

The Province of Bali and the World Bank

jointly organized

PRIVATE SECTOR FORUM

March 26, 2003

Denpasar, Bali

MEETING MINUTES

Opened by:

The Vice Governor of Bali, *Mr. Ketut Widjana*

and

World Bank Lead Private Sector Specialist, *Mr. Bernard Drum*

Moderator:

Executive Director of Prasetiya Mulya, *Mr. Djisman Simanjuntak*

Special Guest:

General Manager of the International Finance Corporation's (IFC) Indonesian Enterprise Development Facility (IEDF), *Mr. Chris Richards*

Private Sector Speakers :

Access to Credit:

Mr. Boy Wibowo (Pedagang Pengumpul)

Mr. Kastawa (Bank Sri Partha)

Mr. I Ketut Warsa (Kelompok Tani Baturasari)

Human Resources Development

Mr. GDE Weda Arjawa (ASEPHI Bali – Export and Handicraft Association)

Mr. IDK Wiarsa Raka Sandi (LPTIM Ganesha Guru)

Regulations, Taxes, and Levies:

Mr. John Bagus (Ketua GAFEKSI)

Mrs. Lisyandra (PT Libi Indah)

Mr. Budi Wiradnya (Ketua FORDA UKM Bali)

Mr. Made Suarnatha (Yayasan Wisnu)

Bali Recovery:

Mr. Jaya Susila (PT Alhpa Sigma Cargo)

Mr. John Pance (Bali Tourism Board)

Mr. Made Sukade (Himpunan Pengusaha Pribumi Indonesia)

Invited Panelists:

Senior Representative of the:

District of Karang Asem

District of Jembrana

District of Denpasar

District of Tabanan

District of Badung

District of Gianyar

District of Klungkung

District of Buleleng

Bappeda, Province of Bali (Mr. Cahyanta)

Provincial Department of SMEs & Cooperatives

Provincial Department of Trade and Industry

Bank Indonesia

Bank Rakyat Indonesia

Mr. Bernard Drum, representing the World Bank, and Mr. Ketut Widjana, Vice Governor of Bali, opened the Bali Private Sector Forum by outlining their goals for the forum and their view of the major issues facing the Private Sector in Bali. Mr. Drum suggested that it was part of *government's role to create a market friendly business environment*. The Vice Governor echoed this sentiment and emphasized that the forum was *very important to Bali*, expressing his hope that the day's dialog would lead to tangible results. He identified the low and undiversified skill level of Bali's human capital, the lack of access to capital for small businesses, and the need to streamline the business licensing process as major areas of reform. The Vice Governor further expressed government's willingness to listen to inputs from the private sector during this forum and said that recommendations from the private sector need to be incorporated into better government policies.

Issues & Responses

[1] Access to credit

The Business Community

Access to credit was repeatedly identified as one of the largest impediments to growth for small and medium enterprises (SMEs). Mr. Boy Wibowo, a trader and collector from Denpasar, claimed that neither he nor his peers had ever successfully obtained bank financing. Mr. Wibowo and Mr. I. Ketut Warsa, a farmer from Batusari, both expressed their frustration with the extremely *long and bureaucratic loan application process*. Furthermore, the majority of SMEs cannot fulfill the banks' *strict collateral requirements*. Although financing is sometimes available from the cooperatives, credit is only given on a short term basis at a rate of 2 percent per month. Mr. Wibowo stressed that SMEs need access to *long term credit* to expand their businesses.

The Small Banks

Mr. Kastawa, of Bank Sri Partha, a local Bali bank, acknowledged that many SMEs view bank credit as unavailable and unattainable. He explained that Bank Sri Partha provides Rp 269 billion in credit to 41,000 customers at an average loan size of Rp 6 million. *We are a small bank and we service small businesses*. The representative of Bank Sri Partha admitted that some of Bank Indonesia's policies, including its ambiguous definition of "small business" and its stringent collateral requirements, impede access to credit to legitimate small and medium enterprises. Recognizing these difficulties, Bank Sri Partha is developing programs to help customers that cannot meet the collateral requirements. For example, a lending program is currently in place to help the wives of civil servants develop businesses out of their homes, using their husbands' salaries as security.

