**SMEs in Indonesia**

**Definition of SME and Its basis**

The definition of ‘Small & Medium Enterprises’ under Indonesian law differs from the generally accepted definition of ‘Small & Medium Enterprises (UKM—Usaha Kecil dan Menengah)’. The country’s definition of ‘Small & Medium Enterprises’ was set out in the Small Enterprise Act No. 9 of 1995 (UNDANG UNDANG REPUBLIK INDONESIA NOMOR 9 TAHUN 1995 TENTANG USAHA KECILL), where companies that would generally be considered medium sized are included under the definition for “small enterprises” and the definition for “medium enterprises” under Indonesian law roughly equates to the Japanese definition of “medium enterprises”.

The definition of small enterprises under Act No. 9 is as follows:

a. A business that owns net assets worth 200 million rupiahs or less. However these assets shall not include land or buildings.

b. Annual Sales of 1 billion rupiah (net) or less.

c. Owned by a citizen of Indonesia.

d. An independent economic entity, which is not a subsidiary or branch of a large or medium enterprise, and is not directly or indirectly controlled (including where the operator is dispatched from a large or medium enterprise) by a large or medium enterprise.

e. The business is managed by an individual, an unincorporated entity, or a cooperative organization.
Definitions a and b may change according to changes in economic conditions. Also, there are no distinctions according to the type of industry.

In addition to this Act, the various related Ministries have their own definitions. In addition to the definitions under this Act, Bank Indonesia has also set out the following in its “Bank Indonesia 2005 Micro, Small and Medium Enterprise Development Technical Directive 7/39/PBI”. (PERATURAN BANK INDONESIA 3 NOMOR: 7/39/2005 TENTANG PEMBERIAN BANTUAN TEKNIS DALAM RANGKA PENGEMBANGAN USAHA MIKRO, KECIL DAN MENENGAH). Micro enterprises are considered those with annual sales of less than 100 million rupiah. Small enterprises have net assets (not including land or buildings) of up to 200 million rupiah and annual sales of no more than 1 billion rupiah. And medium enterprises, in accordance with Presidential Order No. 10 of 1999, can have between 200 million and 10 billion rupiah in net assets (not including land or buildings).

In the 1997 Minister’s Determination No. 257/MPP/Kep/7/1997, the Ministry of Industry defined medium and small scale industries as those with assets of less than 5 billion rupiah, including land and factories.

The Central Statistics Agency classifies medium sized enterprises and industries in three ways, micro enterprises with household industries made up of three employees or less (including non-paid laborers), small enterprises consisting of 5-9 employees, and medium enterprises consisting of 20-99 employees.

The 1995 Small Enterprise Act No. 9 is due to be amended in 2008 as the “Minor, Small & Medium Enterprise Act (UNDANG UNDANGR EPUBLIK
The proposed definitions under this revision as of February 2008 were as follows:

① A micro enterprise is based in a traditional industry and is managed privately, and has net assets of no more than 50 million rupiah (not including land or buildings) and annual sales of no more than 300 million rupiah.

② Small enterprises are managed privately or by a corporate entity, but are independent from and are not the subsidiary or branch office of a medium or large enterprise. They have net assets of at least 50 million rupiah, and no more than 500 million rupiah (not including land or buildings), and they have annual sales of between 300 million and 2.5 billion rupiah.

③ Medium enterprises have net assets of between 500 million and 10 billion rupiah (not including land or buildings), and have annual sales of between 2.5 billion and 50 billion rupiah.

Note that the net asset and annual sales figures defined herein are subject to change according to conditions, by directive from the President.

**Financial Support for Small & Medium Enterprise Policies**

The jurisdiction for small and medium enterprise policies is not limited to the Ministry of Cooperatives and Small and Medium Enterprises, but also involves the Finance Ministry, the Industry Ministry, and the Commerce Ministry, etc., and since each of these Ministries individually administer policies for small and medium enterprises, the full picture of government
expenditure is not clear. The only documents that can explain the expenditure are in the budgets allotted to each Ministry and agency.

The allotment to the Ministry for Cooperatives and Small & Medium Enterprises for 2008 (Accounting period from January to December) is 1.1116 trillion rupiah. The total amount allotted to Ministries and Agencies is 285.4829 trillion rupiah, which amounts to a total of 564.6231 trillion rupiah when added to interest on debt payments, subsidies, etc. So the amount allotted to the Ministry of Cooperatives and Small & Medium Enterprises is only about 3.9% of the amount allotted to the other Ministries and Agencies, and just 0.2% of the total allotted budget. In addition, the central government also allots fund to the regional governments for the purpose of funding small and medium enterprises, which, according to a survey carried out by the Ministry for Cooperatives and Small & Medium Enterprises, was budgeted at about 118.5 billion rupiah for 2008.