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List of Terms and Abbreviations

APEC	: Asia-Pacific Economic Cooperation
ASEAN	: Association of South East Asian Nations
AUSTRADE	: Australian Trade Commission
BAPPENAS	: National Development Planning Agency
BKPM	: Investment Coordinating Board
BRD	: Buyers Reception Desk
BSC	: Balanced Score Card
BUMN	: State-owned Companies
CBI	: Center for the Promotion of Imports from Developing Countries (Netherlands)
CEIS	: Center of Export Information Service (of NAFED)
CPO	: crude palm oil
DBNM	: Deputy for Business Networking and Marketing in SMOCSME
DEP	: Department of Export Promotion (under the Ministry of Commerce, Thailand)
DG	: Director General or Directorate General
DG-PMAP	: Directorate General for Processing and Marketing of Agricultural Products
DG-PMFP	: Directorate General for Processing and Marketing of Fishery Products
DG-SMI	: Directorate General for Small and Medium Industries
Dinas	: Regional Government Office
EMDG	: Export Market Development Grant
EPA	: Economic Partnership Agreement
EU	: European Union
FDI	: foreign direct investment
GDP	: Gross Domestic Products
GOI	: Government of the Republic of Indonesia
GOJ	: Government of Japan
HRD/HRM	: human resources development / management
IT/ICT	: Information Technology / Information Communication Technology
ITC	: International Trade Center
IDC	: Indonesian Design Center (Pusat Desain Nasional)
IDP	: Indonesia Design Power
IE Singapore	: International Enterprise Singapore
IETC	: Indonesia Export Training Center (of NAFED)
IGDS	: Indonesian Good Design Selection
IPO	: Indonesian Promotion Organization
IPR	: Intellectual Property Rights
ISE	: Indonesia Solo Exhibition
ISO	: International Standard Organization
ITB	: Bandung Institute of Technology
ITPCs	: Indonesian Trade Promotion Centers
JETRO	: Japan External Trade Organization

JICA	: Japan International Cooperation Agency
KADIN	: Indonesian Chamber of Commerce and Industry
KOTRA	: Korea Trade-Investment Promotion Agency
KPIs	: key performance indicators
LPEN	: National Institute of Export Development
MATRADE	: Malaysia External Trade Development Corporation
MBO	: Management by Objectives
MENPAN	: State Ministry of State Administrative Reform
MOA	: Ministry of Agriculture
MOF	: Ministry of Finance
MOFA	: Ministry of Foreign Affairs
MOI	: Ministry of Industry
MOIT	: Ministry of Industry and Trade (formerly)
MOMAF	: Ministry of Marine Affairs and Fishery
MOT	: Ministry of Trade
MoU	: Memorandum of Understanding
NAFED	: National Agency for Export Development
NMCP	: Netherlands Management Cooperation Programme
OJT/Off-JT	: On-the-job-training / Off-the-job-training
PDCA	: Plan-Do-Check-Act
PDKM	: Center of Small and Medium Trade
PDN	: Directorate General of Domestic Trade
PPI	: Pameran Product Indonesia
RENSTRA	: Five-year Strategy (of the Ministry of Trade)
RETPCs	: Regional Export Training and Promotion Centers
RPJMN	: National Mid-term Development Plan
SEZ	: Special Economic Zone
SIPPO	: Swiss Import Promotion Programme
SMEs (UKM)	: small and medium enterprises
SMEsCO	: (Trading Board for) SMEs and Cooperatives
SMOCSME	: State Ministry of Cooperative and Small and Medium Enterprise
TAITRA	: Taiwan External Trade Development Council
TPOs	: Trade Promotion Organizations
TSC	: trade specialization coefficients
USAID	: United States Agency for International Development
UPT	: Technical Operational Unit
VI	: visual identity
WTO	: World Trade Organization

Exchange Rate

As of August, 2008

US\$ 1.00 = ¥ 108.05 = Rp.9,118

Rp.1.00 = ¥ 0.01185

CHAPTER 1 INTRODUCTION

1.1 Background of the Study

Export promotion by strengthening competitiveness of Indonesian industries is one of the major issues for the sustainable development of Indonesia's economy as well as foreign investment promotion through investment environment improvement.

For the export promotion, the Ministry of Trade (MOT) of Indonesia proposes such actions as i) to diversify export products by upgrading added-value and productivity, ii) to bolster exports to traditional markets, iii) to penetrate non-traditional markets, iv) to expand market development activities including effective export promotion activities and trade missions, etc.

The National Agency for Export Development (NAFED), affiliate agency of MOT, functions as a government agency specialized in export promotion. However, NAFED's policy-making capability and its services provided to the private sector are considered to be insufficient. The strengthening of NAFED's capabilities is regarded as an urgent issue in order to reinforce export competitiveness, one of the major challenges for Indonesia's economy. Responding to this situation, the Government of the Republic of Indonesia (GOI) requested the Government of Japan (GOJ) to carry out a development study with the purpose of formulating a master plan to strengthen the organization and function of NAFED.

In March 2006, Japan International Cooperation Agency (JICA) dispatched a project formation study team to Indonesia to collect and analyze the information on export-related organizations including NAFED, and to formulate a project which would be effective to strengthen NAFED's organization and policy formulation capability. JICA dispatched a preparatory study team to Indonesia in July 2006 to discuss detailed contents of the Study for Strengthening of Export Promotion Organization (the Study). JICA's preparatory study team and the GOI agreed on the Scope of Work (S/W) for the Study and signed the Minutes of Meeting (M/M). According to the S/W and M/M, JICA started the Study in February 2007.

1.2 Objectives of the Study

Based on the above mentioned background, the objectives of the Study are set as follows:

- a) To verify NAFED reform plan, support the implementation of the reform plan and formulate the Master Plan for strengthening of NAFED's organization to improve its capacity and function (the Master Plan) by improving the reform plan;

- b) To identify the problems relating to NAFED's corporate management and export promotion services by carrying out pilot projects, propose countermeasures to these problems, and compile the countermeasures in the Master Plan;
- c) To publicize recommendations in the Master Plan widely to NAFED, MOT, and other organizations related to export promotion;
- d) To carry out technology transfer on problem solving capability to a counterpart agency in the process of the Master Plan formulation and pilot projects.

1.3 Study Framework

1.3.1 Executing Agency

NAFED shall act as the counterpart agency to the Study. According to the S/W and M/M signed by JICA's preparatory study team and the GOI, a steering committee, which consists of representatives of NAFED and related organizations, will be established for the smooth and effective implementation of the Study.

1.3.2 Study Area

Although the Study has been conducted in Jakarta where NAFED is located, regional areas including the provinces of East Java, West Java, Central Java, South Sulawesi, North Sumatra, and South Kalimantan are also subject of the site study, according to the Terms of Reference (ToR) by JICA.

1.3.3 Functions or Services to be Strengthened

According to the Terms of Reference, NAFED's functions to be strengthened in the Study are i) market information collection, analysis and provision service, ii) product development (brand and design promotion), and iii) export promotion service.

Export promotion services include trade advisory service, enquiries service and business matching service, as well as domestic and overseas exhibitions and trade missions.

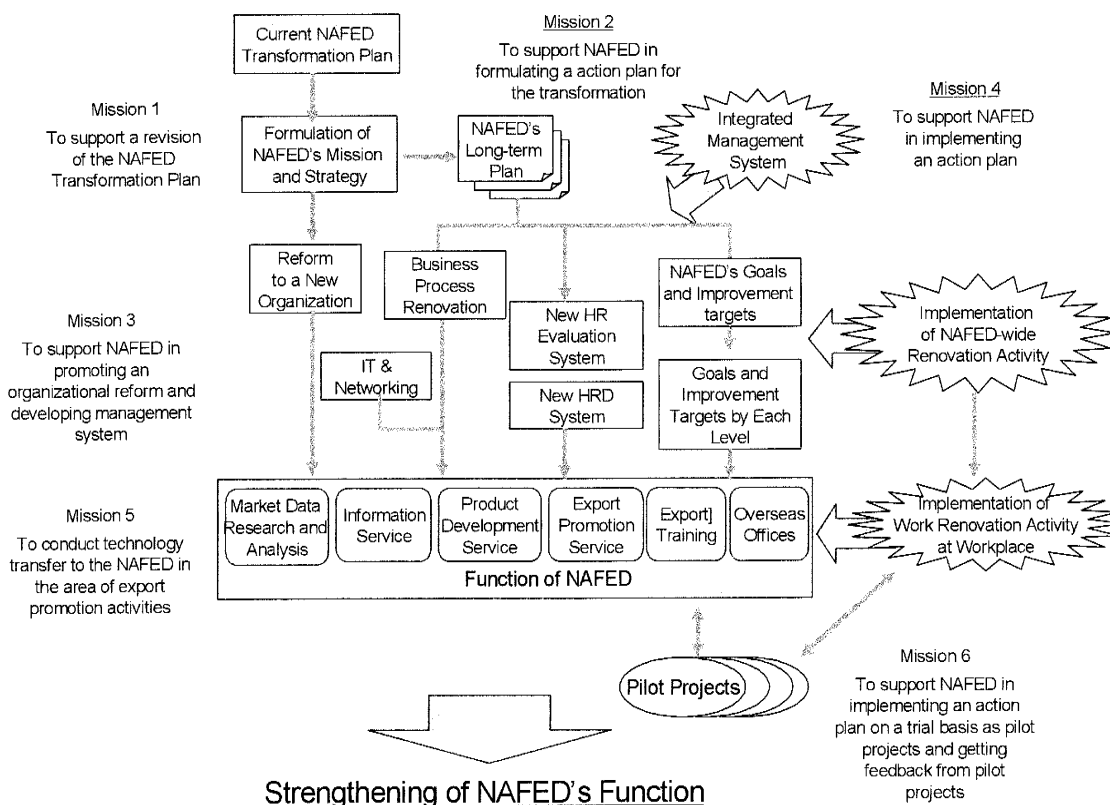
Product development service rendered by NAFED does not mean technical advisory to product development itself or quality improvement. This service is aimed to upgrade export competitiveness and added value of Indonesian products made by the small and medium enterprises (SMEs) mainly through brand and design promotion and marketing support. NAFED's product development service is assumed to be rendered in cooperation with programs of the Ministry of Industry (MOT) such as industrial cluster development, design development.

