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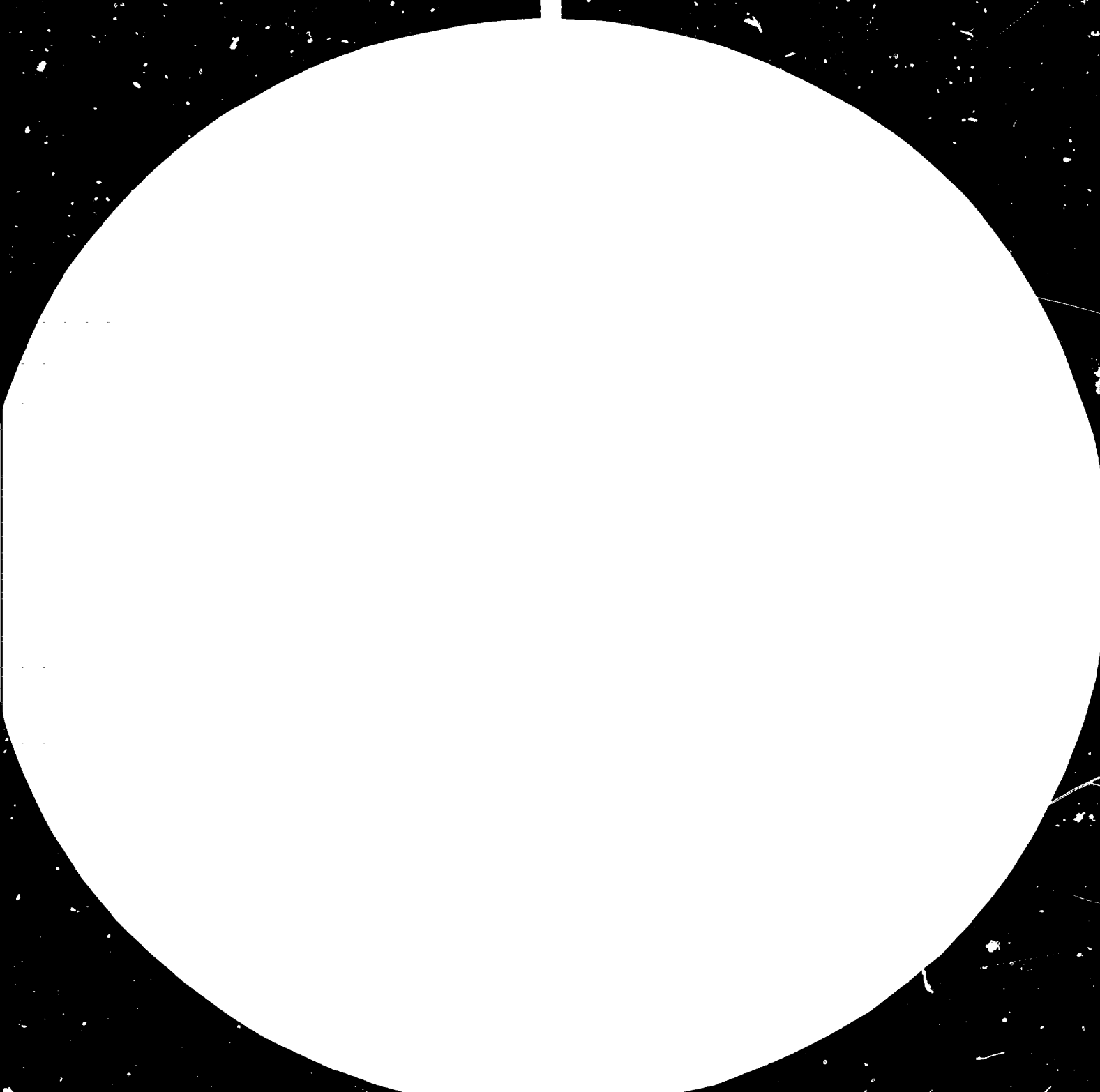
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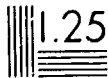
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SMALL INDUSTRY DEVELOPMENT PROGRAMME,

INDONESIA COUNTRY PAPER *

by

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CHAPTER I. P R E F A C E

The Indonesia Long Term objective is to build an economic structure in which agriculture, industry and services are balanced. In order to attain this long-term objective, the process of development must take place gradually. At present emphasis is still placed primarily on agriculture but the industrial sector must become the supporting sector and a stimulant to agricultural development.

At the same time preparations are being made to develop industry more extensively in the future.

Afterwards, part of the population living from sectors beyond agriculture will increase, export compositions will also change, which results in increasing the Indonesian export of processed materials and finished goods.

In carrying out developments, technology and science will be implemented paying more attention to conditions as for giving much employment opportunities, improvement of labour productivities, using as much as possible domestic made tools and be able to do the maintenance. But it is necessary to do efforts in controlling important branches of production by the State which is vital for the economic development of the Nation.

