

MICRO AND SMALL ENTERPRISES' EXPORT COMPETENCIES AND COOPERATION IN INDONESIA

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ABSTRACT

Micro, small, and medium enterprises (MSMEs) have an important role in Indonesia to play not only as a source of employment but also growth of gross domestic product (GDP) and exports, specially manufactured goods such as garments, food, footwear, electronics, and crafts. To support MSME exports, the Indonesian government hopes to build stronger collaboration with them. Many journal articles regarding exports of MSMEs have been executed in developing countries. However, no research has been conducted concerning the cooperative role of MSMEs in supporting their exports. Therefore, this descriptive study filled the gap by analyzing the cooperation of MSMEs in supporting their exports in Indonesia by analyzing secondary data from the 2019 Profile of Micro and Small Industries (MSIs) in the Manufacturing Industry from the Indonesian Statistics (BPS) and online database from the Indonesian Minister of Cooperative and Small and Medium Enterprise. Although the data does not provide further information regarding how many MSEs are members of cooperatives who export, the scatter plot in this study shows that there is a positive relationship between the number of MSEs who export and the number of MSEs who are members of cooperatives. Even though other factors had a stronger influence on export competencies, cooperatives still supported MSEs to export their goods. This study contributes to more substantial empirical evidence on the relationship between cooperatives and MSMEs in Indonesia and developing countries.

Keywords: MSMEs, MSEs, MSIs, Cooperative

JEL: F14; O14; G21

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Introduction

Like other developing countries, Indonesia relies on its economic growth to micro-, small- and medium-sized enterprises (MSMEs). MSMEs have significant roles in increasing (i) regional and national economic growth; (ii) employment opportunities outside the agricultural sector (including plantations and fisheries) and mining, especially for the low-educated workforce who only have an elementary to high school diploma; (iii) business opportunities for married women from poor families such as small convenient shops in villages, food stalls, markets, dried cakes and crackers industry, and handicraft industry from bamboo, wood or rattan; and (vi) rural economic development, especially in relatively isolated areas, including hundreds of small islands far from centers of urban economic activity; in addition, MSMEs are

prominent in reducing (iv) the number of people living below the poverty line; and (v) income inequality. The average annual contribution from MSMEs was recorded at around 99% of the number of existing enterprises, and their gross domestic product (GDP) reached between 50% and 60% (Tambunan, 2018).

The Indonesian government expects MSMEs will be actively involved in non-oil and gas export activities, especially those in the manufacturing industry for textiles, ready-made clothing, footwear, food and drinks, children's toys, furniture made of wood, bamboo, or rattan, and other leather goods such as women's and men's bags. However, like many other developing countries, Indonesia has MSMEs that are still weak in exports, including regional/global supply chains. According to the Ministry of Cooperatives and Small and Medium Enterprises, as shown in Figure 1, the ratio of MSME exports to the total value of Indonesia's non-oil and gas exports has never reached 19%. The largest share ever achieved was in 2018 around 18%; after that, it tended to continue to shrink. In 2019, the ratio was only around 15.7%.

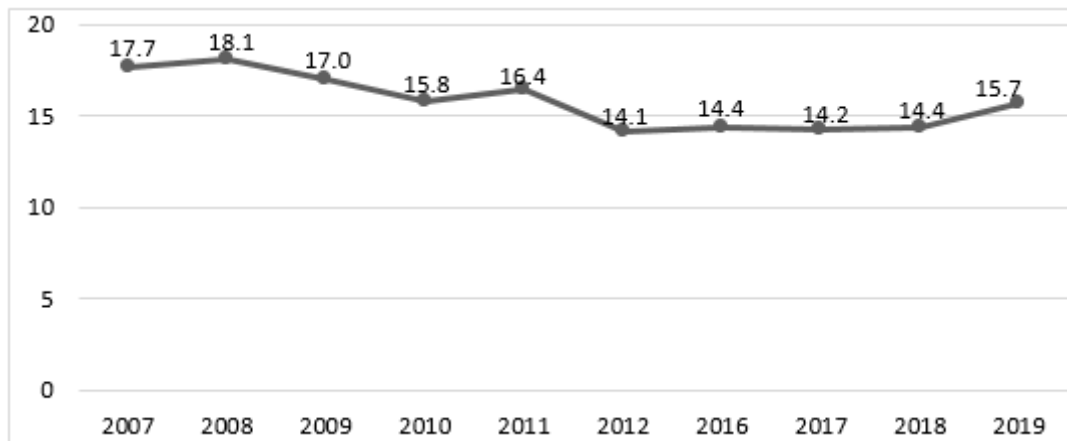


Figure 1: Export of MSMEs, 2007-2019 (% of Indonesia's total exports)

Source: Minister of Cooperatives & SME R.I (<https://kemenkopukm.go.id/kumkm-dalam-angka/>)

As a comparison, data from various sources show that the performance of Indonesian MSMEs in export activities is weak, if not the weakest in the Southeast Asia region. For example, MSMEs in Malaysia contributed almost 19.0% of the total value of national exports, while the share was around 20.0% in Vietnam. In other countries like the Philippines and Thailand, the ratio of MSME exports to national exports is huge or perhaps the highest, ranging from 25.0% and 30.0%, respectively (APEC, 2020; ADB, 2015; ASEAN, 2015a; ASEAN, 2015b; OSMEP, 2015; SME Corp Malaysia, 2015; Tambunan, 2015a, Tambunan, 2015b; Yoshino & Wignaraja, 2015; UN-ESCAP, 2010; Wignaraja, 2012). Unfortunately, these sources do not all differentiate between direct and indirect exports. MSMEs generally face various obstacles to carrying out direct exports, and the percentage of direct exports in Indonesia is smaller than that mentioned here (Tambunan, 2015b; Yoshino & Wignaraja, 2015).

According to the export size adjusted to the company size, the export competencies of MSMEs in Indonesia are relatively low. To date, there has been lots of research on the direct involvement of MSMEs in international trade, especially exports. The focus of existing studies varies. Some research explores the main obstacles experienced by MSMEs in exporting, and others pay special attention to forms of export stimulation, key determinants, underlying processes, and their impact on MSME's performance in making export-related decisions. These studies include to name a few, Breckova (2018), Alam (2017), Mpunga (2016), Arteaga-Ortiz &

Fernandez-Ortiz (2010), Leonidou (2004), Leonidou et al. (2007), and Jones & Coviello (2005). From the findings of these studies in both developing and advanced industrial countries, internal and external factors could influence the MSMEs' ability to do direct export (not in partnership with exporting large enterprises (LEs) under a subcontracting system in which MSMEs make semi-finished products and LEs finalize them into final products for export). Some challenges faced by MSMEs are lack of capital or funding sources; not having access to trade finance; limited knowledge of company owners or managers regarding how to export; not mastering English; lack of networks, especially with potential importing companies or foreign distributors; lack of information about global market; government (institutional) and procedural (bureaucratic) constraints; and lack of ability to produce high-quality products and meet international standards due to, among other things, limitations in advanced technology and the quality of human resources.

