

CHAPTER 3 INTERNAL ANALYSIS OF NAFED

3.1 Outline of NAFED

3.1.1 Brief History of NAFED

The National Institute of Export Development (LPEN: *Lembaga Pengembangan Ekspor Nasional*) was established in 1971 under the supervision of the Ministry of Trade. LPEN was established with the following purposes:

- a) To study export markets and establish the information system;
- b) To develop capability of exporters by providing guidance; and
- c) To provide technical assistance to exporters

The major role expected for the LPEN was, among others, to disseminate information to the government institutions, exporters and buyers overseas. In 1975, in line with the reorganization of all ministries, the LPEN was changed to the National Agency for Export Development (NAFED) and fully integrated to the Ministry of Trade. At the same time the function of non-oil and gas export development was added to NAFED.

Following the merging of Ministry of Trade with Ministry of Industry into Ministry of Industry and Trade (MOIT) in December 1995, NAFED became an organization functioning under the Ministry of Industry and Trade. Based on the Decree of Minister of Industry and Trade No. 29/MPP/SK/2/1996, the main functions of NAFED were to coordinate, develop, and implement Indonesia's export development based on the policies decided by the Minister and prevailing laws and regulations.

In the history of 37 years since establishment, NAFED has experienced restructuring of its organization several times. The recent reorganization of NAFED is as shown below.

Table 3.1-1 Reorganization made by NAFED

<u>Organization in 1995</u>	<u>Reorganization in 1996</u>	<u>Reorganization in 1998</u>
<ul style="list-style-type: none"> - Secretariat - Center for Trade Information and Market Analysis - Craft Product Center - Agricultural Product Center - Industrial Product Center 	<ul style="list-style-type: none"> - Secretariat - Center for Export Information - Center for Export Promotion - Center for Export Products Development - Center for Export Market Development 	<ul style="list-style-type: none"> - Secretariat - Center for Export Information and Training - Center for Market Development of American, Australian and New Zealand Regions - Center for Market Development of European Region - Center for Market Development of Asian Region - Center for Market Development of African and Middle East Region

Source: NAFED Annual Report

3.1.2 Vision, Missions, and Values of NAFED

(1) Vision

NAFED's vision is as follows:

To improve global competitiveness of Indonesia's non-oil and gas products and to heighten the role of non-oil and gas exports in accelerating national economic growth.

(2) Missions

NAFED's mission is to develop and promote non-oil and gas exports by the followings:

- 1) To enhance export competitiveness of products and services.
- 2) To enhance competence of exporters for penetration into the global markets.
- 3) To expand and deliver quality service to the business players.
- 4) To strengthen institutional capacity as export development organization.
- 5) To enhance professionalism of staff, and transparency and accountability.

(3) Values

In order to support the vision and missions, NAFED also sustains the values, which are:

- 1) Professionalism
- 2) Integrity
- 3) Creativity and Innovation
- 4) Motivation for Institutional Improvement
- 5) Delivery of Prime Services

3.1.3 Current Strategy

In order to increase non-oil and gas exports, the following strategies are pursued:

- a) To penetrate non-traditional markets while maintaining the existing markets.
- b) To improve the quality of export products and the image of Indonesian products in the overseas markets.

3.1.4 Services and Organization of NAFED

(1) Services

NAFED currently defines its task to serve for export development through market information provision, potential exporter development, export promotion, match-making, product development, and renders the following services.

Table 3.1-2 Services Provided by NAFED

1. Market information	<ul style="list-style-type: none"> - Publications - Market Intelligence (collection, processing, analysis) - Export forum - Workshops and seminars - Trade consultation for SMEs
2. Product development	<ul style="list-style-type: none"> - Brand / design development - Cluster development
3. Buyer service	<ul style="list-style-type: none"> - Buyers reception desk (BRD) - Mini display - Inquiry service (matching service)
4. Export promotion	<ul style="list-style-type: none"> - Overseas trade fairs - Domestic trade fairs (inc. Trade Expo.) - Trade missions - Virtual Exhibition (website) - Marketing Point - Excellent exporter (Primaniyarta) award
5. Export training	<ul style="list-style-type: none"> - Training for exporters and potential exporters

Source: NAFED

The budget of NAFED amounted to Rp. 225.9 billion for 2007, and has been largely increase if compared to Rp. 131.1 billion for 2005 and Rp. 173.1 billion for 2006.

(2) Organizational set-up

Based on the Trade Minister's decree No. 01/M-DAG/PER/3/2005 concerning the organization of the Ministry of Trade, there are six second echelons under the supervision of the chairman in NAFED, namely;

- 1) Secretariat of Agency
- 2) Center for Export Information Service
- 3) Center for Market Development of America and Europe
- 4) Center for Market Development of Asia, Australia and New Zealand
- 5) Center for Market Development of Africa and Middle East
- 6) Indonesia Export Training Center (IETC)

The organization chart since 2004 is as shown in the following Figure.

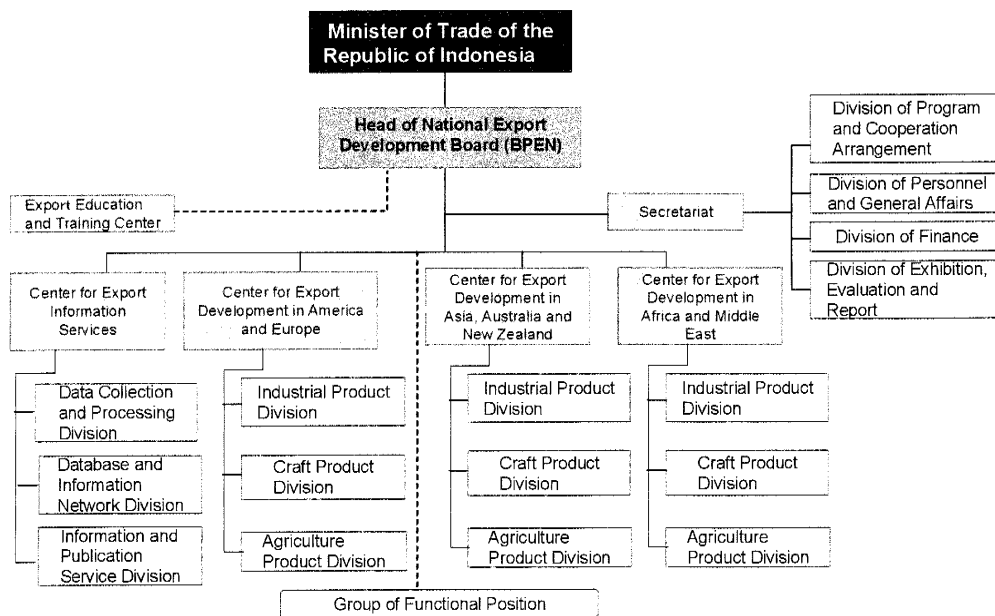
The operation of 13 Indonesian Trade Promotion Centers (ITPCs) was stopped in 1998 due to the economic crisis. However, the ITPC in Osaka was reopened in 2000. Now six ITPCs in Osaka, Los Angeles, Dubai, Budapest, Johannesburg, and Sao Paulo, are operated. In 2007 ten or more ITPCs were planned to be open. The ITPCs are set up based on the Joint Ministerial Decree between the Minister of Foreign Affairs and the Minister of Trade (No.1016/OR/VII/82/01 and No.246/KPB/VII/82). ITPCs support export promotion activities

of NAFED and exporters in overseas markets and conduct market intelligence.

In region, Regional Export Training and Promotion Centers (RETPCs) are set up in Surabaya (East Java), Medan (North Sumatera), Makassar (South Sulawesi), Banjarmasin (South Kalimantan), Semarang (Central Java) and Bandung (West Java). RETPCs are not the regional offices of NAFED, but owned by provincial government and accordingly the subject with which NAFED should cooperate in the fields of export training and promotion.

In addition, several marketing points have been established in border crossing areas, i.e., in Tarakan (East Kalimantan), Entikong (West Kalimantan), and Skow (Papua). The role of marketing points is to facilitate trade of SMEs in the boarder crossing area through exhibiting and promoting their products.

Figure 3.1-1 Current Organization Chart of NAFED



3.2 Current Issues of NAFED Management

3.2.1 Policy and Strategy

- a) Vision and Missions not clearly translated into objectives and targets

The vision and missions are not translated into substantial targets and necessary actions in a clear-cut manner at every level of organization. In other words, it is indicated that business plan and programs are not necessarily planned and formulated by setting the vision and missions as the primary goal.

The current vision of NAFED is to improve the global competitiveness of Indonesia’s non-oil and gas products and to heighten the role of non-oil and gas exports in

Indonesian economic development. This means the expected function of NAFED is not only export promotion but also export development. However, current activities are focused on support to export promotion for established exporters, although IETC somehow contributes to the capability building of potential and non-exporters. One of the missions is to provide best services to exporters. However, it seems that this mission is not shared by all the staffs and not reflected in their actions.

b) Broadly defined functions of NAFED

The functions of NAFED are stipulated in the Trade Minister's decree. The articles on NAFED duty and function are mentioned briefly for each division, but not described in detail. It is necessary to describe the tasks and functions in detail to supplement the decree so that activities to be implemented can be more concretely understood and shared by the staffs.

c) The status of NAFED as an agency of MOT

Being an agency of MOT, NAFED has limited discretion of management. The organization of NAFED should follow the government regulations. Human resource management is also subjected to various restraints.

d) Lack of the long-term plan of NAFED

NAFED, as a governmental agency, formulates and implements its operational programs and activities annually according to annual budget, and does not prepare the long-term plan of operation.

e) Program / activity portfolio biased to trade fairs and missions

Programs and activities of NAFED are currently concentrated on trade exhibitions and missions. The information service is a basic service of TPOs, however, the performance of information service is considered as weak. Capability of collecting and analyzing market information is deemed as very important for all the export promotion activities. As for export promotion, no program to improve the competitiveness of exporters is available, except training programs by IETC and the Indonesia Design Power (IDP) program.

f) No strategic approach to provide comprehensive support to SME exporters

The primary target of NAFED is for SMEs. SME exporters face many constraints in exporting their products. Most of them are dispersed across the country and their access to supports is quite limited. A comprehensive supports are required in order to effectively develop SME exporters. However, NAFED currently does not have such an integrated support program particularly for SMEs.

3.2.2 Organizational set-up

a) Market-based organization hindering information sharing among units

In the present organizational set-up of NAFED, only the Center for Export Information Service (CEIS) is the unit prepared by function. Other three centers separately established by the region of overseas markets carry out their each overseas trade fairs and market development activities independently, and are divided into the division by product type.

This organization set-up hinders the sharing of know-how and information in the entire NAFED. For example, know-how concerning preparation and implementation of trade fairs, information of overseas markets and buyers, knowledge on products, etc., are not appropriately shared. In other words, knowledge management has not been virtually practiced in NAFED.

b) Trade fairs implemented by the Secretariat

Even the Secretariat, administrative department, is responsible for the implementation of trade fairs including Trade Expo Indonesia. However, it is considered that the Secretariat's function should not be involved in actual promotional activities.

c) Little own revenue sources

Admission fee incomes from exhibitors at trade fairs are to be transferred to the treasury. Not only expenses for promotional activities but also those related to staff training need an approval of MOT, which hinders flexible operation of activities.

d) Rapid increase in the number of ITPCs

By the end of the year 2007, eleven (11) ITPCs will be newly opened, making the total as 20 centers. Rapid expansion of ITPCs requires increased budget in the following years. To maintain the operation of these ITPCs and achieve assumed activities, well-elaborated management should be established in NAFED headquarters through increasing the number of staffs and budget to take care of ITPCs' operation.

e) A large number of retirements scheduled

In 2006, the number of NAFED staff amounted to 283, and those of IETC were 92, altogether 375. In 2005, the total staffs of NAFED were 275 and those of IETC were 85, altogether 360. Out of those 275 NAFED staffs, 49% (135persons) or equal to 27 employees per year are going to retire in the next five years.

Due to the government policy to decrease the number of civil servants, NAFED was not allowed to employ new staffs for the past ten years till 2006. In 2006, MOT

employed almost 500 new staffs, some of whom may be transferred to NAFED. The number of government officials who joined NAFED is usually less than 20 per year, therefore, retiring officials outnumber newly recruited officials.

f) Senior-heavy structure of NAFED's demography

The structure of NAFED's demography is, so called "inverted triangle" shape, in other words, "senior heavy" one. There are 200 staffs whose ages are over 45 years old, and there are 80 staffs whose ages are below 45 years old. Accordingly, NAFED needs to seriously consider adequate workload allocation to each staff. Meanwhile, IETC has a "normal triangle" structure of demography.

3.2.3 Management System

a) Insufficient internal coordination and communication

According to the organizational function, the Secretariat takes charge in coordination among centers. However, it is considered that the coordination and communication among centers are currently insufficient. Although, management staffs, including the Secretary of the Secretariat, are generally busy, the closer communication among the management staffs and between management and other staffs is desired.

b) No task description for each unit and staff prepared

Task description for each unit and staff is not prepared in order to define the tasks of each unit and staff. Personnel Bureau of MOT has undertaken the survey of job description to all departments in the Ministry including NAFED. Using this survey result, NAFED can clarify the tasks required for the role of NAFED and whether the current workload is sufficient or not.

c) Insufficient evaluation of programs and activities

In the current Secretariat there is the Sub-division of Evaluation under the Division of Exhibition, Evaluation and Report. This sub-division is supposed to undertake evaluation of the whole activities of NAFED. However, its evaluation only covers exhibitions. In addition, the people who implement exhibitions evaluate themselves.

According to BAPPENAS, the national budget for 2008 is named as "Performance-based Budget". NAFED is not exception from severe evaluation of budget expenditure and performance. The taskforce of monitoring and evaluation should start to monitor NAFED's domestic and overseas activities. In addition, the evaluation by outside evaluators should be introduced in order to establish objective and transparent

evaluation.

d) Needs to enhance internal communication

As for internal communication, the following problems can be pointed out.

- i) Policies of NAFED are not fully publicized and shared by all the staffs.
- ii) Decision-making process is not clear.
- iii) Bottom-up suggestions are not fully encouraged.

In order to enhance information sharing, prompt decision-making, and facilitation of activities, it is strongly recommended that the directors' and sub-directors' meeting be held periodically, e.g., weekly or bi-weekly, to discuss key matters, report the progress of activities, and to coordinate with other units.

The issuance of internal communication papers is deemed as desirable tool to facilitate information sharing among staffs. Such papers can be issued periodically, at least monthly, to inform operational situation, progress of programs/activities, voices from staffs, etc.

3.2.4 Human Resources Management and Development

a) Human resources management within the framework of MOT

As NAFED is an agency of MOT, the Bureau of Personnel of MOT is responsible for human resources management (HRM) of NAFED. In NAFED, there are 34 management posts of Echelon II, III and IV. Echelons follow the career paths of the ministry and are subject to the personnel rotation of the ministry.

After joining MOT, a staff is promoted to the next higher position every four years up to the ceiling of Level 4e. Echelon III post is entitled to the Level 3/d above. Echelon II post is entitled to the Level 4/b above. Heads of centers and Secretariat hold Echelon II position.

b) Limited ITPC posts for NAFED staff

The nomination of ITPC personnel is also controlled by the Bureau of Personnel of MOT. Personnel to be posted to ITPCs are required to be Echelon IV above and Level 3/d above. In the recent years, the number of ITPCs has been increased. At the end of year 2006, eight centers are operating with 15 directors and vice-directors. Out of those directors and vice-directors, so-called "NAFED home staff" amounts to only five, the rest are dispatched from other directorate general (DG) of MOT.

c) Low salary level of public official

The salary level of public official is much lower compared with that of the private sector. Salary for newly graduates from university in NAFED is very low, amounting to Rp. 700,000 per month. The first bonus is paid as the thirteenth-month salary, whose amount equals to one month salary. Fringe benefits are limited to spouse allowance as much as 5% of salary, children allowance as much as 3% of salary per child up to three children.

No commuting or housing allowance is provided. According to the annual report of NAFED, reward for employees who have been working for 10, 20, and 30 years, were given *Satya Lencana* grant in 2005 to 12 staffs. It is reported that the government plans to raise the minimum salary of public official by 50%. This measure is expected to raise the morale of public official including NAFED staff.

d) Inefficient staff allocation

When staff allocation is considered, there are a few factors to be taken into account, including the workload of each division and sub-division based on task description, appointment of the right person for the right job, and career path formulation of individuals, etc. Presently, such factors are not taken into account by NAFED. Retiring staffs currently outnumber newly-recruited ones. Therefore, it is quite essential to re-examine the staff allocation and prepare the plan of recruitment over the coming five years.

e) Unclear task description

As mentioned previously, the task description of each division needs clarification. It is also necessary to prepare each sub-division's minimum duties, and standard procedures or manuals. Every staff should be familiar with their concerned standard procedures or manuals to realize the efficient execution of his/her duties.

f) Unsystematic personnel evaluation

NAFED keeps personnel statement sheets for each staff, which can be used at the decision-making regarding job transfer and promotion. However, personnel evaluation based on the personnel statement has not been practiced in NAFED. It is also noted that the personnel evaluation has not been linked to the career development of staff.

g) Ineffective staff education and training

Around 150 staffs of NAFED underwent training and education programs in 2006. Besides training programs held inside the country, the opportunities of overseas training have been given by the support of donors or other trade promotion organizations (TPOs).