Finally, a balancing economic structure, in which a strong and dynamic industrial growth exist, sustained by the similar growth of a strong agriculture, should be achieved.

CHAPTER II. INDUSTRIAL DEVELOPMENT POLICY FOR THE THIRD FIVE YEAR
DEVELOPMENT PLAN - REPELITA III, 1979 - 1984

As mentioned before, similar to each stage of development, stipulated in the General Pattern of Long Term National Development Plan, the Third Five Year Development Plan is also aimed at :

- First : Improving Living standard, improving intelligence and social-welfare of the society, which should be more and more equal and just.
- Second : Laying down a strong basis for the following stage of development.

In the frame work of balancing Indonesia economic structure, the Third Five Year Development Plan puts priority on economic development, with emphasis on the development of agricultural sector aiming at self-reliance in food production by improving the industrial sector, which process raw materials into semi finished and finished products.

The development of large, medium, small and traditional sector of industries will be expanded for the purpose of expanding employment opportunity and domestic production, as well as for balancing economic structure based on industries sustained by a strong agricultural sector.

It is affected, however, that the "multiplier effect" of development activities will increase employment opportunities. This applies especially to the medium and small industries.

Likewise, the production growth is applied to generate selfhelp, intention and participation of the whole private sector in the society.

The role of foreign capital is applied in sectors, in which production could not sufficiently meet the domestic demand or in sectors which expand their export, paying attention at public interest and the development of national enterprises.

Development and utilization of capital incentive technology will be aimed at activities where labour intensive technology is not available, or for regions with scarcity of man power.

Efforts in regional development and expansion of employment opportunities are generated through dispersion and development of industrial villages, matching with the natural resources and living Environment, aiming at the improvement of a much better standard of living throughout Indonesia. It is necessary to improve programmes in increasing earnings of groups of community which still have low incomes i.e. fishermen, craftworkers etc.

It also necessary continuations of programmes which give much more opportunities to the economically-weak-small entrepreneurs to expand and to improve their business, among other things by way of strengthening capital, improving their skills and abilities and by expanding their market.

Development in agriculture will still be continued in the frame work of increasing food productions, increasing exports, increasing farmers income and for creating a strong support for industrial development.

With the above assessment, the task or role of industry for the Third Five Year Development Plan could be summarized as follow :

- a). In general, efforts in industrial development will be stressed on industry which process raw materials to semi finished and finished goods.
- b). Directing industrial development into the development of medium and small industry, which have a labour intensive character, for attaining employment opportunities and for creating a much more wide basis for development of the industrial sector and its further growths.
- c). Making efforts in order to make the development of large and medium industry able to stimulate the growth of small industry and to fill the needs of each other.
- d). Making efforts for creating industrial estate in certain regions, to realize industrial dispersion to the regions, still taking into account the principles of economic efficiency.
- e). Paying attention to industries, whose production is in demand by the majority of the people to conform with the pattern for plain living, besides avoiding disturbance for the growth of luxurious consumption.

f). More industrial development, which supports agricultural sector, i.e. agricultural tools industry, fertilizer, insect repellent, processing of agricultural production for the strengthening and steadiness of agricultural sector able to growth as a sustaining element for the industrial sector development.

A healthy industrial climate will be created by way of making efforts for safety and security of undertakings, simplification in licencing procedure etc.

The development of the economically-weak-groups will be implemented, among other things, by way of credit assistance under soft conditions, expert assistance, extension services and through other means of efforts in the frame work of entrepreneurship growth and development.

CHAPTER III. BASICS OF THE SMALL INDUSTRY DEVELOPMENT POLICY in the
THIRD FIVE YEAR NATIONAL DEVELOPMENT PLAN

1. TARGETS to be achieved

The targets of development to be achieved in the small industry sub-sector are stipulated as follow :

- small industry industrial growth with 6% - 7% per annum
 - generation of 434.000 new employment opportunities for the plan period
 - increase in capital investment with the amount of 90 billion rupiahs (\$ 144 million)
 - increase in value added with the amount of 60 billion rupiahs (\$ 96 million)
- (based on 1975 constant price).

2. THE APPROACH

The Directorate General of Small Industry formulates policies for the development of small industry in the Third Five Year National Development Plan by utilizing 3 approaches i.e. functional approach, sectoral approach and regional approach.

The functional approach reflects the various efforts in development, covering programmes for creating industrial climate and assistance giving opportunities for development objective for the small industry.

The sectoral approach reflects priorities for developing kinds of commodities in each sector, which hopefully have a fast development.

The regional approach gives opportunities for a matching small industry development in a region and its linkage with other regions, with optimum use of the available resources.

