

REPORT
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OPENING THE WORLD OF TRADE TO WOMEN:

HOW GENDER AFFECTS TRADE BENEFITS FOR INDONESIAN SMEs





Opening the World of Trade to Women: *How Gender Affects Trade Benefits for Indonesian SMEs*

Authors

Canada–Indonesia Trade and Private Sector Assistance (TPSA) project and the AKATIGA Center for Social Analysis

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Foreword



Canada is delighted to have partnered with Indonesia's Ministry of Trade and The Conference Board of Canada over the last three years through the Trade and Private Sector Assistance (TPSA) project. The financial support provided by the Government of Canada has worked to boost trade and investment opportunities for Canada and for Indonesia's small and medium-sized enterprises (SMEs), including those owned and operated by women. Through TPSA, Canada has been helping Indonesian export-ready SMEs to export beyond their borders and working to attract Canadian investors to Indonesia.

SMEs are important employers in Indonesia, accounting for about one-quarter of the country's gross domestic product, and are seen to have the greatest potential for increasing their engagement in the growing international market. Despite the increase in trade and investment in the region over the past 20 years, the challenge of income inequality persists. A 2010 OECD Report and 2016 World Bank Report both reveal that trade affects women and men differently. The latter mentions that in Indonesia, the average female-owned firm is significantly smaller than the average male-owned firm in terms of profits, sales, and employees.

Gender equality and the empowerment of women and girls are at the heart of Canada's international-assistance and foreign-policy efforts. We are convinced that a feminist approach to development—one that targets gaps and barriers to women's and girls' access to and control over resources and decision-making—is the best way to reduce poverty and inequality and achieve lasting economic growth and prosperity.

This survey and report undertook a thorough analysis of the business practices that differ between women- and men-owned SMEs and the barriers to effective engagement in trade for the three industries of TPSA focus, namely coffee, apparel, and footwear. Women-owned SMEs across all three industries tend to have more difficulty accessing the raw materials and skilled labour that they need. Women face more challenges, including those related to the running and expansion of their businesses, due to their double burden and the prevalent societal norm to seek spousal permission. Such conditions limit women's access to economic resources and opportunities, as they have less time to find and establish links with business networks where they can access market information and service providers. The report provides recommendations for government and all related stakeholders to ensure that women-owned SMEs, as well as those owned by men, are positioned to capitalize on the opportunities opened by global trade and to operate more effectively in the domestic market. It is crucial for all stakeholders to actively promote awareness of the gender-based challenges faced by women so that they can be addressed.

I hope you will find this report useful, and we encourage all relevant stakeholders to implement the report's recommendations and find opportunities to create concrete change that supports gender equality.

Peter MacArthur
Ambassador of Canada to Indonesia and Timor Leste





ABBREVIATIONS

AGM	Annual general meeting
APRISINDO	<i>Asosiasi Persepatuan Indonesia</i> / National Footwear Association of Indonesia
BPS	<i>Badan Pusat Statistik</i> / Statistics Indonesia
CSR	Corporate social responsibility
FGD	Focus group discussion
GDP	Gross domestic product
IFC	International Finance Corporation
Kokowagayo	<i>Koperasi Kopi Wanita Gayo</i> / Gayo Women's Coffee Cooperative
KUR	<i>Kredit Usaha Rakyat</i> / People's Credit for Business
MSME	Micro, small, and medium-sized enterprises
NCBA	National Cooperative Business Association
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
Rp	Rupiah (Indonesian currency)
SME	Small and medium-sized enterprise
TPSA	Canada–Indonesia Trade and Private Sector Assistance Project
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

This report examines the status of women-owned vis-à-vis men-owned SMEs in the Indonesian coffee, footwear, and apparel industries and the gender-based barriers to effective engagement in trade, particularly business and export-related decision-making and access to resources. It provides recommendations for governments, business and industry associations, and coffee cooperatives to ensure that women-owned SMEs,¹ as well as those owned by men, are positioned to capitalize on opportunities opened by international trade and operate more effectively in the domestic market. There are economic and social costs when women lack equal access to growth opportunities offered by domestic and international trade. These costs affect women directly, but also have indirect effects on families, communities, and the country as a whole.

There are economic and social costs when women lack equal access to growth opportunities offered by domestic and international trade.

Research for this report involved collecting both quantitative and qualitative data via a survey, focus group discussions (FGDs), and in-depth interviews. The survey was administered in person by a team of field researchers in April and May 2017. Survey respondents were also interviewed in depth to draw out qualitative information. A total of 335 SMEs completed the survey, 20 per cent of which are women-owned.² This proportion is in line with the World Bank's estimate that 22 per cent of Indonesian SMEs are owned by women.³ In addition, 18 FGDs were conducted with SME owners and employees, cooperatives, and provincial government employees to enrich the quantitative data.

The results of the research show that as entrepreneurs, both women and men SME owners across all three industries face similar challenges in running their businesses and in exporting, but sometimes differ as to which they consider to be the most serious. Both women- and men-owned SMEs have difficulty finding market information, accessing affordable credit, obtaining quality inputs in a timely manner, and getting the appropriate practical and focused training, including mentoring. In addition, both women and men SME owners noted the lengthy time required to obtain the appropriate licenses and registrations. However, women-owned SMEs across all three industries tend to have more difficulty accessing the raw materials and skilled labour that they need.

Women and men owners of SMEs often address these challenges in different ways. For example, women are more likely to seek information about market opportunities and requirements and production inputs (such as labour and raw materials) from formal sources, while men almost exclusively rely on their personal networks. This finding indicates that governments and business/industry associations have an opportunity to connect with women entrepreneurs through websites and social media. Women-owned SMEs are also more likely to reach out for export assistance, so export and domestic market training would be welcomed and used by women-owned SMEs. However, such training needs to be practical and focused on their particular industry. A third example is that women rarely seek initial capital from banks, and do so much less frequently than men for subsequent capital. This finding confirms what the International Finance Corporation of the World Bank has concluded: A golden opportunity exists in Indonesia's SME

¹ Ownership of an SME was determined based on whether the registered business owner was a man or a woman in sole proprietorships. In the case of CV (partnership) and PT (limited liability) firms, the manager of the firm, as reported by the respondent, was considered to be the owner. See further details in the section on "Definitions."

² In the case of cooperatives, women-led, but for the purposes of this research, they are treated as women-owned. Please see the section on "Definitions."

³ World Bank, *Enterprise Surveys*, 5.



sector, particularly women-owned SMEs, for financial institutions to tap into.⁴ The SME sector is large and growing, and women-owned SMEs make up a substantial portion of it. To effectively service this sector, financial institutions need to think differently and move beyond traditional banking methods to leverage this potential growth.

The study also uncovered major differences between the men- and women-owned SMEs.

The study also uncovered major differences between the men- and women-owned SMEs. Across all three industries, women owners are more educated. While the survey data do not allow us to make a

clear causal link between level of education and business practices, the pattern they identified of women being more likely to, for example, request export assistance, use the internet and social media, and access information from government and industry associations does suggest a correlation. Women-owned SMEs in both the footwear and apparel industries tend to be smaller and younger than their male counterparts; they could use help growing their businesses.

Men and women experience challenges differently, and the case stories included in this report offer examples of how they also differ in managing these challenges. For example, female footwear SME owners pursue innovative designs, cater to high-end niche markets, and employ online marketing. By doing so, they are able to take advantage of a market segment that is served by a less-crowded supplier community. It also enables them to integrate their business and family responsibilities. Many male footwear SME owners, on the other hand, prefer to work as subcontractees and suppliers to larger businesses, because they see it as a way to survive in an increasingly competitive market spawned by an influx of cheap footwear imports.

The results of the research led to recommendations that would help ensure that women-owned SMEs participate effectively in domestic and international trade and benefit equitably with men from the opportunities created by trade.⁵ These recommendations are addressed to the main stakeholders: government, business associations, and coffee cooperatives.

The main findings and associated recommendations are described below.

	Finding
MARKET INFORMATION	One of the main export-related challenges that women-owned SMEs face is a lack of access to market information, such as where potential markets are located.
	Recommendations
	Governments and business/industry associations should enhance SMEs' access to market intelligence, including potential customer contact information, for both domestic and foreign markets. This could be done by, for example, establishing local offices and websites for market information, similar to one-stop shops for business licensing.

⁴ IFC, *Women-Owned SMEs in Indonesia*.