Examining some determinants of the export competencies of MSMEs, this study focuses specifically on the importance of cooperatives in supporting the export competencies of MSMEs for two reasons. (i) Empirical studies regarding the importance of cooperatives in increasing MSMEs' export competencies are limited or even do not exist. Second, the Indonesian government urges these enterprises, especially micro and small enterprises (MSEs), to collaborate in many fields, especially in research and development (R&D), procurement of raw materials, production, distribution, and marketing. Moreover, production in MSMEs will never reach a big quantity because their production capacity is limited. This situation can be a serious problem. Not only is the average cost per unit of product relatively expensive but also demands in the export market. Therefore, by building a cooperative between MSMEs, all MSMEs can reach the top in production. At least, theoretically, MSME cooperatives will reduce the average cost of production and increase their level of price competitiveness in the global market, assuming other influencing factors do not change. Cooperatives can also provide other assistance to MSME members such as funding, market information, training, quality assurance, procurement of production machinery and equipment, and technical assistance.

Given the importance of cooperatives in supporting MSMEs exports, this current study focuses on MSE export data due to the absence of export data from medium-sized businesses. It analyzed macro data obtained from the 2020 Report on the Profile of Micro and Small Industries from the Central Bureau of Statistics (BPS). The report gathered the results of the national survey on MSEs in manufacturing. Even though a lot of empirical studies have addressed MSE exports, none of them have explored cooperatives and MSE exports. Previous studies used data at the micro level based on field surveys in certain locations, while the current research analyzed data at the macro level.

Literature Review

Export of MSEs

In general, the MSMEs' market orientation, especially MSEs, is different from the market orientation of LEs. Most MSMEs, especially MSEs, make simple, low-quality goods at low prices (often considered inferior goods) for local consumers, generally from low-income or poor groups. Few MSEs operate in specific industrial groups such as footwear, food, beverages, furniture made of wood, bamboo, or rattan, textiles, and ready-made clothing, leather goods, and handicrafts. Compared to LEs, the number of fully export-oriented MSMEs is much smaller.

Wattanapruttipaisan (2005) studied MSMEs in Southeast Asia and found that the

direct contribution of MSMEs to the region's total export earnings was less than 50% despite variations in percentages by country. This finding is not too different from the latest data available a report from the Asian Development Bank. The direct contribution percentage is much lower, around 20% (ADB, 2020).

According to the World Bank Enterprise Survey, the number of MSMEs whose direct export is at least 10% of their total annual sales varies in the Asia Pacific (AP) region. This export structure can be seen in Table 1. Within the MSMEs, medium enterprises (MEs) are much more capable of direct exports than MSEs, except in Papua New Guinea where direct-exporter MEs are only around 4.9% compared to MSEs at 11.5%. LEs are more capable than MSMEs in direct exports (except Papua New Guinea which had no data) despite variations in the ratio of LEs and MSMEs that carry out direct exports by country. Apart from Papua New Guinea, LEs export a larger share of their total sales than MSMEs. This evidence confirms that carrying out direct exports without intermediaries such as collectors, distributors, or trading companies is much more complicated than indirect exports for most MSMEs that market their products abroad, especially MSEs.

Table 1: Percentage Share of Directly Exporting Firms (A) and Percentage Share of Export in Total Annual Sales of MSMEs (B) by Size and Country in the AP Region (%)

Country	A*				B*			
	MSE	ME	MSME	LE	MSE	ME	MSMEs	LE
Chile (2010)	0.8	3.8	4.6	22.5	0.2	1.5	1.7	5.7
China (2012)	4.6	12.5	17.1	29.4	3.3	5.7	9.0	13.9
Indonesia (2015)	5.3	7.9	13.2	25.2	2.9	5.0	7.9	11.7
Malaysia (2015)	4.3	19.2	23.5	69.0	2.2	7.6	9.8	30.3
Mexico (2010)	0.7	9.1	9.8	15.9	0.1	2.1	2.2	5.6
Papua New Guinea (2015)	11.5	4.9	16.4	..	1.2	2.1	3.3	0.2
Peru (2017)	4.6	16.3	20.9	26.9	2.3	7.3	9.6	12.0
Philippines (2015)	3.9	9.0	12.9	23.6	1.8	6.1	7.9	16.6
Russia (2012)	4.6	5.5	10.1	6.6	2.4	3.1	5.5	1.6
Thailand (2016)	2.2	3.4	5.6	28.1	0.8	2.0	2.8	18.9
Viet Nam (2015)	4.0	11.5	15.5	36.1	2.2	6.6	8.8	21.6

Note : * included only companies with direct exports of at least 10% of their total annual sales

Source : The World Bank Enterprise Survey (www.enterprisesurveys.org)

A lot of published papers regarding the development of MSME exports include those conducted by Hine & Kelly (1997), Revindo et al. (2019), Chandra et al. (2020), Valodia & Velia (2004), Jones & Coviello (2005), Julien & Ramangalahy (2003), Leonidou (2004), Belso-Martinez (2006), Hessels & Terjesen's (2007), Laghzaoui (2007), Leonidou et al. (2007), De Dios (2009), Li & Wilson's (2009), Arteaga-Ortiz & Fernandez-Ortiz (2010), Ottaviano & Martincus (2011), Ottaviano & Martincus (2011), Amornkitvikai et al. (2012), Cardoza et al. (2012), Petrit et al. (2012), Wignaraja (2012), Mupemhi et al. (2013), Hoekman & Shepherd (2013), Fakh & Ghazalian (2014), Harchegani et al. (2015), Nyatwongi (2015), Mpunga (2016), Revindo & Gan (2016), Alam (2017), Breckova (2018), Haddoud et al. (2018), Ribau et al. (2018), Yean & Tambunan (2018), Dabić et al. (2020), Kharel & Dahal (2020), and Madushanka & Sachitra (2021). In general, MSMEs have great potential to participate in international trade, but many obstacles limit their involvement in exports, especially direct exports.

[Valodia & Velia \(2004\)](#) emphasize that some negative factors in the domestic economy hinder the development of MSME exports. These factors include lack of production capacity, high costs of imported raw materials, unstable exchange rates, poor business relations, niche markets where demand is not sensitive to price, inability to make high quality or international standard goods, complicated and expensive licensing/patent processing, company size, and lack of knowledge about international markets. Meanwhile, negative factors in foreign markets comprise of high import tariffs, complicated import permits, non-tariff barriers, anti-dumping measures, unreliable companies as foreign suppliers, and illegal customs control procedures.

[Hine & Kelly \(1997\)](#) say that many internal factors within the company greatly influence the export capabilities of MSMEs. Positive internal factors include attitudes, values, risk perception, continuous learning, managerial and marketing skills, availability of resources (including financial resources), adjustment of organizational structure, and availability and effective use of information. Some studies conclude that the weakness of MSMEs, especially MSEs, in exports is closely related to their size. Company size and the level of export capability have a negative relationship. [Laghzaoui \(2007\)](#), [Ribau et al. \(2018\)](#), and [Dabić et al. \(2020\)](#) conclude from their research findings that small size and limited resources, which are both interrelated, can limit the involvement of MSMEs in exports. Due to the lack of resources such as capital and skilled workers, MSMEs are reluctant to face the risk of export failure, especially for beginners with large risk of failure, and MSEs do not dare to bear financial losses that could exceed their capital.