However, there are still strong needs to enhance staff education and training system. A taskforce was established to address the human resource development (HRD) of NAFED and observed the following issues:

- HRD programs have not been systematically designed.
- Training needs survey has not been carried out.
- Staffs are not obliged or motivated to participate in training program, or to report the training results to the head of belonging units.
- Present tasks at the workplace do not necessarily match the knowledge and skills acquired from the training.

3.2.5 Budget and Finance

(1) Flow of budget compilation

NAFED's budget comes from the government. The flow of budget compilation by NAFED for each fiscal year is described on the table below.

Table 3.2-1 Flow of Budget Compilation of NAFED

Step	Process	Time
Formulation of the original plan	<ul style="list-style-type: none"> - MOT asks NAFED to formulate budget for the next fiscal year. - All Echelons from centers and divisions of NAFED are asked to meet together to formulate their own budgets. - Program Division of NAFED compiles budget plans from all the concerned centers/divisions into NAFED's budget plan for the next year. - Through intensive discussions among centers/divisions, NAFED's budget plan for the next year is completed. - Then, NAFED's budget plan is submitted to Planning Bureau of MOT. 	February
Request / Assessment	<ul style="list-style-type: none"> - All Echelon 1 meet and formulate MOT's budget plan including NAFED for the next year. - MOT budget plan is submitted to both i) BAPPENAS and ii) Ministry of Finance (MOF). - BAPPENAS/MOF gives MOT/NAFED indication so that MOT/NAFED plan can harmonize with other relevant projects planned by other ministries, etc. - MOT and NAFED discuss the budget plan item by item in details. - MOT revises again its budget plan in accordance with the results of the discussion, and submits it again to MOF. - After MOF approves the budget plan, the MOT budget plan is presented by the cabinet to parliament. 	April
Approval	<ul style="list-style-type: none"> - After the budget plan is approved by parliament, it is returned to MOF. - Later on, final approval is made by MOF. 	August to October

Source: JICA Study Team

The budget compilation starts in February of the previous year. The original budget plan is submitted to the parliament at the beginning of autumn after the discussion with and assessment by MOT, BAPPENAS and Ministry of Finance (MOF). Then, the parliament

approves the budget at around October after the deliberations and resolutions are done.

(2) Review of budget allocation

NAFED's budget allocation comprises five domains; i) improvement of investment, ii) 10+10+3 program, iii) training of trading-small and medium enterprises, iv) training of human resources and v) payroll and other supporting activities.

First four activities are regarded as items of the project budget (equivalent to variable costs) while the fifth as the routine budget (equivalent to fixed costs) by the nature of costs. The breakdown of NAFED's budget allocation between 2005 and 2007 is shown below.

Table 3.2-2 Budget Allocation of NAFED (FY2005-2007)

Amount:		(Rp. Million.)		
No.	Domain	2005	2006	2007
1	Improvement of Investment	57,439	78,185	111,475
2	10+10+3 Program	2,256	6,387	10,782
3	Training of Trading-Small and Medium Enterprise	23,595	17,607	10,704
4	Training of Human Resources	16,421	16,639	23,675
5	Payroll and Other Supporting Activities ¹⁾	31,399	54,288	69,309
Total		131,111	173,096	225,941

Note 1: includes those of 6 ITPCs in 2005, 11 ITPCs in 2006, and 20 ITPCs in 2007.

Share:		(%)		
No.	Domain	2005	2006	2007
1	Improvement of Investment	43.8	45.2	49.3
2	10 Main Products & 10 Potential Products & 3 Services	1.7	3.7	4.8
3	Training of Trading-Small and Medium Enterprise (UKM)	18.0	10.2	4.7
4	Training of Human Resources	12.5	9.6	10.5
5	Payroll and Other Supporting Activities	23.9	31.4	30.7
Total		100.0	100.0	100.0

Increase over the previous year:		(%)		
No.	Domain	2005	2006	2007
1	Improvement of Investment	-	36.1	42.6
2	10 Main Products & 10 Potential Products & 3 Services	-	182.9	68.9
3	Training of Trading-Small and Medium Enterprise (UKM)	-	-25.4	-39.2
4	Training of Human Resources	-	1.3	42.3
5	Payroll and Other Supporting Activities	-	72.9	27.7
Total		-	32.0	30.5

Source: NAFED

The characteristics and issues for each of the above activities are summarized below:

a) Improvement of investment

This activity comprises i) trade promotion and ii) organization of ITPC. Trade promotion accounts for more than two thirds of the total budget for this activity; 85% in 2005, 66% in 2006, and 70% in 2007. Because exhibitions, the largest component of

trade promotion, continue to increase as the activities extend. For example, the budget for the Trade Expo Indonesia (former Indonesian Resource), which included the export promotion of Indonesian products and the construction of a new pavilion in 2006, increases every year.

b) 10+10+3 program

The 10+10+3 program comprises five independent programs; i) market intelligence, ii) Indonesia Design Power (IDP) program, iii) product development, iv) development of export product clusters, and v) development of trademark.

Among them, the budget allocation for market intelligence increased rapidly in 2006 and 2007. Especially in 2007, NAFED plans to outsource market researches of 5 countries/regions, and it increases the budget allocation for Market Intelligence sharply, accounting for 47.2% of the budget for the 10+10+3 Program in the year, which in turn tends to decrease the allocation of budget for other activities.

c) Training of trading SMEs

This activity comprises nine subordinate activities; i) training of export procedures and participation in Trade Expo Indonesia (50 small and medium enterprises from 10 regions), ii) grant of *Prismaniyarta* Award, iii) Indonesia Good Design Selection (IGDS), iv) virtual exhibition, v) business consultation, vi) management of marketing point vii) training of small and medium enterprises in post earthquake Yogyakarta and Semarang, viii) development and dissemination of information / publication off-line and online, and ix) export forum/socialization and coordination.

The budget allocation for these activities on the whole was reduced in two successive years, i.e. 2006 and 2007. Among these nine activities, the budget allocation for ix) export forum/socialization and coordination was reduced most, from 40.0% in 2005 to 10.8% in 2006. The reason for this drastic reduction was that some subordinate activities such as socialization and coordination were going to be financed by another activity, namely IDP program.

Among others, the budget allocation for virtual exhibition has been cut in and after 2006. The reason for this is that the budget allocation for this activity in 2005 was to cover expensive hardware and software in 2005, but thereafter it has financed only the maintenance costs to renew the homepage, etc. On the contrary, the budget allocation for vi) management of marketing point has been increased substantially, as this activity meets the president's speech which claims that all the governmental projects in 2007 must suffice three conditions; i) to expand economic growth, ii) to provide employment, and iii) to eradicate poverty.

d) Training of human resources

This activity comprises i) IETC and ii) RETPCs. Especially, the budget allocation for ii) RETPCs decreased sharply in 2006 and 2007 because the Memorandum of Understanding (MoU) between NAFED and Dinas was terminated. According to the understanding specified on the MoU, NAFED has to provide an RETPC with various supports for the first three to four years after its establishment, but after this period, an RETPC is supposed to be managed by the local government.

e) Payroll and other supporting activities

The budget allocation for “payroll and other supporting activities” has been increased in accordance with the planned increase in the number of ITPCs. The number of ITPCs was planned to increase from 6 in 2005 to 11 in 2006, and 20 in 2007. However, up to July 2007, only 9 ITPCs have been set up. Other supporting activities in this item include such fixed costs as lighting and heating expenses, public utility charges, rents, etc.

3.2.6 Organizational Culture

(1) Outline of organizational culture survey

With the purpose of identifying major issues concerning organizational culture of NAFED, the organizational culture survey was conducted. Questionnaire sheets were randomly distributed to 250 staffs of NAFED on July 7, 2007. The number of effective respondents was 113. The breakdown of respondents by unit was as follows:

Secretariat	: 34 persons
Center for Export Information Service	: 22 persons
Centers for Market Development	: 36 persons
Indonesian Export Training Center	: 21 persons

The questionnaire sheet consists of 39 questions which can be classified into 13 categories. A respondent was asked to answer each question by giving a point from “1 (low)” to “5 (high)”. Therefore, a score of “3” is the median of evaluation.

Table 3.2-3 Profile of Respondents

Age	Academic	Unit						Total
		SE	CI	CA	CE	CM	CT	
39 or Less	HS	1						1
	DI	4	1	1				6
	UN	6	1	2	3	1	3	16
	Sub total	11	2	3	3	1	3	23
40 or More	HS	6				1	3	10
	DI	3	6	4	3	3	4	23
	UN	3	8	1	3	2	5	22
	Sub total	12	14	5	6	6	12	55
50 or More	HS	6	2			2	1	11
	DI	5	1		1	2	1	10
	UN		3	4		3	4	14
	Sub total	11	6	4	1	7	6	35
Total		34	22	12	10	14	21	113

Note: Unit: SE: Secretariat, CI: Center for Export Information Service, CA: Center for Market Development of Asia, Australia & New Zealand, CE: for America & Europe, CM: for Africa and Middle East, CT: IETC.

Academic Background: UN: university graduate or the above, DI: diploma holder, HS: high school or the below.

Source: JICA Study Team

(2) Major findings of organizational culture survey

The evaluation result by category is as shown below. The categories which are given higher scores are “working atmosphere”, “customer orientation”, “understanding of vision and objectives”, “knowledge management”, and “cooperation with other sections”. On the contrary, the categories of lower scores are “personnel system” and “resource allocation”.

Table 3.2-4 Results of Questionnaire Survey by Category

Category	Average	Standard Deviation
A. Understanding of vision & objectives	3.24	0.759
B. Process of decision-making	3.03	0.755
C. Authority and its delegation	3.03	0.735
D. Resource allocation	2.93	<u>0.847</u>
E. Customer orientation	3.25	<u>0.862</u>
F. Personnel system	2.92	0.792
G. Human resource development	3.05	0.754
H. Knowledge management	3.23	0.792
I. Internal communication	3.00	0.754
J. Working atmosphere	3.32	<u>0.829</u>
K. Cooperation with other sections	3.13	0.670
L. Satisfaction with job and task	3.14	<u>0.848</u>
M. Challenging environment	3.03	0.747

Source: JICA Study Team

High-scored answers and low-scored answers among 39 questions are also listed below.

Table 3.2-5 Top 10 Highest Scored Questions

Question	Ave.
Staffs in the organization are mutually respected and supported.	3.40
Working with other staffs is a fun.	3.39
When I need advice for the job, I am familiar with how to find this and who to ask for this.	3.36
The organization emphasizes awareness of customer needs.	3.32
The staffs are familiar with the vision and the future direction of the organization.	3.29
Objective and scope of present job and task are given clearly.	3.28
Present job and task are performed, standing at the customer's point of view.	3.27
Present job and task are performed with enthusiasm.	3.26
Present job and task are challenging enough.	3.26
Results and lessons in the past are reflected into the following planning & decision-making.	3.23

Source: JICA Study Team

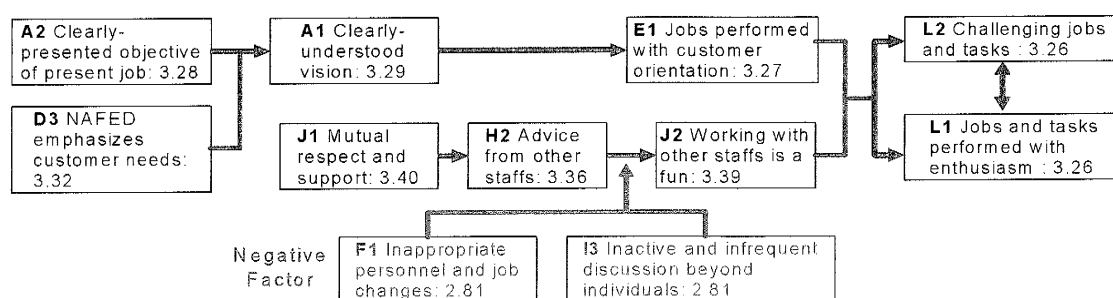
Table 3.2-6 Top 10 Lowest Scored Questions

Question	Ave.
Changes in personnel and job are made appropriately.	2.81
Discussion on the matters beyond the scope of individual work is active & frequent.	2.81
Idea and opinion of junior staffs are reflected into the decision by the organization.	2.88
The organization is well staffed, considering the volume and difficulty of job & task.	2.88
Staff education and training is structured and systematized.	2.88
New challenges and ideas are supported and tried without resistance.	2.89
There will not be something more important to do than what I am doing presently.	2.91
There is opportunity to join the job and task (or project) which I desire.	2.94
Personnel promotion regardless of seniority is made.	2.96
Participants and method of decision-making are satisfactory.	2.97
Internal resources (budget, staff, etc.) are efficiently allocated without restrictions.	2.97

Source: JICA Study Team

There exists clear correlation among answers to certain questions. For example, there is a strong correlation among “understanding of vision & objectives”, “process of decision-making”, and “authority and its delegation.” There is also a correlation among “working atmosphere” and “satisfaction with job and task”. Based on the scores of answers and the correlation among answers, the organizational culture of NAFED can be modeled as shown in the figure below.

Figure 3.2-1 Organizational Culture of NAFED



Source: JICA Study Team

Based upon the results of organizational culture survey, the followings can be pointed out as the characteristic of NAFED's organizational culture.

NAFED is considered as a group of good friends but there is an unlively atmosphere.

The results of organizational culture survey shows that NAFED staffs tend to be satisfied with such factors as shared value, communication, and the way of work. These results show that staffs enjoy a comfortable working atmosphere and good relationship with fellow members. However, it is also considered that enterprising spirit is rather weak among staffs.

Customer satisfaction is given a relatively high score.

The score of "customer orientation" category is relatively high. However, the customer satisfaction survey shows that the evaluation level of customers is generally low. This suggests the possibility that NAFED staffs split into self-complacency for the customer orientation. It is recommended that customer satisfaction is regularly evaluated.

Discontent with human resource management is high.

NAFED staffs tend to be discontent with human resource management, putting the relatively lower mark onto "personnel system", "resource allocation", "staffing considering the volume and difficulty of job and task", and "education and training". By age, the group of 39 years old or less put the lowest mark.

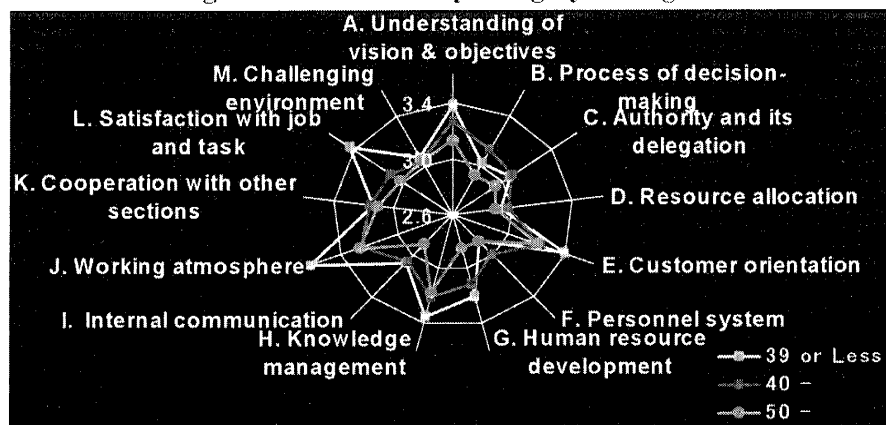
Regarding the question "changes in personnel and job are made appropriately", the Centers for Market Development are relatively dissatisfied. As for the question "the staffing considering the volume and difficulty of job and task", the Secretariat and Center for Export Information gained lower scores.

The younger generation tends to have higher motivation.

Looking overall, the score of age of 39 or less is relatively high. The younger generation shows relatively positive rating over the aspects of "working atmosphere", "customer orientation", "satisfaction with job and task", and "knowledge sharing" although they share negative rating on "resource allocation" and "personnel system". Especially, the scores of "working atmosphere" and "satisfaction with job and task" are significantly high.

As age becomes older, the rates over management practices become lower. The score of age of 50s is lower than that of 40s. As for the age of 50s, the scores of "human resource development" and "internal communication" are significantly low. For the age group of 50 years or more, the rating of "internal communication", "human resource development", and "personnel system" are very low.