⁵ In fact, many of these recommendations would apply equally to women seeking to open a business, but who have been hampered by, for example, a lack of capital.





PRODUCTION INFORMATION	Finding
	Women-owned SMEs tend to have more difficulty accessing the raw materials and skilled labour that they need.
	Recommendations
	Governments and business/industry associations should promote and support skills-training programs for young people. This will increase the number of skilled workers and preserve those skills for future generations.
	Governments should fast-track the import of raw materials required in the footwear and apparel industries, such as leather and silk.
	Business/industry associations must enhance their capacity as a source of information for SMEs about production systems and technologies.
EXPORT ASSISTANCE	Finding
	While women SME owners are more likely than their male counterparts to request assistance with expanding their exports or beginning to export, a large proportion have not sought assistance.
	Recommendations
	Governments and business/industry associations should offer SMEs practical assistance on how to export, connect with foreign buyers, and find information about foreign markets.
FINANCE	Finding
	Women-owned SMEs have trouble accessing financing from external resources and are more likely to rely on their personal resources and family for both initial and subsequent capital.
	Recommendations
	Governments should enhance SMEs' access to regular business credit by supporting the credit programs of financial service providers that offer lower interest rates and less-restrictive collateral requirements.
	Governments and business/industry associations should improve access to information about alternative, innovative, and inclusive financial services, such as those offered by Root Capital in the coffee industry.
	Governments should improve the outreach of Bank Export-Import (Bank Ex-Im) and other export credit agencies by making requirements for export credit more affordable to SMEs and more accessible through increased physical presence in small urban and semi-urban areas where SMEs operate.





ASSISTANCE AND TRAINING	<p style="text-align: center;">Finding</p> <p>Women-owned SMEs want assistance from governments and business/industry associations, but such assistance must be industry-specific, practical, needs-based, and supplemented with market information. While many SMEs have received government training, it often does not meet the needs of SMEs, including those that export or are ready to export.</p>
	<p style="text-align: center;">Recommendations</p> <p>Governments and business/industry associations should offer focused, practical training, including mentoring SMEs and coffee cooperatives on running a business and exporting (including market information), production technologies, and digital marketing. Coffee cooperatives should offer leadership training to women members as well as training on environmentally sustainable and efficient coffee cultivation and processing technologies.</p> <p>They must also promote equal access for male and female workers to skills-enhancement training on a wide range of tasks in each industry, to mitigate gender-role stereotyping in both product manufacturing and business management. This will increase opportunities for women to work in higher-paying jobs, particularly in the footwear and apparel industries.</p>
BUSINESS NETWORKS	<p style="text-align: center;">Finding</p> <p>While a higher share of women than men SME owners join business or industry associations, the proportion is relatively small.</p>
	<p style="text-align: center;">Recommendations</p> <p>Business and industry associations should improve their ability to reach women-owned SMEs and should support the development of networks to promote mentoring and sharing of best practices.</p>
REGULATION	<p style="text-align: center;">Finding</p> <p>Women-owned SMEs find it difficult to obtain export licenses in an effective and timely manner.</p>
	<p style="text-align: center;">Recommendations</p> <p>Governments should streamline and simplify regulations for export licensing and customs registration.</p> <p>Business/industry associations should provide online information about export procedures and systems.</p>





	Finding
MEMBERSHIP IN COFFEE COOPERATIVES	Land ownership as a membership requirement often blocks women from participating in cooperatives.
	Recommendations
	Consider coffee cultivation, rather than land ownership, as a requirement for membership in cooperatives. This would give membership opportunities to female farmers who rent farmland to cultivate coffee or do not possess the title of their farm because it is in their husband's or father's name.

According to the study results, the challenges women face in running their businesses and exporting are compounded due to their double burden (dual responsibility for home and business, which is in some cases further intensified by their involvement in community activities) and the prevalent societal norm for women to seek spousal permission to undertake activities outside of the home, including those related to the running and expansion of their businesses. Even with access to a support system of hired household help and extended family, women remain principally responsible for managing the household and taking care of family members. These conditions limit women's access to economic resources and opportunities, as they have less time to find and establish links with business networks through which they can access market information, business service providers, sources of input supplies, buyers, and business training. While decisions about various aspects of the business are usually made by the SME owner, regardless of gender, it is more common for men to make decisions about some aspects of women-owned businesses than women do for men-owned businesses.

Women remain principally responsible for managing the household and taking care of family members. These conditions limit women's access to economic resources and opportunities.

Although these prevailing cultural attitudes towards women's roles in society are deeply ingrained, they are not impossible to change. Thus, it is important for all stakeholders (government, business associations, academe, and civil society) to actively promote awareness of the gender-based challenges faced by women, particularly the double burden and the need for spousal permission to engage in activities outside the home, as well as the innovative and effective ways that women handled these challenges, as an initial step toward increasing gender equality and gender equity. As a result, the report recommends that all stakeholders promote the benefits of women's effective participation in business and their resulting contribution to the economic development of the country.





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CHAPTER 1:

INTRODUCTION

The relationships between increased trade, sustainable economic growth, and poverty reduction are complex. Nevertheless, there is an emerging consensus in the literature that, in the current context of integrative trade and globalization, increased trade raises the incomes of the poor, and the costs of transitioning to a more open economy are generally small, relative to the overall benefits. A 2013 United Nations Development Programme (UNDP) report attributed the lifting of hundreds of millions of men and women from poverty at least in part to openness to trade.⁶ A 2010 report published by the Organisation for Economic Co-operation and Development (OECD) highlighted trade as a critical tool for countries to generate wealth, sustain growth, and reduce poverty:

“Economic growth is the most powerful tool to reduce poverty. And no country has successfully developed its economy by turning its back on international trade and long-term foreign direct investment. Virtually every country that has achieved sustained economic growth has done so by seizing the opportunity offered by more open world markets.”⁷

However, research also reveals that trade impacts women and men differently. Assumptions about the benefits of trade tend to be based on trade theories that ignore the gender and social relations that affect women’s ability to benefit from trade opportunities. As described in a 2014 UNCTAD report:

“The assumption that economic policies are “gender-neutral” has been increasingly challenged, and it has also become clear that economic policy, including trade policy, can play a critical role in narrowing the gender gap only if policy-makers consciously take into account these horizontal differences.”⁸

For policy-makers to consciously pursue policies that consider these differences, such differences must first be identified and their underlying causes revealed. This study examines the status of women-owned vis-à-vis men-owned SMEs in the Indonesian coffee, footwear, and apparel industries and the gender-based barriers to effective engagement in trade, particularly access to resources and decision-making about running their business and exporting. The purpose of the study is to provide recommendations to ensure that women-owned SMEs are positioned to capitalize on opportunities offered by international trade.

Why Focus on SMEs?

SMEs are an important employer, accounting for about one-quarter of Indonesia’s gross domestic product (GDP). As noted in a 2017 TPSA report, micro, small, and medium-sized enterprises (MSMEs) constituted approximately 97 per cent of Indonesia’s total employment between 2008 and 2013.⁹ While micro enterprises formed the largest portion, SMEs accounted for some 8 per cent during the same period.



⁶ UNDP, “Drivers of Development Transformation,” 75.

⁷ OECD, *Trading Out of Poverty*, 9.

⁸ UNCTAD, *Unfolding the Links*, 2.

⁹ Fadila, *Identifying High-Potential Indonesian Commodities*, 2.



SMEs are also seen to have the greatest potential for increasing their engagement in international trade. There is significant scope for growing SMEs' contribution to GDP by increasing exports.

SMEs are also seen to have the greatest potential for increasing their engagement in international trade.

Why Focus on Women-Owned SMEs?