3. AREA OF ACTIVITIES

The area of activities in the development covers the whole small industries, conform with as mentioned in the Minister of Industry's Decree Number 176,1978 and Number 133,1979, where criteria and definition of small industry are stipulated as follows :

- investment in machines/equipment, except land and building, must be not more than 70 million rupiahs (+\$110.000)
- investment per man power must be not more than 625.000 rupiahs (\$ 1.000)
- owned by Indonesian Nationality.

Conform with the Pattern of Industrial Development in the Third Five Year National Development Plan, the small industries are grouped into 4 criteria as follow :

1. Small industry, with production linkage to the large and medium industry. (Sub-contracting).
2. Small industry, self owner, with production to fulfil the direct needs of the consumers.
3. Small industry producing art-production and handicraft.
4. Small industry producing only for local/rural market.

4. STRATEGY AND PRIORITY OF DEVELOPMENT

To achieve targets of development as stipulated above, especially for the expansion of employment opportunities, expansion of production at all sectors and regions is necessary through the possibilities of :

- first : optimizing production capacity of the existing small industry.
- second : to take efforts of industrial expansion by increasing capacity as well as creating new industries
- third : generating the emerging of new entrepreneurs.

Some main supporting factors for implementation strategy mentioned above are :

- a. market expansion
- b. improvement of entrepreneurs
- c. raw materials supply
- d. capital supply for investment as well as for working capital.

In sustaining targets of development in economic growth, various kind of production will be given priority to meet programmes of :

- redeployment
- government purchases
- sub-contracting
- domestic market
- foreign market.

5. FRAME OF THE SMALL INDUSTRY DEVELOPMENT

Various development efforts and assistance were given to small industry by the Ministry of Industry, specially since the Second Five Year National Development Plan, carried out through the BIPIK Project (Project for Guidance and Development of Small Industry), being continued and regularly improved by the Directorate General of Small Industry.

The main activities in development is making efforts in coping with internal and external weaknesses, which will help to creation of small industry industrial-climate, for giving a strong basis and for generating the expected small industrial growth and development.

In great line, the basic of activities which are already implemented or are being implemented, continued and improved can be mentioned as follows :

1. Creation of industrial climate within the small industry, which could provide a strong basis for the life of small industry and could generate also the coming development, so that a balance in the industrial growth could be achieved.

Efforts were done for policy assessment, regulations of laws to protections, desires, facilitates. generations and help cooperation of small industrial efforts.

2. Giving physical aids as well as non-physical for motivation and stimulation purposes of industrial growth and development.

3. In order to be able to run the whole industrial development regularly as well as directed, supporting activities should be implemented in the form of functional as well as sectoral activities.
4. To improve ability of the whole executors, special efforts are being done for improvement of executors at the Central level as well as in the regions, covering perfections and additions in management field, personnel and other activities.
5. Development of small industry areas, among others Mini Industrial Estate, Small Industry Village, and improvement of the existing Service Centers, beside developments in other locations.
6. Utilizing international/bilateral aids, by availing project and technical aids, will be improved by conducting various preparations and research beforehand.
7. Research activities, studies, education and training, guidance and counselling will be improved in cooperation with Research and Development Institutions, Education Units within the Ministry of Industry, Universities and other Institutions.

Cooperations in other fields will be carried out with various existing organizations/councils for example with the National Craft Council, Chamber of Commerce and Industry etc.