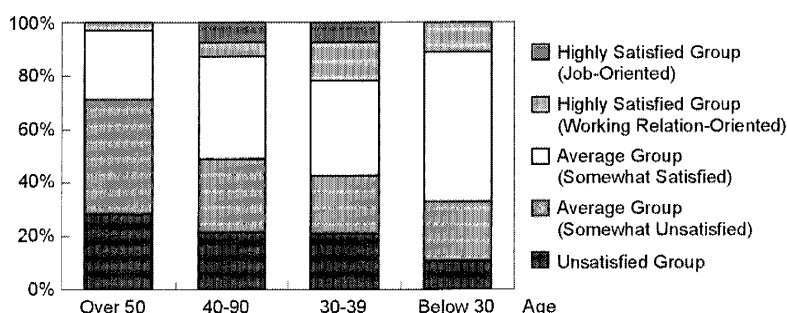
Figure 3.2-2 Results by Category and Age



Source: JICA Study Team

The respondents and their answers were processed to conduct a cluster analysis. The respondents can be categorized into five groups, i.e., highly satisfied group (job-oriented), highly satisfied group (working relation-oriented), average group (somewhat satisfied), average group (somewhat unsatisfied) and unsatisfied group. The distribution of groups by age is as shown in Figure 3.2-3. The percentages of unsatisfied group and average group (somewhat unsatisfied) become larger as the age becomes older. Among staffs over 50 years old, the share of unsatisfied group and average group (somewhat unsatisfied) is more than 70%.

Figure 3.2-3 Groups of Respondents based on Cluster Analysis



Note: Answers were processed with the Excel Add-in Kobo Cluster97 Ver. 3.71 (by S. Hayakari).

Source: JICA Study Team

Evaluation results widely vary according to units.

Among the units in NAFED, the respondents from Centers for Market Development (except for Africa and Middle East) tend to give the higher scores. Evaluation result by unit is summarized below.

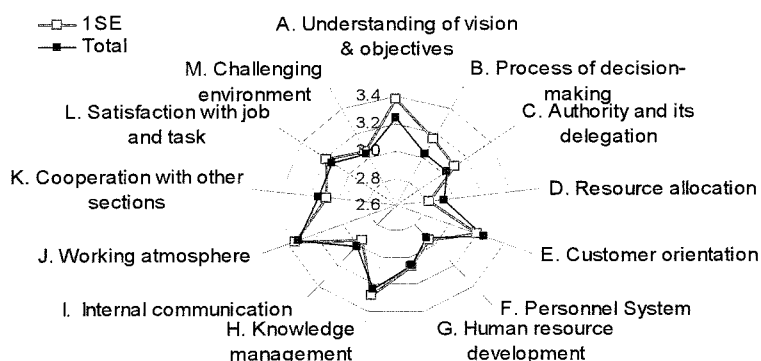
Table 3.2-7 Results of Questionnaire Survey by Unit

	SE	CI	CA	CE	CM	CT	Total
A. Understanding of vision & objectives	3.38	3.14	3.17	3.43	2.93	3.30	3.24
B. Process of decision-making	3.15	2.91	3.11	3.20	2.83	2.98	3.03
C. Authority and its delegation	3.10	3.00	3.14	3.13	2.76	3.03	3.03
D. Resource allocation	2.83	2.85	2.97	3.27	2.95	2.97	2.93
E. Customer orientation	3.20	3.20	3.50	3.27	3.10	3.33	3.25
F. Personnel System	2.95	2.86	3.11	2.80	2.74	3.02	2.92
G. Human resource development	3.07	2.94	3.00	3.00	2.86	3.32	3.05
H. Knowledge management	3.27	3.08	3.33	3.37	3.05	3.32	3.23
I. Internal communication	2.95	2.97	3.11	3.23	2.90	3.00	3.00
J. Working atmosphere	3.33	3.38	3.39	3.20	3.12	3.41	3.32
K. Cooperation with other sections	3.08	3.20	3.14	3.20	3.00	3.17	3.13
L. Satisfaction with job and task	3.19	3.15	3.17	3.07	3.00	3.17	3.14
M. Challenging environment	3.05	2.85	3.03	3.07	2.95	3.27	3.03
Total	3.12	3.04	3.17	3.17	2.94	3.18	3.10

Source: JICA Study Team

The distribution of scores given by respondents at the Secretariat is similar to that of average. The scores of “understanding of vision and objectives” and “process of decision making” are relatively high. However, the score of “resource allocation” is low.

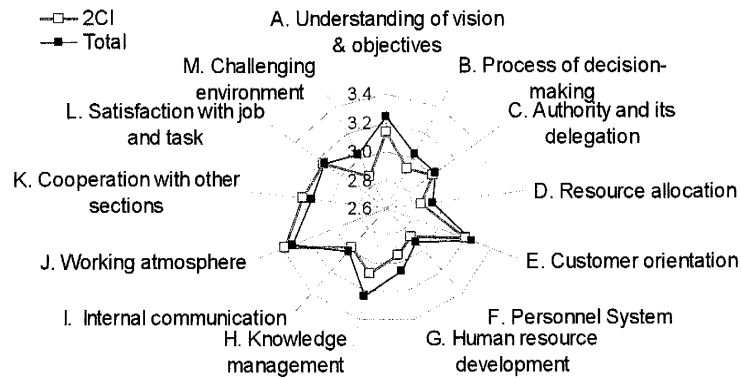
Figure 3.2-4 Results of Questionnaire Survey: Secretariat



Source: JICA Study Team

As for the Center for Export Information Service, the scores of “challenging environment”, “knowledge management”, “process of decision making”, “human resource management” are relatively low.

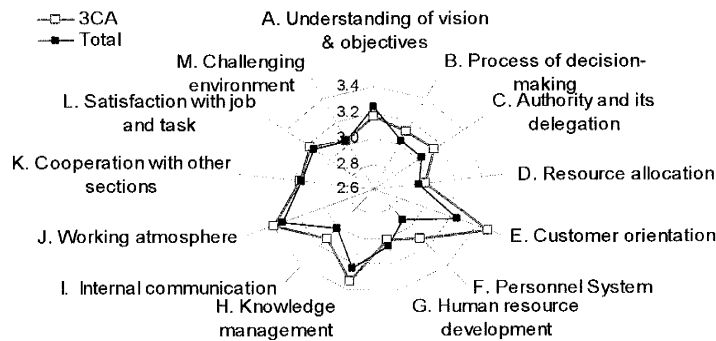
**Figure 3.2-5 Results of Questionnaire Survey:
Center for Export Information Service**



Source: JICA Study Team

As for the Center for Market Development of Asia, Australia & New Zealand, the scores of “customer orientation”, “personnel system”, “authority and its delegation”, “internal communication” are higher than the averages.

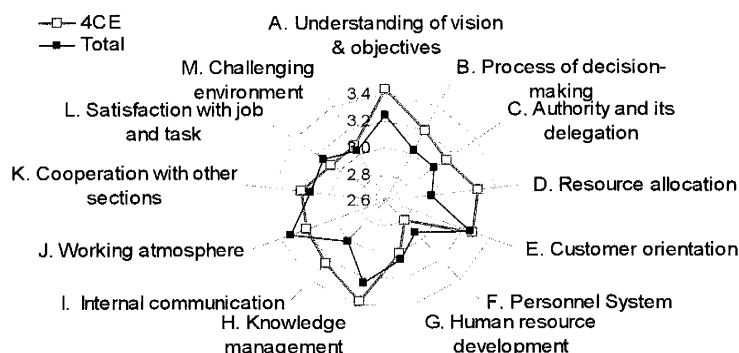
**Figure 3.2-6 Results of Questionnaire Survey:
Center for Market Development of Asia, ANZ**



Source: JICA Study Team

At the Center for Market Development of America & Europe, the scores of “resource allocation”, “internal communication”, “understanding of vision & objectives”, “process of decision making”, “knowledge management” are relatively high. On the contrary, the scores of “personnel system” and “working atmosphere” are low.

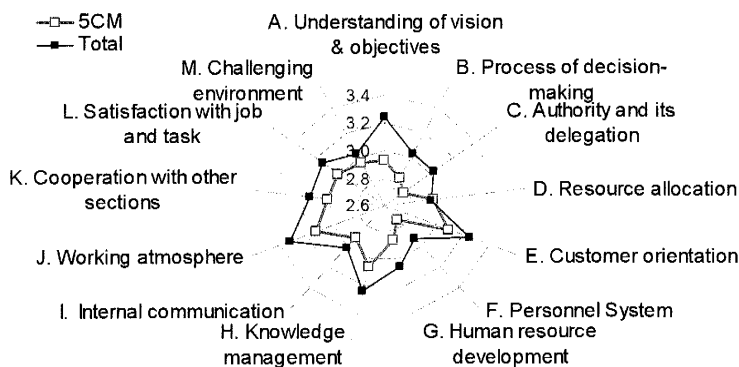
**Figure 3.2-7 Results of Questionnaire Survey:
Center for Market Development of America & Europe**



Source: JICA Study Team

As for Center for Market Development of Africa & Middle East, the scores are below the averages except “resource allocation”. Especially the scores of “understanding of vision & objectives”, “authority and its delegation”, “process of decision making”, and “working atmosphere” are significantly low.

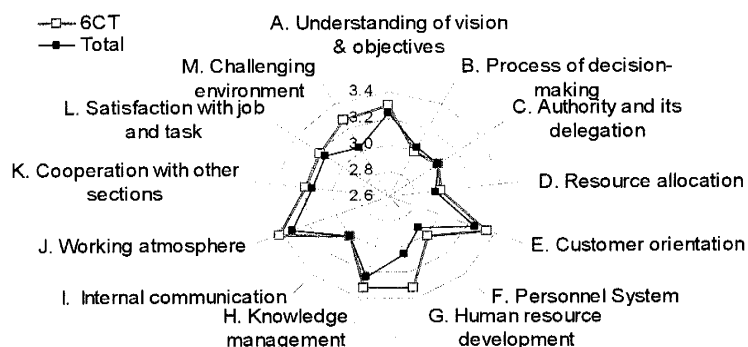
**Figure 3.2-8 Results of Questionnaire Survey:
Center for Market Development of Africa & Middle East**



Source: JICA Study Team

Regarding the IETC, the scores mostly range near the averages. The scores of “human resource development” and “challenging environment” are significantly high.

Figure 3.2-9 Results of Questionnaire Survey: Indonesian Export Training Center (IETC)



Source: JICA Study Team

3.3 Current Issues of Services / Functions of NAFED

Current services of NAFED are categorized as shown below according to NAFED. For the purpose of review of NAFED’s services, the Study tried to re-categorize its service as follows;

Table 3.3-1 Categorization of NAFED Services

Service category by NAFED	Services	Re-categorized service category for review by Study Team
Market information	<ul style="list-style-type: none"> - Publications - Market intelligence - Export forum - Workshops and seminars - Business consultation (trade advice) for SMEs 	Market information ditto ditto ditto Export promotion
Product development	<ul style="list-style-type: none"> - Brand / design development - Cluster development 	Product development (brand / design promotion)
Buyer service	<ul style="list-style-type: none"> - Buyers reception desk (BRD) - Mini display - Inquiry service (matching service) 	Export promotion ditto ditto
Export promotion	<ul style="list-style-type: none"> - Overseas trade fairs - Domestic trade fairs (inc. Trade Expo.) - Trade missions - Virtual Exhibition (website) - Marketing Point - Excellent exporter (Primaniyarta) award 	Export promotion ditto ditto Market information Export promotion ditto
Export training	<ul style="list-style-type: none"> - Training for exporters and potential exporters 	Export training

Source: NAFED

For example, the Study considers that the export promotion service would include business consultation for SMEs, buyers reception service (BRD), mini display, inquiry service, trade fairs and mission, Trade Expo, virtual exhibition, marketing point, and expanded the scope of export promotion service, compared to the categorization by NAFED.

3.3.1 Market Information Service

The Center for Export Information Service (CEIS) is the core unit which takes charge of information services including the website. The main functions of CEIS are the collection, processing, analysis, provision and publication of market information and data.

(1) Current situation

a) Collection of market information / data and statistical data

CEIS mainly collects such basic data as macro-economic data, customs clearance statistics and exporters profiles. The sources of main data are Statistics Indonesia, the International Trade Center (ITC) in Geneva, the World Trade ATLAS and private companies such as domestic exporters and foreign importers.

Concerning the market information/data by regions & countries and by commodities are mainly collected by the Indonesian Trade Promotion Centers (ITPCs), Indonesian embassies, and exporters. CEIS receives information/data from three regional centers for market development (the Centers for Market Development of America / Europe, Asia / Oceania, and Africa / Middle East). The Secretariat of NAFED also provides information regarding trade promotion opportunities inside and outside of the country.

b) Collection of the suppliers (exporters) profile

Concerning the profile of local suppliers, which are supplied to potential buyers having interest in Indonesian products, CEIS collects data of suppliers through regional governments and RETPCs. The regional centers for market development are supposed to provide CEIS with data of the participants in trade fairs sponsored by NAFED. CEIS is obliged to periodically renew and update the profile of local suppliers (twice a year). Performance of this activity by CEIS is poor because many columns of suppliers' profile are blank. It is said that one reason for this is an insufficient cooperation by the three regional Centers for Market Development.

c) Processing and analysis of information / data

CEIS does not actively carry out a processing and analysis of collected market information / data. At the request from the regional centers for market development, CEIS processes and prepares the data of potential participants for trade fairs and missions. However, the level of data processing is still basic. It is limited to processing of basic statistical data to make charts. In general, the capability of staffs in charge of market study and analysis in CEIS is deemed as poor.

d) Provision and delivery of information / data

NAFED presently provides quite limited market information/data in terms of volume

and scope compared to needs of private sector. Information / data are often disseminated internally and externally without processing and analysis by each center of NAFED. NAFED explains that this is because of the shortage of manpower, unsystematic flow of data management, and lack of budget. Processing and analysis of collected information / data in-depth will be quite important to realize more user-friendly and value-added information services.

The improvement of information / data management is one of the major issues of NAFED. Information / data collected by the regional centers for market development are rarely shared with CEIS. In addition, due to the poor intra-net application, the regional centers for market development have not directly accessed to the database of NAFED and always requested CEIS for the preparation and provision of information / data requested by users. In this regard, NAFED currently prepare the database of market information / data utilizing the intra-net facility.

e) Website service

NAFED has made an effort to improve its information services by making its website more attractive with the information and communication technology (ICT). According to NAFED, around 66,000 hits had been counted as of December 2006. There were 4,770 visitors in 2006. In addition, NAFED assists ITPCs in managing their websites. All ITPCs except Johannesburg operate their own websites and provide information services through their websites.

In January 2007, NAFED uploaded “the market brief” on its website to introduce 10+10 products. NAFED expected that foreign potential buyers might access to this section to search for information of potential products and local suppliers might access for information of major overseas markets of these products. However, the contents of this section are very poor because it lacks useful information and the updating is not frequently done.

NAFED has recently introduced a new website, “Virtual Exhibition”, where buyers can obtain sample pictures of Indonesian products, and information on price, names and contact details of producer or traders of the products. NAFED is to update the contents every six months. At Virtual Exhibition, 1,096 Indonesian exporters and 1,964 overseas importers are listed as of July 2007.

f) Publication

As for publication, the number of major regular publications is 22 (as of 2006), among which 7 are published by CEIS, 7 are by regional centers for market development, 3 are by Secretariat and 2 are jointly published by regional centers and Secretariat. As of

July 2007, the library of NAFED stocks 3,186 books, 690 reports, 159 CD-ROM and 443 magazines, while the number of users of library is around 70 to 90 per month.

(2) Key issues

As already mentioned, all centers (centers and Secretariat) of NAFED are partially or sometimes independently involved in market information service. There is no unit which is comprehensively responsible for or controls the market information service in a cross-sectional manner. The responsibility and accountability for market information service have not been clear for a long time. This may seriously hamper the consistency of market information service and the accumulation of know-how concerning processing and analysis. The followings are identified as key issues to strengthen the market information service of NAFED.

a) Expansion of information / data to be collected and disseminated is a key to strengthen the information service.

i) Information / data collection by ITPCs should be enhanced.

Information / data sources are rather limited. Major sources are limited to Statistics Indonesia, ITC, and World Trade ATLAS. ITPCs and commercial attachés, which are always exposed to the latest market information in their assigned countries, are not effectively utilized as information / data sources. Information / data collection by ITPCs should be enhanced through assigning market intelligence as their routine duties and having NAFED monitor their performance.

ii) Data collection and dissemination should be done systematically and timely.

Information / data collection by NAFED is generally dealt with on ad-hoc basis and not strategically conducted. Collection and dissemination of information / data should be systematically rendered based on the long-term plan, and timely responding to the changing market conditions and exporters' needs.

iii) Interactivity of information / data should be taken into account.

In many cases, information / data are unilaterally disseminated to the public by the sender and there is no interactivity with users. However, in order to build productive interactivity, it is necessary to establish a system which enables quick responses to users' requests.

iv) Strategic investment for ICT development is needed.

ICT-related infrastructure has not yet sufficiently established. Strategic investment for ICT development is quite crucial in order to reaffirm the importance of market information service for TPOs like NAFED.

- b) Value-addition of market information service should be realized to gain the higher reputation from users.

Compared to other TPOs, the number of access to NAFED's website and the frequency of access are quite small. This means that many Indonesian exporters as well as overseas buyers have low expectations for the website information.

- i) Effective coordination among units is crucial to realize the higher value-addition to market information service.

One of the factors which hamper the quality improvement of market information service is that the information / data collection and analysis are presently dealt with by several units without coordination.

