

# AID-FOR-TRADE: CASE STORY

## INDONESIA

### INDONESIA ENTERPRISE AND AGRICULTURAL DEVELOPMENT ACTIVITY (SENADA)

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## EXECUTIVE SUMMARY

The Indonesia Enterprise and Agriculture Development Activity (SENADA)<sup>1</sup> was a four- year project conducted by USAID and the Government of Indonesia to assist Indonesia's economic growth and employment by improving the competitiveness of major labor-intensive light manufacturing industries.

Five industrial sectors were selected as the target of the program, namely: Footwear, Auto Parts, Garments, Home Accessories and Information Communication Technology (ICT). The company, Development Alternatives Inc. (DAI) was appointed by USAID to implement and oversee the project.

The project involved engaging with Indonesian industry leaders and encouraging promising industries to take advantage of new markets. The overall objective of the project was to reinvigorate Indonesia's business climate, attract more investment to the country and thus generate economic growth, employment opportunities, and prosperity.

The project analyzed six factors for competitiveness and examined the key challenges facing Indonesia's light manufacturing industry. The competitiveness factors were identified as follows; improving business regulations; attuning to the markets; upgrading production standards; fostering innovation; bridging the ICT gap; and building strong industry institutions.

Many activities were implemented by the project with a view to improving these competitiveness factors. These included training, regulatory mapping, exhibitions, and the dissemination of innovation-related information. Targets and performance indicators in each industrial sector were also put in place. In some sectors, the specified targets were met or even exceeded, while in others, objectives were not reached successfully.

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<sup>1</sup>SENADA was originally designed to cover manufacturing as well as agricultural industries. Later, due to unforeseen factors the project only covered major labor-intensive manufacturing industries.

The success stories of the project were indeed encouraging but a number of problems did result in making the project less effective. Improvements in some areas are necessary to make similar projects much more effective in the future.

### **Issues Addressed**

SENADA was a project implemented by USAID to enhance the competitiveness of Indonesian industrial sectors dealing in footwear, auto parts, garment, home accessories and information communication technology (ICT). This project set out to do this by strengthening six key factors, namely improving business regulations; attuning to the markets; upgrading production standards; fostering innovation; bridging the ICT gap; and building strong industry institutions.

### **Objective Pursued**

To stimulate Indonesia's economic growth and employment by improving the competitiveness of major, labor-intensive light manufacturing industries.

### **Design and Implementation**

The project involved engaging with Indonesian industry leaders and encouraging promising industries to take advantage of new markets. The overall objective of the project was to reinvigorate Indonesia's business climate, attract more investment to the country and thus generate economic growth, employment opportunities, and prosperity.

This diagram below outlines how the SENADA project worked:

<b>Competitiveness Factor</b>	<b>Industrial sector/ Government Institution</b>	<b>Activities</b>
<b>Improving Business Regulation</b>	<ul style="list-style-type: none"> <li>▪ BAPPENAS</li> <li>▪ Ministry of Industry</li> <li>▪ Local Government</li> <li>▪ Business Association</li> </ul>	<ol style="list-style-type: none"> <li>1. Facilitated small and medium-sized enterprises (SME) business growth in East Java by increasing access to three mandatory business licences and tax identification numbers.</li> <li>2. Intensive training programme in the United States for 20 Indonesian professional to study Regulatory Impact Analysis (RIA)</li> <li>3. Collaborated with the Indonesia furniture industry and handicraft association (ASMINDO) and later the government Customs and Excise department to address the burdensome and costly process of importing product samples from international buyers</li> <li>4. Work with the export/import association to change the costly and anti-competitive tariff structure applied to less than container load (LCL) container freight handling services</li> <li>5. Initiative focused on the recently passed shipping law, which dramatically reorganized how ports are managed and mandated the use of private port management facilities</li> <li>6. Focused on a regulated reform initiative to improve building and land use permits</li> </ol>
<b>Attuning to the Markets</b>	<ul style="list-style-type: none"> <li>▪ Footwear Association</li> <li>▪ Garment Association</li> <li>▪ Furniture Association</li> </ul>	<ol style="list-style-type: none"> <li>1. Provided strategic guidance, skills training, and concrete tools to strengthen Indonesia's international marketing capacities</li> <li>2. Created and opened up marketing channels through which a process of continuing communications and learning could take place (ex. Eco Exotic)</li> </ol>

