle category. It is eligible to receive funding in the medium-scale KURBE. So, it is fair to say that the distribution of KURBE is not following the conditions of export MSMEs.

Another KURBE target recipient problem is related to the lack of KURBE recipients when compared to the total export MSMEs in Indonesia. KURBE recipients number only 60 MSMEs out of 2,220 MSMEs in Indonesia. This event is indeed tiny, especially if the objective of KURBE is to increase MSME exports. The KURBE program should get used for more than 50% of the total UMKM exports. Though

KURBE provides substantial capital financing when compared to other loans, with this significant capital financing following the needs of export MSMEs, which also require a massive capital in international trade.

The 2,220 export MSMEs in Indonesia should rely on the KURBE program. However, the KURBE program still absorbed by a small number of export MSMEs. The target of channeling KURBE funds of two trillion has also not achieved. The distribution of KURBE is currently 830 billion. Whereas on average, MSMEs receive KURBE financing over five billion. The nominal is considered significant, but not all export MSMEs are felt. Not yet achieved the KURBE distribution target, both the MSME target and the total funds disbursed make KURBE unable to encourage the growth of MSME exports.

Several factors cause the lack of KURBE recipients. This factor is a weakness both in the KURBE awarding scheme and those originating from LPEI, namely:

1. Lack of socialization regarding the KURBE program.  
LPEI carries out socialization only in certain activities such as seminars and exhibitions. The socialization should be increased, for example, through advertisements, posters, or by conducting direct socialization in export MSME clusters. KURBE socialization is very minimal, especially when compared to the People's Business Credit (KUR), which channeled through four private banks. KUR socialization through the installation of banners in every Branch Office of the KUR Channelin Bank so that; the SMEs very quickly see this.
2. Lack of LPEI network offices  
LPEI only has eight network offices throughout Indonesia. This medium is very insufficient to reach export MSMEs that spread throughout Indonesia. Ideally, LPEI must have network offices in all provinces in Indonesia. Making it easier for export MSMEs to find information and submit KURBE facilities
3. The complexity of the KURBE submission process  
The selection process for KURBE recipients gets to be considered as too complicated because it passes through quite a lot of assessment processes. By setting a maximum sales limit that is high enough, it is difficult for MSMEs who do not have a significant sales turnover. Besides, the assessment of commodity sales trends in exported goods also makes not all MSMEs that submit KURBE can successfully receive financing. This complicated process gets to get considered as a form of LPEI protection in reducing credit risk. Every credit lending institution will certainly reduce the risk of bad credit. However, this has made export MSMEs hesitate to secure bank loans.
4. Incremental collateral  
In addition to the complicated selection process, export MSMEs that submit KURBE must have collateral as collateral or as a guarantor institution. For loans in large amounts, the insurance that must be guaranteed is also primarily because it must be a guarantor in the event of bad credit. This phenomenon is complicated because MSMEs in Indonesia tend to have land and building assets that are privately owned by business owners. If the MSME does not have collateral, it must seek a guarantee institution. Credit guarantee institutions must also pay services each month, and this complicates MSMEs in exports.
5. MSMEs tend not to have collateral/guarantors. Even though Indonesia lowered its credit interest for MSMEs from 12% to 9% in the People's

Business Credit program, the credit interest is still considered far higher than other ASEAN countries. For example, MSME loan interest in Malaysia ranges from 3.5% to 7%, while Singapore is 4% (Kemenkop 2008a, 111).

## **2. Medium Businesses Dominate KURBE Recipients**

The difference in export MSME concept based on annual sales turnover between LPEI and Law No. 20 of 2008 makes an indication that KURBE distribution is not entirely on target. Although export MSMEs require significant funding, the annual sales limit should be similar to Law No. 20. Apart from being due to the sales limit per year and also the complicated selection process for KURBE recipients, this can cause KURBE not to be channeled to micro-scale businesses.

Setting a higher annual sales limit and also a complicated KURBE selection process is a way for LPEI to reduce the risk of bad loans. This medium should not have happened because it could hamper KURBE distribution to export business units that do require export capital assistance. The criteria and evaluation in the KURBE selection must get adjusted to the characteristics and conditions of the actual export MSMEs in Indonesia. If export MSMEs are predominantly having a sales limit of under ten billion, then it should not set a maximum sales limit for micro-businesses in that number. This thing affects the least amount of financing on a medium business scale.

Looking at some of the KURBE acceptance criteria, it can be judged that KURBE recipient companies are reliable companies in terms of management, collateral, and sales. KURBE should also touch the export MSMEs that are still weak in terms of management, finance, and technology. In Indonesia, every year, there is a growth in the number of export-oriented MSMEs. This UMKM is known for being an export-pioneering UMKM because it started export activities from before, which carried out domestic scale trading activities. Based on data from the Ministry of Cooperatives and SMEs, in 2016, there were 40 export-pioneering MSMEs. It is this pioneering export MSME that requires KURBE financing because these export-pioneering MSMEs are deemed not to have enough experience in international trade. This event makes it possible for pioneering export MSMEs to fail in international payments. Besides that, pioneering export MSMEs are not yet secure in capital or technology, and this is important in the provision of CIE to pioneering export MSMEs. So KURBE is not only distributed to export MSMEs that have passed the qualification because it is likely that the company is a middle-class company. While the micro-business unit and in the pioneering stage of export also need export credit assistance.