There are economic and social costs when women lack equal access to growth opportunities offered by international trade. These costs affect women directly, but also have indirect effects on families, communities, and the country as a whole. A 2015 study by the McKinsey Global Institute concluded that, in a full-potential scenario where women participate in the economy identically to men, as much as \$3.3 trillion, or 30 per cent, would be added to the annual economic output of East and Southeast Asia (not including China) in 2025, compared with a business-as-usual scenario.¹⁰

A 2016 World Bank study observed that while MSMEs are a powerful engine for growth, "inequality persists. In Indonesia, the average woman-owned firm is significantly smaller than the average man-owned firm in terms of profits, sales, and employees." In fact, research conducted in 2013 holds that, in Indonesia, "average output per worker would increase by 11 per cent if women-owned firms operated in the same sectors and had the same access to productive resources as their male counterparts."¹¹

A number of factors have been cited to explain Indonesian women's low participation in entrepreneurship. The traditional view of Indonesian women's role as primarily responsible for the home, with little or no

The 1974 Marriage Law affirms the traditional position of men as heads of household, which in turn automatically assigns men to the role of primary decision-maker, especially in business and other public life matters.

support from male household members, reduces the time women are able to spend working on a business. Explicit and implicit rules between couples about women's interaction with non-family members can prevent them from transacting business freely outside of the home without the prior knowledge or permission of their spouse. The 1974 *Marriage Law* affirms the traditional

position of men as heads of household, which in turn automatically assigns men to the role of primary decision-maker, especially in business and other public life matters.

Why Focus on the Coffee, Footwear, and Apparel Industries?

The TPSA project focuses on three industries for its activities supporting Indonesian exports to Canada: coffee, footwear, and apparel. These industries were identified by the TPSA project as growth industries with strong potential for increased Indonesian exports to Canada.¹²

¹⁰ McKinsey Global Institute, *The Power of Parity*, 5.

¹¹ Arsana and Alibhai, *Women Entrepreneurs in Indonesia*, 9.

¹² For a detailed description of the criteria used to choose the three industries, see Fadila, *Identifying High-Potential Indonesian Commodities*.





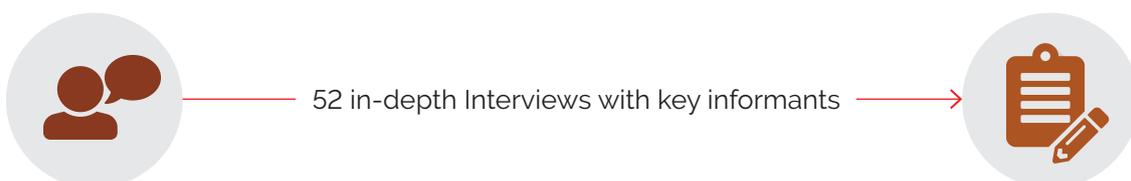
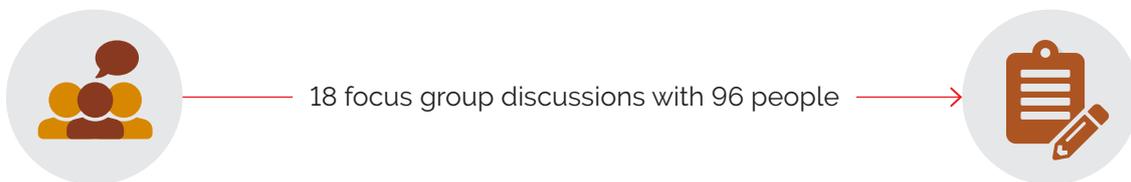
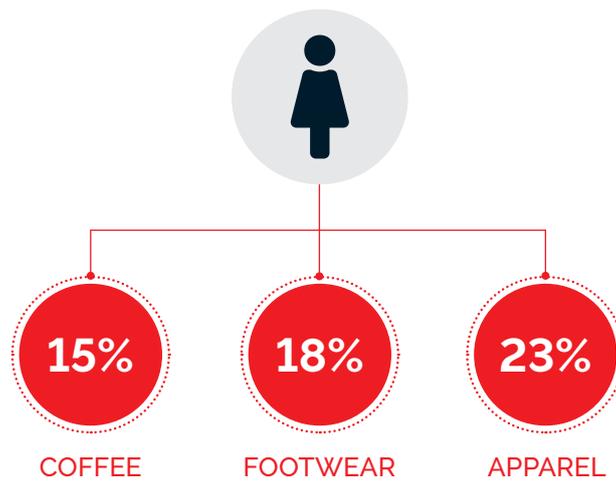
METHODOLOGY AT A GLANCE

3 INDUSTRIES INCLUDED IN THE STUDY



335 SMEs SURVEYED

20% of the SMEs surveyed were women-owned





CHAPTER 2:

METHODOLOGY

Research for this report involved collecting both quantitative and qualitative data via a survey, focus group discussions (FGDs), and in-depth interviews with key informants.

Survey

The survey was administered in person by a team of field researchers from April to May 2017. The questions were designed to build a quantitative body of data. Survey respondents were also interviewed in-depth to draw out qualitative information.

The survey tool was a questionnaire consisting of 13 sections covering the following areas:

1. profile of SME owner (gender, education, marital status, and age)
2. profile of SME (years in business, registration, and type of license)
3. business ownership and management profile
4. history and challenges faced by the business
5. export practice, opportunities, and challenges
6. location in the value chain and relationship to suppliers
7. labour
8. sources of information and resources
9. government programs and regulations
10. certifications
11. future business outlook
12. gender-based challenges
13. business revenue and use

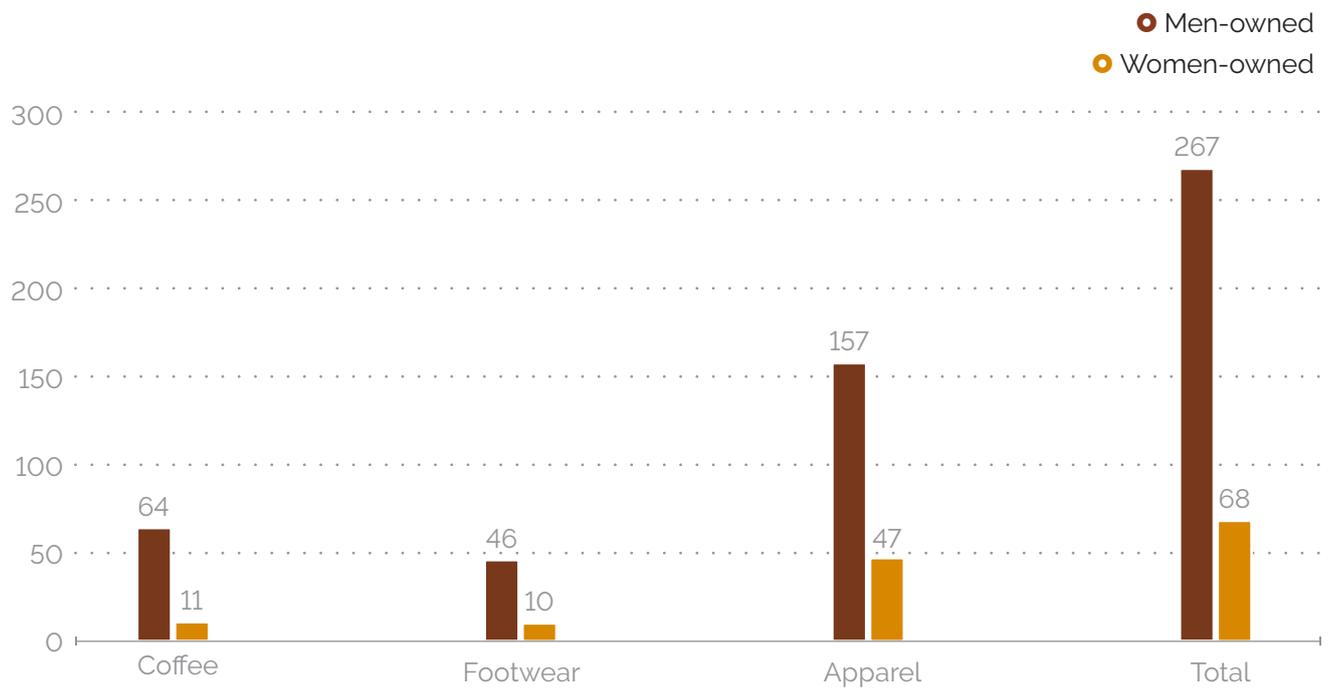
A total of 335 SMEs completed the survey, 20 per cent of which are women-owned. The greatest number of respondents came from the apparel industry, with 204 SMEs participating (157 men-owned SMEs and 47 women-owned SMEs). (See Chart 2.1.) The footwear industry returned just 56 completed surveys (46 men-owned SMEs and 10 women-owned SMEs). Seventy-five surveys were completed by coffee SMEs and cooperatives (53 men-owned and eight women-owned SMEs; 11 men-led and three women-led cooperatives). For the remainder of this report, references to coffee SMEs will be understood to include both surveyed SMEs and surveyed cooperatives. The highest share of women-owned SMEs is in the apparel industry (23 per cent) and the lowest is in the coffee industry (15 per cent). (See the definitions section in this chapter for a discussion of how SMEs and women-owned SMEs are defined.)