- ii) Market information service should be reviewed from users' viewpoint.

The lower user's access to information / data provided by NAFED is resulted by the lack of effort to add the value of information / data. Although NAFED assumes that the sufficient information / data have been provided, they do not necessarily match with what the users expect. Users' needs should be explored and identified to make market information service more attractive.

- iii) Quality of market report from ITPCs / commercial attachés should be standardized and improved.

Market reporting from ITPCs and commercial attachés is poorly controlled. The style and format of market report are not standardized, although NAFED has prescribed the rule and procedure for market report. The rule and procedure, and the format and style of market report should be prepared and standardized.

- iv) Training of ICT and personal computer should be provided to NAFED staff.

Required skills for processing of information / data should be trained, and the sufficient number of personal computers and the related training should be provided to enhance the function of collection and dissemination of information / data.

- c) Exporters' database should be expanded to support NAFED's activities.

Exporters' database should be expanded to make this serve for export promotion activities of NAFED. The number of companies in exporters' database of NAFED is significantly small, compared to other TPOs. When the exporters' database is to be expanded, the content of database and user's access to the database needs to be carefully examined.

- i) NAFED should focus on collection of practical information / data for users.

NAFED seems be less indifferent about the practicality of information / data, and rather slow in responding to users' request. NAFED should change its passive attitude that NAFED would do what is able to do, and listen to complaints and claims as well as needs from users.

- ii) Efficient way of collecting exporters' data should be prepared.

The coverage of exporters' database is still narrow. For example, according to the Indonesian Exporters Association of East Java, besides its 300 members, there are additional 1,500 to 2,000 non-member exporters (including occasional ones) in East Java. Meanwhile, only 1,096 exporters are listed in NAFED's exporters' database. Furthermore, an uneven geographical distribution of exporters has been observed in the exporters' database. Cooperation and information sharing with Dinas and local business associations should be enhanced. Information sharing with IETC also leaves much to be improved.

- d) Market information service should be more recognized by users.

Nowadays, exporters can access to abundant information / data using the internet. They are also able to access to various industry-specific information / data provided by each industry association. Therefore, NAFED should differentiate its market information service by adding the higher value onto its provided information / data.

- i) Website should be well maintained and periodically updated.

Website is the main entrance to NAFED. If anyone, who access to NAFED website, is unsatisfied with its contents, they will never access again. Therefore, NAFED should periodically renew and update the contents in the website, which contain attractive and practical information / data for users.

- ii) Publication and PR activity should be enhanced.

Publication is also important media to gain the presence of NAFED and the recognition of its market information service. PR activity to make NAFED's market information service widely known should also be carried out.

3.3.2 Product Development (Brand / Design Promotion) Service

(1) Current situation

Although product development (brand and design development) is listed among services and programs of NAFED, there is no designated division responsible for product development. A task force for product development has been set up and it engages in product development

activities. NAFED currently conducts the following programs in the areas of product development.

a) Indonesian Design Power (IDP) Program

As a program to promote design development by Indonesian manufacturers, IDP program was initiated by the Minister of Trade as one of the road map programs for Indonesia's economic development. The Ministry of Trade designated three organizations responsible for implementation of the program, i.e., NAFED, the Directorate General of Domestic Trade (PDN), and the Center of Small and Medium Trade (PDKM), which then created the IDP Team.

At present, NAFED conducts some activities to improve the competitiveness of Indonesian products in line with the policy of MOT to develop creative economy, including brand / design development support through participation into overseas exhibitions (e.g., Maison et Object) and information dissemination and awareness raising through workshops and design seminars. The IDP program is five years program up to 2010, and identifies three approaches of i) branding, ii) packaging, and iii) design development to realize "Indonesia Good Design."

b) Good Design Award - ASEAN Design Selection

NAFED participated in "Good Design Award - ASEAN Design Selection" held by the Japanese government between 2003 and 2005. The purpose of this program is to introduce "good design products" of ASEAN countries to Japanese industries and consumers in an attempt to make ASEAN products known to the Japanese market and to support the improvement of their international competitiveness.

Unless awarded by ASEAN Design Selection, some products exhibited at international trade fairs are considered to be at the level qualified for the award. Nevertheless, those products selected for "Indonesia Good Design Selection (IGDS)" held by the Indonesia Design Center (IDC) are not always supported by the trade fairs sponsored by NAFED.

c) Industrial cluster development

NAFED participates in industrial cluster development program initiated by the local government. NAFED considers the cluster development is an effective approach to export promotion of the local industry. A cluster development project for leather industry is underway as part of NAFED's program. This project was commenced in January 2007, covering leather products made in Jogjakarta. In this project, NAFED is responsible for provision of market information, technical support and design promotion.

NAFED by itself does not initiate and lead such cluster programs. But, it is still likely for the regional governments to ask NAFED to provide inputs to the program, since export promotion is often a key theme for local industrial development. If extending the response to such regional initiatives, NAFED needs to examine what it should offer and what the other stakeholders will support, and to make the regional governments appreciate the merits of NAFED's involvement.

(2) Key issues

a) Lack of awareness and knowledge of branding / design in NAFED

NAFED, which is not a specialized organization on design, currently conducts limited brand / design support activities, and its understanding on importance of branding / design is limited as well. Although NAFED staffs are not required to have a design skill to develop a product design, it is still desirable that they internally accumulate sufficient knowledge of branding / design for planning and implementation of effective brand / design promotion program.

b) Weak collaboration with related organizations

NAFED, under MOT, seems to have no functional linkage with IDC. It is pointed out that this is because NAFED and IDC are under different supervising ministries and have different focuses on design promotion.

NAFED is expected to play an increasing role in product development, as MOT launches several support programs for product development including IDP program. Considering the existing capacity of NAFED, it has to build the relationship of collaborate with IDC, other supporting institutions, and universities with design faculties which provide a large number of designers, to expand the product development service.

c) Unexplored demand of industry side for brand / design development

NAFED has not undertaken the activities to help industries raise their awareness for branding / design. Demands for such support from industries have been largely untapped. Industry side also has little understanding that "design" can be a means to create a higher value to a product, rather than to merely determine physical aspects of the product, such as shape, color, and others. "Good branding" also leads to stronger competitiveness of the product in the market.

Majority of local exporters (producers) do not have expertise in product or design development, and they usually manufacture and export their products according to specifications prescribed by foreign buyers. Export which relies on cost competitiveness will discourage exporters to develop their own products under their own design or brand.

It is significant for NAFED to help industries raise the awareness for importance of branding and design.

d) Lack of capability to develop brand / design support program

As an export promotion agency, NAFED should consider what should be done for exporters in the field of brand / design support and what can be done by NAFED with the current capability. Unfortunately, NAFED lacks experiences and know-how in planning and implementing brand / design promotion programs with its own initiative. Although being assigned to support IDP Program by MOT, NAFED has never played a role of program management.

NAFED is at least expected to learn how to process brand / design development, how to utilize designers, and how to play a role of matching facilitator between designers and producers. In addition, NAFED needs to actively collect and disseminate overseas design information. One way to acquire the capability is to learn from those companies which have experienced brand / design development.

3.3.3 Export Promotion Service

(1) Current situation

a) Trade consultation for SMEs

NAFED offers a consultation service, and intends to provide SME exporters with the information on market penetration and the advices on export finance and procedures, freight forwarding, taxes, export insurance, export promotion, design and product development.

Such trade advisory service has been provided from time to time by NAFED staffs at domestic trade fairs and foreign trade missions to Indonesia. Business consultation service, which means only the provision of market information, is planned to be implemented at IETC or REPTC every two months from 2007.

b) Buyers Reception Desk (BRD)

BRD service was set up in 1986, aiming to help incoming overseas buyers to find Indonesian products they want to purchase. When foreign buyers are interested in certain products, BRD is supposed to arrange meetings with potential Indonesian manufacturers and exporters.

c) Mini display

A space of 300 square meters is provided as a permanent trade display on the third

floor of NAFED building. Since October 1, 2004 when NAFED office was officially opened, Mini Display has accommodated so far the products of 100 exporting companies of furniture, handicraft, jewelry, household, automotive components, etc. At Mini Display, visiting buyers are able to observe a great number of exhibited potential Indonesian products. When foreign buyers find certain products of their interest, NAFED is supposed to directly contact the Indonesian manufacturers and exporters.

d) Inquiry service

Offers-to-buy from foreign buyers are, in many cases, directly sent to NAFED through email, whereas Indonesian Embassies and ITPCs also send inquiries in the form of hard copy. The former is expected to mail or fax inquiries to NAFED monthly and the latter biweekly. NAFED also deals with offers-to-sell from Indonesian exporters. However, NAFED is not expected to follow up the results of inquiries because the regulation prohibits NAFED to intervene the transaction process of private business.

As for accepting and responding to such inquiries, “the Division of Information and Publication Service” of “the Center for Export Information Service” is primarily in charge. Three regional Centers for Market Development also assign their staffs to process some inquiries, when necessary. Inquiries are forwarded to the companies registered at NAFED and Dinas offices as well as are run in the free-of-charge magazine, “Business International”. The summary of the trade inquiries that NAFED received in 2006 is shown below.

Table 3.3-2 Summary of Trade Inquiry by Originating Country in 2006

Country	No. of Inquiry	Country	No. of Inquiry
Saudi Arabia	173	Syria	14
UAE	87	Jordan	13
Italy	60	UK	13
Indonesia	33	Pakistan	12
Taiwan	30	Sudan	11
Singapore	28	USA	10
South Africa	20	Others	119
Japan	15	Total	638

Source: Center for Export Information Services, NAFED

e) Overseas trade fair

Outline of international trade fairs sponsored by NAFED

Three regional Centers for Market Development are primarily in charge of planning the participation in international trade fairs held in each region that they are responsible. Each regional Center for Market Development used to participate in about 20 exhibitions per year (total 60 - 65 exhibitions in NAFED) in the past. However, in recent years, it has

become a policy of NAFED to decrease the number of exhibitions to participate and enlarge an exhibition space at each fair. In 2006, NAFED coordinated the participation in 26 international trade exhibitions in 15 countries and 549 Indonesian companies joined them. In 2007, NAFED is planning to participate in 18 exhibitions (6 exhibitions per each regional center).

Table 3.3-3 Summary of International Trade Exhibitions sponsored by NAFED in 2006

Region	No. of exhibition	Country (City)	No. of participating company	Transacted value (million US\$)
Asia, Australia & New Zealand	9	China, Australia, Hong Kong, Japan, India	252	869.8
America & Europe	USA: 3 Europe: 5	San Francisco, Las Vegas, Germany, Bulgaria, Russia, France	USA: 57 Europe: 62	USA: 2.1 Europe: 2.1
Africa & Middle East	9	Egypt, Jordan, UAE, South Africa, Iran	178	13.6

Source: Compiled by the JICA Study Team based on NAFED Annual Report.

The selection of trade exhibitions to be sponsored would be made by considering;

- i) Development and competitiveness of (potential) export commodities
- ii) Export growth rate
- iii) Recommendation from Indonesia's overseas representatives (Embassy, Trade Attaché and/or ITPC)
- iv) Benefit-cost ratio analysis, and
- v) Performance of exhibition organizer

However, in reality, the selection is said to be made by taking into consideration the instruction of the Trade Minister and/or the necessity of budget allocation to each sub-sector. The participated exhibition are not only of general characteristics, but also of special products such as furniture, food & beverages, medical and hospital equipment, giftware, beauty and spa, etc.

NAFED invites participants based on the database that NAFED maintains. NAFED also visits companies which are willing to participate in exhibitions to evaluate quality of their products and production capacities. A company is limited to participate only in three different fairs in the same year and only one time in the same fair within three years. Final selection of participants shall be internally made by NAFED.

Since the other ministries of the Indonesian central government also have their own budgets of participating in international trade fairs, NAFED sometimes coordinates to set up an "Indonesian Pavilion", for example, at MOI, SMOCSME, and MOA for a joint exhibition.

Indonesian Solo Exhibition (ISE)

In order to increase Indonesian exports, tourism and investment promotion toward the Asian and Middle East area, Indonesian government, represented by NAFED, MOT, in cooperation with related institutions such as the Ministry of Cultural and Tourism and the Indonesia Investment Coordinating Board (BKPM), organized the Indonesian Solo Exhibition in Dubai and Shanghai in 2006.

In ISE, MOT is now planning to develop the concept of “Indonesian Nights”, which will be followed by a business forum on the next day, and make it to be a continuous event for export, tourism and investment promotion.

It was also planned to hold “Indonesian Week” in the fiscal year of 2007 in four places, i.e., New York, Tokyo, Dubai and Paris. The Indonesian Week would last for 7 days at a total space of 200-300 square meters, aiming to promote trade, tourism and investment. NAFED anticipated around 20 participants at every 200 square meters of exhibition space. NAFED would rent the whole space and provide an exhibition booth of 3m x 3m to Indonesian participants for free of charge, while other charges and cost shall be borne by participants.

Large-scale exhibition

The large-scale exhibitions that NAFED sponsored in 2006 are as follows.

Table 3.3-4 Large-scale Exhibitions sponsored by NAFED in 2006

Name of Exhibition	Place	Description	No. of participating company	Transacted value (million US\$)
ASAP Global Sourcing	Las Vegas, USA	Textile, textile products	20	1.9
Medical Equipment International Trade Fair	Dusseldorf, Germany	Medical equipment	6	1.3
Africa Import 2006	Johannesburg, South Africa	General	45	0.6
INDEX Exhibition	Dubai, UAE	Furniture	39	1.6
China ASEAN Expo 2006	Nanning, China	General & investment	50	6.1

Source: Compiled by the JICA Study Team based on NAFED Annual Report.

In-store promotion

Since 2003, Indonesian government has organized an in-store promotion at well-known department stores in the world. Indonesian furniture, handicraft products, jewelry and special food products as *tempe*, croquette of boiled potatoes, avocado juice and coffee have been displayed for immediate sale. Isetan (Osaka, Japan), Centro Comerciale Moralleje Green Department Store (Madrid, Spain), Fiskertovat Shopping Center (Copenhagen, Denmark) Sura (Fiji) are some of department stores among them.

f) Trade mission

Although NAFED makes plans of timing and destination of trade missions, MOT will make the final decision and a mission is always led by Ministry of Trade. NAFED provides budget for holding business meetings in destination countries and the other cost shall be borne by participating companies.

There were some 20 companies, mainly large-scale companies, participated in each mission in 2006 but sometimes there were missions in which only 6 to 7 companies participated. During 2006, NAFED organized trade missions to Canada, USA, Australia, South Africa, Kenya, Tanzania, Morocco, Spain, Central Asia, and Russia.

g) Domestic trade fairs

Framework of domestic trade fair of NAFED

The Division of Exhibition, Evaluation and Report in the Secretariat is in charge of preparation, coordination, implementation, evaluation and report of the domestic trade fairs. A trade fair itself is implemented by a private exhibition organizer who is chosen through the standard selection process set by NAFED. For example, in the case of 2006 Indonesian Trade Expo, 11 private exhibition organizers applied, and NAFED selected 5 organizers and recommended them to the Minister of Trade. Then, the Minister finally chose one organizer among them. The criteria for choosing the exhibition organizers are:

- i) Business contract amount realized in the past exhibitions
- ii) Number of visited buyers, and
- iii) Number of participated exhibitors.

Trade Expo Indonesia (formerly known as Resource Indonesia)

Resource Indonesia started in 1986. In 2006, the name of Resource Indonesia was changed to Trade Expo Indonesia. NAFED had born all the expenses until 1991 and invited exhibitors for free of charge. Since 1992, NAFED has begun to gradually reduce its subsidy. Now, NAFED only bears advertisement cost which is subsidized to an exhibition organizer.

Exhibitors or exporters (mostly SMEs in handicraft and furniture industries) are gathered by an exhibition organizer and NAFED provides suppliers' database with an organizer. An exhibition organizer is responsible for a profit/loss derived from the Trade Expo.

NAFED tries to invite foreign buyers to the Trade Expo through the cooperation with Indonesian embassies/consulate generals and ITPCs and also through direct contact with past visitors and buyers which send inquiries by e-mail. NAFED uses its website for the

promotion of the Trade Expo as well.

In the 21st Trade Expo Indonesia held in 2006, 907 companies participated to display their products in the area of 21,261 square meters with 936 booths and 2,100 overseas buyers from 100 countries visited. The number of registered visitors, which consisted of buying agents, business people and other visitors, was about 12,500 or about 2,500 people per day on average. The products in which buyers were most interested were furniture, food and beverages, mining, handicraft and agricultural plantation. These five product groups occupied 94.4% share in the total transactions.

Table 3.3-5 Results of Trade Expo Indonesia (1986-2006)

Year	Participants	Buyers	Transacted value (million US\$)
1986	210	150	10.7
1991	550	2,580	105.3
1996	549	3,275	34.6
2001	919	4,335	47.2
2002	1,187	n. a.	72.4
2003	1,182	3,843	95.8
2004	1,254	3,164	107.7
2005	1,302	4,000	140.0
2006	907	2,100	170.0

Note: A sharp decrease in participants in 2006 was explained by a decrease in exhibition space. A decrease in buyers in the same year was caused by the security warning issued by the USA and Australia.