From the findings of quantitative research on MSME exports by [Alam \(2017\)](#), [Hessels & Terjesen \(2007\)](#), [De Dios \(2009\)](#), [Li & Wilson \(2009\)](#), [Ottaviano & Martincus \(2011\)](#), [Amornkitvikai et.al. \(2012\)](#), [Wignaraja \(2012\)](#), and [Hoekman & Shepherd \(2013\)](#), important factors in MSME exports include government assistance; company (foreign) ownership; municipal location; research and development; skilled labor; firm size, and age; labor productivity; having internationally approved certificates (such as ISO); access to advanced technology, raw materials, market information, bank credit, and international marketing knowledge; investment in product improvement; ICT-based trade facilitation measures; and being located in an export processing zone; and adopting legitimate business or industry practices.

[Revindo et al. \(2019\)](#) differentiate between positive factors and negative factors related to the development of MSMEs exports. The positive factors include having strong network relationships with both formal and informal institutions, age and size of the company (number of employees), the company owner's experience living abroad or working in multinational companies or large-scale exporting companies, merchandise production for foreign buyers with a large portion of Indonesia's national exports, assistance from central or regional government or non-government institutions such as chambers of commerce, business associations, or others (including promotion, business management, finance, and production). Negative factors related to the development of MSMEs exports compose difficulties in overcoming tariff and non-tariff barriers, information and human resource barriers, distribution, logistics, promotion, business environment, procedural and competitor barriers in the host country.

[Julien & Ramangalahy \(2003\)](#) found that MSMEs, especially MSEs, have more difficulty obtaining information and knowledge about foreign markets (for example, the potential and tastes of buyers in export destination countries, the number of competitors and their strengths and weaknesses, regulations, foreign trade in the destination country) compared to LEs. Apart from that, the difficulty of managing overseas activities (promotion, distribution,

and marketing) is caused by the low levels of commitment and export performance of MSMEs. Because of these limitations, industrial clusters are often referred to as an organizational model that allows MSMEs to become exporters. Because they are located close to each other in an area, it makes it easier for individual MSMEs in the cluster to interact and collaborate in terms of innovations, raw material procurement, access to information, funding, training, and others (Belso-Martinez, 2006).

Mupemhi et al. (2013) reveal other positive factors including the availability of funds, management attitudes, knowledge of the market risk perception, international networks, and intensity of competition. Meanwhile, factors with no effect are the age and size of the firms and the technical ability of managers. Fakh & Ghazalian (2014) found that foreign private ownership, use of information and communication technology, and company size had a positive impact on MSMEs' export growth. Meanwhile, government ownership and the size of the domestic market have a negative effect. Other factors having a negative effect include limited access to finance, domestic logistics and distribution inefficiencies, expensive international transportation costs and payment collection costs, and an unfavorable regulatory framework (Cardoza et al., 2012). Moreover, they found that government aid, state participation, and public procurement were not statistically significant. Apart from company size and ownership, the research of Petrit et al. (2012) also found several other positive factors such as sector of activity, availability of external funding, affiliation with business organizations such as chambers of commerce, education level of the workforce, and, to a lesser extent, technology-related factors.

Mpunga (2016) states that important factors are primarily adequate and stable financial capital, knowledge of foreign languages, having the best technology for production, having access to information and communication technology (ICT), information search competence, meeting product standards, strict procedures for foreign goods entering the market. domestically, and no less important are the characteristics of the export market in question (e.g. complicated business laws/regulations, customer indifference to foreign goods, price uncertainty in the export market, level of product competition in the domestic market in the export destination country, and complex travel accreditation). In Revindo & Gan (2016), very important positive factors include the presence of foreign buyers, foreign buyers' trust in the products offered, the strong desire of MSME owners to look for alternative markets, especially abroad, having business networks, especially with distributors or buyers in export destination countries, and disseminating information about foreign markets. Meanwhile, Haddoud et al. (2018) emphasized that ownership of resources and the ability to innovate and market are not necessarily drivers of MSME export tendencies. According to them, this must be complemented by decision-makers who are export-oriented and have relevant attributes in terms of export knowledge and experience.

According to the research findings of Harchegani et al. (2015), some environmental factors such as political, economic, and legal stability, the availability of databases regarding export market tastes, and the attractiveness of export markets are very important. Other important factors include (i) company managers have a strong commitment to exports, for example, the company has a dedicated export unit, makes regular visits to export destination countries, and carries out or uses the results of existing research on export markets; (ii) have an export marketing strategy, for example, product adaptation strategy, price adaptation strategy, product innovation strategy, foreign advertising and new products; (iii) there are incentives to export such as motives for exporting, export problems, and competition; and (iv)

objective characteristics of the company, for example size, export experience, skilled human resources, and adequate finances. Whereas, the results of [Nyatwongi \(2015\)](#) study show that policy and legal frameworks, market information, taxes, technology, finance, and management skills are some important factors that export-oriented MSMEs must have.

[Chandra et al. \(2020\)](#) reviewed the literature regarding the various problems experienced by many MSMEs in developing countries to be involved in international trade. Their aim in conducting such a comprehensive review was to explicitly identify specific factors that have a major influence on the growth of MSMEs and their ability to export, and identify research gaps regarding the internationalization of MSMEs. According to them, there are still many unanswered questions regarding the factors that influence the growth and internationalization of MSMEs in developing countries. At the end of their article, based on the results of the review and identification of research gaps, they provide clear and concise directions for future research in this area.

[Madushanka & Sachitra \(2021\)](#) found that three main factors influencing MSMEs' involvement in direct exports include financial and management capabilities and government policies. Meanwhile, information about the marketing process is a statistically insignificant determinant. Statistically, among these factors, management ability was more important than financial ability because it had the highest beta value ($\beta = 0.487$).

Research findings from [Kharel & Dahal \(2020\)](#) showed that the main challenges faced by MSMEs include (i) lack of trained/skilled workforce; (ii) funding problems, namely burdensome collateral requirements, high credit interest rates, existing concessional export credit schemes but the funding and terms are insufficient, and difficult procedures for gaining access to the cash export subsidy program; (iii) inefficient arrangements for consolidating less than container loads; (iv) provision of inadequate information regarding trading and market intelligence; (v) exorbitant import tariffs on raw materials and semi-finished goods and an ineffective import duty reduction system; (vi) poor information dissemination system regarding existing facilities and incentives; (vii) limited online payment solutions; and (viii) government policy problems, in particular weak public administration capacity in coordinating and implementing trade and industrial policies, policy uncertainty, including policies that affect the effectiveness of trade policy and industrial policy, as well as insufficient policy support in the form of fiscal incentives.

[Sandee & Ibrahim \(2002\)](#) differentiate between supply-side and demand-side barriers in Indonesia. On the supply side, these include expensive transaction costs, large worker wages, and lack of access to formal credit from banks or other non-bank financial institutions. Meanwhile, the obstacle on the demand side is mainly increasingly. For example, tight competition persists in other exporting countries.

Like many other countries, most of the exporting MSMEs in Indonesia are operated within a cluster. Many MSMEs in the cluster that previously only served local or national markets can finally export, either directly or indirectly. However, not all MSME clusters develop well and carry out exports. According to [Tambunan \(2010, 2013, 2015a, 2015b\)](#) and [Perry & Tambunan \(2009\)](#), the advanced ones are mainly enterprises that have long-term business agreements with such as large-sized domestic export-oriented companies (subcontracting arrangements) or domestic trading companies/agents (trade contracts) or distributors in destination countries.