CHART 2.1

SURVEY RESPONDENTS BY INDUSTRY AND GENDER

(number of SMEs)



Source: TPSA gender and trade survey.

Focus Group Discussions

Eighteen FGDs were conducted with SME owners and employees, cooperatives, and provincial government employees to enrich the quantitative data. Eleven FGDs were conducted for the coffee industry and seven for the apparel industry. (See Table 2.1.) The research teams were unable to organize FGDs for the footwear industry, due to the timing of the *Lebaran* (Eid) holidays; however, the teams were able to gather individual case studies, which have been included in the report.

A total of 96 people (59 women and 37 men) participated in the FGDs. For both industries, some of the sessions were conducted separately with men and women, while others were done with men and women together. Members of the research teams observed that the information gathered at women-only FGDs was richer, as informants shared their experiences more freely, including challenges related to balancing business and household responsibilities.





TABLE 2.1

DISTRIBUTION OF FOCUS GROUP DISCUSSIONS (FGDs) BY INDUSTRY AND GENDER OF PARTICIPANTS

	Women only		Men only		Women and men			Total		
	# of FGDs	# of W	# of FGDs	# of M	# of FGDs	# of W	# of M	# of W	# of M	# of W and M
Coffee										
Cooperatives, Aceh	3	20	1	5	3	14	12	34	17	51
Cooperatives, Enrekang	1	4	0	0	1	2	2	6	2	8
Coffee SME, Enrekang	1	2	1	2	0	0	0	2	2	4
Total, coffee	5	26	2	7	4	16	14	42	21	63
Apparel										
Apparel SMEs, Semarang District	1	7	1	4	0	0	0	7	4	11
Apparel SMEs, Pekalongan	1	8	1	8	0	0	0	8	8	16
Apparel SMEs, Solo	0	0	0	0	1	1	2	1	2	3
Canting Kakung SME, Solo	1	1	1	2	0	0	0	1	2	3
Total, apparel	3	16	3	14	1	1	2	17	16	33
Total, coffee and apparel	8	42	5	21	5	17	16	59	37	96

Source: TPSA gender and trade survey.



The distribution of FGDs by participants' occupation is shown in Table 2.2. FGDs with cooperatives (boards, management, and members) and SMEs focused on business trends, position in the domestic and export supply chains, experience obtaining organic and/or Fairtrade certification, strengths, opportunities, weaknesses, threats, working relationships with government, and governance arrangements. In FGDs with co-op members only, discussions revolved around membership benefits, participation in training, and decision-making. A time-use analysis activity was carried out with female co-op members to gauge the amount of time spent on various tasks in a typical work day.

TABLE 2.2
DISTRIBUTION OF FOCUS GROUP DISCUSSIONS BY OCCUPATION OF PARTICIPANTS

	Owner		Board member		Manager		Staff/worker		Member		Total		
	W	M	W	M	W	M	W	M	W	M	W	M	W and
													M
Coffee													
Cooperatives, Aceh	0	0	3	3	6	3	7	5	18	6	34	17	51
Cooperatives, Enrekang	0	0	0	0	1	1	1	1	4	0	6	2	8
Coffee SME, Enrekang	1	1	0	0	0	0	1	1	0	0	2	2	4
Total, coffee	1	1	3	3	7	4	9	7	22	6	42	21	63
Apparel													
Apparel SMEs, Semarang District	7	4	0	0	0	0	0	0	0	0	7	4	11
Apparel SMEs, Pekalongan	8	7	0	0	0	1	0	0	0	0	8	8	16
Apparel SMEs, Solo	1	1	0	0	0	1	0	0	0	0	1	2	3
Canting Kakung SME, Solo	1	1	0	0	0	0	0	0	0	1	1	2	3
Total, apparel	17	13	0	0	0	2	0	0	0	1	17	16	33
Total, coffee and apparel	18	14	3	3	7	6	9	7	22	7	59	37	96

Source: TPSA gender and trade survey.



There were also a few FGDs with local government staff who deal with trade issues. These discussions focused on the value chains of the three industries and on government programs that assist SMEs with domestic and international trade.

Key Informant Interviews

Key informant interviews were the main source of information about the value chain for each industry. A total of 52 key informants (40 men and 12 women) from all three industries were interviewed.

Definitions

Gender refers to the “socially constructed roles and responsibilities of women and men. The concept of gender also includes the expectations held about the characteristics, aptitudes, and likely behaviours of both women and men (femininity and masculinity). These roles and expectations are learned, changeable over time, and variable within and between cultures.”¹³

Gender equity means “being fair to women and men. To ensure fairness, measures are often needed to compensate for historical and social disadvantages that prevent women and men from otherwise operating as equals. Equity leads to equality.”¹⁴

Gender equality means that “women and men enjoy the same status and have equal opportunity to realize their full human rights and potential to contribute to national, political, economic, social, and cultural development, and to benefit from the results.”¹⁵

Small and medium-sized enterprise (SME): Several methods exist for defining SMEs. The Government of Indonesia differentiates among micro, small, medium, and large enterprises based on asset values and annual sales as stipulated in Law No. 20/2008. Statistics Indonesia, *Badan Pusat Statistik* (BPS), differentiates based on employment. This report defines an SME if it meets one of the two criteria: number of employees (more than four but less than 100) and/or annual sales (more than Rp 3 million but less than Rp 50 billion). This is because, in practice, it is sometimes problematic to define an SME using employment only, as many Indonesian companies subcontract work or hire temporary workers during busy periods. It can also be difficult to obtain sales data, due to the informal nature of some businesses and their unwillingness to divulge this information.

Subcontractor/subcontractee: If an SME obtains an order that is larger than it can fulfill, it can ask another SME to produce some of the product. In this example, the SME originally obtaining the order is referred to as the “subcontractor” and the SME that the subcontractor hires to produce some of the product is referred to as the “subcontractee.” This practice occurs in the footwear and apparel industries.

Woman-owned SME: Ownership of an SME was determined based on whether the registered business owner was a man or a woman in sole proprietorships. In the case of CV (partnership) and PT (limited liability) firms, the manager of the firm, as reported by the respondent, is considered to be the owner. Sources of capital (both initial and subsequent) were also used to verify whether the business owner (per their business registration) is also the source of capital. The data show that for almost all SMEs surveyed, the registered business owner is also the source of initial and subsequent capital. In a few cases where the registered owner is a man but the primary person running the business is a woman—either his spouse, another family member, or a hired person—the SME was counted as woman-owned.

¹³ Global Affairs Canada, “Policy on Gender Equality.”

¹⁴ Ibid.

¹⁵ Ibid.



In the coffee industry, ownership of a cooperative is more difficult to define, due to their membership structure. The board is elected by the membership. If a board has a majority of female members or a female general manager or chairperson, it is categorized in this study as having female ownership. Strictly speaking, such co-ops are women-led, but this study categorizes them as women-owned.

Currently exporting SME: The SME is currently exporting its product directly to an importer, distributor, or retailer in a foreign country, either by bulk in container loads or by personal cargo in a much smaller volume than a container load, via courier or postal service.

SME exported in the past: The SME is not currently exporting directly or indirectly, but has exported in the past.

Export-ready SME: The SME exports indirectly through an intermediary such as a distributor, agent, or trading house located in Indonesia, has received an offer to export from a foreign buyer, or is seriously interested in exporting using its own business capacity.

Survey Challenges

Identifying the Population and Obtaining a Random Sample

The objective of the survey was to collect information about barriers to exporting faced by Indonesian SMEs in the coffee, footwear, and apparel industries, and whether these barriers differ based on whether the SME is owned by a woman or a man. The first step was determining the source population from which to draw the sample. To do this, we contacted various sources, such as the Ministry of Trade, Ministry of Industry, Ministry of Cooperatives and SMEs, BPS, Bank of Indonesia, local agencies, labour associations, business associations, and key informants from all three industries. There are very limited formal data on SMEs and it proved impossible to obtain a population estimate of SMEs differentiated by gender ownership. For example, business associations have limited membership lists and little to no information on SME size, ownership, or export readiness.