Response from the Panelists

The representative of Bank Indonesia (BI) explained that Bank Indonesia was committed to providing technical assistance to SMEs and has set up a team of bankers from BI and the local Bali banks to create and deliver such programs. Unfortunately, due to changes in regulations, BI ceased its microfinance schemes in 1999. Banks currently lend at a rate of 18-19% and pay approximately 11% on deposits. Dr. Djisman, forum moderator, argued that a decrease in the interest rate from 18% to 15% would be a significant boon to enterprises.

Bank Rakyat Indonesia (BRI), one of the major providers of micro-finance in Indonesia, currently provides Rp 2.1 trillion, out of a total portfolio of Rp 3.1 trillion, in credit to SMEs in Bali, with a maximum loan size of Rp 200 million. In terms of technical assistance, BRI has formed a partnership with the University of Udayana to offer consulting services to SMEs.

The District of Karang Asem provides training to SMEs and cooperatives on how to apply for bank loans. However, the district representative also admitted that the eligibility requirements can be quite complex.

On the ambiguity of what defined an SME, the panelist member representing the Provincial Department of SMEs and Cooperatives, responded that the government had five criteria that qualified a business as an SME: (i) owned by or partnered with an Indonesian citizen, (ii) maximum revenue of Rp 1 billion, (iii) maximum assets of Rp 200 million, (iv) must not be a subsidiary of a large corporation, and (v) cooperative or individual ownership.

[2] Regulations, Taxes, Permits, and Licenses

The Business Community

The forum speakers identified four major problems in the regulatory environment: *(i) ambiguous customs regulations and general lack of regulatory transparency, (ii) illegal levies demanded by government officials, (iii) tax inequity, and (iv) complicated and bureaucratic licensing procedures.*

According to John Bagus, head of the association of freight forwarders in Bali, *customs regulations are not consistent*; items accepted by one custom's official may not be accepted by another. Business often cannot be done without *paying off government officials*. For example, some enterprises bypass the law banning cargo transport between 10pm-5am through bribery. The explosion of decrees and articles passed by the newly autonomous regional governments has only added to the confusion. Those in the export industry view many of the new regional regulations as arbitrary and counterproductive to business. For example, Decree number 32 requires exporters to obtain a special license to export wood products, in spite of the fact that 75-80 percent of exports are wood related.

Mr. Bagus also underlined the importance of Bali's export sector to the overall economy. Bali exports 2000-3000 tons per month of air freight and 1,500 TEUs per month of sea freight. Annual exports amount to an average of US\$400 million. The export sector is among the few industries in Bali not adversely affected by the Bali bombing.

Mrs. Lisyia Indrawati, a prominent department store owner, drew the participants' attention to the cases of *tax evasion and tax inequity* in Bali. Mrs. Indrawati noted that the efforts from the government on tax reform in 2000 were commendable, but there are a few areas of improvement needed such as exploring the potential for the government to widen its tax base. For Bali, Mrs. Indrawati gave a recommendation that the government should collect taxes from the many foreigners who operate businesses using tourist visas, and unfairly compete with the legitimate tax-paying local businesses as a result.

Mr. Budi Wiradnya, of Ketua FORDA UKM Bali, an association of local SMEs, spoke of the dauntingly complex process and expense of setting up a new business. Each district has an agency called a UPT designed to help entrepreneurs apply for business licenses. At present, the UPT is only an information center, which, according to Mr. Wiradnya, does not even provide information that is accurate. Mr. Wiradnya agreed that the UPTs must be upgraded from information centers to agencies authorized to issue all permits necessary to license a new business, similar to the one that has been successfully established in Sidoarjo, East Java. He also called for the government to publish information on the procedures, length, and cost of obtaining licenses and permits as a means of combating corruption and simplifying the licensing process.