Based on their investigation regarding the main factors that influence the decision and ability of MSMEs to carry out direct exports, [Revindo et al. \(2019\)](#) show that most small-

sized businesses, compared to their larger counterparts, lack the capacity and ability to take advantage of greater foreign market opportunities with increasingly free trade between countries and globalization (including the existence of the ASEAN and APEC (Asia-Pacific Economic Cooperation) communities). Revindo et al. interviewed 271 exporting and 226 non-exporting MSMEs in several provinces on Java Island, Madura Island, and Bali Island. Revindo et al. argue that although the Indonesian government has taken many policy steps to support them, including general assistance (such as access to cheap credit, and providing technical and managerial training), as well as specific export-related assistance (including export promotion, matching, and export procedure training). However, MSME export performance is still relatively bad.

Previous research showed several MSME entrepreneurs who export to Malaysia had a strong business network, especially with importers or distributors in export destination countries, received a lot of training, complied with international quality standards, and had access to market information (Yean & Tambunan, 2018). Meanwhile, Suwandi (2012) concluded three main motivations for MSMEs to export. First, business motivation is related to expanding the market and increasing turnover. Second, a combination of business motivation and social motivation is associated with promoting local community businesses. Third, 'trial and error' in MSMEs is related to trying the global market but still selling in the domestic market.

The Role of Cooperative

Regarding the development of cooperatives and MSMEs, some studies have been conducted by Adedayo et al. (2020), Adekunle et al. (2021), Bakare & Akinbode (2016), Mabula et al. (2020), Nembhard (2014), OECD (2015), and Oluyombo (2013). Most of these studies, however, did not show any empirical evidence of the association between the existence or development of cooperatives and MSME exports. Adedayo et al. (2020) discuss the importance of cooperatives in driving local economic activities in Nigeria by providing various services to their members who own small businesses. Cooperatives have an important task in connecting MSMEs with funding sources, procurement, stockpiling, and distribution of inputs or raw materials needed by its members, and product marketing. Meanwhile, others pay more attention to the role of cooperatives in financing MSMEs. Cooperatives have assisted many MSMEs in developing countries because conventional banks do not give loans to them easily. Mobilizing individual funds for promoting enterprises fundamentally safeguards the members' interests.

APEC in its 2014 report addressed the importance of supporting MSME exports. One of the questions underlying this report is whether MSMEs consider cooperatives as their strategic partners to compete in local or international markets. The report verified the application of cooperative business models (CBM) in Asia and the Pacific regions that joined the APEC and presented some success stories that may contribute to identifying the most important socio-economic drivers for proposing effective models for increasing the competitiveness of products made by MSMEs. The report selected nine member states, i.e. Japan, Canada, Vietnam, Indonesia, Chile, Korea, Peru, Thailand, and Malaysia as case studies. In Chile, agricultural cooperatives help MSMEs compete in international markets such as agro-industry, food, and flower cultivation. Many agricultural cooperatives in these countries are familiar with export culture, and one of their serious challenges is to expand exports and build relationships with MSMEs, especially those oriented to foreign markets. For example, in Canada, many cooperatives actively export manufactured goods and agricultural commodities. Cooperatives play an important role in supporting exports in these sectors.

Theoretical Framework

A theoretical framework was created according to factors that influence the performance or export capability of MSMEs, both directly and indirectly. However, the existing literature still gives very little attention on the role of cooperatives. Theoretically, these factors can be grouped into two categories: market demand-side factors and market supply-side factors (Figure 2). Market demand-side factors (export destination countries) consist of policy factors such as import taxes, as well as trade policies or export-import regulations and non-policy factors such as buyers' income and tastes; relative prices which are influenced by, for example, the prices of goods and services, exchange rates, and production costs; as well as market competition in importing countries. Likewise, market supply-side factors can be differentiated between policy and non-policy factors. Because cooperatives are included as business organizations or private companies in the form of cooperatives, their position is in non-policy supply side factors. At least in theory, foreign market-oriented MSMEs that form a cooperative will be more able/easier to export than those that do not form a cooperative.

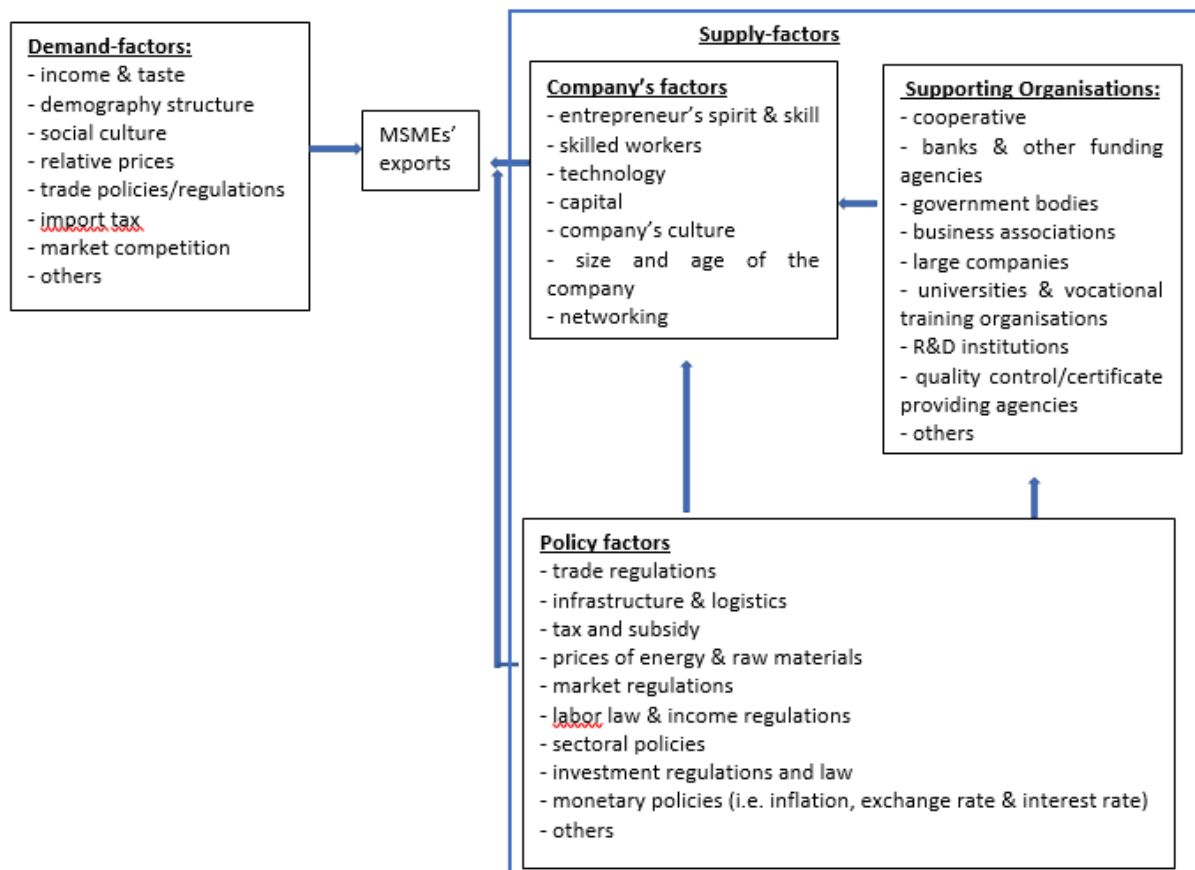


Figure 2: Demand and Supply Determinants of MSMEs' Exports

Methodology and Data Source

As shown in Figure 3, this descriptive study analyzed secondary data from two sources, i.e. the 2019 Survey of MSEs in the manufacturing sector (hereinafter, referred to as micro and small industries/MSIs) from the Indonesian Statistics and cooperatives registered in the Ministry of Cooperatives and SMEs. The first data include the number of MSIs, workers by gender and education, wages, expenses, company income, capital sources, main constraints, partnerships with LEs and other parties, MSIs who are members of cooperatives, MSIs who export, and others. The data were categorized according to the Indonesian Standard Business

Field Classification Code (KBLI) by province. In this survey, micro industries (MIs) were defined as companies with 0 (self-employment) to 4 workers, and small industries (SIs) between 5 and 19 laborers. The second data include the number of cooperatives per province divided into two groups: active cooperatives and non-active cooperatives.