To address this challenge, the study adopted a geographic cluster sampling approach, a methodology suitable for cases where the population is hidden or hard to define. The geographic areas used were those already identified by the TPSA project: the Aceh and South Sulawesi regions for coffee, the cities of Bandung and Jakarta for footwear, and the cities of Bandung and Solo for apparel. Later, geographic coverage was extended to include Tangerang and Bogor for footwear and the batik-producing areas of Pematang, Semarang, Pekalongan, and Tangerang for apparel.

Field researchers from AKATIGA contacted those firms that had already participated in a TPSA activity, such as training on how to export to Canada, and used data from national and local governments and industry associations to identify SMEs that are already exporting and/or supplying to larger exporting firms. The researchers then relied on a "snowball" approach to identify further participants, in which survey participants and key informants referred researchers to other potential participants. This approach does not result in a truly random sample. The absence of random sampling increases selection bias and prohibits generalization of the study's findings to the wider population without further data collection. When comparing the responses of women-owned SMEs and men-owned SMEs, it is not possible to infer statistical significance. However, the goal was to gather enough data to be useful for tentative research implications.

Willingness to Participate

Some SMEs identified by the project were not willing to complete the survey. Some cited an inability to devote the time required to the interview. Other reasons included oversaturation as research participants, a lack of confidence that the results will create positive policy or regulatory improvements, a belief that they lacked sufficient knowledge to answer the questions, and an unwillingness to divulge information.

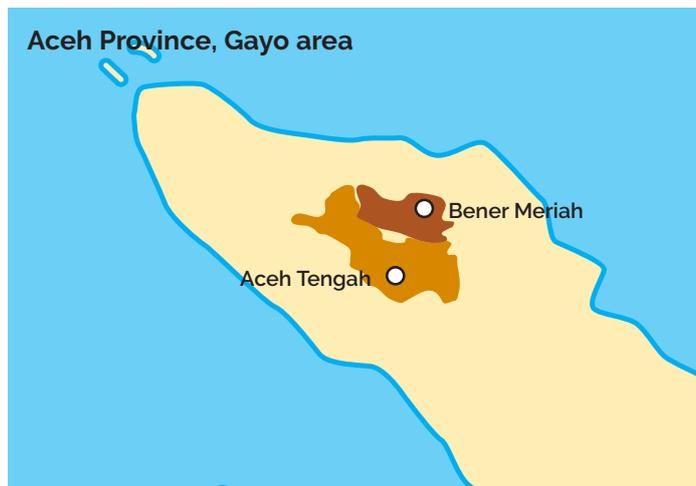


An added challenge involved getting women to agree to be interviewed. Even when a woman owns a business, the husband often takes care of formalities associated with running that business, and as a result the woman owner was unable to answer some of the questions.

Distribution of Respondents by Geographic Areas Surveyed

Due to the challenges involved in identifying the source population, a geographic cluster approach was adopted. This means that while coffee, apparel, and footwear are produced across Indonesia, the study focused on specific geographic clusters where a large share of SMEs in each of the three industries are located.

Coffee



Coffee



Footwear



Apparel





Table 2.3 shows the breakdown of the 335 survey respondents by geographic cluster, industry, and gender.

TABLE 2.3

DISTRIBUTION OF RESPONDENTS BY LOCATION, INDUSTRY, AND GENDER

(number of SME respondents)

Industry	Total	Geographic cluster	Men-owned	Women-owned
Coffee	75	Enrekang	6	2
		Gayo area (Bener Meriah and Aceh Tengah)	39	6
		Makassar	13	1
		Tana Toraja	6	2
Footwear	56	Bandung	9	2
		Bogor	12	1
		Jakarta	19	5
		Tangerang	6	2
Apparel	204	Bandung	40	3
		Bogor	8	7
		Pekalongan	55	18
		Pemalang	22	3
		Semarang	7	8
		Solo	16	4
		Tangerang	9	4
Total number of SME respondents			267	68

Source: TPSA gender and trade survey.





COFFEE INDUSTRY



WOMEN-OWNED SMEs

MEN-OWNED SMEs

More women-owned SMEs get production information from formal sources



Fewer women-owned SMEs access government assistance programs



Fewer women-owned SMEs obtain subsequent capital from a bank



More women-owned SMEs join business or industry associations



More women-owned SMEs have trouble exporting due to market-access challenges



More women-owned SMEs cite challenges obtaining export licenses





CHAPTER 3:

COFFEE INDUSTRY RESULTS

What Does Indonesia's Coffee Industry Look Like?

Indonesia is a major actor in the international coffee industry. In 2016 it ranked fourth worldwide in coffee exports. While there is limited government support for the coffee industry, a number of international development agencies work to address its weaknesses. Millions of Indonesians, primarily smallholder farmers, rely on coffee for their livelihood. Significant growth potential exists, for example, by targeting niche markets.¹⁶

Millions of Indonesians rely on coffee for their livelihood.

While much of Indonesian coffee is exported in bulk, it also supplies domestic specialty markets such as retail chains and coffee shops, especially in urban areas. Arabica coffee from Gayo and Tana Toraja is treated as specialty coffee.

The coffee industry differs from the apparel and footwear industries in that it depends on private land, usually owned by farmers. This study focussed on Gayo and South Sulawesi, but coffee is grown in many regions across Indonesia. In Gayo, land is generally owned by small-scale farmers, while in South Sulawesi it is owned by a combination of commercial plantation estates and small-scale farmers. These farmers are frequently linked via cooperatives for the purposes of coffee sales and receiving common goods and services.

In Gayo, cooperatives tend to work effectively, mainly because there is institutional support, such as a Fairtrade system that helps cooperatives find and capture wider market opportunities. While stringent in its requirements and in monitoring compliance by participating farmers, Fairtrade certification brings huge benefits to those who earn it. Fairtrade buys certified organic coffee at a premium price even when the world coffee price drops. A portion of the price per kilogram of all coffee purchases is directed to social welfare and development programs. Most of the coffee exported abroad from Gayo is organic Arabica Grade 1 coffee, considered one of the best in the world. At one time, it fetched a price 25 per cent higher than other standard coffees on the international market.¹⁷

The organizational aspects of cooperatives, such as management and member meetings, function fairly well. It is common knowledge, however, that some cooperatives are dominated by a limited number of individuals who influence the decision-making process concerning their operations.

Regional History Shapes the Landscape of the Coffee Industry

Following the devastation of the 2004 tsunami, international non-governmental organizations (NGOs) stepped in to support rebuilding efforts in Aceh, but also backed efforts to broker a peace agreement between conflicting groups in the region. (See "Tsunami Brings Aid to Aceh's Coffee Industry.") An agreement was signed in 2005, spurring the return of thousands of farmers who had left because of the ongoing conflict. Projects by donors such as the United States Agency for International Development (USAID) focused on bringing organic Arabica coffee to international markets, and Gayo coffee became one of the

¹⁶ Fadila, *Identifying High-Potential Indonesian Commodities*, 32.

¹⁷ Widiati, "Maintaining the Aroma."





region's main export commodities. USAID took an active role in this redevelopment. Donors supported exports geared towards niche markets, primarily in the U.S. to begin with.

Tsunami Brings Aid to Aceh's Coffee Industry

One male respondent, currently secretary of a cooperative and a café owner, noted that "the 2004 tsunami was, in a way, a blessing for Gayo coffee because of the foreign aid that poured into Aceh." USAID helped one of the first Gayo cooperatives, Babburayan, sell coffee to the National Cooperative Business Association (NCBA), a U.S. organization for cooperatives. The U.S. market became, and remains, one of the world's most important markets for high-quality green coffee beans. In 2006, NCBA paid Rp 12,000 per kilogram (compared to the local market price of only Rp 9,000) with a premium of Rp 500 per kilogram. The NCBA also established a norm that coffee production should be done by cooperatives, involving all related production parties, with fair prices going to farmers.

USAID's assistance helped increase coffee productivity and secured a higher price for farmers. However, this created problems for local businesses that could not pay higher prices and coffee players not benefiting from foreign assistance. Harvest yields and labour prices increased sharply, but traditional coffee players did not have the backing of an international market willing to pay premium prices. Some of these players went bankrupt.

The impact of foreign aid in Gayo is being felt across Indonesia, as prices in Gayo largely determine export prices, no matter what region the beans come from.