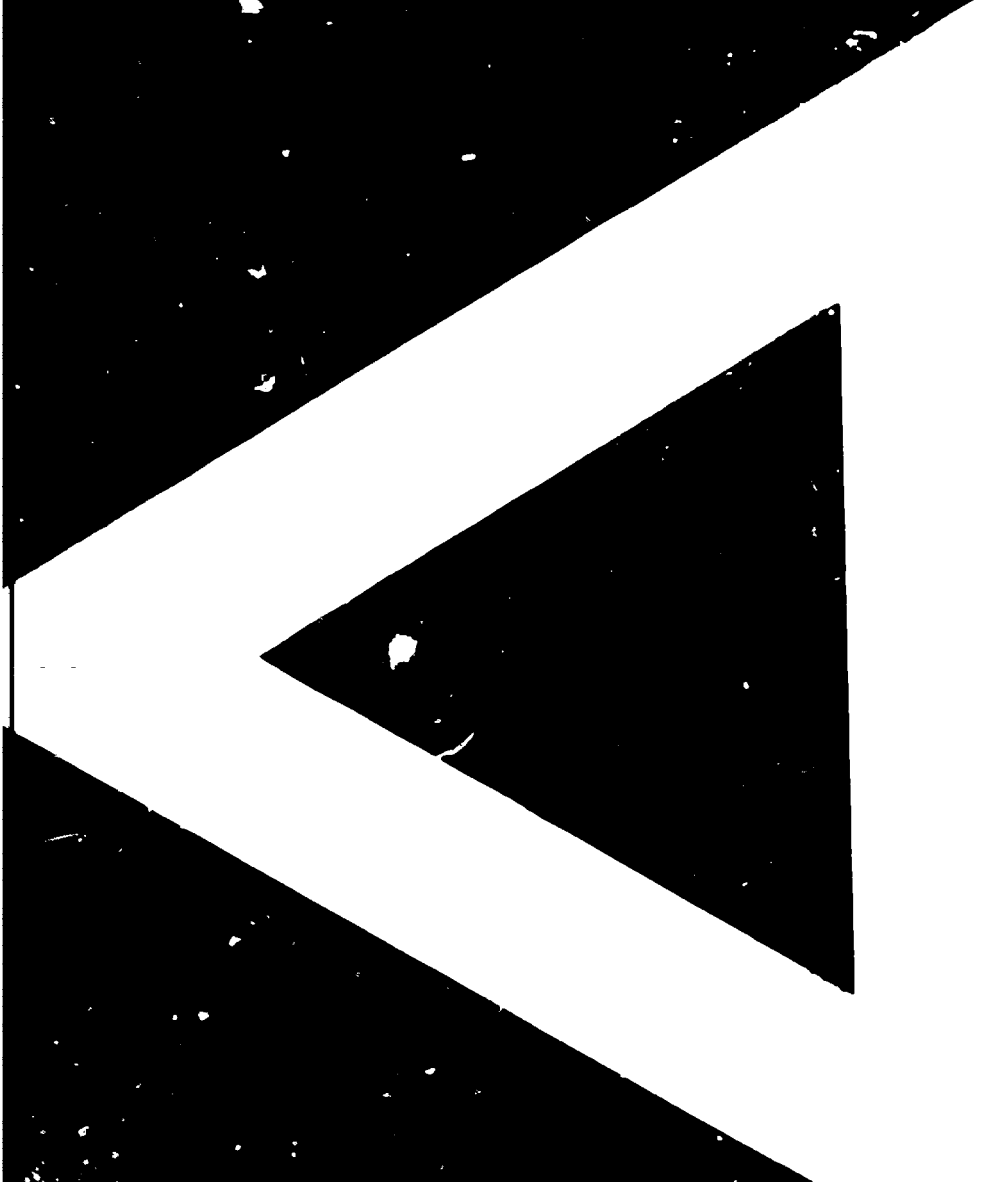
6. TARGETS OF THE ACTIVITIES TILL THE END OF THE THIRD FIVE YEAR DEVELOPMENT PLAN

Base on the Frame of Small Industry Development as mentioned before, targets of activities till the end of the Third Five Year National Development Plan will be as follow :

1. The amount of guided clusters will be increase up to 2.000 clusters. It is expected that this increase could share additional employment for 200.000 peoples.
2. Guidances for small industry, beyond the clusters, will be improved for the whole districts.
It is expected that this activities could share additional employment opportunities for 150.000 people.
3. The development of new small industry, including small industry within the Mini Industrial Estate, will achieve 5.000 new industries which are hopefully able to share employment opportunities for 100.000 peoples.
4. For urging the creation of new industries as mentioned, it is necessary to educate 15.000 would-be entrepreneurs in the field of entrepreneurial techniques, skills, as well as, specially, in motivation and entrepreneurships. Education will also be given to the existing entrepreneurs.
5. 75 Mini Industrial Estates will be created, in regions with densely industries, as means for guidance and for industrial efforts.

6. Technical Service Centers will be created for services to the clusters and also for small industry in regions where Mini Industrial Estate does not exist yet. It is planned that 250 Technical Service Centers during the plan period of the Third Five Year National Development Plan will be hopefully functioning well.
7. To be able to coordinate these various Technical Service Centers a Small Industry Development Center will be created in every regions.
8. For purposes of accelerating guidance and counselling duties, as well as for educations and skills training, 2.650 new Extension Officers will be placed spreaded in the whole Small Industry Development Centers, in the Technical Service Centers as well as in the small industry clusters.
9. To be able to serve Extention Officers and other executor's educations and trainings, 100 trainers and instructors will be trained at the Central level as well as in the regions.
10. For the purpose of market expansion, the amount of Promotion and Marketing Centers and Emporia will be increased to 27 units, spread in every Provinces.
In this chains of activities a Small Industry Information Center will be created at the Central level as a coordinating body for the whole information activities.

11. In the improvement of coordination with the Banks, the amount of the would-be customers will be increased up to 1.500 clusters, in which, hopefully, 50.000 small industry entrepreneurs in these clusters will be reiated.
12. For obtaining good industrial climate, Reservation Scheme for small industry will reach the amount of 250 kinds of products. It is expected, that standards for 400 kinds of small industry products will be carried out.
13. In order to carry out the development activities well good and fast, it is necessary, that work infrastructure for the executors in the whole regions could be completed.-



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