Mr. Made Suarnatha, from Yayasan Wisnu, criticized the lack of transparency in regional regulations (*perdas*) and government's failure to solicit the opinion of its constituents prior to issuing new decrees. *The people should know and own the regulations.* He was concerned that the rapid privatization of state industries coupled with inflows of foreign investment and foreign labor threatened the livelihood of the Balinese people. He feared the Balinese would become "*guests in our own home*" (*tamu di rumah sendiri.*)

Response from the Panelists

The government spokesman of the provincial Department of Industry and Trade agreed that local rules and regulations should help rather than hinder businessmen. In order to obtain greater input from the private sector before regulations are passed, he suggested that consultation sessions be arranged between government and business. He also stated that the contradiction between some local regulations and central government policy must be resolved. With regards to Decree 32, the panelist responded that the government has formed a committee to examine the issue. The representative of the District of Karang Asem countered charges of lack of transparency in government policy formation by pointing out that Parliament (DPRD) sessions are indeed open to the public.

[3] Human Resources and Training

The Business Community

There was universal agreement that additional education, training, and skills diversification of the local work force is critical to Bali's economic development. Dr. Djisman, the forum moderator, pointed out the significant educational disparity amongst Bali's work force; Bali's rates of illiteracy and of university graduates are both above the national average. Mr. GDE Weda Arjawa, of the Bali Exports and Handicrafts Association (ASEPHI Bali), suggested that additional training programs be established with curricula specifically designed to meet the needs of key industries in Bali.

Mr. IDK Wiarsa Raka Sandi, of LPTIM Ganesha Guru, pointed out that greater diversification of industry and access to capital were issues directly related to the human resources problem – *Bali needs better trained and more knowledgeable workers and managers to develop its economy.* The crash of the tourism industry since the Bali bombing has brought to the forefront the need for *skills diversification* of the work force, which is currently heavily concentrated on tourism and handicrafts. *Unemployment has sky rocketed* since the October bombing. Mr. Sandi suggested that practical training given to workers attempting to switch

industries would alleviate unemployment and promote economic diversification. Mr. Jaya Susila, of PT Alpha Sigma Cargo, criticized universities for not tailoring any of their academic programs to the needs of small businesses, instead, choosing to focus too heavily on academic and scientific subjects.

Response From the Panelists

The representative of the Provincial Bappeda, Mr. Cahyanta, highlighted a survey taken of 33 provinces in Indonesia on the quality of their human resources in which Bali was ranked 26th. He deemed additional training and education essential to Bali's future prosperity. The government spokesman of the Provincial Department of Trade and Industry also agreed that human resource development was key to improving all aspects of Bali's investment climate, including infrastructure and transportation. The Department of Trade and Industry currently provides training in export and import procedures and has its own quality control task force. The department spokesman pointed to a possible area of reform related to the ISO 9000 program, a widely recognized business management certification program. The ISO 9000 training is available in Bali, but accreditation for the program must be obtained outside Bali.

[4] Bali Recovery

The Business Community

"We want the bomb to become a "boom" for Bali. The Bomb is not doomsday for Bali Tourism," insisted Mr. John Pance, of the Bali Tourism Board. Mr. Pance was very optimistic that, with the passage of time and implementation of sound policy measures, tourists would once again flock to the beaches of Bali. The removal of travel warnings imposed on Bali, particularly from the US and Australia, is seen as a critical step towards the recovery of Bali's tourism industry. Communicating to the world that Bali is a safe place to visit is a key priority. Repeating a statement he made in an interview with an Australian television station, Mr. Pance explained that *it is the people, not the police and army that protect tourists. All the villages will help protect the tourists.* He also asked that the government and banking sector help the Balinese tourism industry by providing temporary tax and loan relief during these difficult times. Mr. Susila urged Bali to use the crisis as an opportunity to reduce the province's dependence on the tourism industry by seriously intensifying efforts to diversify the Balinese economy. Mr. Pance recommended that Bali capitalize on its importance as an export hub for goods from other parts of Indonesia to expand Bali's export industry.

The representative of HIPPI, the association of indigenous entrepreneurs, Mr. Made Sukade, stated that the government should invest in labour intensive industries in order to reduce unemployment and create business opportunities for small businesses. Hotels should be encouraged to buy more local produce, as 80 percent of Bali's agricultural products are currently imported.