Although South Sulawesi also received interventions, they were not as extensive as those in Gayo.¹⁸ Foreign assistance to the coffee industry in this province, including in the regencies of Enrekang and Tana Toraja, comes from multilateral institutions such as the United Nations Food and Agriculture Organization (FAO) to improve the productivity and livelihood of smallholder coffee farmers. In most cases, assistance is channelled through coffee cooperatives and NGOs. It appears that the extent of such assistance may not be as large as that which was provided to the coffee industry in Aceh, because of differences in the conditions of the two provinces. South Sulawesi did not experience the same challenges that Aceh did, including a 30-year internal conflict and the 2004 tsunami that ravaged the province and hindered economic development. The market for coffee produced in South Sulawesi has also been steady for decades, due mainly to the physical presence of global value-chain players from the U.S. and Japan through their subsidiary companies.

To assist communities in Aceh that were severely damaged by the earthquake and tsunami in 2004, the Café Femenino Foundation provided a grant to a coffee cooperative in the Gayo area that included requirements intended to benefit female farmers. One requirement was that a cooperative member's land must be under a woman's name. Femenino also offers a double premium if a cooperative is run by women. (See "Café Femenino Helps Women Coffee Producers.")

¹⁸ Widiati, "Maintaining the Aroma." Ihsan, "Aceh's Organic Coffee Production."





Café Femenino Helps Women Coffee Producers

Café Femenino Foundation is an American not-for-profit organization whose mission is to help women and their families in coffee-producing countries by buying organic coffee from cooperatives of which they are members, providing technical assistance for organic coffee production and, in recent years, providing financial support to establish an early child education centre managed by the cooperative and to offer health check-ups for all female co-op members. In Aceh, the foundation has helped the Gayo Women's Coffee Cooperative (Koperasi Kopi Wanita Gayo, or Kokowagayo) market their coffee in the U.S. and Europe. The foundation also offers female coffee farmers a better price for their product by adding a premium fee of Rp 500 per kilogram to its buying price.*

* Café Femenino Foundation, "About Us."

Do Business and Owner Profiles Differ by Gender in the Coffee Industry?

One of the survey's objectives was to establish whether there are substantial differences between the characteristics of SMEs owned by women and those owned by men.

Size

There are two main methods of defining the size of a firm: employment and annual sales. (See Table 3.1.)

TABLE 3.1
DEFINING THE SIZE OF COFFEE SMEs

	Number of employees	Annual sales
Micro	1–4 people	< Rp 300 million
Small	5–19 people	Rp 300 million–2.5 billion
Medium	20–99 people	Rp 2.5–50 billion
Large	≥ 100 people	> Rp 50 billion

Sources: Government of Indonesia Law No. 20/2008; BPS.

Most SMEs in the coffee industry are small by both the employment and sales definitions; however, the distribution changes slightly depending on the definition used. (See Chart 3.1.) Some SMEs classified as small by the employment definition become micro by the sales definition, while some medium-sized enterprises become small. These trends apply to both men-owned and women-owned SMEs, although more men-owned than women-owned SMEs become micro, and a few become large. The sales definition is more reflective of SMEs' actual size in terms of operations. The employment definition can be misleading, as labour in the coffee industry is mostly seasonal. It also appears that women-owned SMEs tend to be larger than men-owned SMEs, based on the proportion of SMEs using the sales definition.

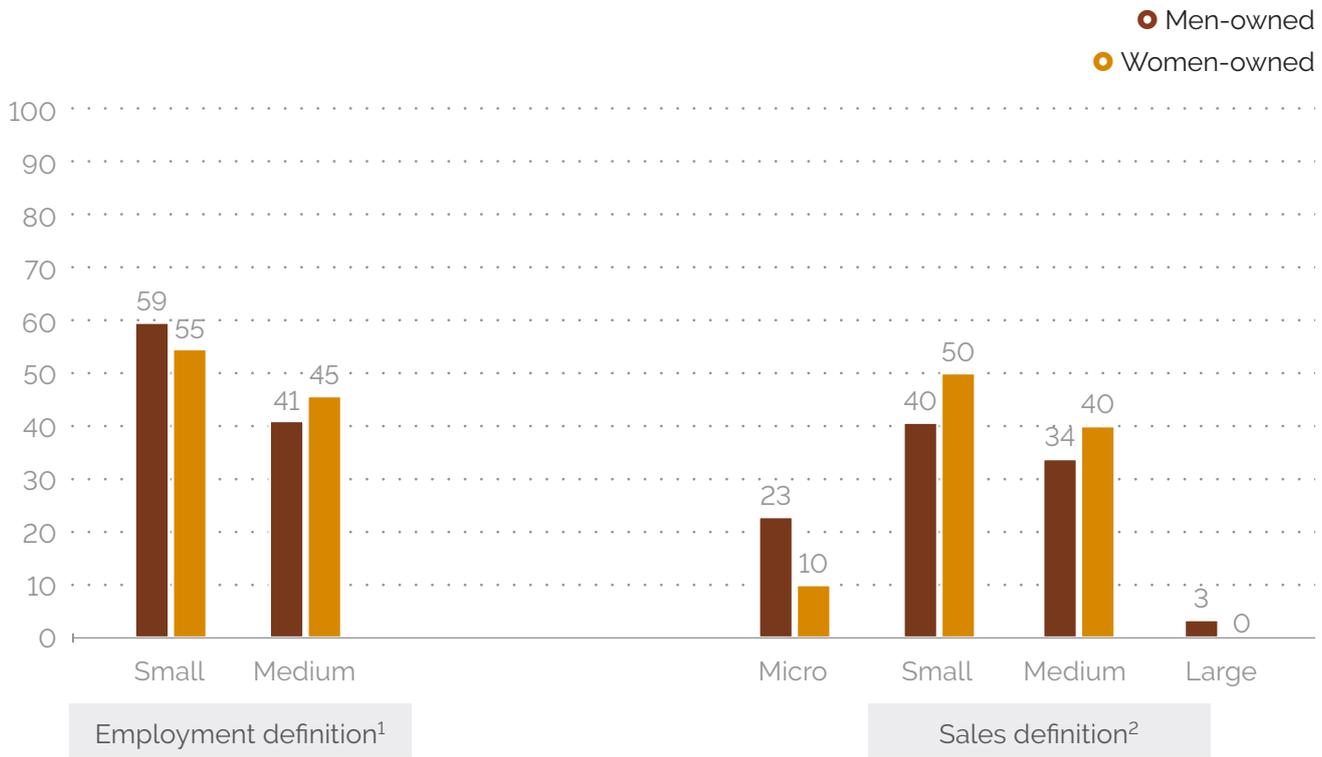




CHART 3.1

MOST COFFEE SMEs ARE SMALL

(size of firm defined by employment and annual sales; percentage of respondents)



¹ Men-owned (n = 64, 100% response rate); women-owned (n = 11, 100% response rate)

² Men-owned (n = 62, 97% response rate); women-owned (n = 10, 91% response rate)

Source: TPSA gender and trade survey.

Years in Business

SMEs in the coffee industry tend to be newer than those in the footwear and apparel industries. The latter industries have a longer history than the coffee industry in Indonesia, although most coffee SMEs in South Sulawesi were established between the 1980s and early 2000s. The coffee SMEs and co-ops in Aceh, on the other hand, are generally newer, with many established after the 2004 tsunami. This may be linked to the international assistance (discussed above) that intensively supported the coffee industry at that time.

While most coffee SMEs surveyed have been in business longer than five years, the share for women-owned coffee SMEs is larger. (See Chart 3.2.) Eighty-two per cent of women-owned coffee SMEs in the survey have been in business longer than five years, compared with 64 per cent of men-owned SMEs. This could be due to the types of business men and women engage in. More men-owned than women-owned SMEs own coffee shops and roasting services, two emerging businesses in Indonesia.