	<ul style="list-style-type: none"> <li>▪ Home Accesories Association</li> <li>▪ Automotive Association</li> <li>▪ Ministry of Industry</li> </ul>	3. Developed marketing and export manuals, tools, and other information materials, and carried out more than 40 workshop and seminars to inform Indonesia's businesses and other stakeholders about market trends, designs, production standards, and other market expectations and requirements
<b>Upgrading Production Standards</b>	<ul style="list-style-type: none"> <li>▪ Automotive Association</li> <li>▪ Garment Association</li> <li>▪ Furniture Association</li> <li>▪ Home Accesories Association</li> <li>▪ Ministry of Industry</li> </ul>	<ol style="list-style-type: none"> <li>1. Focused on developing and transferring highly relevant, practical tools based on sound assessments of international standards and local industry needs</li> <li>2. Focused on building local institutional capacity to implement and sustain production under activity above</li> </ol>
<b>Fostering Innovation</b>	<ul style="list-style-type: none"> <li>▪ Automotive Association</li> <li>▪ Garment Association</li> <li>▪ Home accessories Association</li> <li>▪ Ministry of Industry</li> </ul>	<ol style="list-style-type: none"> <li>1. Supported the creation of a new design center</li> <li>2. Disseminated information about innovation to a broad audience of business people, government employees, and development practitioners through the monthly publication <i>Competitiveness at the Frontier</i></li> </ol>
<b>Bridging The ICT Gap</b>	<ul style="list-style-type: none"> <li>▪ Industry associations and organizations</li> <li>▪ Ministry of Industry</li> </ul>	<ol style="list-style-type: none"> <li>1. Developed new ICT business applications</li> <li>2. Increased ICT literacy in SMEs</li> <li>3. Facilitated market transactions between ICT service vendors and SMEs in need of services</li> </ol>
		Attempted to foster and improve working

<p><b>Building Strong Industry Institutions</b></p>	<ul style="list-style-type: none"> <li>▪ Footwear Association</li> <li>▪ Home accessories Association</li> <li>▪ Garment Association</li> <li>▪ Automotive Association</li> <li>▪ Furniture Association</li> <li>▪ Ministry of Industry</li> </ul>	<p>relationships with all of the major representative associations regardless of their relative strengths and weaknesses.</p>
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**Problems Encountered**

- The duration of the SENADA programme (four years) was not enough to increase Indonesia’s economic growth, thus this initial objective was too ambitious.
- Progress under the Industry Value Chain Strengthening (IVCS) component was stalled due to management issues, including the lack of time and commitment the original Chief of Party (COP) invested in this component.
- SENADA’s service was limited to selected industries .
- The global economic crisis was taking place between 2007-2009.
- Initially there was lack of communication due to a change in key project personnel from the SENADA team. This meant that the in-depth monitoring and evaluation was unable to be carried out by the implementing agency.
- There were many cross-sectoral issues to be solved to achieve value chain competitiveness.

**Factors for Success/Failure**

**a. Factors for success**

- The design approach was suitable and relevant for resolving development problems.

- Financial and contracting regulations were respected and the reporting was in compliance.
- A good understanding of the progress made and goals achieved.
- Different specialization approaches were applied in each sector.
- The short-term objectives were not too ambitious.
- Strategic partnerships were built and contributed to the achievement of the goals.
- Active engagement of stakeholders including government and private sectors.
- Recruitment of a substantial number of young national experts who will retain institutional memories of project experience.

**b.Factors for Failure**

- The global economic slowdown in July 2009, resulted in a sharp decline in employment growth.
- The level of education and experience of the beneficiaries was varied.