Response from the Panelists

Mr. Cahyanta, of the Provincial Bappeda, emphasized the continued importance of the agricultural sector in Bali's economy. In the 1970s, agriculture comprised 70 percent of Bali's economy. Although this figure has dropped to 19 percent, it still employs 60 percent of the population. On economic diversification, the panelist representing Karang Asem stated that *many*

SMEs in peripheral industries, such as handicrafts, still depend on tourism – we need to diversify them. He did give some positive news of small craftsmen in Karang Asem that had managed to quickly turn to other activities after the bombing. As Mr. Cahyanta urged, *“Let’s not wait for another catastrophe to diversify Bali’s economy.”*

[5] IEDF (Indonesian Enterprise Development Facility)

Mr. Chris Richards, General Manager of the International Finance Corporation’s (IFC) IEDF project, delivered an overview of the IEDF office that is set to open in Denpasar later this year. The IEDF is a project designed to provide technical assistance to SMEs in Eastern Indonesia. Its headquarters will be in Denpasar, with additional field offices in Balikpapan, Surabaya, and Makassar. The facility will focus on *improving access to finance, enhancing business performance, and creating an enabling, versus an obstructive, regulatory environment.* The staff members will be comprised of local and international specialists that will work across the regions. Mr. Richards emphasized that the IEDFs mission will be to provide technical assistance, not funding, but that the IEDF could serve as a link to the IFCs investment funds depending on the needs and merits of the investment opportunities that may arise.

[6] Closing

In the wrap-up at the end of the forum, Mr. Drum underlined the strong feelings expressed by a number of speakers that something needs to be done to reduce the regulatory burden on the business sector, repeating the suggestion that the *One Stop Approvals Agencies (UPTs) need to be given the authority to issue permits if they are to become effective.* At present the UPTs can only coordinate the approvals process, which is no less complicated than it was before. He also endorsed the suggestion that a follow-up meeting should be held one year from now to review the progress against commitments made by the various participants in the forum, to articulate the lessons learned, and to review the next steps. Mr. Cahyanta, wrapping up for the Provincial Government re-emphasized the words of the Vice Governor’s opening statement, saying that *Government needs to listen carefully to the private sector’s recommendations* and that *this will translate into better policies for encouraging business.*

PEMERINTAH PROPINSI BALI & WORLD BANK
BEKERJA SAMA MENGADAKAN
FORUM SEKTOR SWASTA
RABU, 26 MARET, 2003
JAM 9:00 – 13:00
BALLROOM, RADISSON HOTEL
DENPASAR

Program

- 09.00 – 09.20** **Registrasi dan Kopi**
- 09.20 – 09.30** **Kata Sambutan**
Bernard Drum (Bank Dunia)
- 09.30 – 09.50** **Pembukaam**
Bp. Ketut Widjana (Wakil Gubernur)
- 09.50 – 10.10** **Presentasi Sektor Swasta mengenai *Keuangan***
- 10.10 – 10.30** **Presentasi Sektor Swasta mengenai *Perizinan, Perpajakan dan Regulasi dan Retribusi***
- 10.30 – 10.45** **Presentasi Sektor Swasta mengenai *Sumber Daya Manusia dan Pelatihan***
- 10.45 – 11.05** **Presentasi Sektor Swasta mengenai *Perizinan dan Retribusi***
- 11.05 – 11.20** **Presentasi Sektor Swasta mengenai *Bali Recovery***
- 11.20 – 12.30** **Diskusi Terbuka. *Moderator: Djisman Simanjuntak***
- 12.30 – 12.45** **Rangkuman Diskusi dan Presentasi IEDF**
Bernard Drum (Bank Dunia)
Chris Richards (IFC)
- 12.45 – 13.00** **Penutupan**
Bp. Cahyanta (Ketua Bappeda Propinsi Bali)
- 13.00 – 13.15** **Konferensi Pers**
Pemda Propinsi, Bank Dunia dan IFC
- 13.00 – 14.00** **Makan Siang**