Source: Compiled by the JICA Study Team based on NAFED Annual Report.

Regional trade fair

Regional trade fairs, which are organized by Dinas or industrial associations, have the purpose of developing various potential products and promoting them in regions to overseas buyers. NAFED itself does not financially contribute to regional trade fairs, but usually support the invitation of overseas buyers using its network such as ITPCs, and trade consultation (match-making) service. Sometimes, local organizers ask NAFED to merely add its name to raise the credibility of these fairs.

International Exhibition on Spa, Herb and Natural Cosmetics

Around 150 spa product exporters are estimated to exist in Indonesia nowadays and NAFED organized the first international exhibition for spa products and services in 2006, being cooperated with the private sectors. As a result, 92 buyers from 21 countries, including 16 Indonesian buying agents, registered in the exhibition.

Inter-department exhibition

In 2006, NAFED participated in inter-department exhibitions such as Jakarta International Handicraft Trade Fair (INACRAFT) and Indonesian Furniture and Handicraft Fair (FURNICRAFT Fair).

In 2007, NAFED rented a space for 27 booths (2m x 3m) in the 9th INACRAFT and provided to SME exporters for free of charge. NAFED also opened “NAFED Information Center” in this exhibition in order to publicize the name and roles of NAFED. Trade consultation service was also provided to SME exporters at the exhibition site.

h) Marketing Point Program

Marketing Points are established in the border areas of the east part of Indonesia as one of NAFED trade promotion services. They are located in the strategic locations, namely in Attambua (East Nusa Tenggara), Skow (Papua), Bitung (North Sulawesi), Tarakan (East Kalimantan), and Entikong (West Kalimantan). At Marketing Points, commodities such as salt, rice and daily needs are being traded.

i) Indonesian Trade Promotion Centers (ITPCs)

In 1998, 13 ITPCs were forced to be closed down due to the shortage of governmental budget and have started to reopen since 2000. Until 2006, 6 ITPC offices were opened in the cities of Osaka (Japan), Los Angeles (USA), Dubai (UAE), Budapest (Hungary), Johannesburg (South Africa) and Sao Paulo (Brazil). In 2007, three more ITPCs in Sydney, Milan and Hamburg were established, and now eleven more ITPCs are planned to be opened.

ITPCs engage in trade promotional activities, which include assistance to participation in trade fairs, arrangement to accept trade missions from Indonesia, introduction of Indonesian products by displaying them in its offices, distribution of catalogues of Indonesian companies and products, and handling of inquiries. Besides, in order to grasp market preference where they are located, ITPCs sometimes hire private consultants to conduct a market research of Indonesian product by using product samples. A result of market research is disseminated to Indonesian exporters through NAFED website or at export forums organized by NAFED.

Table 3.3-6 Current Situation of ITPCs

Location	No. of staff	Space (sq. m)	Budget (million Rp.)	No. of Inquiry
Los Angeles	2 (both from MOT)	600	4,459.3	187
Budapest	1 (from NAFED)	92	2,973.2	225
Dubai	2 (both from MOT)	155	2,887.2	450

Johannesburg	1 (from NAFED)	493	2,634.8	150
Osaka	2 (both from MOT)	151	4,654.6	156

Note: Data on ITPC at Sao Paolo is not available.

In 2007 the President of Indonesia announced an idea of establishing the Indonesian Promotion Organization (IPO) to promote trade, tourism and investment. The study has been underway by the related ministries regarding the possibility of IPO.

(2) Key issues

- a) More customer-orientation and business-mind are needed for export promotion activities.

For providing better services, the customer-oriented and business-minded mind-set and way of behavior shall be obtained by NAFED staffs. In addition, job descriptions and work manuals are developed to promote efficient execution of duties.

- b) Strategic approach to provide SME exporters with integrated export promotion services is lacking.

Besides planning and preparing of the trade fairs, both domestic and international, NAFED does not carry out significant, active and positive export promotion activities.

In order to be close to users (buyers and suppliers), export business consultation, Buyers Reception Desk (BRD) and inquiry service may be integrated into one section and given a fixed space which is open to the users. NAFED shall put more emphases on matchmaking between Indonesian suppliers and foreign buyers.

- c) More focus on how to provide regular consultation service is needed.

The consultation services are carried out only occasionally at the sites of domestic exhibitions or, when foreign trade mission is scheduled to visit Indonesia, a forum is sometimes organized to provide market information on that country.

More focus should be directed to how to establish the regular consultation service to SME exporters where they can consult face to face with NAFED staffs at any time they want. The question is if NAFED staffs own enough practical knowledge on the export business and products/industries. Questions raised by SME exporters may vary widely. NAFED can only respond to these questions if it timely mobilizes all the information and expertise across the organization. Sometimes NAFED may need to utilize outside network of experienced businessmen or professionals in various fields.

- d) PR activities to invite buyers' inquiry / visit should be enhanced.

BRD is inactive although it has a significant meaning in export promotion activities. In order to make BRD active, NAFED has to invite quite a big number of foreign buyers

to visit. In other words, it will depend on how eager NAFED is trying to attract those foreign buyers in NAFED office. For this, regular, active, effective and efficient promotion of NAFED's services is a must.

e) Mini Display has to be more attractive.

The character of display has to be clear and focused to attract buyers. It is doubtful if the products displayed at Mini Display are attractive and the publicity about Mini Display has been carried out toward the right direction. Although NAFED is said to intend to update the displayed products with six months interval, the freshness of products may not be the most important element to attract the buyers.

The other point is if NAFED staff has enough knowledge and experiences to select relevant products to attract buyers' attention. In order to select the products competitive in international market, the persons who select products have to have professional eyes.

It is necessary for NAFED to seek the assistance from the private sector in planning display and selection of products. If mini display may be costly in such manners, it is better to cease the plan and convert the mini display space for other activities.

f) Current inquiry service seems to be halfway to the eyes of buyers and sellers.

This is because of old inquiries remaining on the website, delay in response, existence of more attractive and effective websites, buyer's preference to make direct contact to suppliers, non-existence of assistance from NAFED in dealing with inquiries.

g) More strategic approach and clear criteria of participants are necessary for exhibitions.

In overseas exhibitions, NAFED should exhibit in NAFED booth the best products of the country together with the introductory information on Indonesia for promoting Indonesian brand.

NAFED has decided to reduce the number of exhibitions to participate and, instead, expand the display space. In 2007, it plans to participate in 18 exhibitions (6 exhibitions for each Center for Export Development). Consequently, the number of Indonesian SMEs that can participate in such exhibitions will decrease. Under such circumstances, the selection process of participating companies has to become more transparent so that fair chances will be given to qualified companies.

It may also be necessary to introduce more strategic approach to cut open a new market. Strategic approach means to analyze statistic data and market information and also to collect and take up the opinions of private sector.

Export promotion budget are being spread among various ministries so that it is

difficult to implement a large-scale, integrated, effective events in foreign countries. In addition, although prepayment of space rental fee one year in advance is required to secure a good location in an exhibition, NAFED cannot make the prepayment due to the budget regulation. These hamper the strategic planning of exhibitions.

- h) Trade mission should be more business-oriented to realize more actual business transactions.

More prior arrangement will be necessary to materialize tangible results through dispatching missions. In this connection, it is advisable to gather as much information on prospective buyers as possible, feed them back to related associations and send the samples, together with quotation, from the associations before the mission leaves Indonesia. In addition, since the trade and investment have close relations, NAFED has to try to combine both missions together by coordinating with other ministries.

- i) NAFED's workload in domestic trade fairs tends to be too large.

NAFED remains one of the participants in domestic trade fairs and the implementation is done by a private exhibition organizer, an association or Dinas. In Trade Expo Indonesia, NAFED only selects an exhibition organizer and bears the advertisement cost as a subsidy to the exhibition organizer. However, NAFED has been involved for a great deal.

If NAFED supplies complete buyers list to the exhibition organizer and let them engage in collecting buyers while NAFED remains in an advisory position, the workload of NAFED can be reduced considerably.

- j) Virtual exhibition needs improvement.

The number of the products or companies uploaded in Virtual Exhibition is too small, pictures of the products are not clear, and the information provided is not sufficient to attract attention or satisfy the needs of buyers. It could have waited to start until the satisfactory contents were established. Buyers, in many cases, will never be back to the incomplete and unattractive website again because there are too many channels where they can get useful information.

- k) Enhancement of collaboration with ITPCs for export promotion activities is necessary.

ITPC offices have such problems as little supply of product sample to display in showroom, slow response of Indonesian exporters to the requests from buyers, limited kind and amount of catalogues of Indonesian products, unfavorable location and limited office space for trade promotional activities, and budget constraint. The information path between NAFED head-quarter and ITPCs and the control procedures and measures of

NAFED over ITPCs are not clearly defined.

- l) The number of exporters in NAFED's database is small.

Data on exporters are essential for effective export promotion activities. The number of exporters in NAFED's database is small and expansion of exporter database is slow. And exporters listed in NAFED's database are currently concentrated in Java.

3.3.4 Export Training Service

(1) Current situation

Indonesian Export Training Center (IETC) has been undertaking export education and training for Indonesian exporters since its inception in 1989. During its development, IETC focused on improvement of capacities of instructors and course planners who plan and manage training courses.

- a) Accumulated experiences and reputation as export training provider

IETC operates training course as nearly as 150 batches annually, including several distance learning courses. By the end of 2007, over 35,000 business people have been provided export training. Business people trained at IETC have organized the alumni association to exchange opinions and conduct the joint-activities with IETC.

IETC has gained reputation as a reliable trade training institutions in Indonesia. Its training courses are composed of "face-to-face" class and distance learning using communication facility. The contents of classes are more or less basic trade related matters such as export/import management, international trade, quality control, trade exhibition, and foreign languages.

- b) Wide range of training participants

Training participants vary from private companies, state owned companies, industrial associations, government institutions to individuals. IETC tries to expand its customer base and market development in regions, having agreed with KADIN and financial institutions to train their members and clients.

- c) Sound management system

Planning and implementation of training programs are well managed. IETC has been certified with quality assurance system (ISO9002) for its training service.

- d) Established network with trainers and trainees

IETC has established the network with outside experts (trainers), and supports the

organization of training participants (alumni). IETC also closely communicates and cooperates with RETPCs.

(2) Key issues

- a) More collaboration with other centers of NAFED for export promotion is desirable.

A linkage between export training programs by IETC and potential exporter development by NAFED should be further strengthened, by utilizing the expertise and know-how of IETC.

- b) More collaboration with RETPCs and Dinas should be encouraged.

The linkage with RETPCs and Dinas should be further strengthened to expand the participation of regional SMEs and local government officers.

- c) Training programs should be designed to cater for each stage of exporters.

The needs for training differ according to stages of exporters (the degree of experience and growth in export business). A more tailor-made approach should be taken to cater for different needs of exporters in each stage which can categorize exporters into potential one, beginner, and experienced.

3.3.5 Networking and Alliance

(1) Current situation

The networking with external institutions is considered to be an important element of Trade Promotion Organizations (TPOs) of the recent years as a means to deliver more effective export promotion services. The networking with external institutions has great significance for the performance of TPOs because it helps TPOs i) strengthen communication with the private sector, ii) harmonize a range of support programs offered by other public institutions, iii) extend service outreach to the regions, and iv) make up for the service which they cannot provide.

When it comes to the present situation of NAFED, however, NAFED is considered to be still sluggish in networking development. Such an inactive attitude of NAFED toward networking has accounted for the following conditions.

- a) Weak communication with the private sector and the insufficient involvement of the private partnership

Many industrial associations and KADIN have an opinion that NAFED has lacked communication with actual beneficiaries of its services and programs (industrial association, individual exporters, etc.), and NAFED has been virtually unable to draw

their export promotional strategies and needs in depth. The communication with the private sector, if exists, is usually occasional, e.g., at the time of inviting trade fairs and missions. However, when NAFED introduces fairs and missions, it has already decided such details as theme, location, booth layout, etc., without prior hearing of the needs of potential participants.

b) Associations also need the collaboration with NAFED in areas other than trade fair.

According to the interview survey by the Study Team, industrial associations need to collaborate with NAFED in many areas of export promotion other than trade fairs. They include marketing mission, catalogue and brochure preparation, identification of buyers, agents, and distributors, sales support. They all point out that they have no regular communication with NAFED, and that NAFED has rarely approached to hear their needs and discuss possible collaboration.

c) Low evaluation of NAFED activities by associations

Many associations' evaluation of NAFED's activities is rather low. They question the reliability, breadth and depth of data of NAFED's market information service. NAFED's trade facilitation support to before and after trade fairs and missions is also considered weak.

Associations are generally ready to support NAFED in providing information for its market intelligence and inviting overseas buyers to fairs and missions.

d) Poor coordination of export promotion programs of other ministries

The existence of export promotion programs managed by other ministries and poor coordination of them hamper the effective activities of NAFED.

Other ministries have their own export promotion programs. Typical program is support to trade fairs. These programs are for the sake of its governing industry and usually executed according to their own policy and rule. Coordinating Ministry for Economic Affairs is expected to coordinate those trade-related programs among the concerned ministries, but has not attained the desirable results yet. Due to such a weak coordination, export promotion programs are poorly harmonized among the ministries.

An issue which is most frequently indicated is regarding subsidy policy on trade fairs. Unlike NAFED, some ministries provide trade fair participants with subsidy not only for booth but also for travel and other expenses. Such generous subsidy distorts the quality of trade fairs and principal of support to help self-sustaining development. In addition, the selection criteria of the participants differ among ministries. It sometimes happens that even the products which have not satisfied the requirements of export market are

exhibited with 100% subsidy. This may tarnish the image of Indonesian products.

e) Weak outreach of export promotion service into regions

There are two government institutions supposed to function as NAFED's regional extended arms, i.e., RETPCs established at four locations and provincial/district Dinas of Industry and Trade. However, as RETPCs and Dinas belong to the regional governments, NAFED is not at the position to directly supervise and command their operation, personnel affair, and budgeting.

The collaboration for export promotion between NAFED and these regional institutions is summarized as follows:

- NAFED disseminates information on trade promotion opportunity and buyers' inquiry to locate potential suppliers to these institutions. Then, these institutions act as the regional agent for identification of the program participants and potential suppliers.
- NAFED currently engages in identification of potential exporters in the region to enlarge its customer base. NAFED requests RETPCs and Dinas to recommend them from the lists of local exporters and conduct visits to these exporters.
- NAFED holds a business consultation every two months at a different RETPC on some selected topics, e.g., export finance, and arranges lecturers to be dispatched.
- NAFED in cooperation with ITPCs and RETPCs holds a tele-conference fair, where several exporters are invited to show their products and receive comments from overseas buyers.
- RETPCs organize their alumni associations of training participants. The alumni associations occasionally hold an exhibition. At that time the alumni associations request RETPCs and NAFED to support.

NAFED indicates that RETPCs and Dinas are generally supportive for its requests concerning identification of trade fair participants, potential exporters and suppliers, but recognizes a difficulty in expecting and asking them for something more than these requests.

f) Limited capability of RETPCs

The limited budget and human resources allocated to RETPCs (by the regional governments) makes it difficult for RETPCs to launch their own export promotion programs and answer the needs of local exporters. However, it should be noted that RETPCs cannot outperform NAFED in the line of services and its performance because they still need the guidance from NAFED. Constraints of RETPCs' performance rest in

the capacity of NAFED.

- g) NAFED carries out socialization activities to promote its programs to regional governments.

MOT and NAFED hold the socialization seminars as their annual programs every year in order to obtain better understanding of regional governments on their programs and synergize their programs with regional ones. Furthermore, NAFED extends other socialization activities, such as “Export Forum” and “regional forums for market information dissemination” to improve the presence of NAFED among regional exporters and to socialize NAFED’s services and programs to the public.

(2) Key issues

- a) Bringing-up of product specialists within NAFED to promote the collaboration with association

In general, associations expect NAFED to have staffs dedicated to each product/industry and introduce programs specialized in specific product/industry rather than general and comprehensive program.

- b) Development of export promotion policy by industry is desirable to meet the specific needs of each association.

NAFED is presently involved in high-level meetings on export development policy, but the outcome from these meetings is usually general for all industries. NAFED does not have an export promotion policy to meet each specific need of the major exporting associations.

- c) Strengthening of NAFED’s role to coordinate export promotion programs of other ministries is desirable.

The inter-ministerial coordination effort needs to be improved, and the expectation for NAFED to play such a coordinating role is high. Other institutions could not utilize effectively ITPCs and overseas commercial attachés without the involvement of NAFED.

- d) More involvement of NAFED in regional industry promotion programs is desirable.

Generally speaking, NAFED’s presence and involvement in the regional programs for industrial promotion are marginal. Dinas of Industry and Trade at various regions implement regional industrial promotion programs, such as industrial cluster development program, one village one product program, etc. Even if targeted products or industries are export-oriented ones, NAFED does not participate in most cases.