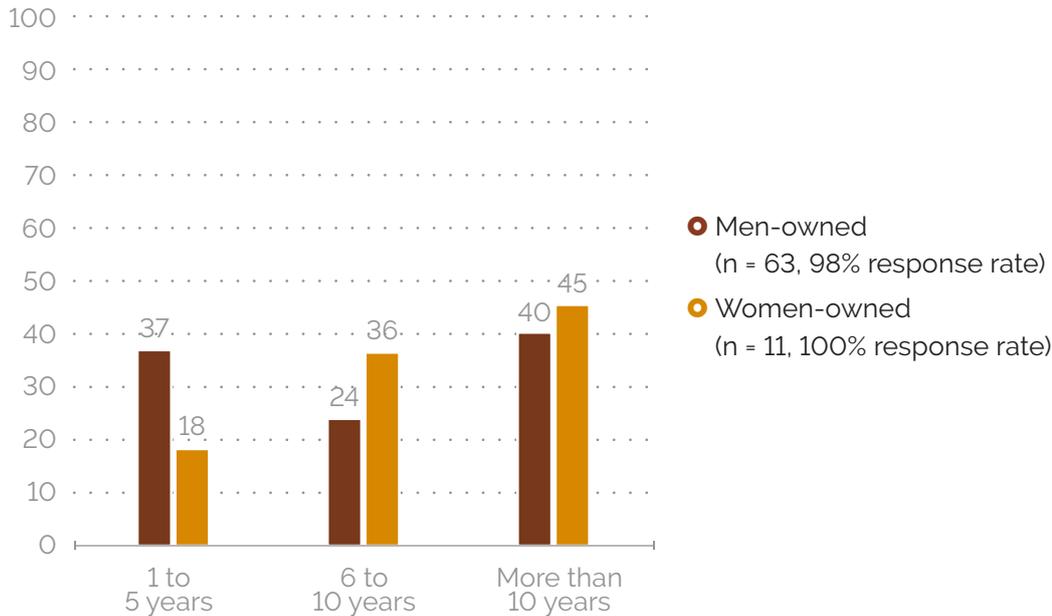




CHART 3.2

WOMEN-OWNED COFFEE SMEs HAVE BEEN IN BUSINESS LONGER

(years in business; percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.

Registration

Registration practices among men- and women-owned SMEs in the coffee industry are virtually identical. (See Chart 3.3.) Over 85 per cent of both women and men reported having registered their business. Compared with the footwear and apparel industries, SME owners in the coffee industry were more likely to have done so. One explanation could be that many coffee SMEs and cooperatives deal with domestic and foreign markets directly as wholesalers, coffee-shop owners, and green-bean exporters, compared with footwear and apparel SMEs whose businesses partly involve supplying other firms that deal directly with buyers. Furthermore, the volume of the commodity being produced and sold is larger for coffee than it is for footwear and apparel, and undertaking such sizeable transactions requires proper business licensing.



Photo credit: Rita Lindayati.



Photo credit: Rita Lindayati.

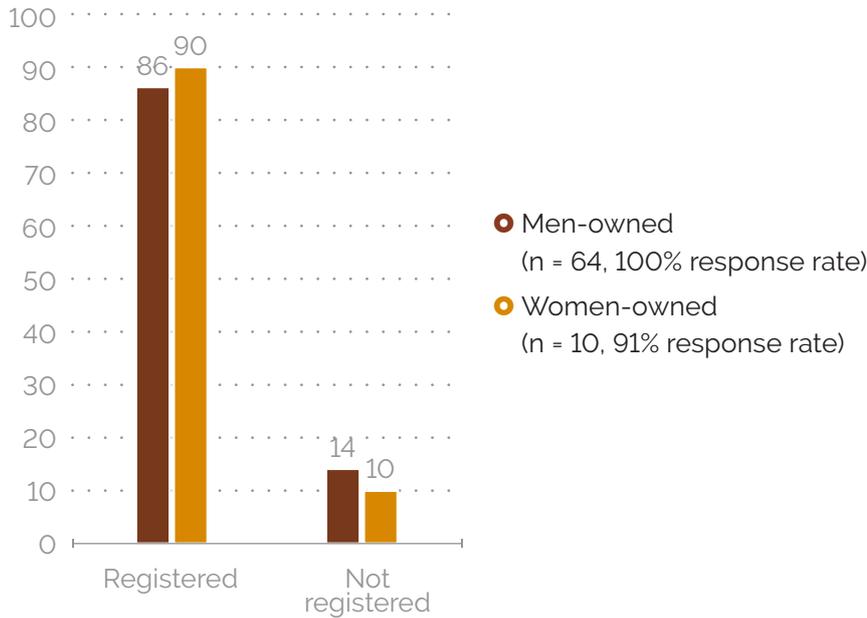




CHART 3.3

MOST COFFEE SMEs REGISTER THEIR BUSINESSES

(percentage of respondents)



Source: TPSA gender and trade survey.

Owner Profile

Ninety-five per cent of male and 91 per cent of female SME owners are married. The remainder are either divorced, widowed, or never married. Nearly 50 per cent of male and female SME owners reported having a high-school diploma as their highest level of education. (See Table 3.2.) Fifty per cent of female SME owners have a bachelor's degree as their highest level of education, compared to 34 per cent of male owners. The coffee industry has the highest share of SME owners with post-secondary education compared with the footwear and apparel industries.



Photo credit: Said Fauzan Baabud.



Photo credit: Rita Lindayati.





TABLE 3.2

COFFEE SME OWNERS ARE GENERALLY WELL-EDUCATED

(percentage of respondents by highest level of education)

	Men-owned (n = 56, 88% response rate)	Women-owned (n = 8, 73% response rate)
Elementary diploma (grade 1–6)	4	0
Junior high school diploma (grade 7–9)	4	0
High school diploma (grade 10–12)	48	50
Post-secondary diploma or certificate	9	0
Bachelor's degree	34	50
Post-graduate degree	2	0

Note: Numbers may not equal 100 per cent due to rounding.

Source: TPSA gender and trade survey.

Key Differences in Business and Owner Profiles

- Most SMEs in the coffee industry are small; however, the proportion of medium-sized SMEs owned by women is higher than that of those owned by men.
- A larger share of women-owned than men-owned coffee SMEs have been in business longer than five years.
- More men-owned SMEs are engaged in new and emerging businesses in the coffee industry.
- More female than male SME owners have a bachelor's degree as their highest level of education.

Do Women- and Men-Owned SMEs Occupy Different Positions in the Coffee Value Chain?

Business Activities and Position in the Value Chain

Coffee cultivation is a traditional economic industry in the Gayo region of Aceh and the regions of Enrekang and Tana Toraja in South Sulawesi. In both provinces, coffee cultivation is dominated by smallholder farmers. In South Sulawesi, many of the SMEs sell to two large coffee-importing companies (one Japanese and one American). The market in Gayo, however, is not dominated by a few large foreign importers. Gayo coffee SMEs sell directly to foreign buyers in diverse destinations including Australia, Germany, Italy, Japan, and the United States.

The coffee value chain is complex when compared with the footwear and apparel value chains. To understand where the surveyed coffee SMEs are situated in the value chain, it is important to understand the roles and tasks that different stakeholders perform in the chain. These stakeholders are smallholder farmers, large plantation estates, village collectors, traders, mill operators, exporters, and coffee roasting and processing companies.¹⁹ The coffee SMEs surveyed may perform multiple functions and be involved at different stages of the chain. Participation of SMEs in the coffee value chain differs depending on the region where they do business.