1.3.4 Study Missions

From the background and the objectives of the Study, the Study Team defines its mission as follows (refer to the Figure below):

- [Mission 1] To support a revision of NAFED reform plan
- [Mission 2] To support NAFED in formulating the Action Plan for the reform process
- [Mission 3] To support NAFED in promoting an organizational reform and developing management system
- [Mission 4] To support NAFED in implementing the Action Plan
- [Mission 5] To conduct technology transfer to NAFED in the field of export promotion activities
- [Mission 6] To support NAFED in implementing the Action Plan on a trial basis as pilot projects and getting feedback from pilot projects

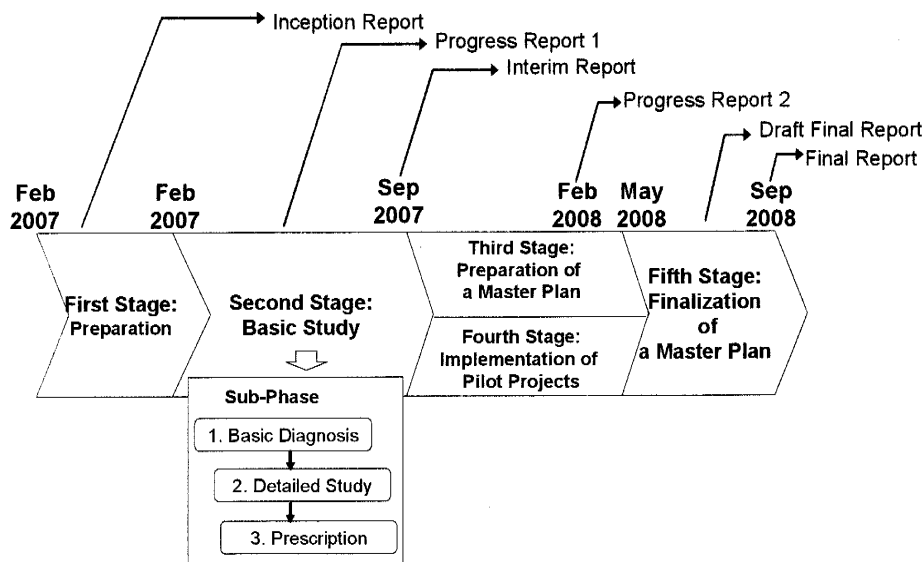
Figure 1.3-1 Framework of the Study



1.4 Study Schedule

The study is implemented according to the following time schedule:

Figure 1.4-1 Schedule of the Study



The Study has been conducted in accordance to the following processes;

< The First Year: Feb. 2007 - Mar. 2007 >

I. Preparation

- [1-1] Review of the existing studies
- [1-2] Kick-off meeting

< The Second Year: Apr. 2007 - Mar. 2008 >

II. Basic Study

- [2-1] Steering Committee (the first)
- [2-2] Study on the present situation of NAFED services and organization
- [2-3] Study on the issues related to functional strengthening of NAFED
- [2-4] Detailed study on NAFED services and organization
- [2-5] Benchmark study
- [2-6] Hearing and questionnaire survey to private export industries
- [2-7] Compilation of detailed study findings
- [2-8] Initial recommendations on improvement of NAFED
- [2-9] Outline preparation for draft Master Plan and Action Plan

III. Preparation of Master Plan (draft)

- [2-10] Steering Committee (the second)
- [2-11] Preparation of draft Master Plan and Action Plan

IV. Implementation of Pilot Projects

- [2-12] Planning and selection of Pilot Projects
- [2-13] Monitoring of Pilot Projects
- [2-14] Revision of draft Master Plan and Action Plan

< The Third Year: Apr. 2008 - Aug. 2008 >

V. Finalization of Master Plan (final)

- [3-1] Support for organizational reform of NAFED
- [3-2] Follow-up of Pilot Project
- [3-3] Draft final report discussion with NAFED and JICA
- [3-4] Steering Committee (the third)
- [3-5] Seminar to disseminate study result and recommendation
- [3-6] Submission of final report

1.5 Implementation of Pilot Projects

Pilot projects have been implemented during the period from November 2007 to February 2008. The Study team and NAFED both focused on primary and essential activities which NAFED should enhance, and selected (out of proposed action plans) and implemented the pilot projects which can be easily commenced, with the following objectives:

- i) To conduct technology transfer through the implementation of pilot projects;
- ii) To equip NAFED counterparts with working attitudes of self-initiatives, self-thinking and self-decision making; and
- iii) To obtain the lessons from the results of pilot projects, and reflect them into the Master Plan and Action Plans.

Four pilot projects which were implemented are shown in the following table.

Table 1.5-1 Outline of Four Pilot Projects

Pilot Project 1	Title	Capacity building for market intelligence by trial market survey
	Area	Market Information: Capacity building for market survey capability
	Objectives	<ul style="list-style-type: none"> - To strengthen the capacity of staffs that engage in market intelligence service and equip them with hands-on skills required for desirable service. - To develop the model reports of market survey
	Major activities	<ul style="list-style-type: none"> - To conduct a series of training course for selected staffs to implement trial market surveys. - To conduct trial market surveys for selected target products of target countries. - Trial market surveys will be conducted in cooperation with ITPC concerned. - To hold a seminar to present the survey results for relevant industrial sub-sectors.
Pilot Project 2	Title	Establishment of Customer Center and membership service (NAFED Club)
	Area	Export Promotion: Enhancement of customer service
	Objectives	<ul style="list-style-type: none"> - To enhance the delivery of customer-specific services by setting up "Customer Center". - To enhance more focused information dissemination to exporters and strengthen interactive communication with exporters by introducing a membership service.
	Major activities	<ul style="list-style-type: none"> - To conduct the study visits to prospective users of the services to draw the needs. - To agree with IETC alumni to form the membership service (NAFED Club). - To design and preparation of the facilities for the customer center and NAFED Club. - To hold an inauguration seminar for the customer center and NAFED Club.
Pilot Project 3	Title	Seminar on export design development and trial design clinic
	Area	Export Design Promotion: Promotion of design for export
	Objectives	<ul style="list-style-type: none"> - To raise the awareness and knowledge of design development for export among NAFED and the concerned stakeholders and to compile the best practices of design development. - To learn about how design consultation service is facilitated in cooperation with design institute and design communities.
	Major activities	<ul style="list-style-type: none"> - To conduct the survey on good practices of design development by Indonesian exporters. - To conduct the three design seminars and clinic sessions - To hold a workshop to disseminate the survey result of good practices of design development - To compile a guidance book for the operation of design development program
Pilot Project 4	Title	Export dialogue with major exporting industries
	Area	Networking: Enhancement of communication with business associations
	Objectives	<ul style="list-style-type: none"> - To establish a management system which will identify the private sector's needs for export promotion and reflect them into strategy, planning and budgeting. - To make the programs for export promotion more specialized and customized.
	Major activities	<ul style="list-style-type: none"> - To have a first dialogue (for identification of the needs for export promotion) with the associations selected for the pilot project. - To have a second dialogue (for strategy building and target setting of NAFED). - To review and formulate export promotion service and program based on the identified needs by the dialogue. - To prepare necessary budgets for the suggested services and programs.

1.6 Study Team Member

<u>Name</u>	<u>Assignment</u>
Kazuo MISHIMA	Team Leader/Export Policy
Hiroshi NAKANO	Organization and Human Resource Development
Tatsuro BANDO	Organization Reform Support
Nori IAI	Market Information Analysis/Provision
Yoshinobu TANAKA	Product Development (Brand/Design Promotion)
Taro TSUBOGO	Alliance/Network Development
Yoichi MATSUI	Export Promotion
Yoko UCHIDA	Project Monitoring/Evaluation (until 6 th Site Study)
Akihiko MORINAGA	Project Monitoring/Evaluation (from 7 th Site Study)

CHAPTER 2 BUSINESS ENVIRONMENT OF NAFED

2.1 Export Trend

2.1.1 Recent Export Trend

Indonesia's overall macro-economic conditions have been stable and improved in recent years. The annual real Gross Domestic Products (GDP) growth rate has been over 5% since 2004. Indonesia's economy is estimated to record 6.3% in 2007 against 5.5% in 2006.

Indonesia's exports were stagnant in the early 2000s. However, they have shown the favorable growth since 2004. It is obvious from the contribution of increase in exports to the economic growth after mid-2004. Indonesia's total exports increased from \$61.1 billion in 2003 to \$100.8 billion in 2006 with the average annual growth rate of 18.2%. During the same period, the average annual growth of non-oil and gas exports was 18.9%. The total exports increased by 13.2% to \$114.1 billion in 2007. Non-oil and gas exports reached \$92.0 billion in 2007, an increase of 15.6% from the previous year.

The characteristics of Indonesia's non-oil and gas exports are as follows:

- a) The top ten items account for approximately half of total non-oil and gas exports.

The major export items are coals, apparel, crude palm oil, copper ore, electric apparatus, crumb rubber, paper and paper products, audio visual equipment, other textile products, and wooden products.

- b) The share of mining-related products tends to increase among non-oil and gas exports.

Especially, exports of ores and products of coal, copper and nickel are increasing. This means that the share of industrial products has slightly decreased. The shares of such manufactured products as apparel and audio and visual equipment show a decreasing tendency. Other manufactured products have remained flat.

- c) Increase in world commodity prices contributed to the growth of non-oil and gas exports.

A rise in prices of world commodities such as those of rubber and palm oil, rather than increase in volumes, led to Indonesia's export growth in 2006.

- d) The top five destination countries account for almost half of total non-oil and gas exports.

The top five destinations of non-oil and gas exports in 2006 were Japan (15.3%), USA (13.4%), Singapore (9.8%), China (6.9%), and Malaysia (4.8%). These five

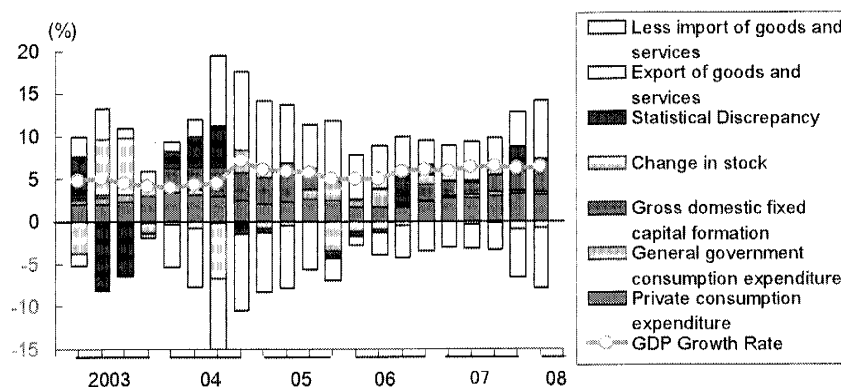
countries have constantly occupied around 50% of total non-oil and gas exports. The share of China tends to increase against the decreasing tendency of USA.