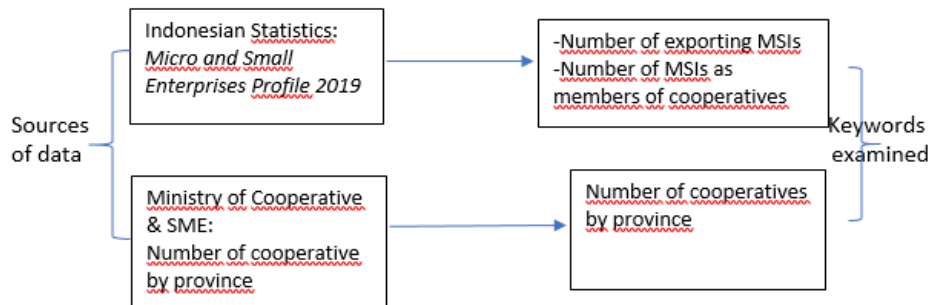


Figure 3: Sources of Data and Keywords

Results and Discussion

Development of Cooperatives

Legally, a business entity in Indonesia is grouped into two categories of companies: (i) state-owned business entities under three levels of ownership: by the central/state government, regional government-owned (provincial or district/city), and village government-owned (lowest level); and (ii) privately owned enterprises (i.e. micro-, small-, medium-, and large-sized enterprises), and cooperatives. By definition, a cooperative is an organization whose main purpose is to improve the welfare of its members. The Indonesian government has a special cooperative law which has been revised several times to adapt to changing times. According to the Law (No. 25/1992), a cooperative is a business entity whose members are individuals or cooperative legal entities whose activities are based on two main principles: (i) cooperation between fellow members, and (ii) a community's economic movement that based on the principle of kinship.

Various types of cooperatives exist in Indonesia, such as producer cooperatives whose members are individual producers (for example, furniture cooperatives or food producer cooperatives); consumer cooperatives whose members can be anyone; multi-business cooperatives which members are business actors, generally from micro and small scale enterprises (MSEs); and savings and loan cooperatives, also known as credit cooperatives or microfinance institutions based on cooperative legal entities, which are open to everyone (producers, consumers, employees, traders, housewives, farmers, and others). Savings and loan cooperatives are the most popular type of cooperative and have the largest number, reaching more than 7 million units in 2021 (Central Bureau of Statistics, 2022), compared to other cooperatives. As the name suggests, this type of cooperative provides money loans and a place for its members to save their money. Therefore, the Indonesian government considers the Savings and Loan Cooperatives (KSP) capable of financing MSMEs activities. In contrast to conventional/commercial banks, this type of cooperative can adapt to the rhythm and character inherent in MSMEs.

National data on cooperatives and their profiles were provided by the Ministry of Cooperatives and SMEs. The ministry differentiates between active cooperatives and inactive cooperatives. Active cooperatives are cooperatives that hold member meetings (RAT) every year. Before 2016, the available data covered both types of cooperatives, but the ministry only provided data on active cooperatives in subsequent years. Figure 4 shows the number of

cooperatives increases every year (except 2016), and a comparison between data from 2000 to 2016 and those from 2017 onwards indicates that the number of non-active cooperatives is greater than active cooperatives.

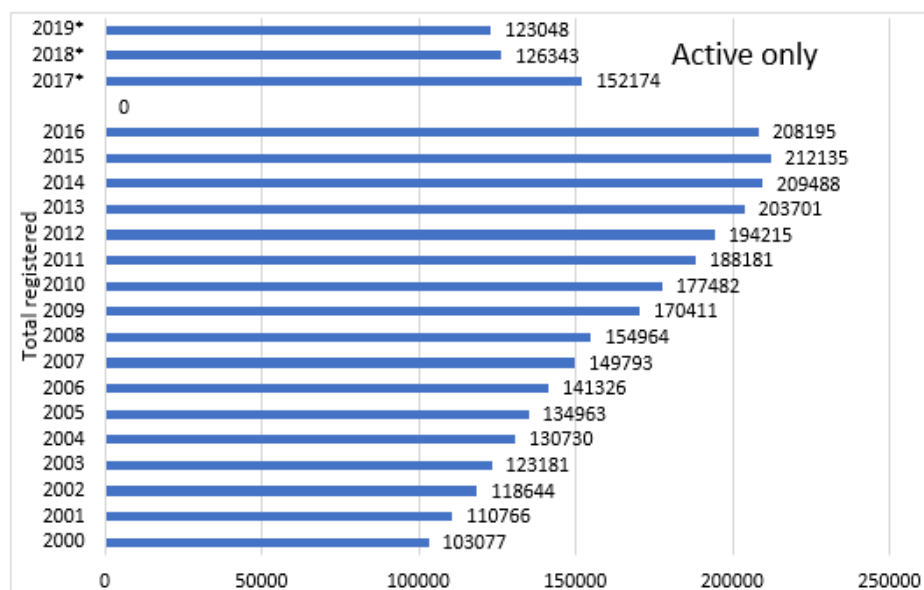


Figure 4: Number of Cooperatives in Indonesia, 2000-2019

Source: Minister of Cooperatives & SME R.I (<https://kemenkopukm.go.id/kumkm-dalam-angka/>)

The number of active cooperatives and their profiles vary by province (Table 3). Theoretically, the number is influenced by the level of provincial economic development which can be seen from the value and growth rate of gross regional domestic product (GRDP), the economic structure of the province (percentage of GRDP distribution by sector), the level of community welfare (or real income per capita), the number of people living under the applicable poverty line (poverty level), market opportunities, institutions, infrastructure, population size and structure, government regulations especially in trade, production, taxes, prices and cooperatives, as well as the average level of community's education. All these factors directly and indirectly influence the development of cooperatives in a region.