## **3. KURBE Recipient Export Commodity Issues**

LPEI and the government should have closely watched the development of potential commodities in international trade. So far, Indonesia's leading export commodities are based only on the potential of natural resources owned by MSMEs in Indonesia. A wealth of specific natural resources that eventually became Indonesia's leading commodity, for example, Indonesia is rich in marine resources, so fisheries are Indonesia's leading export products, though not necessarily following current international sales trends.

Weaknesses in Indonesian exports are due to a plentiful supply in certain commodities. It also can be concluded that the product is capable of becoming a

leading export commodity, whereas, in international trade, there is no guarantee that Indonesia's superior product has high competitiveness. Exported products will also be better if the semi-finished product or finished product because it has a higher economic value. But this also becomes an obstacle because the use of technology that is still low makes MSME goods or products exported raw.

Not much data shows the linkage of KURBE recipient MSMEs with multinational industrial companies. There are only two UMKM exporters of KURBE recipients who are suppliers of the industry abroad. The two MSMEs are suppliers of electrical equipment and automotive components. Besides, the UMKM exports KURBE recipients export raw goods and finished goods such as furniture. This event shows that Indonesia's export MSMEs have not got much involved in the supply of global trade.

In global trade, there is a shift in commodity patterns that favor semi-finished products compared to raw products. This shift in trade patterns is a challenge and also an opportunity for SMEs. The problem that must be faced by MSMEs and the government is how to encourage export-oriented MSMEs in Indonesia to start producing components of large industrial goods. Of course, this is not easy because Indonesia tends to export raw products, and the use of technology is still low. But this shift in trade patterns must also be seen as an opportunity because Indonesia has very many MSMEs. If MSMEs in Indonesia are adequately empowered, they will have high competitiveness and be able to play a role in global supply.

The KURBE program must run effectively to encourage MSME exports. KURBE distribution must be following the conditions and characteristics of export MSMEs in Indonesia. For example, in terms of technology use, export MSMEs in Indonesia, on average, still use low technology (Basri 2009, 32). LPEI, as a KURBE distributor, must disseminate to export MSMEs to take advantage of export investment loans to increase the use of technology in their business. So that the goods produced by export MSMEs can be more competitive globally.

## **5. Conclusion**

In encouraging the Indonesian economy, the government issued various economic policy packages. The financial package volume 11 is a policy specifically designed to promote national exports—this economic policy implemented through the Export-Oriented People's Business Credit (KURBE) program. The KURBE program provides financing for export capital loans and export investment loans to micro, small, and medium enterprises (MSMEs) in Indonesia.

KURBE financing channeled through the Indonesian Export Financing Agency (LPEI). LPEI has a 5C scheme, which is a scheme to assess the feasibility of MSMEs that will receive KURBE. LPEI has funded a total of 60 export MSMEs during 2016. The KURBE funds channeled throughout 2016 amounted to Rp 830 billion but have not met the government's target, which aims to channel loans of two trillion.

The purpose of the KURBE program is to increase MSME exports through lending to MSMEs. But MSME export growth has not shown a significant increase. MSME exports grew by only 3% in 2016 and over the past five years, no more than

1%. Besides, the number of export MSMEs in Indonesia has increased very little. Whereas through KURBE, it expected that many domestic MSMEs would begin to change into export-oriented MSMEs.

The MSME export growth, which is not too significant, shows that the KURBE program has not been able to encourage an increase in exports. LPEI, as a distributor of KURBE and the KURBE program itself, still faces various obstacles and challenges. UMKM export recipients of KURBE are still too few, namely, only 60 MSMEs when compared to all export MSMEs in Indonesia. This event is one of the factors that make the KURBE program ineffective. Besides the problem of lack of socialization about the KURBE program, differences in the definition of export MSMEs and complicated KURBE submission requirements also make this KURBE program less effective for MSME export growth.

Suggestions submitted to all agencies related to the KURBE program such as LPEI, the Ministry of Cooperatives and SMEs, the Association of UMKM, and UMKM export-oriented to be able to work together to improve the effectiveness of the KURBE program. There needs to be clear data transparency so that KURBE policies and applications can be reviewed by the community to encourage improvement from the KURBE itself going forward. It is also vital to expand socialization related to the KURBE program so that it can be known by the public and export MSMEs throughout Indonesia. The KURBE program has good objectives, and it would be better if it were implemented with the right methods and methods so that the purposes of this program could get achieved well.

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## **Interview**

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