Considering the above mentioned situation, the following issues can be pointed out.

- a) It is necessary to expand manufactured products by promoting further existing export items and developing prospective new items.
- b) It is necessary to open up prospective export markets.

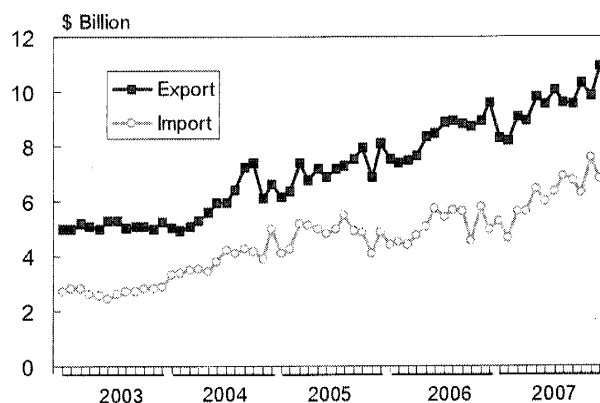
To maintain high export growth, such measures as the improvement of investment climate and the development of infrastructure are necessary with the purpose of promoting investments in manufacturing facilities and developing the manufacturing base.

Figure 2.1-1 GDP Growth Rate and Contribution by Expenditure Item



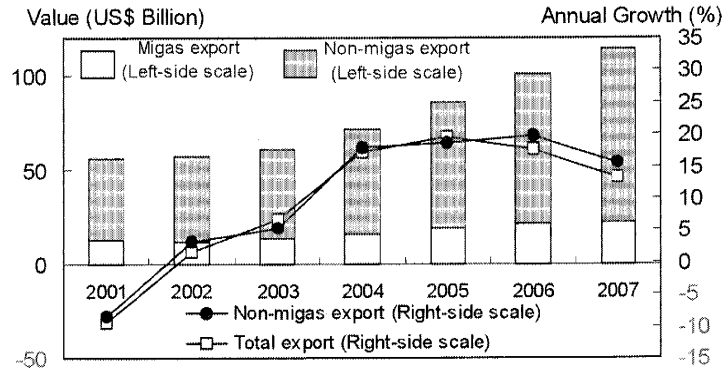
Source: Statistics Indonesia

Figure 2.1-2 Monthly Trend of Indonesia's Exports and Imports



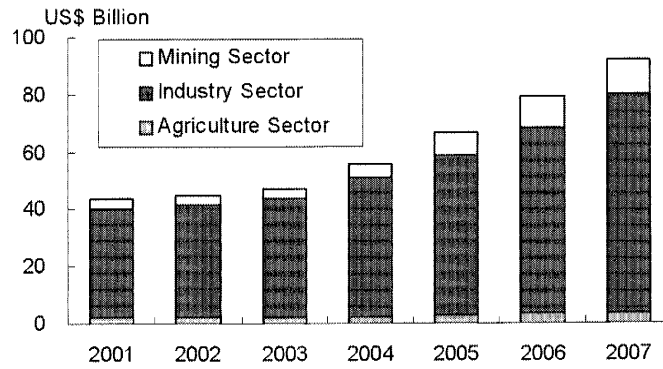
Source: Statistics Indonesia

Figure 2.1-3 Trend of Indonesia's Exports



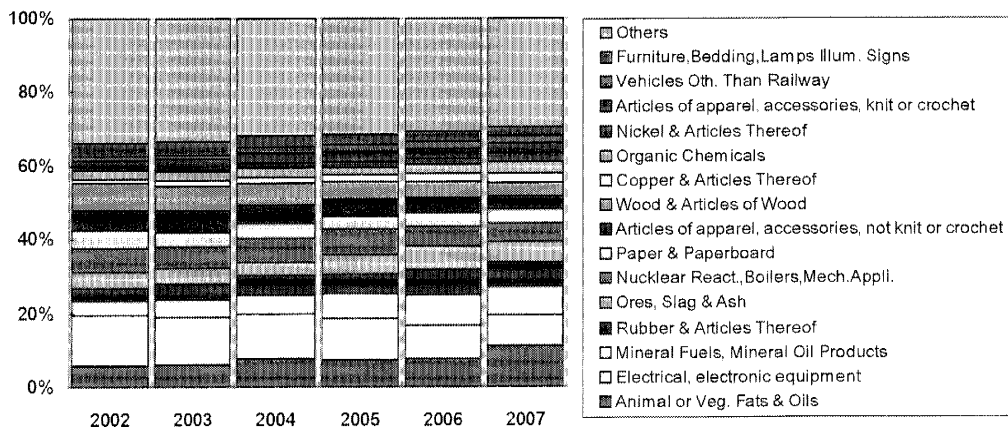
Source: Statistics Indonesia

Figure 2.1-4 Non-oil and Gas Exports by Sector

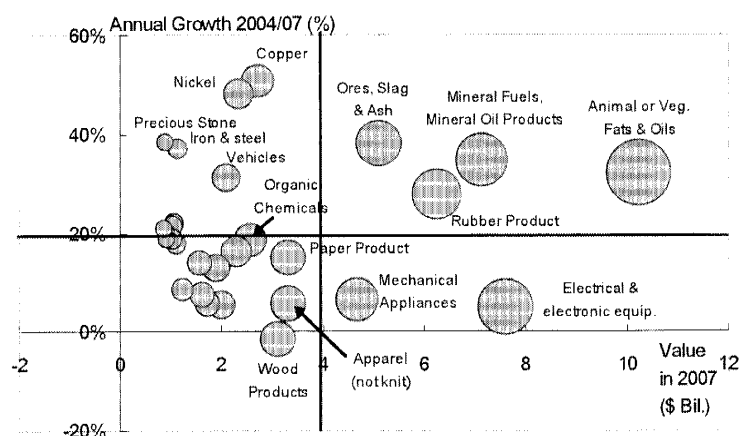


Source: NAFED

Figure 2.1-5 Non-oil and Gas Exports by Product Item



Source: NAFED

Figure 2.1-6 Size and Growth Rate of Exports of Major Industrial Products

Source: NAFED

2.1.2 Long-term Export Trend

The long-term trend of Indonesia's exports can be summarized as follows:

- a) Exports of resource-based products tend to increase share.

“Mineral products” other than petroleum products have continued to increase in the 2000s. “Plastic and rubber” and “animal or vegetable fats” have also tended to increase. The shares of “wood and wood products” and “wood pulp products” have shown a declining trend.

- b) Shares of manufactured products such as textiles and machinery show a decreasing trend.

The share of “machinery” shows a decreasing trend. It decreased from 17.1% in 2000 to 11.6% in 2006. Meanwhile, the share of “transportation equipment” is still small but continues to show a moderate increase. The share of “textile and textile articles” recorded a continuous decrease after it had once reached nearly 19% in the first half of 1990s. It recovered to be 14.6% just after the monetary crisis, but it dropped to below 10% in 2006. Among industrial products, the share of “base metals” has tended to increase.

- c) Trade specialization coefficients (TSCs) of resource-based products have continued to be very high.

TSCs of “wood and wood products” and “precious stones and metals” are more than 0.9. Those of “wood pulp products” and “plastic and rubber” has continued to increase and exceeded the level of 0.4.

- d) TSCs of light industry products vary according to products.

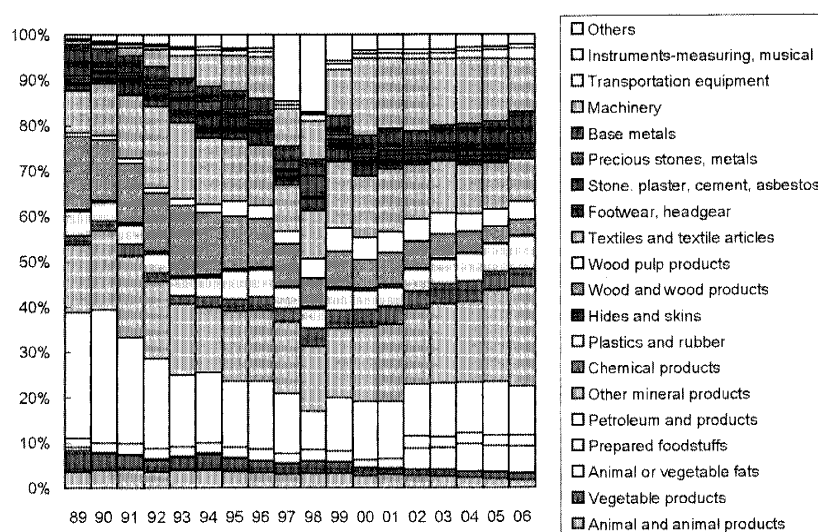
TSC of “textiles and textile products” is high and tends to increase. That of

“footwear” has flattened around 0.9. That of “prepared foodstuffs” fluctuates around the 0 level.

e) TSCs of heavy industry products are still relatively low but have tended to increase.

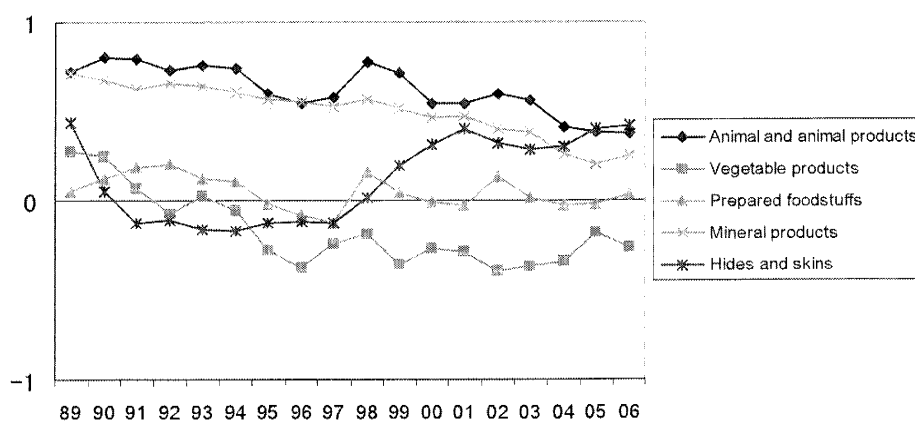
TSC of “machinery” is over 0 but shows a declining trend. That of “transport equipment” has been increasing since 2002 but is still under 0. That of “base metal” continued to be flat under the 0 level but increased to 0.1 in 2006.