Table 3: Active Cooperatives and Their Profiles in Indonesia by Province, 2019

Province	Total Cooperatives	Total Members	Asset Value (IDR billion)	Business Value (IDR billion)
Aceh	4,115	122,459	741.19	858.34
North Sumatera	4,199	929,962	7,958.32	5,658.11
West Sumatera	1,919	313,950	4,278.84	4,147.75
Riau	2,946	354,314	3,211.44	2,961.37
Jambi	2,540	102,262	766.35	896.06
South Sumatera	3,888	283,238	2,474.05	1,934.59
Bengkulu	1,883	79,182	700.51	468.55
Lampung	2,075	909,361	3,265.91	2,804.70
Bangka Belitung Islands	651	68,069	500.30	504.96
Riau Islands	884	63,523	662.66	593.45
Jakarta	3,447	1,264,944	13,350.61	16,564.90
West Java	13,247	2,040,509	16,072.55	17,670.56

Province	Total Cooperatives	Total Members	Asset Value (IDR billion)	Business Value (IDR billion)
Central Java	13,164	5,742,018	25,967.91	24,287.94
Yogyakarta	1,751	857,104	4,061.90	4,491.04
East Java	21,757	3,620,213	26,275.32	28,116.74
Banten	3,881	875,844	4,427.89	4,338.46
Bali	4,244	1,108,238	14,294.46	13,444.46
West Nusa Tenggara	2,396	317,182	1,548.61	1,276.63
East Nusa Tenggara	2,697	703,337	3,022.14	2,590.38
West Kalimantan	2,935	1,203,533	5,968.76	8,529.44
Central Kalimantan	2,510	235,002	2,296.64	2,577.49
South Kalimantan	1,721	198,855	1,562.38	1,015,792.74
East Kalimantan	2,906	211,495	2,792.58	2,019.61
North Kalimantan	476	26,981	350.42	176.30
North Sulawesi	3,620	65,765	335.19	337.21
Central Sulawesi	1,429	132,214	805.56	1,022.22
South Sulawesi	4,966	374,806	2,923.26	3,326.60
Southeast Sulawesi	3,051	65,999	436.74	917.73
Gorontalo	884	46,193	243.25	198.29
West Sulawesi	837	18,788	109.91	273.97
Maluku	2,373	33,786	168.24	186.12
North Maluku	917	24,434	137.72	182.91
Papua	2,131	59,836	347.07	297.56
West Papua	608	10,342	54.50	48.32
Total	123,048	22,463,738	152,113.14	154,718.53

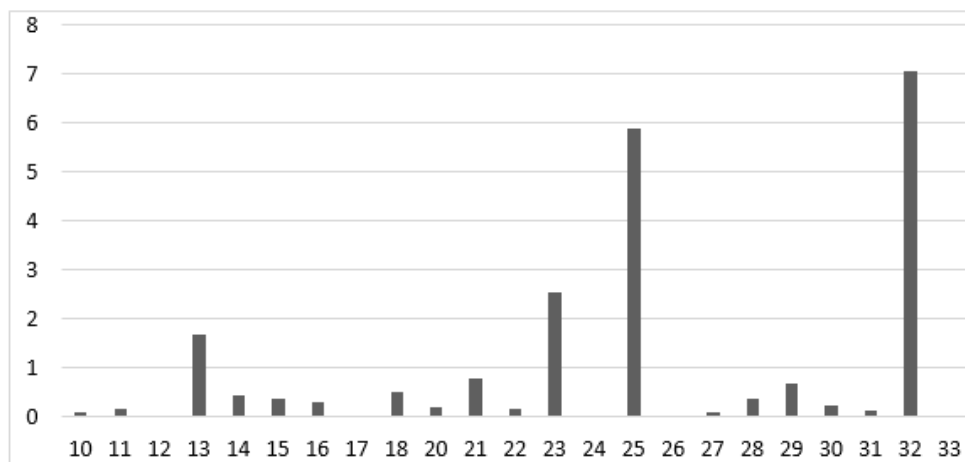
Source: Indonesian Ministry of Cooperative and SME (www.depkop.go.id).

Export performance

Although the percentage differs according to industry group, in general, the main market for MSI products is the district/city market. The share was recorded at more than 89% in 2019. Meanwhile, marketing outside the district/city was good, but it was recorded at around 7.57% in the same province. The marketing in other provinces on the same island (for example Java) or other islands such as Sumatra, Kalimantan, and Sulawesi was still less developed below 3%. Meanwhile, only 0.50% of MSI's total products went to foreign markets.

Only about 0.66% of the total number of MSIs or 29,071 companies was exported. However, the share varies between industry groups (Figure 5). Apart from category 33 (other processing industry), the largest number of exporting MSIs is found in category 25 (non-machinery and equipment metal goods). Almost 6.0% of the total 3,743 MSIs were classified into this group, followed by category 23 (non-metallic mineral) with almost 2.55% of the MSIs or 14,324 companies. Variations between industrial groups are caused by many factors, including production capacity technology, the type and availability of raw materials required, market opportunities and competition in the export destination country, level of cluster development of exporting MSIs, the type and level of technological sophistication contained in the goods produced (level of production complexity), the distance of the production location to the port, and the obstacles faced by MSIs which can differ between industrial groups. Figure 4 also

shows several industrial groups with or without exporting MSIs for various reasons. Export transactions are not recorded because export activities are only rare and occasional, not a full year. Usually by chance a trading company orders it for export but without a full-year contract. Besides, special export regulations for local industries are not business-friendly for MSIs to export, and MSIs mainly focus on the local or domestic market which demand is always high with cheaper and easier transaction than international marketing.



Note: Category 10: food; Category 11: beverages; Category 12: tobacco processing; Category 13: textiles; Category 14: apparel; Category 15: leather, leather goods, and footwear; Category 16: wood, wood products and cork (excluding furniture), woven articles from rattan, bamboo and the like; Category 17: paper and paper articles; Category 18: printing and reproduction of recorded media; Category 20: chemicals and articles of chemical substances; Category 21: pharmaceuticals, chemical medicinal products, and traditional medicine; Category 22: rubber, articles of rubber and plastics; Category 23: non-metal minerals; Category 24: base metals; Category 25: non-machined metal goods and their equipment; Category 26: computers, electronic and optical goods; Category 27: electrical equipment; Category 28: YTDL machinery and equipment (excluding others); Category 29: motor vehicles, trailers, and semi-trailers; Category 30: other means of transportation; Category 31: furniture; 32: other processing; Category 33: repair and installation of machinery and equipment.

Figure 5: Exporting MSIs by A Group of Industries, 2019 (%)

Source: [Central Bureau of Statistics \(2020\)](#)

Although the data in Figure 5 show a high number of exporting groups, few succeed in exporting all their products. Table 4 presents the share of production that can be sold to international markets between industry groups. The number of MSIs that sold more than half of their products overseas was only around 44% of the number of MSIs involved in exports. Some constraints in the export process are limited funds, and unaffordable finance export costs (starting from arranging export permits, looking for or contacting importers, conducting market research, carrying out promotional activities, and arranging transportation within the country to the port). Besides, the factor could be overseas sales as not the main market goal. For example, the main target of furniture producers in Jepara and Central Java is the domestic market because Indonesia has a large population of more than 270 million people to be the target market. Many enterprises take advantage of this demographic characteristic, but it is not their main goal. Their target market is collectors and furniture traders who most of the time make orders routinely and in large quantities. Other international target market is accommodations or restaurants owned by business owners who travel to Indonesia and visit Jepara.