In this case, NAFED or RETPCs can function as a facilitator to introduce overseas

buyers and provide such inputs as information on overseas promotional events and markets. However, the information and network held by NAFED are not sufficiently tapped in the regional programs. Dinas for Industry and Trade cannot play such function to mediate as NAFED.

- e) The utilization of NAFED's service by regional governments should be promoted.

In order to make NAFED's services more incorporated in regional programs, the current socialization programs are not sufficient. It is necessary to establish a special facility to promote the utilization of NAFED's services and resources by regional governments, i.e., in the areas of market intelligence, overseas network, access to promotional events, know-how to start export, etc. In this regard, NAFED can set up a special support desk to receive and respond to the requests from regional governments.

- f) Establishment of alliance with other service providers is desirable.

Alliance building with external institutions has been one of the popular strategies of TPOs in the world in recent years. In general, NAFED has been sluggish in expanding the alliance with other service providers.

Problems and, therefore, the needs for support of local exporters, including potential or irregular ones, widely vary from poor access to overseas markets to financing, raw materials, production capacity, compliance with quality standard, etc. NAFED cannot respond to all these problems. NAFED could extend its support coverage with business alliance with financial institutions and other service providers.

CHAPTER 4 RESULT OF BENCHMARKING

4.1 Benchmark Survey for Other Trade Promotion Organizations (TPOs)

The Study Team has conducted a benchmark survey with the objectives:

- i) To obtain comparative information and data of TPOs in other Asian countries on organizational and functional aspects; and
- ii) To draw upon good practices and programs which render the reference to consideration of NAFED's functions.

Subject TPOs have been studied and analyzed from seven aspects, i) mission, priority and position in export policy, ii) organizational set-up, iii) personnel and human resources development (HRD), iv) promotion services and programs, v) budget and revenue source, vi) coordination and networking, and vii) restructuring and reform experience.

Most importantly, the benchmark survey has been designed to focus on how other TPOs improve their internal management and resources, access and utilize external resources, and innovate their promotion programs to accommodate the various and changing needs for export promotion service under the era of globalization, IT revolution, and increasing demand for efficient public service.

The Study Team has chosen the following TPOs as subjects of the survey with the discussion with NAFED from the viewpoints of geographical location, composition of exports, and economic development stage in order to get good reference to the Study.

The Study Team visited their headquarters (but not all) and overseas promotion posts in Jakarta and Tokyo after conducting a survey using secondary data such as published materials and website.

Table 4.1-1 List of TPOs Surveyed

Name and Country of TPO	Visited Offices
(1) Dept. of Export Promotion (DEP), Ministry of Commerce, Thailand	Headquarter, Jakarta, Tokyo
(2) Malaysian External Trade Development Corporation (MATRADE)	Headquarter, Jakarta
(3) Korea Trade-Investment Promotion Agency (KOTRA)	Jakarta, Tokyo
(4) Taiwan External Trade Development Council (TAITRA)	Tokyo
(5) Australian Trade Commission (AUSTRADE)	Tokyo
(6) International Enterprise Singapore (IE Singapore)	Headquarter, Jakarta
(7) Japan External Trade Organization (JETRO)	Headquarter, Jakarta

4.2 Result of Benchmark Survey

The indicative facts and data collected during the benchmark survey are summarized in comparison with NAFED in the following table. Detailed information and highlighted topics of each TPO are available in the Appendix together with its organizational chart.

The result of benchmark survey does not only reveal the relative position of NAFED among TPOs, but also brings about the guidance on NAFED reform. Key findings of the survey are as follows.

(1) Organizational set-up

Most TPOs are given a statutory status as a service implementation agency independent from the supervising ministries. And most TPOs have the function-based structure.

A typical organizational structure of the benchmarked TPOs comprises functional units for export(er) development (customer support, inquiry and consulting, training, etc.), product and service development, overseas operation (export promotion activities, linked with overseas offices), and enabling units like planning, administration, finance, personnel, HRD, ICT, and corporate service). Being statutory body, most TPOs have discretion over their personnel and recruiting affairs, charging for service, development of services and programs, while having the larger accountability over their performance and budget. TAITRA, AUSTRADE and IE Singapore establish the management board which directs and advises their operation, and prepare the seats for the private sector.

TPOs allocate larger resources to overseas promotion offices and some give decentralized autonomy to overseas operation.

The benchmarked TPOs usually hire many local staffs and assign the tasks such as market report, trade inquiry and matching, communication with industries, arrangement of buying mission to them. Some TPOs like KOTRA and AUSTRADE have largely decentralized the autonomy over the operation of overseas offices. Overseas offices in these TPOs are given more authority to decide their promotion activities, recruit local staffs and mobilize budget. Previously, instruction and approval over the overseas operation were given by the headquarters.

(2) Management system

Key performance indicators (KPIs) and customer satisfaction survey are currently quite common tools for TPO management.

Every benchmarked TPO has introduced the outcome-based management practice, although the depth of engagement varies among them. TPOs like IE Singapore, KOTRA, AUSTRADE have advanced KPI and introduce the target indicators to the smaller units such

as groups or sub-divisions. Customer feedback system is also introduced by most TPOs as a means to draw the feedback and needs from individual exporters and review their services. Some conduct the comprehensive survey for every contacted customer by assigning the external evaluator, while others limit the coverage to the participants in the major programs.

IE Singapore, KOTRA and AUSTRADE have linked the customer satisfaction to KPIs. Among them, IE Singapore introduces Balanced Score Card (BSC) three years ago, currently sets KPIs at the division and group levels, and plans to introduce KPIs to individual level in the future. It is indicated however that an orientation towards quantitative indicators may cause a degradation of service quality (for example, a heavy focus on new exporters directed by quantitative targets leads to an increasing presence of non-best export).

(3) Personnel and human resources development (HRD)

TPOs with statutory body status emphasize mid-career recruitment.

Some TPOs favor the mid-career recruitment rather than newly graduated one. For example, the majority in IE Singapore and AUSTRADE are the mid-career staffs having working experiences in private sector. Although the salary level is pegged with public service standard in MATRADE and AUSTRADE, IE Singapore and JETRO offer higher pay than the government standard one.

Personnel evaluation based on performance becomes a standard practice for TPOs.

TPOs with statutory status in particular introduce the personnel evaluation system. For some advancing TPOs in this field, personnel evaluation system is linked with individual performance management system and result of customer satisfaction survey, and consequently determination of bonus pay. In case of KOTRA, such a system generates about twice disparity of bonus among staffs.

(4) Promotion services and programs

As a general trend, TPOs allocate lesser extent of resource to event-based services such as trade fairs. They put more onto client-based services and extend a variety of promotion menu.

In the benchmarked TPOs, trade fairs and missions are basically handled by overseas promotion offices, and home staffs do not usually accompany the participants. Rather than placing many staffs in overseas promotion unit at home, most TPOs shift their resources to overseas offices in view of strengthening the on-ground support or unit handling client-based services. In doing so, TPOs can develop and handle the new menu and scheme of export promotion (such as marketing mission, incoming buying mission, sourcing support for global corporation, financial scheme, etc.). A good variety of promotion menu and scheme is observed in TPOs like TAITRA and IE Singapore.

TPOs emphasize not only offshore operation but onshore operation.

Not only overseas promotion activities, the benchmarked TPOs have also strengthened the role and function of the unit handling on-shore activities such as identification of new exporters, customer base development, consulting and training, brand and design development, and communication with private sector.

Some TPOs have introduced grant scheme for export market development activities, as a means to efficiently cater for the various needs and options for export promotion of many individual companies. The benchmark survey finds that IE Singapore, AUSTRADE, and MATRADE have provided the grant scheme for export market development activities, from which the applicants (usually SME exporters) can obtain matching grant of a certain percentage of the approved cost of the eligible activities.

Some TPOs provide a series of support programs in sequenced manner in order to succeed in new (potential) exporter development.

The benchmark study finds that Thai DEP, MATRADE and AUSTRADE have put the relative emphasis onto new exporter (SME) development, and prepare the programs focused to such exporters. What is commonly observed in such programs is their step (starting with seminars, followed by consulting and coaching, and screening of potential exporters) and availability of subsequent programs such as grant scheme and extensive training. From the identification process, contacts between TPOs and new (potential) exporters are closely maintained by the account officer. Sufficient regional arms of TPO are also important. Not only their own regional offices also their appointed agents or partners are involved in new exporter development.

Overseas promotion offices are given minimum duties.

It is very usual that overseas offices of TPOs are given performance targets or minimum duties. Some TPOs set performance targets regarding the number of trade deals made and arranged buying mission, and handling time of inquiry. Others place minimum duties regarding the number and the frequency of survey reports, the number of buyers invited to trade fairs, visit to potential buyers, and participation in trade fairs.

Some TPOs have prepared "Client's Charter" to assure a certain level of services and programs.

Some TPOs have Client's Charter to prescribe the required quality and quantity of export promotion services and programs. Charters usually mention the handling time of inquiry and application, frequency of market survey, and the way to accept claims for the services.

Some TPOs have a registration system or membership system and they charge fees for

some kinds of services.

Some TPOs such as JETRO, KOTRA, and IE Singapore, charge fees for customized services, especially market research. Some TPOs have introduced a membership system, and prepared the privileges in which the members can receive such services as market information service in preference.

(5) Budget and revenue source

Statutory TPOs have own revenue sources although the size of own revenue is still limited in most cases.

Except Thai DEP, the benchmarked TPOs have statutory status and have own revenue sources including service charges for consultation, customized survey, matching support, user charges for own exhibition facility, and sales of goods like published material. However, the charging through promotion services is generally considered as difficult and limited. TPOs with higher own financing ratio have unique backgrounds. TAITRA was founded through public-private partnership and sponsored by private fund. JETRO charges membership fee.

(6) Coordination and networking with other related organizations

In general, TPOs have regular and close communication channels with major industrial associations through the units for products and services.

MATRADE shows a good practice. Its division for product and service development is responsible for routine communication with major exporting industrial associations. Particularly in July, when private sector starts preparing the budget for the next year, MATRADE announces the draft outline of the programs for the next year and holds discussions with major industrial associations. Staffs in the said division are assigned for a particular industry, and draw the strategy and needs held by the assigned industry and work out for designing and concreting the promotion programs for the industry. Suggested programs for each industry then would be reported to the head of division and strategic planning division and selected for implementation.

Most of the benchmarked TPOs have not observed any duplication of promotion services among ministries, but some observe uncoordinated programs at the regional level.

When TPOs such as JETRO, AUSTRADE, and MATRADE were established, high-level decision was usually made to consolidate all related promotion activities into one single agency. AUSTRADE shows the best forms of inter-ministerial coordination, where it is engaged by the state-led Wine and Brandy Corporation to develop the strategy and undertake export promotion activities overseas under the agreement with Department of Agriculture. At the regional level, however, some TPOs observe a difficulty in harmonizing the regional

programs to the central ones and avoiding an overlapping delivery of service. This is more apparent in the country where decentralization is advanced.

Some TPOs show a good model of cooperation with regional governments and private sector in the regions.

JETRO and AUSTRADE cooperate with them to strengthen their regional outreach. In case of JETRO (36 domestic offices), the headquarters and regional governments share the operation costs of its local offices. Regional trade advisers assigned for each office are usually recruited from the private institutions such as regional chamber of commerce and industry. AUSTRADE has expanded its regional presence through TradeStart offices, which provide information, advice and expertise to help regional businesses export successfully. AUSTRADE assigns the operation of TradeStart to private institutions through management contract (but to be renewed) and budget support to some extent. AUSTRADE has established around 50 TradeStart offices nation-wide.

Some TPOs can proactively address an issue of finance through building alliance with financial institutions.

IE Singapore, AUSTRADE and MATRADE have shown a few partnership forms with financial institutions as a means of facilitating access of SME exporters to credit. Among them, IE Singapore advances the initiative most and currently provides four credit scheme in cooperation with commercial financing institutions. MATRADE also facilitates credit access of SME exporters through partnering with the state Export-Import Bank.

(7) Restructuring and reform experience

The benchmark survey reveals that the directions of restructuring or reform by TPOs during the recent years centered on the followings;

- a) Integration of additional functions such as investment promotion function (such as KOTRA and IE Singapore)
- b) Decentralization of overseas office operation and subsequent transfer of staff to overseas office (such as KOTRA and AUSTRADE)
- c) Strengthening and enhancement of customer-based operation through establishment of export(er) development function, customer service center, call center, financial support scheme, etc. (such as MATRADE, AUSTRADE, and IE Singapore)
- d) Introduction of result-based management (KPIs and customer feedback system) and personnel evaluation system (most TPOs)

Table 4.2-1 Summary of Benchmark Survey Result in Comparison with NAFED

Item	Sub-item	DEP Thai	MATRADE	KOTRA	TAITRA	AUSTRADE	IE Singapore	JETRO	NAFED
Basic data	Originally established year	1952	1993	1962	1970	1985	1983	1958	1971
	Scope of promotion other than export	License, ODA	None	Investment, Import	Investment	None	Globalization support	Investment, Import, ODA	None
Mission, priority, & position in export policy	No. of staff in total	957 (07)	479 (07)	Over 1,000 (02)	Over 731 (?)	1,072 (06)	450 (07)	1,680 (07)	375 (06)
	(domestic / overseas inc. locally hired)	(786 / 171)	n.a.	n.a.	(581 / 150)	(527 / 545)	(330 / 120)	(830 / 850)	(371 / 4)
	Position & role in export policy	Formulation, Implementation, Licensing	Implementation	Implementation	Implementation	Implementation	Implementation	Implementation	Implementation
	Ministries to be reported	Commerce (MOC)	Industry & Trade (MITI)	Foreign & Trade (MOFA)	Economic Affairs (MOEA)	Foreign & Trade (DOFA)	Trade & Industry (MTI)	Economy & Trade (MOET)	Trade (MOT)
Organizational set-up	Priority products	Not mentioned	Not mentioned	Not mentioned	Not mentioned	Not designated	Not designated	Not designated	Designated
	Stance for service industry	Promoting	Promoting	Promoting	Promoting	Promoting	Promoting	Promoting	Not promoted
	Organizational status	Ministry's dept.	Statutory public corporation	Statutory agency	Non-profit organization	Statutory agency	Statutory board	Statutory public corporation	Ministry's agency
	Management Board (with private seat)	None	None	n.a.	Established (seated)	Established (seated)	Established (seated)	None	None
	Organizational structure	Function-based	Function-based	n.a.	Function-based	Mix of region & function-based	Function-based	Export promotion is one of depts.	Region-based
	Overall planning unit	Exist	Exist, as division	n.a.	Exist, as dept.	Exist	Exist	Exist, as dept.	Not clearly set
No. of overseas promo. office (country)	56 (41)	32 (28)	app. 100 (73)	44 (n.a.)	142 (64)	35 (21)	73 (54)	6 (6)	
No. of domestic office	5	3	14	4	18	None except HQ	36 (+1)	4	

Item	Sub-item	DEP Thai	MATRADE	KOTRA	TAITRA	AUSTRADE	IE Singapore	JETRO	NAFED
Personnel & Human resource development (HRD)	Status of staff	Central gov. staff	Pub. corp. staff	Public service	n.a.	Public service	Public service	Pub. corp. staff	Central gov. staff
	Staff seconded from ministries	--	Only 1	app. 400	n.a.	None	None	Many	--
	Recruitment from private sector	None	Active	n.a.	n.a.	Mostly	Mostly	Active	None
	Salary level of staff	Following gov. standard	Following gov. standard	n.a.	n.a.	Following gov. standard	Higher than gov. standard	Between private and gov. standard	Following gov. standard
	Performance-based personnel evaluation	n.a.	Introduced (for home staff)	Introduced	n.a.	Introduced, with target setting	Introduced, with target setting	Introduced, with target setting	None in practice
	HRD specializing unit	HRD committee	HRD section	n.a.	n.a.	HRD section	HRD committee	n.a.	Personnel Div.
	No. of exporter in directory	app. 10,000	13,764	5,346	76,150	over 10,000	app. 12,000	n.a.	1,181
	No. of website visitor / year	1.1 million	0.74 million	over 2 million	10.4 million	n.a.	5 million	103.3 million	n.a.
	No. of inquiry (exporter / buyer) / year	n.a.	13,784 (overseas) 7,551 (HQ)	n.a.	410,000 / n.a.	n.a.	app. 50,000 (both)	33,013 (no. of business confab)	4,050 (buyer)
	No. of matching made / year	n.a.	7,135	n.a.	5,089	5,098	n.a.	6,733	n.a.
No. of overseas trade fair (and participant) / year ¹⁾	90 (3,157)	50 (n.a.)	n.a.	50 (1,044)	n.a.	100 (2,400)	n.a.	26 (549)	
Market dev. grant / credit scheme	None	Grant available	n.a.	n.a.	Grant available	Grant available, credit facilitated	None	None	
SOP for each service or ISO	n.a.	ISO9002	n.a.	n.a.	SOP prepared	ISO9002	n.a.	for trade fair	
KPI ²⁾ target	Annually set	Annually set	Annually set	Annually set	Annually set in advanced manner	Annually set in advanced manner	Annually set	Indicators are set, but not targeted	
Customer feedback survey	Started in '06	Being prepared	Conducted	n.a.	Conducted	Conducted	Conducted	Conducted for fair	
Appointment of overseas post	Senior by ministry, Junior by TPO	By TPO	By TPO	n.a.	By TPO	By TPO	By TPO	By ministry	
Autonomy of overseas office operation	Centralized	Centralized, but with min. duty	Decentralized	n.a.	Decentralized	Decentralized	Decentralized	Centralized	
Exporter training function	Provided	Through seminar and workshop	Provided	Provided	Not provided	Provided through subsidiary	Provided	Provided	
Membership service & fee	Available, free	Available, free	Available	n.a.	Available, free	Available, free	Available, charged	Not available	