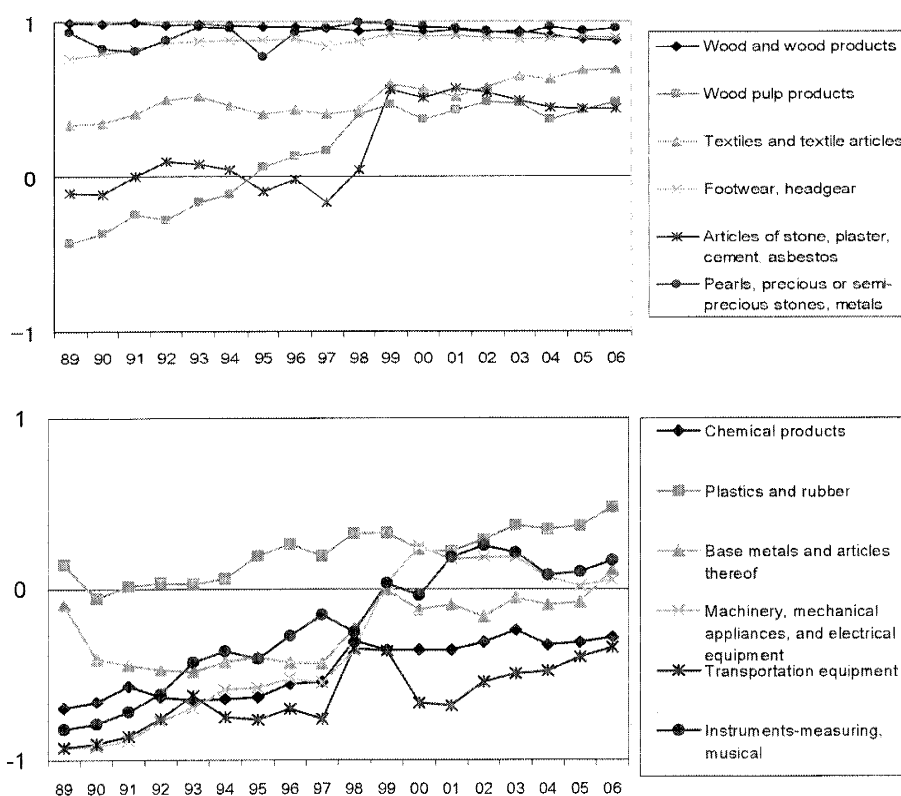
Figure 2.1-7 Export Share by Product on a Value Basis



Source: Asian Development Bank Key Indicators

Figure 2.1-8 Trend of Trade Specialization Coefficients by Product





Source: Asian Development Bank Key Indicators

2.2 External Trade and Export Promotion Policies

The export promotion by strengthening competitiveness of Indonesian industries is one of the major issues for the sustainable development of Indonesia's economy as well as foreign investment promotion through investment environment improvement. Based upon the National Mid-term Development Plan (RPJMN), MOT developed a Five-year Strategy (RENSTRA), which includes export promotion policies.

2.2.1 National Mid-term Development Plan (RPJMN) 2004 - 2009

As for the export promotion the RPJMN places the emphasis on the investment and export promotion of non-oil and gas products and puts forward an export expansion and promotion program, which aims to improve the international competitiveness of Indonesian products and boost Indonesia's exports.

(1) Target of export development

In the RPJMN, the following targets are set.

- a) To improve efficiency of ports, customs and tax administration to the level of Thailand and Malaysia.

- b) To increase the export growth rate from 5.2% in 2005 to 9.8% in 2009 by including more diversified products and more high technology products in the product composition.

(2) Direction of measures

Measures to improve access to export markets, to diversify export markets, and to strengthen the performance of exporters and potential exporters will be introduced in order to improve the competitiveness of export products. The major measures are:

- a) To revitalize the performance of export promotion organizations and improve the capability of training institutions for small exporters;
- b) To improve types and quality of export services with the concept of “support-at-company-level” toward exporters and potential SME exporters;
- c) To improve international trade diplomacy both with developed countries and with developing countries;
- d) To improve trade facilities by simplifying trade procedures with the concept of single document, reducing trade regulations for non-strategic commodities and commodities which do not require control, and increasing the capability of quality testing institutions;
- e) To optimize trade support institutions such as trade financing;
- f) To optimize various types of trade cooperation such as unfair trade schemes and free trade agreements; and
- g) To strengthen institutional trade safety such as safeguard, antidumping and tariff harmonization.

(3) Development program

Programs in the area of export development are as follows:

- a) To strengthen export competitiveness
 - i) Programs to develop exports

Programs are proposed with the purpose of improving the global competitiveness of Indonesian products’ and heighten the role of exports in economic growth. Therefore, programs aim at the expansion of export markets, diversification of non-oil and gas export products, and promotion of exports.

- To develop export strategy for non-traditional countries;
- To improve the quality of services of Indonesian Trade Promotion Centers (ITPCs) including opening of new offices and strengthen the capability of regional promotion institutions;

- To improve the quality of services to exporters and potential exporters to strengthen the capability of SMEs through “support-at-company-level” approach;
- To facilitate the quality improvement of agricultural, fishery and manufactured products with export potential;
- To simplify trade procedures with the concept of single document;
- To raise the capacity of export/import product testing laboratories;
- To strengthen export information network; and
- To develop and implement export/import facilitation such as trade financing.

ii) Program to improve international trade cooperation

Programs are intended to improve international industrial and trade cooperation which are profitable to each other, fair, and open. They aim at improving regional multilateral and bilateral trade cooperation and optimizing the use of trade schemes which will increase the bargaining power and access to export markets.

- To improve the quality of active participation in various international forums as an effort to preserve national economic importance and to improve trade relation with potential trade partner countries;
- To facilitate the settlement of trade disputes (through advocacy and technical assistance), e.g. regarding dumping, subsidy, and safeguard;
- To improve the efficiency in the coordination of various international trade issues, at multilateral, regional, bilateral and commodity levels;
- To monitor and evaluate the implementation of agreements of multilateral, regional, and bilateral cooperation;
- To socialize the results of international agreements and cooperation with ASEAN, APEC, and intra- and inter-region; and
- To strengthen human resources of Industrial and Trade Attachés including the supply of apprentices.

Table 2.2-1 External Trade Projection of RPJMN

Unit: US\$ Billion

	Actual				Estimate	Mid-term Projection				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Export	65.4	57.4	59.2	63.3	73	76	76.9	81.4	86.7	92.7
Oil and gas	15.1	12.6	12.9	15.2	19.6	19.7	16.9	16.9	16.9	16.9
Non-oil and gas	50.3	44.8	46.3	48	53.4	56.4	60	64.5	69.8	75.8
Growth rate	22.8	-11	3.4	3.7	11.3	5.5	6.5	7.5	8.1	8.7
Import	-40.4	-34.7	-35.7	-39.5	-48.3	-52.2	-55.5	-60.8	-66.9	-73.8
Oil and gas	-6	-5.7	-6.7	-7.8	-11.5	-11.3	-10.8	-11.8	-12.8	-13.9
Non-oil and gas	-34.4	-29	-29	-31.7	-36.8	-41	-44.7	-49.1	-54.1	-59.9
Growth rate	29.1	-15.8	0.1	9.4	15.9	11.4	9.2	9.7	10.3	10.7

Source: National Development Planning Agency (BAPPENAS)

2.2.2 Five-year Strategy of the Ministry of Trade (RENSTRA) 2004 - 2009

In 2005, the Ministry of Trade published the Five-year Strategy of the Ministry of Trade for 2005 - 2009 (RENSTRA).

The strengthening of export competitiveness is one of the short-term strategies of the RENSTRA. Striving to direct effects to the export promotion, the RENSTRA proposes such actions as i) to diversify export products by upgrading added value and productivity, ii) to bolster exports to traditional market, iii) to penetrate non-traditional markets, e.g., Africa, East Europe, Latin America, etc., iv) to expand market development activities including effective export promotion activities and trade missions, etc.

Table 2.2-2 Quantitative Targets of RENSTRA

	Item	Target 2005-2009
1.	Ratio of the trade industry to GDP (%)	15.0
2.	Growth of the trade industry (%)*	7.5 - 8.9
3.	Growth of exports (%)	5.7 - 10.1
4.	Growth of non-oil exports (%)	5.5 - 8.7
5.	Growth of imports (%)	8.6 - 11.0
6.	Growth of non-oil imports (%)	8.2 - 11.9
7.	Inflation rate (%)	7.0 - 3.0

Note: * Includes hotels and restaurants

The development strategy of RENSTRA in short and medium term is to improve non-oil and gas export performance.

Short-term priority measures are: i) to lower the high cost economy; ii) to increase distribution efficiency; iii) to improve export commodity's competitiveness, and iv) to provide support to other sectors, such as agriculture, fishery, forestry, mining, and manufacturing sectors.

Medium term priority measures are: i) to develop competitive products with comparative advantages; ii) to increase productivity and technological strength; iii) to develop human resources with global view; iv) to increase the quality level to international standard and develop design for the establishment of Indonesian brand image; and v) to realize "Indonesia Incorporated."

For the long term, the RENSTRA targets to establish an environment which encourages continuous improvement of competitiveness, promotes smooth product flow, supports the improvement of design and technology, creates job opportunity, and accelerates the economic growth for public welfare.

As operational strategies the following measures are pointed out:

- a) To review rules to reduce bureaucracy in procedures of approvals and business management with transparency and good governance principles.
- b) To review rules to improve time efficiency and administration cost.
- c) To improve the capability of public institutions and officials.
- d) To strengthen international competitiveness.
- e) To maintain and improve market access and penetration to traditional and non-traditional markets.
- f) To improve the capability of overseas trade representative offices and service quality, and to open new offices in new trade partner countries/areas.
- g) To improve the performance of international trade diplomacy, both for developed and developing countries.
- h) To strengthen international trade safety institution (safeguard and anti dumping) and tariff harmonization institution.
- i) To develop regional distribution facilities and distribution sub-system facilities in specific regions (border area and remote area) and to develop trade support facility by establishing product and market information network and expanding local and regional auction markets.
- j) To harmonize policies between the central government and regional governments, to simplify procedures and licenses that hinder the flow of products and service, and to promote trade service activities.
- k) To strengthen customer protection and metrology and to improve business competition and other trade institution.
- l) To improve the efficiency of organizations for customer protection and metrology and to strengthen product and service supervision system.

The government has chosen ten best products and ten potential products for export promotion activities. Ten best products are textile and textile products, furniture, coffee, cacao, automotive components, electronics, footwear, rubber and rubber products, shrimp, and palm oil. Ten potential products are spices, leather and leather products, jewelry, handicraft, fish and fish products, medicinal herbs, processed food, essential oils, medical instruments and appliances, and non-paper stationery.

2.2.3 Export Promotion Programs for 2007

The Ministry of Trade prepared export promotion programs for 2007. Major contents of the export promotion programs are as follows.