Table 4: Number of Exporting MSIs by Export Share in Their Total Production and Industry Groups, 2019

Industry category (KLBI)*	%			
	1-24	25-49	50-79	≥80
10	1395	12	92	149
11	-	-	-	153
13	817	863	332	3023
14	1024	696	181	759
15	96	7	114	-
16	401	44	381	1201
18	154	4	-	-
20	11	-	8	57
21	15	4	-	-
22	25	-	-	-
23	220	2	20	123
24	17	-	-	-
25	110	14	20	78
27	-	82	-	36
28	5	-	-	-
29	12	6	-	-
30	-	-	-	17
31	37	36	98	52
32	479	53	8385	7153

Note: * see Figure 3 for Industry Code

Source: [Central Bureau of Statistics \(2020\)](#)

Exports are not direct but through various intermediaries, such as partnering with large-sized exporting companies or trading houses, or through collectors. Exports by exporting companies or trading companies are carried out in various ways, such as subcontracting arrangements. In the subcontract, MSMEs make certain parts of an item while the exporting company finalizes them into finished goods. In another way, MSMEs make finished goods according to orders from trading companies listed in contract, while the trading company in turn only needs to package and brand them. In most cases, an item's properties including the shape, color, quality standards, quantity, manufacturing time, type of raw materials used, and price (which is often more profitable for the second party) are determined by the final party. [Urata \(2000\)](#) interviewed some MSME owners who were also involved in export activities in several industrial groups across several large cities on Java Island. She found that only a few of her respondents sold their goods directly outside Indonesia, mostly through intermediaries. Beginners who do not have much experience with exports will rely heavily on trading companies or other types of intermediaries.

Many MSMEs were indirectly involved in export activities for some reasons. Their production volume could not meet export market demand due to limited production capacity, lack of knowledge or experience in doing export, lack of information on markets and trade regulations in foreign countries, and lack of international networking, especially foreign distributors.

The Importance of Cooperatives for Exporting MSIs

The number of MSMEs is much greater than the number of large enterprises (LEs). MSMEs are spread throughout Indonesia, including in isolated areas. They are the biggest creators of employment and business opportunities for local communities including women and low-educated residents and GDP formation. Apart from that, MSMEs are also expected to become the main engine for Indonesia's non-oil and gas exports, especially manufactured goods. Therefore, the government has strongly supported MSMEs by providing cheap credit, training, technical assistance, mentoring and subsidies, organizing trade exhibitions at home and financing participation in trade exhibitions abroad, as well as facilitating partnerships between MSMEs and LEs.

The government also encourages MSMEs by giving several incentives and facilitation to form or become members of cooperatives. However, the government's efforts have not been completely successful. Table 5 demonstrates the number of MSIs as members of cooperatives. The ratio varies between industry groups, and the largest ratio is only in Category 21 and Category 10 (see Figure 5 for industry category). In other industry groups, the average is less than 2%.

Table 5: Exporting MSIs by industry group and member of cooperative, 2019

Industry (KLBI)*	Total MSIs	Exporting MSIs		MSIs as a member of cooperative	
		Total	%	Total	%
10	1,587,019	1,648	0.10	47,903	3.02
11	98,901	153	0.16	1,113	1.13
13	296,154	5,035	1.7	8,827	2.98
14	613,668	2,660	0.43	9,511	1.55
15	57,332	217	0.38	569	0.99
16	658,426	2,027	.031	8,282	1.26
18	31,598	158	0.5	256	0.81
20	34,590	76	0.22	239	0.69
21	14,597	19	0.78	511	3.50
22	14,324	25	0.17	28	0.20
23	240,141	365	2.55	5,354	2.23
24	37,43	17	0.01	9	0.24
25	120,732	220	5.88	2,143	1.78
27	1,331	118	0.1	13	0.98
28	2,631	5	0.38	43	1.63
29	2,466	18	0.68	1	0.04
30	7,202	17	0.24	54	0.75
31	144,775	223	0.15	3,172	2.19
32	227,408	16,070	7.07	4,859	2.14

Note: * see Figure 3 for industry category (KLBI).

Source: [Central Bureau of Statistics \(2020\)](#)

Additionally, how many cooperative export members is not identified from the data in Table 5. This study showed a non-significant positive association between the number exporting MSIs (y) and MSIs as members of the cooperatives. Cooperatives should also be included in the positive factors for the development of MSI exports.

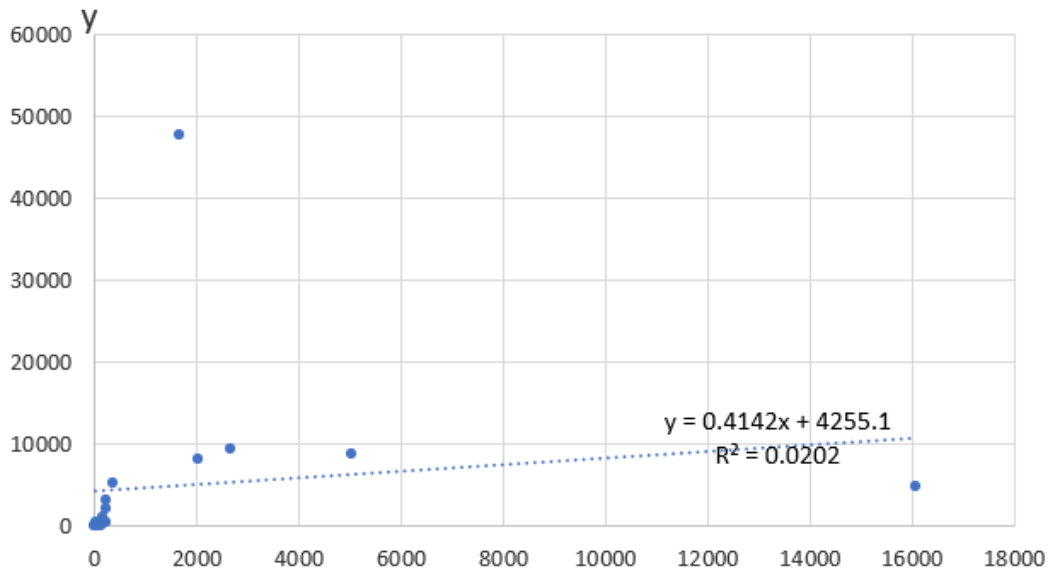


Figure 6: Scatter plot: Number of exporting MSIs and number of MSIs as members of the cooperatives