* Menu & contents of services and programs are explained in findings

Item	Sub-item	DEP Thai	MATRADE	KOTRA	TAITRA	AUSTRADE	IE Singapore	JETRO	NAFED
Budget & revenue source	Total budget (in US\$ million)	64.1 (FY06)	35.0 (FY05)	n.a.	n.a.	275.6 (FY06)	66.7 (FY07)	313.3 (FY06)	26.3 (FY07)
	Government finance ratio	99.3%	93.5%	Mostly	Over 60%	81.8%	Mostly	70.7%	100.0%
	Size of own revenue source	Very nominal	Small	Small	Large: service charge, hall rental	Medium: service charge, goods sale	Minimal	Medium: service charge, goods sale	None
	Fixed (salary) expenses ratio	app. 70% (fixed)	app. 60% (fixed)	n.a.	n.a.	53% (fixed)	n.a.	n.a.	34% (fixed)
Coordination and networking	Budget approval	On annual basis	On annual basis	n.a.	n.a.	On annual basis	On annual basis	On annual basis	On annual basis
	Ministerial overlapping of export promotion service & program	n.a.	Consolidated into TPO	n.a.	Consolidated into TPO	Consolidated into TPO	Consolidated into TPO	Consolidated into TPO	Overlapped with weak coordination
	Partnership with financial institutions (for credit facilitation)	n.a.	With export bank	n.a.	n.a.	With private banks, public loan scheme	Strongly linked with financial inst.	None	None
Overall topics (Study team's observations)	Event- or client-based operation	Mixed	Mixed	Client-based	Mixed	Client-based	Client-based	Mixed	Event-based
	Emphasized promotion measure	Trade fair, in-store promo.	Trade fair, buying mission	ICT-based matching	Sourcing support fair & convention	Grant, non-exporter support	Credit scheme, marketing support	Consultation, trade fair	Trade fair
	Highlighted topics	Regional outreach	Grant scheme, planning process	Staff evaluation, ICT usage	Alliance with global corp.	Grant, non-exporter support	Credit scheme, customer center	Cooperation with regional gov.	---

Note: *1 = Overseas trade fair which are sponsored by TPOs. *2 = Key Performance Indicator(s)

CHAPTER 5 ANALYSIS FOR NAFED REFORM

5.1 Necessity of NAFED Reform

Based upon the results of analysis of internal and external situations and the benchmarking with other Trade Promotion Organizations (TPOs), the Study Team considers that the performance which NAFED is now exercising is pale compared with other TPOs.

Compared with other TPOs, NAFED has critical weaknesses in their activities and capabilities. As these weaknesses of NAFED, the followings can be pointed out:

- Less customer-oriented export promotion service;
- Weak onshore service (export development);
- Weak communication with the private sector;
- Weak network in regions within Indonesia;
- Lack of professionalism among staffs;
- Bureaucratic organizational culture; and
- Inverted-pyramid-shaped age composition.

Major reasons for these weaknesses are such interrelating issues as:

- Insufficient customer orientation and business sense in the organization;
- Weak competence to offer good service;
- One-way communication with the private sector;
- Inadequate institutional arrangement and organizational set-up; and
- Necessity of recruiting additional staff to perform effectively and fill vacancies as a result of a huge number of retiring staffs.

As for the service environments of NAFED, there are several threats as follows:

- Low competitiveness of Indonesian exporters in the overseas markets;
- Poor image of Indonesian products in the overseas markets;
- Low evaluation of NAFED by the private sector; and
- Export promotion activities conducted by other ministries.

Although there are exporters which often use the services of NAFED, the recognition and evaluation of NAFED by Indonesian exporters and trade associations in total are still low. Several ministries of the central government have budgets for export promotion and carry out export exhibitions and trade missions. They also access to service of other ministries. This situation makes Indonesia's export promotion activities less effective and less focused. Therefore, this situation should be immediately addressed.

In addition, it is an important issue of Indonesian economy to develop Indonesian exporters' capability to cope with the competition in the overseas markets and increase Indonesian exports. The support to Indonesian exporters, especially SME exporters, must be enhanced to a level of major competing countries.

Current conditions require a strategic decision because a cosmetic improvement is not enough to change NAFED and because NAFED faces the necessity of responding to changes in the global competition externally and the necessity of rejuvenation of its organization due to a huge number of retirements internally.

NAFED has advantages such as a worldwide network of ITPCs, reputable export training service by IETC, and past experience in export promotion against other ministries in Indonesia. NAFED should aim to establish the role of acting as the focal point of export promotion activities in Indonesia. In order to achieve this objective, it is inevitable to introduce drastic measures into NAFED.

Table 5.1-1 SWOT of NAFED

Strengths	Weaknesses
<ul style="list-style-type: none"> - Network of ITPCs - Reputable export training - Past experience in export promotion 	<ul style="list-style-type: none"> - Weak customer-oriented export promotion service - Weak on-shore service (export development) - Weak communication with the private sector - Weak network in regions within Indonesia - Lack of professionalism - Bureaucratic organizational culture - Inverted-pyramid-shaped age composition
Opportunities	Threats
<ul style="list-style-type: none"> - Support from MOT - Technical cooperation with other countries - Youth movement of organization 	<ul style="list-style-type: none"> - Low competitiveness of exporters in the overseas markets - Low image of Indonesian products in the overseas markets - Low evaluation of NAFED by the private sector - Export promotion activities conducted by other ministries

Source: JICA Study Team

5.2 Missions Reconsidered for NAFED

The missions expected for NAFED as a TPO can be reconsidered as follows:

- (a) To decrease the asymmetric information of market by providing information on exporters and buyers to facilitate trade transactions

Indonesia advocates the free-trade principle and is proceeding the open-door policy with a triple track strategy of international trade negotiations, i.e., multilateral, regional, and bilateral. The role of NAFED, an implementing agency of the Ministry of Trade, is expected to dissolve the market failure relevant to international trade such as the asymmetric information. Market participants in international trade, e.g., exporters and

overseas buyers, may face the difficulty in obtaining perfect information of the market.

From this viewpoint, NAFED is expected to expand the information service, which is relatively weak compared with other Asian TPOs. NAFED should enhance the information production function to facilitate international trade transactions. In this sense, the introduction of potential and reliable exporters to overseas buyers is one of the important functions of NAFED. Therefore, it is necessary for NAFED to strengthen the capability of collecting, analyzing, and disseminating information on exporters and overseas buyers.

- (b) To support industries with higher comparative advantage in order to promote Indonesia's industrial transformation under the free trade system

It is recommended that NAFED facilitate efficient allocation of domestic resources by supporting industries with comparative advantage and eventually promoting the industrial transformation.

Theoretically it is explained that international trade patterns are decided by comparative advantage such as comparative costs, production factor proportions, production efficiency, etc. Such factors as the size of country, foreign direct investment (FDI), terms of trade, currency exchange rate, product differentiation, consumers' preference, etc. are also considered to affect international trade patterns.

The level of country's trade balance is largely determined by the macroeconomic policies because current account balance is defined to equal the sum of investment/saving balance and fiscal balance. The size of exports is also influenced by the trends of domestic demand and imports, which are largely affected by the macroeconomic policies and domestic business conditions.

International trade, especially under the free competition, can contribute to achieve a higher welfare of the country by exporting products with higher comparative advantage and importing goods with less comparative advantage. Meanwhile, international trade advances the industrial transformation from less efficient industries to more efficient industries within the country. This leads to more efficient allocation of resources. Support to the sunset industries, especially in the form of subsidy, is not desirable because it distorts the market and hinders the optimum industrial structural adjustments.

- (c) To improve the competitiveness of domestic exporters

MOT's RENSTRA targets to develop competitive products with comparative advantages, to increase productivity and technological level, and to develop human resource with global vision. A comparative advantage of product is one of the major determining factors of exports.

One of the export development objectives in RENSTRA is to improve and to strengthen the capability of exporters with the concept of “support-at-company-level.” Under this context, NAFED is expected to extend hands-on activities to improve the capability of domestic exporters.

It is difficult to prove the correlation between the size of export supports and the export growth. Similarly, it is also difficult to measure the effect of support to domestic exporters in improving the competitiveness. However, it can be said that how to identify the company with export potential is a key for the effectiveness of support.

The function which NAFED can play in this area will be limited because the improvement of competitiveness at company level is primarily the area which such ministries as MOI and SMOCSME have the experience. The expertise which NAFED presently has in this area is marginal.

(d) To support to potential SME exporters

SME exporters face various constraints when they export because they cannot enjoy the scale of economies. Even SMEs with competitive products may have difficulty in starting exports due to the lack of information on overseas markets and buyers, knowledge of export procedures, export financing, etc. Therefore, it is rational that NAFED focuses on potential SME exporters with competitive products who desire to start an export.

(e) To act as the focal point of export promotion in Indonesia to coordinate all export promotion activities of the country

A lot of industrial associations engage in export promotion activities and many ministries carry out their own export promotion programs. For an effective and strategic promotion of Indonesian products, it is desirable that NAFED, as a catalyst for export promotion, provides a direction of country's export promotion and coordinate all the export promotion activities.

5.3 Major Considerations for NAFED Reform

A reform of NAFED should be implemented to change its organizational culture and make a new organization suited to enhance export promotion activities. A reform will include a revision of strategies, organizational restructuring, revitalization of workplace, and renovation of organizational culture.

(1) Basic framework of NAFED reform

The Study Team considers that the provision of the best services and the highest customer

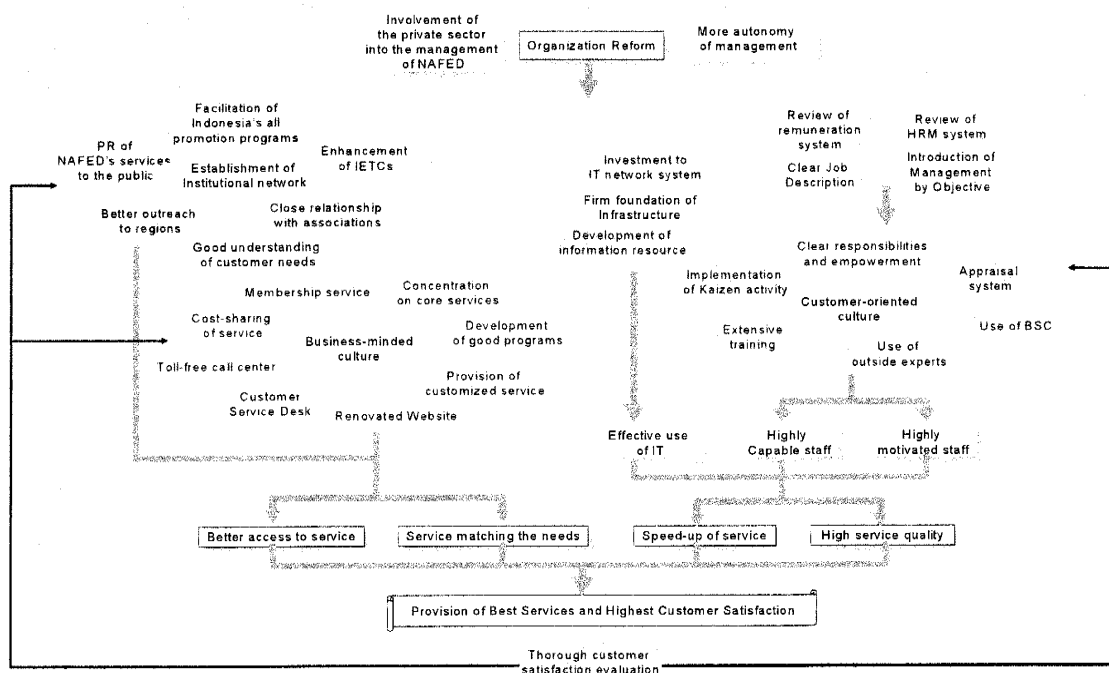
satisfaction in the area of export promotion should be pursued as a result of NAFED reform. To achieve these objectives, four points should be achieved. They are: i) high quality of service, ii) speed of service, iii) provision of services which meet the needs, and iv) improvement of access to NAFED's services. The Study Team has examined necessary actions to achieve these objectives and constructed a basic framework for NAFED reform, as shown in the table below, which correlates major issues to be addressed.

Proposed measures to major issues are as follows.

- (a) For the creation of customer-oriented culture, the following measures are important.
 - Setting-up of a customer service center
 - Encouragement of constant and frequent communication with customers
 - Use of periodical customer satisfaction survey
 - Definition of clear responsibilities and empowerment
 - Extensive training of staffs
 - Implementation of a workplace activity for improvement
- (b) Establishment of basic infrastructure is highly needed for efficient and speedy operation of activities. Especially, investments in IT network system should be considered.
- (c) In order to establish business-minded service, the following measures are needed.
 - Enhancement of core services
 - Redesign of website
 - Start of membership service
 - Development of customized services
 - Development of new concept of programs, e.g., strategic export promotion plan by product/industry
 - Introduction of performance appraisal system based on Management by Objective
 - Personnel exchange with the private sector
 - Use of outside experts and mid-career recruits
- (d) Institutional networking is a key to expand NAFED's services. The followings should be done for the institutional networking and promotion of NAFED's programs.
 - Enhancement of ITPC's functions
 - Facilitation of Indonesia's all export promotion programs
 - Close relationship with industry associations
 - Better outreach to regions including setting-up of regional offices/representatives
 - PR of NAFED's programs to the public
- (e) As an organizational change, the followings should be pursued.
 - To reorganize NAFED to an organization divided by its service functions

- To establish an advisory board inviting the representatives from the private sector
 - To seek for the status of an independent body with more autonomy of management in the medium run
- (f) Several changes should be made in management system to support customer-oriented services.
- Review of human resources management (HRM) to make human resources operation more flexible
 - More delegation of power
 - Preparation and use of detailed functions and job descriptions
 - Introduction of multi-career paths and periodical job rotation
 - More importance is given to human resource development
 - Operation of the Management-by-Objective
 - Consideration of a way of reviewing the remuneration system in the medium run

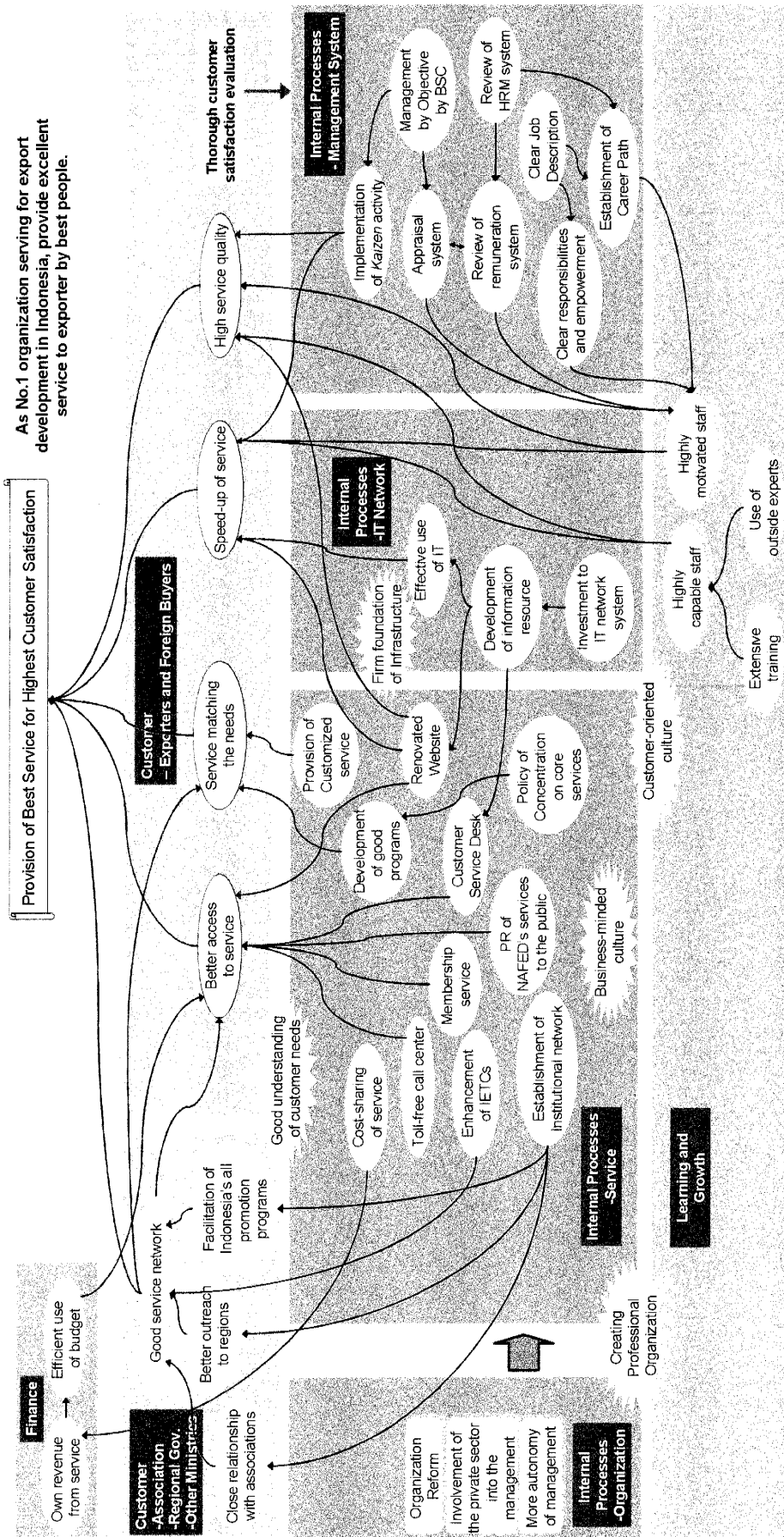
Figure 5.3-1 Basic Framework of NAFED Reform



Source: JICA Study Team

The above mentioned causal correlation between measures and targets can be reorganized in a more comprehensive way according the form of balanced score card as shown in the following figure.