(1) Cross-sectoral programs

- a) Infrastructure development
 - i) To develop access roads to ports
 - ii) To improve port facilities
 - iii) To secure energy supplies
- b) Finance
 - i) To evaluate borrowers
 - ii) To supply export financing
- c) Business cost reduction
 - i) To set up a national single window
 - ii) To hasten drawback and customs clearance
 - iii) To facilitate quarantine procedures, for example, for leather and cotton
 - iv) To improve investment climate: tax incentives for upstream and downstream industries, regulations of investment and integrated services
- d) Problem solving appreciation of exporters, for example, footwear exporters
- e) Image (access to buyers/investors, joint promotion/lobbying)
- f) SEZ (special economic zone) in Batam, Bintan and Karimun and 6 industrial areas in Cikarang, Bekasi and Karawang
- g) Implementation of sectoral programs and road maps of major products

(2) Sectoral programs

- a) Agricultural products
 - i) To decrease illness and contamination by chemical materials (for shrimp and cacao)
 - ii) Extension worker, production infrastructure, and quality test (for shrimp, cacao coffee, rubber and palm)
 - iii) Diplomatic negotiations for tariff reduction (for cacao, coffee and palm) and for import restriction (cacao, coffee, and rubber)
 - iv) Guarantee for working capital credit through the Resi Gudang system (for cacao, coffee and rubber)
 - v) Diplomatic cooperation to solve the transshipment problem (for shrimp)
- b) Manufactured products:
 - i) To improve regulations regarding human resources (for textile and textile products, footwear and electronics)

- ii) To solve the problems of insufficient capital and materials and improve quality (for textile and textile products, footwear and electronics)
- iii) Diplomatic cooperation to solve the transshipment problem and diplomacy against anti-dumping appeals (for textile and textile products and footwear)
- iv) To stabilize the supply of energy, gas and electricity (for textile and textile products, footwear, electronics, furniture, and automotive components)
- v) To improve design quality (for textile and textile products, footwear, and furniture) and certification organizations (for electronics and automotive components)

(3) Programs of Ministry of Trade

- a) Establishment of Trade Service Units
- b) Use of Global Retail Network
- c) The Resi Gudang (ownership certificate) system and auction markets
- d) Diplomatic international trade negotiation
 - i) Bilateral : Economic Partnership Agreement (EPA) between Indonesia and Japan, joint commissions, trade missions and trade promotion
 - ii) Regional : ASEAN and other countries (China, Korea, Japan, Australia/New Zealand and India)
 - iii) Multilateral : World Trade Organization (WTO)
- e) To increase the performance of ITPCs and commercial attachés
- f) The Indonesia Design Power (IDP) program (with the coordination with Ministry of Industry and Ministry of Cooperatives and Small and Medium Enterprises)
- g) Promotion of export-oriented investments with Indonesian Investment Coordinating Board (BKPM)

2.2.4 10+10+3 Program

(1) Outline of 10+10+3 Program

The 10+10+3 Program is an export development program, being initiated by the Indonesian government through inter-ministerial meeting. BAPPENAS and MOT (Agency of Trade R&D) are core members of the project.

This project is a five-year project during the period from 2005 until 2009. Under the project, 10 main products, 10 potential products and 3 services have been chosen as target products to be promoted.

The Indonesian government sets three kinds of targets of export increase for 2007, i.e., i)

8.2% as target of Government working plan, ii) 14.5% as optimistic target, and iii) 20% as very optimistic target¹. The government aims at the achievement of “the very optimistic target” by successfully promoting the 10+10+3 Program in 2007. The outline and characteristics of the program are briefly described below.

a) Ten (10) main products

Ten main products consist of i) Textile, ii) Rubber and rubber products, iii) Electronics, iv) Forest products, v) Palm oil/Crude palm oil (CPO), vi) Footwear, vii) Automobile parts, viii) Shrimp, ix) Cocoa, and x) Coffee.

These 10 products have been chosen based upon the criteria which comprise export amount, export growth rate, and international competitiveness. Major exporting mineral products, such as coal, copper ores and concentrates, nickel, gold, etc, are not included in 10 main products.

For each of these 10 products, export target for 2007 was set as shown on the table below regardless of the government’s target of 20% on the whole. These targets are supposed to be adjusted every year in accordance with the export performance of the previous year, the change of export environment, and so on.

Table 2.2-3 10 Main Products and Their Export Amounts

Product	Unit: US\$ billion		
	2006 (Actual)	2007 (Target)	2007/2006 (%)
Textile	9.6	10.4	8.3
Rubber and rubber products	5.9	9.4	59.3
Electronics	8.1	8.3	2.5
Forest products	6.8	7.4	8.8
Palm oil / Crude palm oil (CPO)	4.8	5.6	16.7
Footwear	1.6	1.8	12.5
Automobile parts	1.3	1.5	15.4
Shrimp	1.1	1.3	18.2
Cocoa	0.8	1.0	25.0
Coffee	0.6	0.7	16.7

Source: NAFED

b) Ten (10) potential products

Ten potential products consist of i) Jewelry, ii) Processed food, iii) Handicrafts, iv) Fish and fish products, v) Spices, vi) Leather and leather products, vii) Medical instruments and appliances, viii) Stationery (non-paper), ix) Essential oils, and x) Medical herbs.

¹ These targets were made public in on the State Revenue and Expense Budget of the Year 2007.

The criteria to choose these 10 products, different from those for 10 main products, focus more on the viewpoint of SME promotion such as to provide employment and to eradicate poverty. In addition, these items are considered to be rather resource oriented.

Table 2.2-4 10 Potential Products and Their Export Amounts

Unit: US\$ billion

Product	2006 (Actual)	2007 (Target)
Jewelry	1.8	1.9
Processed food	0.9	0.9
Handicrafts	0.5	0.6
Fish and fish products	0.6	0.6
Spices	0.2	0.2
Leather and leather products	0.1	0.1
Medical instruments and appliances	0.1	0.1
Stationery (non-paper)	0.1	0.1
Essential oils	0.1	0.1
Medical herbs	0.0	0.0

Source: NAFED

c) Three (3) services

Three services include i) design (creative design, arts, fashion, architecture, interior design, jewelry, crafts, etc.), ii) information technology (web design, animation, graphic design, multimedia, management information system, call center, etc.), and iii) labor (skilled labor: tourism, traditional spa, construction engineering service, etc.).

These services have been chosen considering Indonesia's potentiality of suppliers and the world potentiality of demands. As of the end of June 2007, neither specific items nor specific activities to be promoted in 2007 have been formulated by MOT or NAFED.

(2) Role of NAFED in 10+10+3 Program

The implementation programs of the 10+10+3 Program were formulated by related ministries and governmental organizations including Ministries of Trade, Industry, Agriculture, Finance, Transportation, Public Works, Marine, Labor, etc. Among them, the formulation of trade related programs were mainly conducted by MOT through the discussions among related Directorate Generals (DGs) such as DGs of Domestic Trade, Foreign Trade, International Trade & Cooperation discussed together. NAFED was not always invited to these discussions. There is the basic idea that MOT is responsible for the formulation of strategies while NAFED is responsible for the hands-on development and implementation of programs.

Thus, only programs related to export promotion were passed on to NAFED for further elaboration. In NAFED, Center of Export Information Service (CEIS) takes the key role to organize the related activities.

In 2007, NAFED is engaged with the 10+10+3 Program through five activities, i) market intelligence, ii) IDP program, iii) product development (in cooperation with overseas import promotion organizations), iv) development of export product clusters, and v) trademark development. The first four activities are regarded as being priority programs, the brief outline of which is described below.

Table 2.2-5 Outline of NAFED's Activities under 10+10+3 Program

Activity	Outline
Market Intelligence	Direct observation activity on potential products market, market segment, competitor's strategy and the country condition of market target as an activity of market penetration of Indonesian products. Results of market intelligence will be disseminated online and offline.
Indonesia Design Power (IDP)	Product development using design approach as a strategy. In 2007, 90 prototypes are planned to be created that are going to be used as Indonesian icons as registered trademarks.
Product Development (in cooperation with import promotion organizations)	Development of design and package in good quality suitable for overseas market by cooperating with overseas import promotion organizations (CBI, NMCP, and SIPPO)
Development of Cluster of Export Products	Development of leather and jewelry industry complementarily through strategic cooperation with association and related institutions.

Source: "Priority Program", NAFED 2007

Budget allocation for these activities from 2005 to 2007 is recaptured on the table below.

Table 2.2-6 Budget Allocation for 10+10+3 Program

Amount:		(Rp. 000)		
No.	Activity	2005	2006	2007
1	Market Intelligence	651,300	1,653,254	5,085,732
2	Indonesia Design Power	-	-	3,500,000
3	Product Development	1,605,540	1,417,060	1,615,140
4	Development of Cluster of Export Products	-	1,259,532	581,382
5	Development of Trademark	-	2,053,822	-
Total		2,256,840	6,383,668	10,782,254

Share:		(%)		
No.	Activity	2005	2006	2007
1	Market Intelligence	28.9	25.9	47.2
2	Indonesia Design Power	-	-	32.5
3	Product Development	71.1	22.2	15.0
4	Development of Cluster of Export Products	-	19.7	5.4
5	Development of Trademark	-	32.2	-
Total		100.0	100.0	100.0

Source: NAFED

Current situations of each activity under the 10+10+3 Program, partly from the viewpoint of budget allocation, can be summarized below.

a) Market intelligence

Budget allocation to the market intelligence activity in 2007 increased sharply over

the previous year. Such increase attributed to the implementation of costly market researches in 5 countries/areas using an outside consulting institution. NAFED was asked to use costly but outstanding outside consulting institution by MOT.

As of the end of June 2007, ten candidate countries/areas had been selected for the market researches based on export volume, annual growth of exports, and so on. These were i) EU, ii) USA, iii) Japan, iv) China, v) India, vi) Brazil, vii) South Africa, viii) UAE, ix) Taiwan, and x) Russia. Among them, five countries/areas are going to be selected by NAFED, and final decision will be done by MOT.