## 2. Result achieved

Sub Program	Result Achieved
Enterprise Improvement (EI)	<ul style="list-style-type: none"> <li>▪ Sales, productivity, and employment increased;</li> <li>▪ Export deals created</li> </ul>
Business Licensing Program (BEE)	<ul style="list-style-type: none"> <li>▪ Number of formalized business increased</li> <li>▪ Increased access to microcredit</li> </ul>
Qseal national seal of quality	<ul style="list-style-type: none"> <li>▪ Firms standards and production capacity upgraded</li> <li>▪ Sustainable Industry support institution created.</li> </ul>
Automotive technical training service provider directory	<ul style="list-style-type: none"> <li>▪ Business technical service provision strengthened</li> </ul>
Legal wood upgrading (home accesories)	<ul style="list-style-type: none"> <li>▪ Number of firms obtaining VLO and/or FSC certification</li> <li>▪ Export sales generated</li> <li>▪ Productivity gains</li> </ul>
Business Innovation Fund (BIF)	<ul style="list-style-type: none"> <li>▪ Industry Innovation Improved</li> </ul>
Market linkage program (Garment IVC)	<ul style="list-style-type: none"> <li>▪ Access to market information strengthened</li> <li>▪ Value chain market linkages strengthened</li> </ul>
International Global Sourcing Center	<ul style="list-style-type: none"> <li>▪ Access to export market information and procurement opportunities increased</li> </ul>
Decentralization of waivers for furniture samples (BEE)	<ul style="list-style-type: none"> <li>▪ Furniture import waiver process decentralized</li> </ul>
Subcontractor performance management	<ul style="list-style-type: none"> <li>▪ Subcontractor performance management of targeted lead firms strengthened</li> </ul>
Garment partnership Indonesia	<ul style="list-style-type: none"> <li>▪ Firm-level competitiveness improved</li> </ul>
Business innovation competition	<ul style="list-style-type: none"> <li>▪ Innovation fostered</li> </ul>
Eco exotic market expansion activities (home accesories)	<ul style="list-style-type: none"> <li>▪ Export sales generated. There was a 9.8 percent increase in exports by eco exotic members.</li> <li>▪ International recognition and market access achieved</li> </ul>
Sustainable practices upgrading (home accesories)	<ul style="list-style-type: none"> <li>▪ Sustainable production practices improved</li> </ul>
Reg-map regulatory analysis	<ul style="list-style-type: none"> <li>▪ Priority burdensome regulation identified</li> <li>▪ Indonesian government capacity and political will to enact regulatory analysis increased</li> </ul>
Industry attachment program (IAP)	<ul style="list-style-type: none"> <li>▪ Future ICT human resource capacity increased</li> <li>▪ Firm ICT literacy increased</li> </ul>

Container handling freight price reform (BEE)	<ul style="list-style-type: none"> <li>▪ Tariff structure for LCL-CFS lini 2 Tanjung Priok port improved</li> </ul>
Shipping Law and Port Development	<ul style="list-style-type: none"> <li>▪ Critical milestone to modernized port infrastructure investment in Central Java achieved</li> </ul>
Building and land use permits reform	<ul style="list-style-type: none"> <li>▪ Regulation related to disturbance permits improved</li> <li>▪ Regulations related to building (IMB) permits improved</li> </ul>
ICT market linkage program	<ul style="list-style-type: none"> <li>▪ Sustainable market linkages built between ICT suppliers and SMEs</li> </ul>

## Lesson Learned and Recommendation

### a. Lessons Learned

- a. The time period allocated to the project was not sufficient to demonstrate clear evidence of success.
- b. There needs to be more effective engagement with appropriate government institutions to promote the project.
- c. The Value Chain Approach was far superior to other approaches aiming to improve industry competitiveness.
- d. The assesment of national and local regulations contributed to the creation of a more condusive business environment.
- e. The Business Innovation Fund (BIF) has proven beneficial for the initiation of new entrepreneurs.

### b. Recommendations

- a) Innovation should be a priority within the cross-cutting programme so as to have more impact on economic growth.
- b) The duration of the project should be longer to achieve optimum results

## **Conclusion (applicability to other programs)**

The Indonesia Enterprise and Agriculture Development Activity (SENADA) was a four- year project conducted by USAID and the Government of Indonesia to assist Indonesia's economic growth and employment by improving the competitiveness of major labor-intensive light manufacturing industries.

Five industrial sectors were selected as the target of the program, namely: Footwear, Auto Parts, Garments, Home Accessories and Information Communication Technology (ICT). The overall programme design was relevant to the needs of Indonesia and positive results were achieved.

Much has been learnt from the set-up and implementation of the SENADA project.

However a number of problems in various sectors did made the programme less effective. It is crucial that issues such as SENADA's service to selected industries only and the period of implementation are addressed in order to make the project more flexible and effective for similar aid programmes in the future.