Figure 5.3-2 Basic Framework of NAFED Reform (Balanced Score Card Form)



Source: JICA Study Team

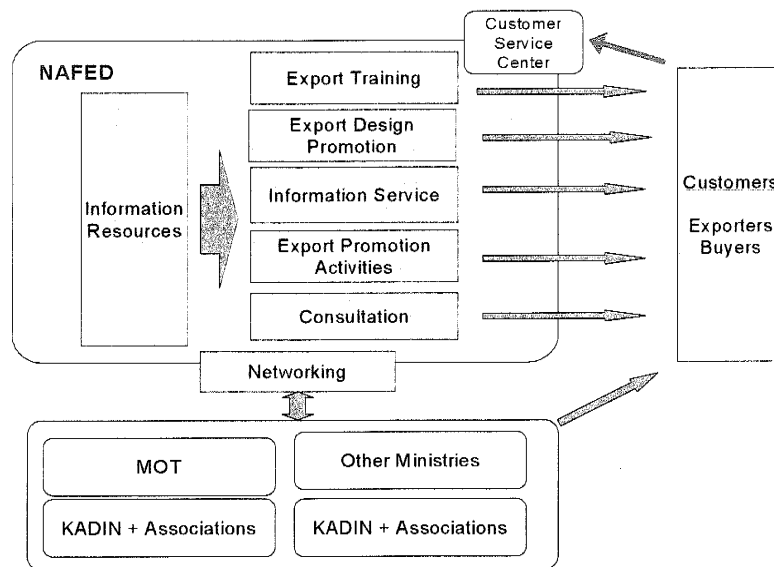
(2) Activity portfolio

Internal resources, especially staffs and budget, should be efficiently allocated according to priority and portfolio of activities. The composition of services is desirable to be reviewed according to the following principles.

Market information service

- Information service should be strengthened by giving more focus. Firstly, the number of staffs must be increased. Secondly, it is necessary to expand basic information resources. Thirdly, the establishment of a framework for systematic market intelligence is to be sought.
- Information resources are the base for all the activities of NAFED (refer to the figure below). For example, exporter (supplier) database should be more comprehensive.
- Website is NAFED’s principal window to the public. Website is needed to be redesigned to be more attractive. Online database service should be expanded.
- It should be considered to start a customized market research on a fee basis in the medium run.

Figure 5.3-3 Information Resources as Infrastructure for NAFED Services



Source: JICA Study Team

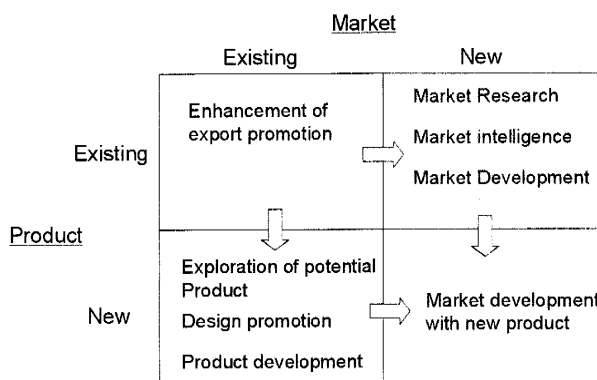
Product development (brand / design promotion) service

- A permanent unit responsible for brand / design promotion for SMEs should be established.

Export promotion service

- A customer service desk should be set up to provide customers a “one-stop” service. In addition, toll-free call center is also useful.
- As for exporter development, a product-based unit should be set up and engaged in the collaboration with industry associations. The identification of potential products/exporters will be an important task because potential products can be a source of export growth (refer to the figure below).
- Trade fairs and missions should be outsourced to industry associations in order to reduce the burden of NAFED’s staffs.
- A membership service is to be initiated. NAFED may get the needs of exporters from members and provide them an integrated service.

Figure 5.3-4 Measures Required for Diversification of Export



Source: JICA Study Team

(3) Job assignment system

In NAFED, a lot of work is performed on a program basis. Staffs primarily perform budgeted programs which they are assigned to do. More focus should be given to routine works so that NAFED may provide solid regular service. In other words, it is desirable to review the job allocation and job description to enable more functional operation.

(4) Consideration of optimum organization of NAFED

(a) External factors to be considered

- Customers’ needs for NAFED’s services have tended to diversify. Needs for more customized or particular programs have increased. Accordingly, more specialized expertise is going to be required for each type of export promotion activity.
- In order to activate its programs, NAFED must enhance the collaboration with industry associations. Industry associations are mostly organized by product/industry. Therefore, the collaboration must meet specific needs of each industry.

- NAFED is weak in regional representatives compared with other TPOs. NAFED largely depends on DINAS and RETPCs for the activities at regions. Exploration of potential products/exporters is the key issue for export promotion. For this, more contacts with regional government offices is needed.

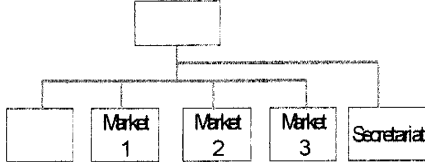
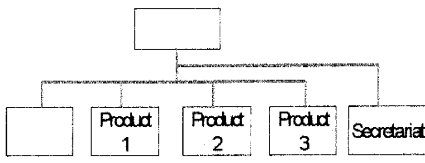
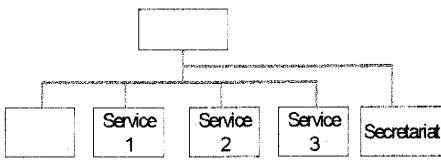
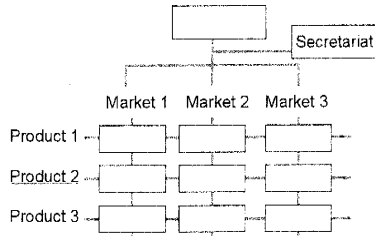
(b) Internal factors to be considered

- The direction of policies for NAFED's services is to make NAFED's service customer-oriented and business-minded as much as possible to achieve optimum outcome, i.e., growth of exports.
- The organizational size of NAFED is small. The size of organization must be considered in designing the optimum organization of NAFED.
- Most of efforts are currently concentrated on exhibitions and trade missions at NAFED. As a result, for other activities, the accumulation of specialized expertise is insufficient. Expertise specialization for each type of service is needed.

(c) Possible types of organizations

Possible types of organizations for consideration are i) organization by market, ii) organization by product/industry, iii) organization by service function, and iv) matrix organization.

Table 5.3-1 Comparison of Types of Organization

Type	Advantage and Disadvantage
<p style="text-align: center;"><u>Organization by Market</u></p> 	<p><u>Advantage:</u></p> <ul style="list-style-type: none"> - It is possible to most effectively formulate and implement market penetration strategy by market responding to specific needs and characteristics of each market. - All the functions can be integrated and coordinated for the entry of target market. - Under the current situation where NAFED's activities are centered on trade fairs missions, organization by market has rationale. <p><u>Disadvantage:</u></p> <ul style="list-style-type: none"> - Specialization by product is hampered. - When the range of services/programs increases, efficient provision of services becomes difficult. - It is difficult to promote close collaboration with industry associations which are mostly organized by product/industry.
<p style="text-align: center;"><u>Organization by Product</u></p> 	<p><u>Advantage:</u></p> <ul style="list-style-type: none"> - It is possible to most effectively formulate and implement market penetration strategy based on product/industry responding to characteristics of each product. - Specialization by product / industry is possible and in-depth expertise by product/industry is acquired. - Potential product identification and product development can be efficiently and effectively conducted. - It is easy to have a close relationship with industry associations. <p><u>Disadvantage:</u></p> <ul style="list-style-type: none"> - Overspecialization sometimes proceeds. Career path is often limited within the same product/industry unit. - When the range of services/programs increases, efficient provision of services becomes difficult. - Cross-sectoral task force or matrix organization is necessary when a program which targets all products is implemented. Otherwise, a problem of functional coordination arises.
<p style="text-align: center;"><u>Organization by Service Function</u></p> 	<p><u>Advantage:</u></p> <ul style="list-style-type: none"> - Efficiency in operating programs is enhanced. - Specialization in each type of service functions, e.g., information service, exporter development, trade mission, etc., is encouraged. - In-depth service is possible for each type of export promotion services. <p><u>Disadvantage:</u></p> <ul style="list-style-type: none"> - Specialization by product/industry is weak. - The coordination among units is necessary to provide an integrated service.
<p style="text-align: center;"><u>Matrix organization</u></p> 	<p>Considering the size of NAFED, a matrix organization is not appropriate. Because it is considered to bring about the complexity of management which NAFED cannot handle.</p>

Source: JICA Study Team

(d) Conclusion

It is recommended to design a new organization of NAFED based on the idea of organization by service function because the specialization and accumulation of expertise in each type of service, i.e., market intelligence, product (design) development, export promotion, etc., are important to improve the quality of service at this moment.

Under an organization by service function, a unit of market and a unit of product/industry are proposed to be established. They will be specialized in major overseas markets and in major exporting products/industries respectively. The proposed organization will be explained in detail in the Master Plan (Chapter 6).

(e) Future direction of organization

It is recommended to make NAFED an autonomous body (stand-alone organization) in the medium run because NAFED, as a governmental agency, faces heavy constraints for its management and operation including human resource management. It is necessary to consider the viability of changing the status of NAFED to an autonomous statutory body under the supervision of MOT. To make NAFED a truly efficient service provider in the area of export promotion, a certain level of autonomy must be given to NAFED.

One of the important aspects of autonomy is mid-career recruitment. NAFED should be staffed with experienced and business-oriented people. Such kinds of staffs are currently very limited within NAFED and a good deal of staffs will retire in the coming years. Therefore, it is necessary to look for the way of recruiting mid-career staffs including how to decide their rank and remuneration.

The organization structure of stand-alone NAFED will be similar to the proposed organization by service function because the Study Team has designed to change NAFED to be most effectively functioned. However, it must be noted that any organization changes as it evolves. A modification of organization is inevitable at times.

(5) Establishment of an advisory board and participation of the private sector

It is recommended to establish an advisory board which gives an advice and guidance on policies and management of NAFED. Representatives of the private sector and/or experienced business people will be invited as members of the board. This board is expected to serve as the link between NAFED and the private sector. Through this board, the opinion of the private sector can be monitored on a regular basis.

(6) Status as the focal point of all the export promotion activities in Indonesia

It is recommended that NAFED be given the responsibility of coordinating all the export promotion activities and programs handled by other ministries.

In Indonesia, several ministries have provided export promotion programs and the inter-ministerial coordination has been insufficient. One of ways of solving this situation is to give NAFED a status of single service provider for official export promotion programs in the country. However, under the current condition, it is not likely because other ministries (and other agencies) may not part with their programs.

NAFED, in association with MOT, should lead the coordination effort among the concerned ministries. Although the existing export promotion programs range widely, programs which keenly need the inter-ministerial coordination may be trade fairs (both overseas and domestic) and missions.

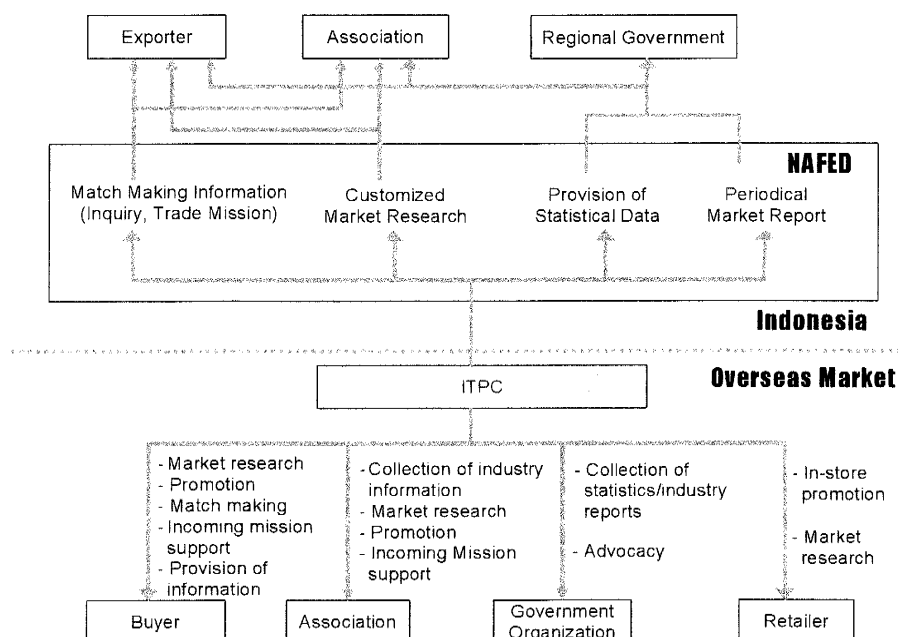
(7) Positioning of ITPCs

As overseas representatives, ITPCs should play more important role with closer linkage with the NAFED Headquarters.

Considering NAFED's weakness in overseas representatives, it is recommended that ITPCs be structurally placed under NAFED with the purpose of enhancing overseas promotion activities and realizing more integrated management of export promotion. At least it is necessary to establish more direct and flexible interface between NAFED Headquarters and ITPCs.

Major functions of ITPCs are economic and market data collection, market research and market intelligence for Indonesian exporters, support activities for trade missions and fairs, export promotion in respective countries. Hearing of buyers' complaints about Indonesian products and feedback to Indonesia are also ITPCs' task.

It is advisable that each ITPC employ marketing specialists to conduct market researches including customized researches. It can also be considered that ITPCs receive resident representatives from Indonesian industrial associations. They may perform better export promotion for the industry of their specialization.

Figure 5.3-5 Information and Service Flow between NAFED (Headquarters) and ITPCs

Source: JICA Study Team

(8) Regional outreach

A long distance exists between NAFED and SME exporters. This means both geographical and mental distances. First of all, NAFED does not have any regional office. The Headquarters in Jakarta has to cover across the vast country. Although Dinas and RETPCs may act as regional representatives of NAFED, they are not connected with a direct line of command. Secondly, the recognition of NAFED's programs is not sufficiently high among SME exporters. In order to resolve this issue, the following measures will be useful.

- Setting-up of a toll-free information service call center within NAFED which provides information and consultation service
- Start of a membership service to establish a good customer base
- Active PR of NAFED's services to the private sector and regional governments
- For the effective implementation of programs it should be considered to establish its own offices in regions or dispatch representatives in the medium run.

(9) Redefinition of NAFED's customer

NAFED currently recognizes Indonesian exporters (suppliers) and foreign buyers as its customer. Meanwhile, NAFED cannot ignore important organizations concerned with its activities, such as industrial associations, other central ministries, regional governments, etc. It is necessary for NAFED to redefine its customer by including these organizations from the viewpoint of efficient provision of service and higher satisfaction of service recipient.

(10) Consideration for financial foundation of NAFED

NAFED should examine the possibility of diversifying its revenue resources, e.g., the use of outside resources, provision of added value of services, contracting of survey and consultancy service, etc. In addition, it is necessary to examine the introduction of a system in which NAFED has sole discretion to use a certain portion, e.g., 50%, of own revenues, such as fees from trade mission participants, fees from trade fair exhibitors, and publication sales.

Basic idea is that recipients should share some of costs as for programs such as trade exhibitions, design development, etc. The purpose of charges for services is to avoid moral hazard of recipients and recover some of service costs to use the budget more effectively.

Basic country/market information is provided free of charge as other TPOs do. As NAFED accumulates the capability of market intelligence, NAFED may be able to charge a fee for customized market research. Exporters may be willing to pay for a research report which has value for money. The publication of high value-added exporters list may also be salable.