Then, for each of the selected five countries/areas, market research on a specific product item shall be conducted. NAFED has a plan to conduct the same market research in 2008 with newly selected five countries/areas.

b) Indonesia Design Power (IDP) program

The purpose of IDP program is to enhance added-value of Indonesian products through the creation of 250 prototype designs, of which 90 are to be done in 2007. IDP program is principally an independent one from the 10+10+3 Program, and has been carried out with another budget allocation. However, some activities such as socialization and coordination in IDP program are going to be conducted within the budget for the 10+10+3 Program for the 2007 fiscal year. IDP program is scheduled to last till 2009.

c) Product development (in cooperation with import promotion organizations)

This program is partly financed by the overseas import promotion organizations including ASEAN-Japan Center (Japan), CBI (Netherlands), and SIPPO (Switzerland). Such overseas donors financially support the activities of export promotion abroad, while NAFED's counterpart budget is used for domestic activities including workshops in Indonesia, meetings with industries, and invitation of local companies to fairs and exhibitions.

d) Export product cluster development

This program is designed to promote industry in the country. Following to the leather industry in Yogyakarta in 2006, the jewelry industry has been selected to be promoted in 2007. Because United States Agency for International Development (USAID) is supposed to support the program in 2007, NAFED's budget allocation for the year has been reduced by more than half compared to that for 2006.

e) Trademark development

This program was consolidated to IDP in 2007. As a result, budget allocation for the program within the 10+10+3 Program has become zero.

(3) Issues and prospects on 10+10+3 Program

a) Difficulty to achieve the target of 20% export increase

Target of 20% export increase set by the government is too high to achieve. This target is considered to be based on the actual increase of Indonesia's exports of non-oil and gas products in 2006, which recorded nearly 20% over the previous year.

However, this significantly high performance, which was calculated based on US dollar denomination, largely attributed to the rapid increase in international commodity prices of CPO, rubber, coal and so on as well as the appreciation of the Indonesian currency against the US dollar. For instance, although the export amount of rubber and rubber products increased by 54.4% in 2006 over the previous year, export volume increased by merely 12.4%.

Considering the above, it is suggested that more realistic figure be targeted, and some incentives be given so that NAFED people can work eagerly for the achievement of the target.

b) Limited involvement of NAFED in the formulation of 10+10+3 Program

Since many ministries and agencies were concerned with the formulation of the 10+10+3 Program, it is not clear who is responsible to the achievement of the project. In addition, NAFED had little contribution in the process of the project formulation. Actually, the target figures of export increase were first formed by the government. Then, the figures were passed on to MOT. MOT finalized the target figures after they had discussed with related ministries and industries. Up to this stage, NAFED people had generally not been involved.

As a result, the target figures are thought to be kinds of indications for NAFED, and because the penalty for missing the targets is not set, NAFED tends to lack the consciousness of the parties concerned towards the achievement of the targets.

It is therefore suggested that NAFED take leadership to formulate its own programs/activities through intensive communications with MOT and other related organizations.

c) Slow progress of 10+10+3 Program

The progress of four activities of the 10+10+3 Program is considerably slow. The preparation of action plans which are supposed to embody the four activities is also delayed. Under the circumstances, it is too difficult for NAFED to improve the degree of the realization of its budget appropriation for the 2007 fiscal year. Another problem is that NAFED does not seem to monitor the progress of the project periodically.

It is, therefore, suggested that NAFED formulate action plans of the project by themselves, construct the monitoring system to check the progress, and change tracks flexibly towards the achievement of the target. Thereafter, strict and fair evaluation should be done on NAFED's performance through close monitoring.

d) Necessity of NAFED's support to 10 Potential Products

Many of the companies which produce items in the 10 Main Products are relatively large, and have enough experiences to export the products by themselves. They often take part in the division of labor in the international production network of multinational companies, and do not necessarily need support from NAFED.

Regardless of the situations, approximately one half (47.2%) of NAFED's 2007 budget is allocated to "market intelligence (market researches in 5 countries/areas)" program which aims for the export promotion of the 10 Main Products.

From the viewpoint of the effective allocation of NAFED's limited resources as well as considering its major role to support SMEs, it is suggested that NAFED place more emphasis on the 10 Potential Products rather than 10 Main Products.

e) Necessity of prioritization of individual programs

In order to effectively utilize NAFED's limited resources, it is important to prioritize individual programs under the 10+10+3 Program according to the following viewpoints.

i) Significance as target products of export promotion activities

It is necessary for NAFED to examine i) if the selected products in the 10+10+3 Program can be significant target of export promotion support, and ii) if the selected products have the international competitiveness in the global markets.

ii) Selection of export promotion items

It is important to select programs and products which really need the support of NAFED, and place priority considering the above criteria as well as the present resources held by NAFED.

iii) Review of target industries

NAFED's key roles include i) value-adding support to export products, and ii) support to SME exporter in particular. Accordingly, it is suggested that NAFED provide more supports to SME exporters, which face difficulty in developing export / market by themselves, as well as expand the promotion activities particularly designed for SME exporters.

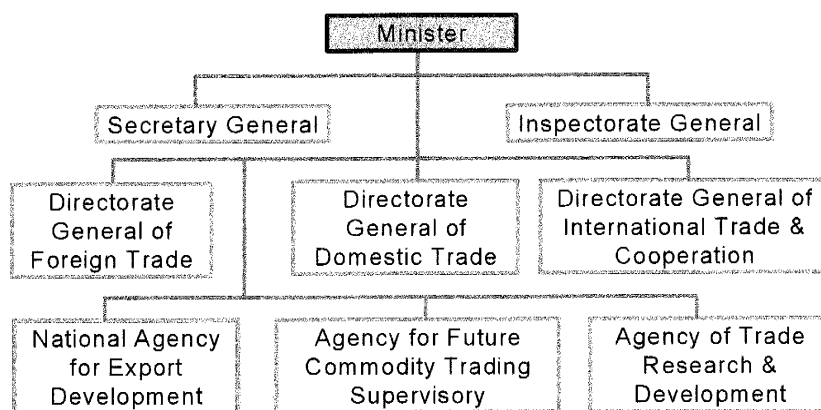
2.3 Role of NAFED in Indonesian Export Promotion Policies

NAFED is positioned as one of first echelons in MOT. NAFED is defined as a supporting unit in implementing the Ministerial duties under the subordination and responsible to the Trade Minister in Trade Minister’s decree No. 01/M-DAG/PER/3/2005. The duties of NAFED are to implement the coordination and implementation of national export development. From the organization chart of the Ministry of Trade, it is obvious that NAFED is the sole implementing agency of Indonesia’s export policy in the Ministry of Trade. Meanwhile, the Directorate General of Foreign Trade is responsible for international trade regulations and cooperation at the global, regional, and country levels.

In implementing the duties, NAFED carries out the following functions for administration of national export development:

- a) To prepare the formulation of ministerial policy in the field of national export development;
- b) To implement the policy in the field of national export development in accordance with applicable laws and regulations;
- c) To formulate the standards, norms, guidelines, criteria, and procedures in the field of national export development;
- d) To provide the technical guidance and evaluation in the field of national export development; and
- e) To implement the administration affairs of the Agency.

Figure 2.3-1 Organization Chart of the Ministry of Trade



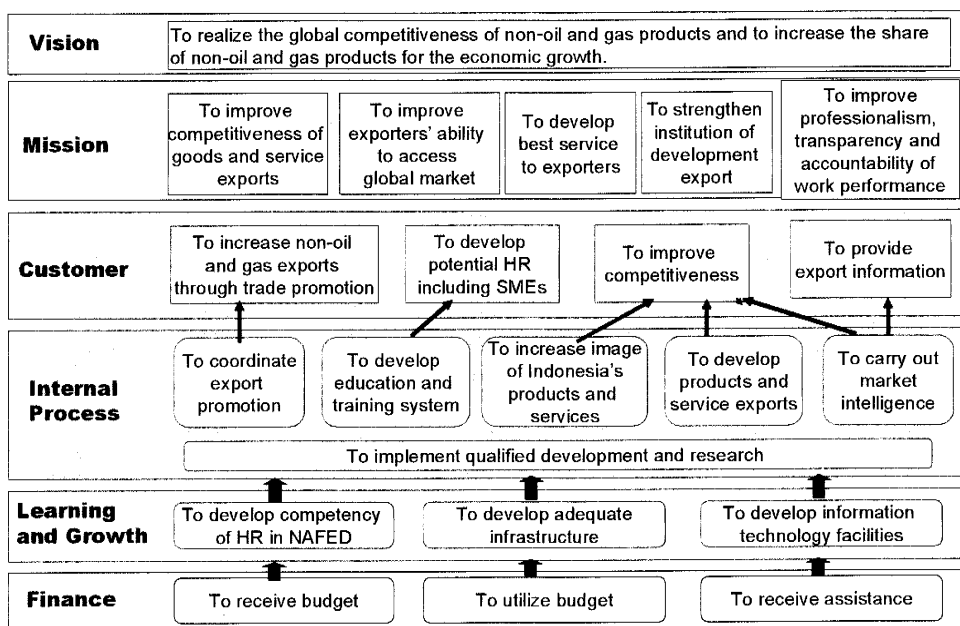
Source: Ministry of Trade

The Ministry of Trade is currently introducing a balanced score card system with the assistance of US Agency for International Development (USAID). In this process, NAFED has prepared the balanced score card of the Agency. The above mentioned duties are translated into five missions in the balanced score card. They are as follows:

- a) To improve export competitiveness of Indonesian goods and services;
- b) To improve exporters' ability to access to global markets;
- c) To provide the best services to exporters;
- d) To strengthen export promotion institution; and
- e) To improve professionalism, transparency and accountability of work performance.

The details of NAFED's activities are explained and analyzed in the following chapters.

Figure 2.3-2 Balanced Score Card of NAFED



Source: NAFED

2.4 Other Institutions Concerned with Export Promotion

Effective implementation of export development policy, in general, requires close inter-ministerial coordination and public-private partnership. In Indonesia, an initiative for such coordination and partnership has been seen in the process of developing the overall policy, "Improvement Program of Non-Oil and Gas Export of 2007" for the above mentioned "10+10+3 Program." MOT led this planning process, in coordination with other related ministries, State-owned Companies (BUMN), financial institutions, and Indonesian Chamber of Commerce and Industry (KADIN).

However, when it comes to export promotion - actual programs to support exporters, both the inter-ministerial coordination and the partnership with the private sector are considered to be weak. Although NAFED is the implementation wing of export promotion under the MOT's export policy, other ministries similarly provide export promotion functions to the industries under their supervision.

2.4.1 Coordination among Government Institutions

In Indonesia, in addition to NAFED, many other public institutions offer export promotion services. This is because;

- In Indonesia exporters disperse across a wide range of sectors including agriculture, fishery, industry, and service. And the majority of exporters are SMEs. Accordingly, several corresponding ministries claim their programs for their governing industries, even for export promotion.
- These ministries generally have an opinion that they are not satisfied with the present services of NAFED and that its services have been not professionally delivered to the exporters. Reflecting these opinions, other ministers have in the recent years increased their own budgets for export promotion programs, trade fairs and missions in particular.
- Types of promotional measures range widely, including training, consultation, product development, information and data provision, inquiry and trade matching, trade fair and mission, and finance. This makes it difficult for one single organization to cover all of these services.