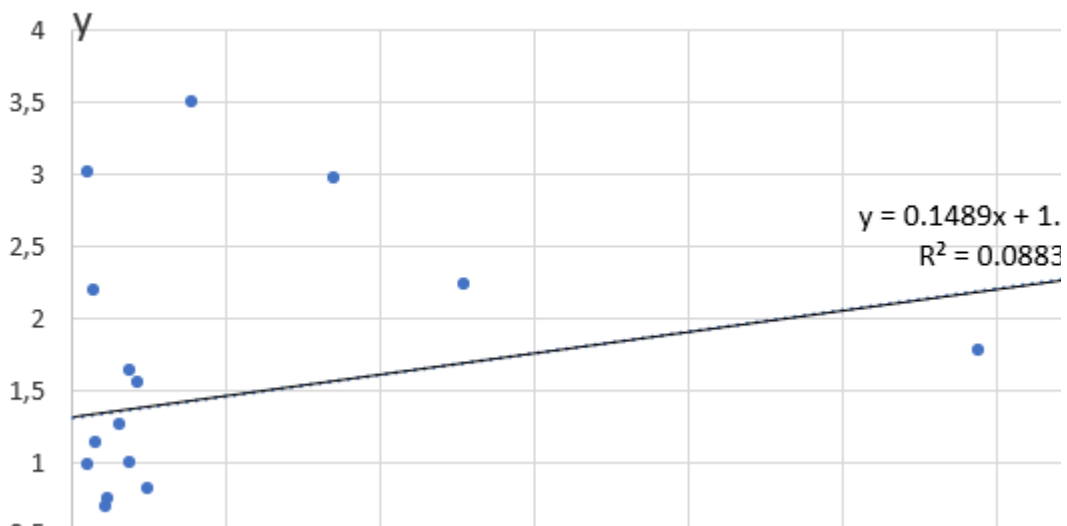


Figure 7: Scatter plot of exporting MSIs and MSIs as a member of the cooperative

The majority of MSIs as cooperative members utilize cooperative services in the funding sector as indicated in Figure 8. Producer cooperatives, in contrast to non-producer cooperatives, provide various kinds of services to their members (who are producers) such as marketing of members' products, technical support, inputs, and funding (credit). KSP cooperative can be found everywhere, not only in big cities but also at the village level. Like banks or other formal financial institutions, KSP provides credit and acts as a forum for its members to save their money. Many MSIs may be members of KSP, not producer cooperatives.

Cooperatives, a driving force for MSI export growth, could not be proven empirically by this MSI survey because the survey did not provide further information regarding the number of MSIs as cooperative members. However, cases found in Indonesia show that cooperatives help their members market their products abroad. During the COVID-19 pandemic, Angrek Bulan Cooperative in South Tangerang City in Banten Province managed to export thousands of hand creams, masks, and hand sanitizers, as well as 2,720 types of perfume to Papua New Guinea,

which directly borders eastern Indonesia. The spending reached US\$ 100 thousand. Pelangi Nusantara Cooperative (Pelanusa), a community-based social enterprise, operates in textile crafts with the main raw material being recycled patchwork. In the second year of COVID-19 pandemic, the number of Pelanusa members reached more than 50, and the members were mostly female craftsmen. Pelanusa aims to create export-quality products and penetrate the global market. It has started exporting since 2014, and its regular exports are to Japan. In addition, it also serves markets in several other neighboring countries, such as Vietnam and Australia. Handicraft items exported include women's bags, cushions for chairs, and fabrics made by its members in their homes. Meanwhile, marketing matters (including exports) are the responsibility of the Pelanusa Cooperative. Exports are carried out directly to buyers without intermediaries (such as collectors or traders). Despite Pelanusa's success, the biggest obstacle it faced was the frequently changing buyer demands. The second obstacle is the insufficient number of craftsmen for production needs. The Pelanusa Cooperative's ultimate success in exporting has resulted from trade exhibitions at home and abroad facilitated by the central and regional governments.

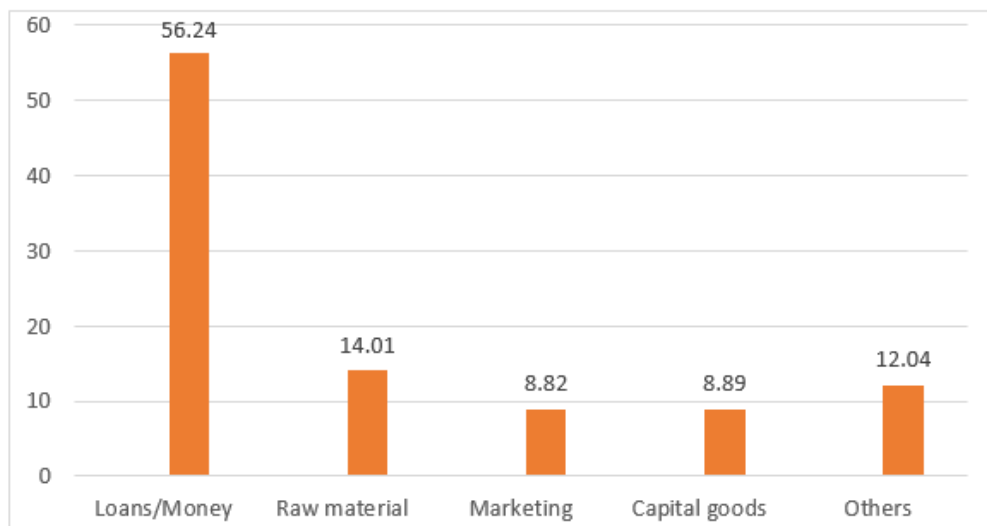


Figure 8: MSIs As Cooperative Members by Service

The Jabung Syariah Agro Commerce Producers Cooperative (KAN) was also successful in exporting goods to Brunei Darussalam. The core business is dairy cattle and animal feed. This cooperative succeeded in selling 52,500 kg of animal feed products under the JABFeed brand. It is trying to develop the market for feed products abroad and exports them to Brunei as its first export destination. In the first years of its business, its products were only for members' consumption. Besides animal feed, this cooperative provides other livestock facilities such as milk buckets, cow carpets, calf milk, and processed milk.

The last example is Green Prosperous Farmers Cooperative (THMC) in Tanggamus Regency, Lampung Province, the southern tip of Sumatra Island. This cooperative also serves markets in Asian countries including Singapore, Malaysia, China, and the Middle East. Despite COVID-19 pandemic, THMC in collaboration with a domestic large private company as the largest supplier of canned pineapples in the world, PT Great Giant Pineapple (GGP), has exported 64 tons of bananas. As of 2022, THMC has more than 800 members who are banana farmers/planters. Serving foreign markets and exports, THMC also supplies various types of bananas such as Pisang Mas, Banana Barangan, and Pisang Raja to DKI Jakarta, the capital city of Indonesia.

Conclusion

This study explicates that factors that directly and indirectly influence the export capability or export performance of MSMEs have been identified as a literature survey. However, previous research rarely addressed the role of cooperatives in supporting MSME exports. This study aims to fill this gap using secondary data on MSIs and cooperatives in Indonesia. From the analysis, only a few MSIs were members of cooperatives, and a non-significant positive relationship was found between the number of MSIs who export and those who became members of cooperatives. Meanwhile, the relationship between MSIs who used the internet and those who export was significant. Overall, the findings confirm that cooperatives and internet usage also help MSEs export despite many influencing factors.

Declaration

Research Limitations

This study contains several shortcomings. The 2019 national survey was incomplete and thus resulted in unclear numbers of MSIs as cooperative members. No evidence was found about MSIs who joined an export cooperative. This study, on the other hand, has some drawbacks related to the data which was used for only one period (static) instead of time series. Meanwhile, market demand for a company's export products can change due to various reasons, such as being unable to compete with new entrants and facing changes in buyers' tastes due to rising incomes, exchange rates, technology that result in exported goods, or the trade regime in the country destination.

Conflict of Interest

There are no significant competing financial, professional, or personal interests that might have affected the performance.

Availability of Data and Materials

Data and material research can be provided at open data repositories (OSF, Zenodo, Repositori Ilmiah Nasional, Institutional Repository Data, etc.) or upon request. Data Sharing does not apply to this article as no new data were created or analyzed in this study.

Authors' Contribution

As the only author, he did all parts of the paper. He conceptualized the study; created the methodology; and wrote the original draft, reviewed, and edited the manuscript.

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