The following government institutions currently provide export promotion services.

Table 2.4-1 List of Related Institutions

Organization	Domain	Services related to export promotion
Ministry of Agriculture, Directorate General for Processing and Marketing of Agricultural Product	Farm products and its processed products	<ul style="list-style-type: none"> - Holding of domestic trade fair - Subsidy for overseas and domestic trade fair participants - Dispatch of trade mission - Market information service - International conference, seminar, workshop - Sales support and product promotion fair - Trade matching service - Issuance of quality assurance and inspection certificate
Ministry of Marine Affairs and Fishery, Directorate General for Processing and Marketing of Fishery Product	Fishery products and its processed products	<ul style="list-style-type: none"> - Subsidy for overseas and domestic trade fair participants - Market information service - International conference, seminar, workshop - Publication of promotion materials for fishery products - Overseas display facility (showroom) for fishery products - Issuance of quality assurance and inspection certificate
Ministry of Industry, Directorate General for Small and Medium Industries	SMEs in manufacturing sector	<ul style="list-style-type: none"> - Holding of domestic trade fair - Subsidy for overseas and domestic trade fair participants - Dispatch of trade mission - Trade matching service - Technical / financial support for process innovation

		<ul style="list-style-type: none"> and product development, and skill training - Design promotion (through Indonesian Design Center) - Support for standardization such as International Standard Organization (ISO) certification - Industrial (SME) cluster development (guidance only)
Indonesia Design Center (<i>Pusat Desain Nasional</i>)	Design policy, promotion, design award operation	<ul style="list-style-type: none"> - Execution of Good Design Selection (IGDS) award - Sourcing and dispatch of professional designers - Provision of design workshop and training - Collection and display of design samples
State Ministry of Cooperative and Small & Medium Enterprise Deputy for Business Networking and Marketing	SMEs and cooperatives	<ul style="list-style-type: none"> - Holding of domestic trade fair - Subsidy for overseas and domestic trade fair participants - Training (for export marketing) - Overseas display facility (trade house) and domestic showroom facility for SME products - Market information service - Trade matching service (SMEsCO trading board) - Industrial (SME) cluster development (guidance only)

Source: JICA Study Team

The ministries which govern export-related industries usually have their own export promotion measures, most frequently, support for trade fairs. Market information service is also seen to the limited extent. The State Ministry of Cooperative and SME (SMOCSME) is considered to have the similar or over-lapping functions most frequently. In Indonesia, the Coordinating Ministry for Economic Affairs is supposed to play the role of coordinating economic programs among ministries; however, the coordination efforts are rarely seen in the area of export promotion. Due to such a weak coordination, the content and delivery of export promotion programs are poorly harmonized among the government institutions. It is desirable that all the export promotion programs are optimized and delivered in a harmonized manner.

2.4.2 Export Promotion by Other Government Institutions

(1) Ministry of Agriculture (MOA)

The Directorate General for Processing and Marketing of Agricultural Products (DG-PMAP) takes care of support for export development of farm products and its processed products. One of the main activities is holding of trade fairs for agro-products. Subsidies are provided to trade fair participants. In 2007, DG-PMAP introduced some 40 overseas trade fairs for farm products and provided subsidies to the intending participants. For domestic trade fairs, DG-PMAP identifies some 10 opportunities, four of which are held by MOA. Others will be held by Ministry of Industry (MOI), MOT / NAFED, and provincial governments. NAFED and agricultural attachés (stationed in four countries) regularly disseminate the information on overseas trade fair opportunities to DG-PMAP.

As a tool for facilitation of trade matching, DG-PMAP has developed “Market Online for

Agribusiness” on its website to facilitate trade deals of Indonesian agro-products (matching the selling and buying offers on the website). DG-PMAP also conducts pilot sales promotion at overseas supermarkets and invitation of overseas buyers to the farms of some selected commodities as another business matching measure. DG-PMAP is also supposed to collect and provide market information, but the contents of market information are only processed from published statistical data. Some export award programs are also prepared in view of raising the awareness for export marketing by local entrepreneurs and traders.

DG-PMAP currently focuses on supporting measures to farmers rather than the agro-based industries. Its strategy for export promotion is defined to empower farmers’ organizations (i.e., the creation of farmers’ cooperatives), and to provide them with technical guidance and support by extension staffs, and to facilitate business matching between farmers’ cooperatives and local traders for marketing of their products. Priority commodities include rubber, palm oil, coffee, cocoa, spices, mangosteen, mango, banana, pineapple, and their processed products.

(2) Ministry of Marine Affairs and Fishery (MOMAF)

The Directorate General of Processing and Marketing of Fishery Products (DG-PMFP) takes care of support for export development of fishery products and its processed products. One of the main activities is holding of trade fairs for fishery products with subsidies to the participants. The list of overseas and domestic fairs and exhibitions is prepared. DG-PMFP communicates with NAFED for information sharing on trade fair opportunities and exporters’ directories. DG-PMFP runs the showroom (exhibition display) for Indonesian fishery products in Netherlands, USA, and Japan. Market information service by DG-PMFP usually relies on overseas institutions (related to fishery products) and NAFED.

MOMAF has prepared the strategy for fishery community development (five-year plan), where export promotion is one of the biggest concerns. Major export commodities include shrimp and tuna (both accounting for 75% of total export value of fishery products).

(3) Ministry of Industry (MOI)

The Directorate General of Small and Medium Industries (DG-SMI) takes care of support for development and competitiveness building of SMEs in the manufacturing sector. Although DG-SMI is primarily concerned with technical innovation and quality improvement of manufactured products and product development by Indonesian SMEs, it also renders export promotion measures to the limited extent, including domestic trade fairs. The *Pameran Produk Indonesia* (PPI) is one of the major trade fairs held by MOI. For some selected industrial sub-sectors (jewelry, ceramics, salt, snack food, essential oil, and handicraft), opportunities of overseas trade fairs are identified in association with NAFED in order to have

these industries to learn about the design and technology of their competing countries. Coordination between MOI and NAFED has been better, since both used to be one ministry, the Ministry of Industry and Trade (MOIT).

DG-SMI promotes “Industrial (SME) Cluster Development Program” but its responsibility is limited to technical guidance for implementation. Actual implementation at site is left to the discretion of regional governments (both province and district). DG-SMI has also raised the function of design promotion through the establishment of Indonesia Design Center (IDC).

IDC is responsible for the design policy formulation and design promotion in Indonesia. The roles of IDC include awareness-building activity for design promotion such as seminar, consultation to industries, execution of Indonesian Good Design Selection (IGDS) award (jointly operated with NAFED) and secretariat function for the design council meeting. IDC has extensive network with professional designers associations (graphic, product, interior, textile, packaging, etc.) and universities, and focuses on “bridging service” between the industries and designers through its network.

However, IDC itself does not receive the government budget for its programs. Therefore, it is unable to execute any design development program with its own accord. When the regional governments work for design development support for their local industries, IDC can source and introduce relevant designers upon request. MOI also has the design clinic office which focuses on packaging and branding of agro-products².

(4) State Ministry of Cooperative and Small and Medium Enterprise (SMOCSME)

The Deputy for Business Networking and Marketing (DBNM) is concerned with export promotion of SMEs and cooperatives. It carries out the supports for overseas trade fairs (including subsidies to the participants), design development, trade matching (web-based), and the provision of marketing training and market information. As for trade fairs, SMOCSME also holds five of its own domestic trade fairs (one general and four thematic ones) annually, and provides financial support to regional fairs held by the regional governments. Design development program, which has been recently commenced, is to hold a design contest for targeted products. From the year 2007, 40 local designers will be recruited and dispatched to the intending SMEs and cooperatives to assist them for development of market-favored designs.

SMOCSME also owns an exhibition facility for the exportable products of SMEs in its premise, and operates overseas trading houses in Bulgaria and Saudi Arabia by assigning the selected private operators to conduct marketing and sales promotion of Indonesian products.

² Issues concerning the design promotion in Indonesia are dealt with in the section of “Export Design Promotion” in this report.

SMOCSME also established the trading board for SMEs and cooperatives (known as SMEsCO), which currently runs trade matching service called “Indonesian Product Gallery” on the website managed by the private operator. As of now, 2,200 of SME producers are registered with the board for promotion. Those registered SMEs produce several types of export products (furniture, ceramics, textile, leather product, home decoration, food and beverage, earthenware and so on). This board is expected to be a basis for the future establishment of public-funded trading company, according to SMOCSME. Although not routinely worked, it also renders market information service, assigning the private service provider to compile detailed market information for the major export destinations.

(5) Other institutions and regional governments

Other institutions such as the Ministry of Foreign Affairs (MOFA) and BKPM have also conducted export promotion activities like the support to participation into trade fairs and missions. With the decentralization, the regional governments have held bigger role in export development at the regional level. Representing each regional government, individual Dinas for Industry and Trade (provincial and district) is supposed to take care of export promotion.

In general, each Dinas has a strong interest in export development of local industry and extends a variety of programs for promotion. However, the information and support resources required for export development and promotion are usually lacking. In this regard, the channel of information provision (information on export markets, products, design and overseas buyers) and that of inputs from NAFED to regional governments need to be established or strengthened.

2.4.3 Partnership with the Private Sector

Government institutions in Indonesia still lack a demand-driven approach to derive more effective and attractive programs for export promotion, and need to seriously take “public-private partnership” as a key in designing and executing the export promotion services. In general, the communication between the private sector (industrial associations, KADIN, etc.) and NAFED (and other government institutions concerned with export promotion) is considered as weak or virtually none. The public sector usually does not recognize the importance of partnership with the private sector in the process of planning and designing export promotion measures.

As a result, public institutions face difficulty in delivering customer-oriented service and fine-tuning specific and various needs of exporters in depth. The present promotional measures by the public sector generally lose touch with what the private sector demands, and are largely concentrated on event-based ones such as trade fairs and high-ranked official missions. Unless NAFED becomes more dedicated for the needs of the private sector and

respond to them in a more professional manner, the significance of NAFED's existence will be increasingly questioned by the private sector.

2.5 Accessibility, Satisfaction and Needs of Exporters

Aiming to identify the accessibility and satisfaction level of Indonesian exporters over NAFED's services and to reflect the results in the design process of Master and Action Plans, the Study Team has conducted a questionnaire survey to exporters (customer satisfaction survey for the services of NAFED). The services of NAFED covered market information, export promotion (trade fairs & missions), trade inquiry and matching support, and product development (branding & design promotion). The survey also made a direct interview to organizations like KADIN, industrial associations and some individual exporters in order to reveal their observed issues and demands over NAFED in more depth. The survey was subcontracted to a local consulting firm.

2.5.1 Outline of the Survey

Outline of the survey is detailed below. Responded exporters for the questionnaire amounted to 146 in total from 7 regions, and interviewed organizations included 7 KADINs (central and regional), 15 export-oriented industrial associations, and 30 individual exporters. The results and opinions obtained from the survey and respondents have been consulted to identify the area and issues to be highlighted and reflected in the design of Master and Action Plans to improve the services and management of NAFED.

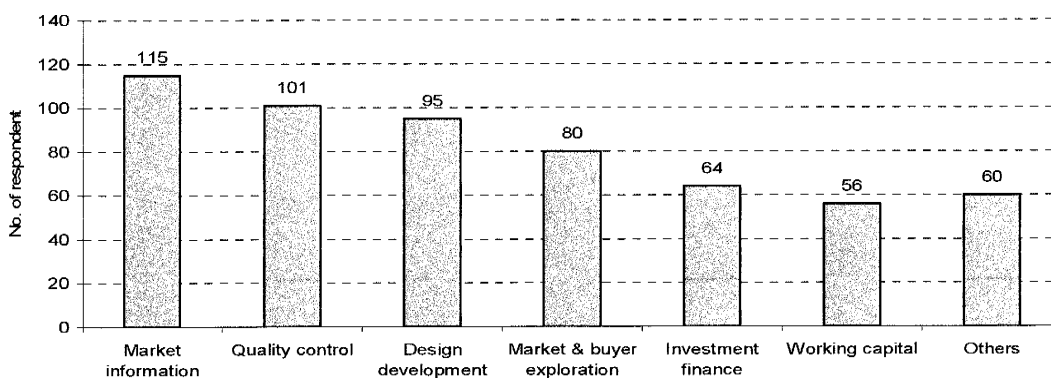
Component of the Survey	a) Interview survey b) Questionnaire survey
Subject areas:	i) Jakarta ii) East Java (Surabaya) iii) West Java (Bandung) iv) Central Java (Semarang) v) South Sulawesi (Makassar) vi) North Sumatra (Medan) vii) South Kalimantan (Banjarmasin)
Respondents: a) Interview survey	Subject Respondents: i) KADIN and Provincial KADINs in each of the aforementioned province ii) Export-related industrial associations iii) Exporting (and potentially exporting) companies, including sectors of; <i>Automotive component, cocoa, coffee, electronics, footwear, furniture, palm oil, rubber product, shrimp, textile product, essential oil, fish product, handicraft, jewelry, leather product, medical instrument, medicinal herb, food product, spice, stationery, etc.</i> Number of Respondents: i) Provincial KADINs = (7 in total) ii) Export-related industrial association = (15 in total) iii) Exporting (and potentially exporting) companies = (30 in total)

- b) Questionnaire survey Subject Respondents:
 i) Exporting (and potentially exporting) companies
 Number of Respondents:
 i) 146 in total, at least twenty (20) companies in each seven (7) province

2.5.2 Key Findings of Questionnaire Survey

Generally speaking, the expectation over the role of NAFED is judged as high, supported by the fact that the biggest concerns held by exporters is their limited market channel, followed by poor product quality and price fluctuation. Lack of market information also accounts for one of the major concerns.

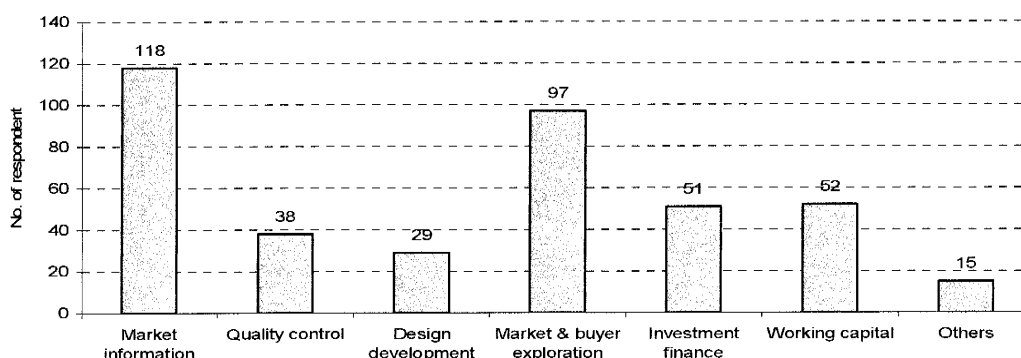
Figure 2.5-1 Constraints / Difficulties held by Exporters in Export Development



Source: JICA Study Team

Accordingly, the area of support which the exporters need concentrates on the provision of market information and data (overseas buyers / importers, product standards, regulations) and market development (marketing support such as reference on buyers and trade fair participation).

Figure 2.5-2 Area of Support for Export Development



Source: JICA Study Team

(1) Market information

Almost 60% of the respondents have accessed to market information and data from

NAFED through direct contact, or at the occasion of trade fairs, and mostly sought for directory of buyers. Published materials and website of NAFED have not been the major sources for market information. However, almost half of such users judge the market information from NAFED as unsatisfactory or not useful as the data is not updated or accurate. The rest has not sourced information from NAFED since the majority of them do not know the availability of such a service. Most respondents including those who have accessed to NAFED have utilized other sources of information such as buyers, importers, agents, and associations. Internet is still a minor option for local exporters to collect market information.

(2) Trade fairs

Some 64% of the respondents have participated in overseas trade fairs, and those who participated in NAFED sponsored fairs account for around 35%. Other central and regional governments are also major sponsors for the overseas trade fairs, revealing that many ministries have rendered the similar support to NAFED. Non-participants raised a high cost as the primary reason. Although most respondents who participated in NAFED sponsored fairs judge the opportunity as fair, only a small number are fully satisfied with the results. Less satisfaction over the result derives from little promotion and follow-up by NAFED.

(3) Inquiry and matching supports

Although trade inquiry and matching supports (with buyers) have been highly demanded services for export and market development, accessibility of the respondents to the services is considered as poor. Only 27% of them have accessed to NAFED and RETPCs (Regional Export Training and Promotion Centers) for trade inquiry and matching supports, since most respondents do not recognize NAFED as a provider of such services. Around half of the exporters who have accessed to NAFED (and RETPC) judged the services as fair, stating that they could increase the list of buyer and realize new opportunities for export. At the same time, about 41% of them are not satisfied since NAFED provided inaccurate and outdated data and its response was slow.

(4) Website service

More than half (66%) of the respondents have accessed to the website of NAFED, and most accessed sections are global promotional events, inquiry, trade database (directory of buyers). On the other hand, the access to market information has been little. Although the user-friendliness of website is judged as fair by most respondents, many request that information be up-dated in due course and that the data of potential buyers be more prepared.

(5) Product (design) development

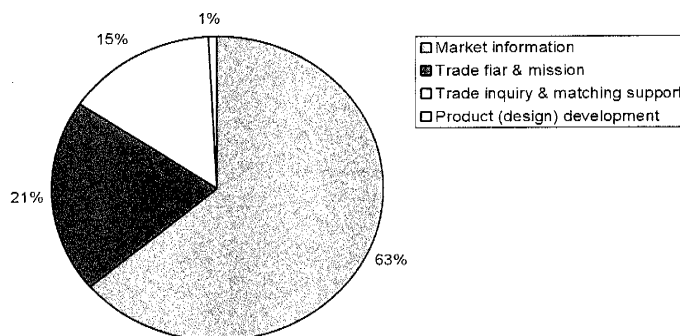
Almost all (90%) of the respondents have experienced some kinds of product (design)

development of their products to compete in the global markets, and usually engage in the product (design) development with their own effort or through instruction from buyers. Working with supporting institutions is still considered as a limited practice, thus accessibility to NAFED (and RETPCs) in this field is quite little. Even if the support has been rendered by the supporting institutions, the support is usually training provision.

(6) Overall evaluation

Level of accessibility and satisfaction becomes lower in the customer-oriented services like trade inquiry and matching services. Such “one to one” services for exporters are considered as the weakest functions in NAFED and need to be adequately rendered by dedicated staffs in a professional manner. Exporters show NAFED the highest expectation over its market information service.

Figure 2.5-3 Expected Services of NAFED to be Strengthened



Source: JICA Study Team

Some 63% of the respondents raised market information service as the one to be the most strengthened. Exporters strongly expect the staffs of NAFED to be more serious in collecting, disseminating and updating accurate market information, and to expand more global event opportunities for small scale enterprises.

2.5.3 Key Findings of Interview Survey

(1) Voices from KADIN and industrial associations

In general, the opportunities of promotional events (trade fairs and missions sponsored) by NAFED are well informed to KADIN and industrial associations. However, all the KADIN and industrial associations interviewed state that there has been little opportunity for NAFED (and RETPCs) to draw the issues and needs from them and to reflect them into the planning of such promotion programs.

Another issue stressed by them is on the performance of ITPCs or trade attachés. Their performance is generally judged as unsatisfactory since the attitude of officers is considered undedicated and unprofessional. To strengthen the services and enhance the contribution of

NAFED to the export growth, KADIN and industrial associations expect NAFED the followings;

- To establish a good communication channel with industries in order to design and conduct more effective promotional measures.
- To deepen the knowledge of products and industries to be promoted.
- To improve the facilities (booth design and follow-up care) of overseas trade fairs.
- To improve the way of socializing its roles and promotional programs.
- To develop more seriously exportable products from the existing potential ones in regions.
- To assign business-minded and competent persons as overseas representatives (trade attachés and ITPCs' directors) so that valuable market information will be collected.

(2) Voices from individual exporters

Majority of interviewed exporters recognize that an active participation in marketing activities and accessibility to market information as well as quality improvement of product and cost reduction would be the key factors in competing in the overseas market. An expectation of exporters for NAFED to provide the support for their overseas marketing activities is judged quite high. However, many exporters state that the volume and frequency of such marketing supports from the government have been still insufficient. Furthermore, many indicate that the permit or license procedure to export the products becomes increasingly complicated. Interviewed exporters propose NAFED to do the followings;

- To provide more opportunities of overseas trade fairs and look for more potential buyers.
- To regularly provide more complete and accurate market information with particular focus on overseas trade regulations and product standards.
- To directly disseminate market information to exporters and facilitate the internet access by SME exporters.
- To listen more seriously to exporters' problems and prepare better solutions.
- To lead and coordinate government supports for exporters from the upstream to the downstream.