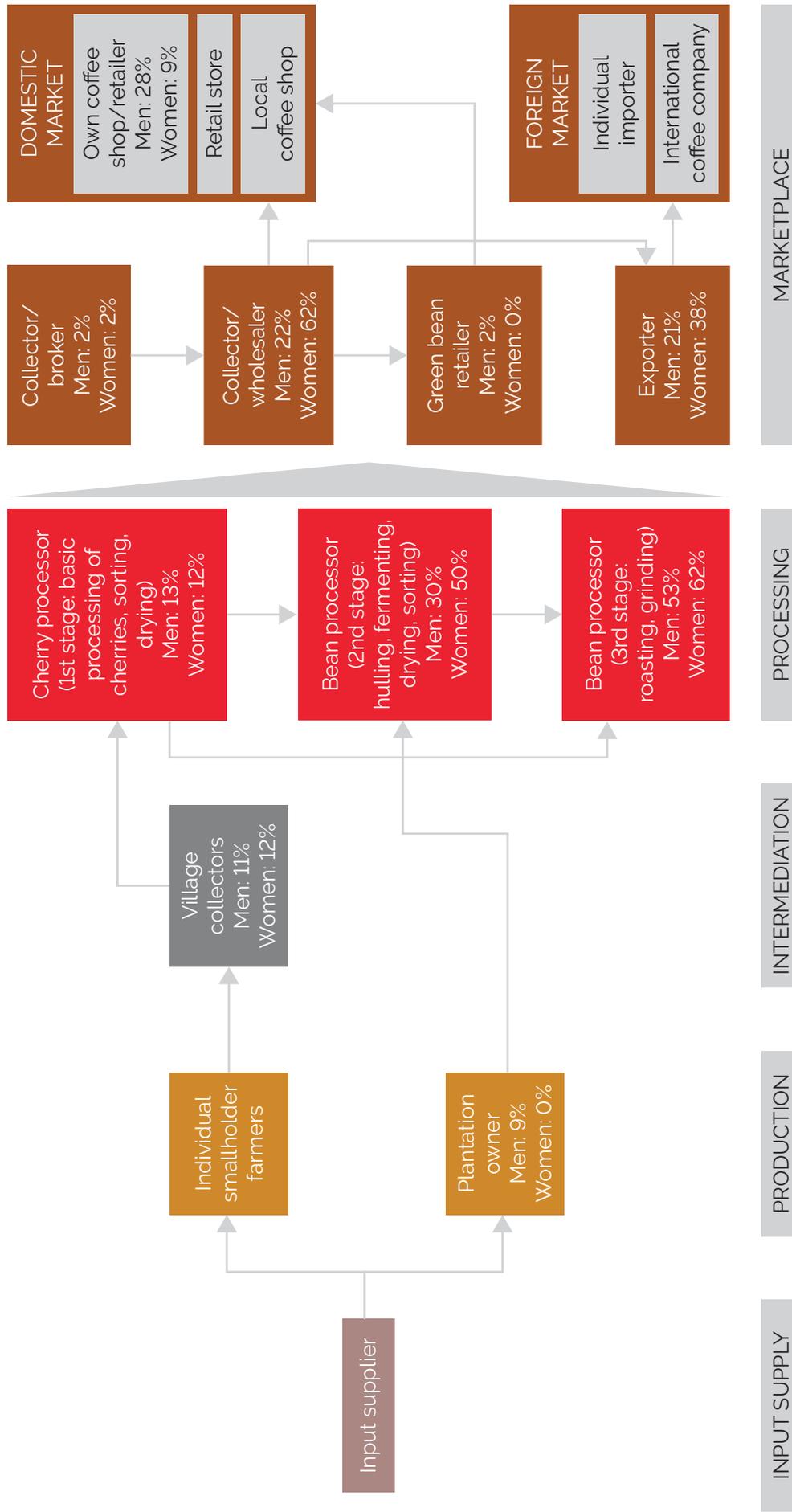
The Coffee Value Chain

Exhibit 3.1 shows the proportion of surveyed coffee SMEs (by gender) performing each of the functions or stages of the value chain. Some SMEs are counted more than once in the overall chain because they perform multiple roles. It is important to note that the exhibit reflects the surveyed SMEs, but may not capture the roles of SMEs not covered in the survey.

¹⁹ Neilson, "The Value Chain for Indonesian Coffee," 183.



**EXHIBIT 3.1
COFFEE VALUE CHAIN**



Source: TPSA gender and trade survey.





Farmers, whether smallholders or large plantation estates, are the main producers of raw coffee. Smallholder farmers tend to sell their coffee beans immediately to obtain cash for daily needs. They do basic processing: Following the harvest, the coffee cherry pulp is removed, then the beans are dried in the sun for a day or two before they are delivered to the buyer.²⁰ Depending on the weather, it can take five to 10 days of sun-drying for beans to reach the proper moisture content.²¹ Farmers can earn more selling their coffee beans to exporters than to processors.

Many *smallholder farmers* who own land are members of coffee cooperatives. Land ownership is a common requirement for joining a cooperative. Aside from widowed or divorced women, who are considered the owners of land inherited from their husbands, or women who inherited land from their parents, many female co-op members “own” land by virtue of a written or verbal agreement with their spouse (confirmed by the village head) that they may use and claim a portion of the family farm as their own.²² In most cases, land ownership is in the husband's name, as men are traditionally and legally considered heads of household in Indonesia.²³ Land ownership is required by international certification bodies like Fairtrade for organic product traceability purposes.

Many female co-op members “own” land by virtue of a written or verbal agreement with their spouse that they may use and claim a portion of the family farm as their own.

Large plantation estates are able to store some coffee stock, which they sell when the price rises. Their farms are large enough to grow coffee while also renting out plots of land to cultivate other crops. They hire workers to tend the farm throughout the year and add extra labour during harvest season. They perform multiple functions in the value chain, as they have the means to purchase equipment and set up facilities needed in the advanced stages of the chain, such as warehouses, sorting facilities, laboratories, and vehicles for transporting coffee.²⁴ Cooperatives, on the other hand, are required by organic certification bodies to have their own storage facility.

Collectors act as intermediaries between the suppliers of raw materials (farmers) and coffee traders. There are two types of collector: those who collect de-pulped cherries or parchment coffee (dried but un-hulled coffee beans) of *asalan* (unsorted and ungraded) quality from farmers, also referred to as village collectors, and those who collect green beans. In many cases, village collectors come from the same village where the farmers are located. In cooperatives, the village collectors are also cooperative members.

Coffee processors are other actors in the value chain. The first stage of sorting and drying coffee cherries is usually done by farmers, but in some cases, this is done by collectors. Second-stage processing, which is usually done by large collectors who obtain parchment coffee with a moisture content of more than 12 per cent from farmers or small collectors,²⁵ involves hulling, fermenting, and drying to produce green beans. These are further sorted before they are traded to either the domestic or foreign market. Third-stage processing involves roasting and grinding green beans.

Coffee trading goes through several levels. The first stage of trading is from the farmer to the village collector, who collects the coffee cherries or parchment coffee at the farm and brings them to a large collector (often also a wholesaler) in the village or sub-district. Large collectors have facilities for further drying, milling, storage, and transport for delivery to a larger wholesaler or trader, who will then ship the green coffee beans to ports such as Medan (from Gayo) or Makassar (from Enrekang and Tana Toraja)

²⁰ In-person interview with coffee farmer member of cooperative by Dany Hadiana, April 15, 2017.

²¹ Widiati, “Maintaining the Aroma.”

²² Focus group discussion with women's coffee cooperative, facilitated by Leya Cattleya and Dati Fatimah, June 13, 2017.

²³ The Marriage Act of 1974 affirms the status of men as head of household.

²⁴ In-person interview with coffee exporter by Muklas Aji Setiawan, April 12, 2017.

²⁵ Rosiana and others, “Efficiency Analysis.”



where they are shipped, either for export or for domestic consumption. Some traders from South Sulawesi also ship coffee beans to Medan.

Coffee is sold to the domestic market in the form of dried and roasted beans or ground roasted coffee. Some coffee shop owners also sell green beans in retail quantities. Coffee sold in bulk directly to export markets or to trading houses of large import companies is in the form of green beans, mostly Arabica. Coffee exported in small volumes by personal cargo comes in the form of roasted beans or ground coffee.

Exhibit 3.1 reveals that only 9 per cent of men-owned SMEs have their own farms and, apart from other roles in the value chain, consider themselves farmers. None of the women-owned SMEs view themselves as farmers. About the same proportion of men-owned and women-owned SMEs act as village collectors who collect coffee cherries from farm sites (11 and 12 per cent, respectively) and do first-stage coffee processing (13 and 12 per cent, respectively). More women-owned SMEs (50 per cent) than men-owned SMEs (30 per cent) do second-stage processing. Over half of SMEs do third-stage processing (53 per cent of men-owned and 62 per cent of women-owned). The difference between women-owned (62 per cent) and men-owned (22 per cent) SMEs who are both large collectors and wholesalers is sizeable. These large collectors/wholesalers supply green beans to both domestic and foreign markets. They also have their own storage, drying, sorting, and transport facilities. Most of the women-owned SMEs who perform these dual roles are found in South Sulawesi.

Only men-owned SMEs (2 per cent) sell green beans in the retail market. More women-owned (38 per cent) than men-owned (21 per cent) SMEs export. Close to a third (28 per cent) of men-owned SMEs own coffee shops, compared to 9 per cent of the women-owned SMEs.



Women-owned SMEs are as involved as men-owned SMEs in all stages of the value chain and perform the same roles.

Exhibit 3.1 demonstrates that women-owned SMEs are as involved as men-owned SMEs in all stages of the value chain and perform the same roles, although the proportion of women-owned SMEs

who are collectors/wholesalers is higher than men-owned SMEs.²⁶

Business Activities and Position in the Value Chain: Cooperatives

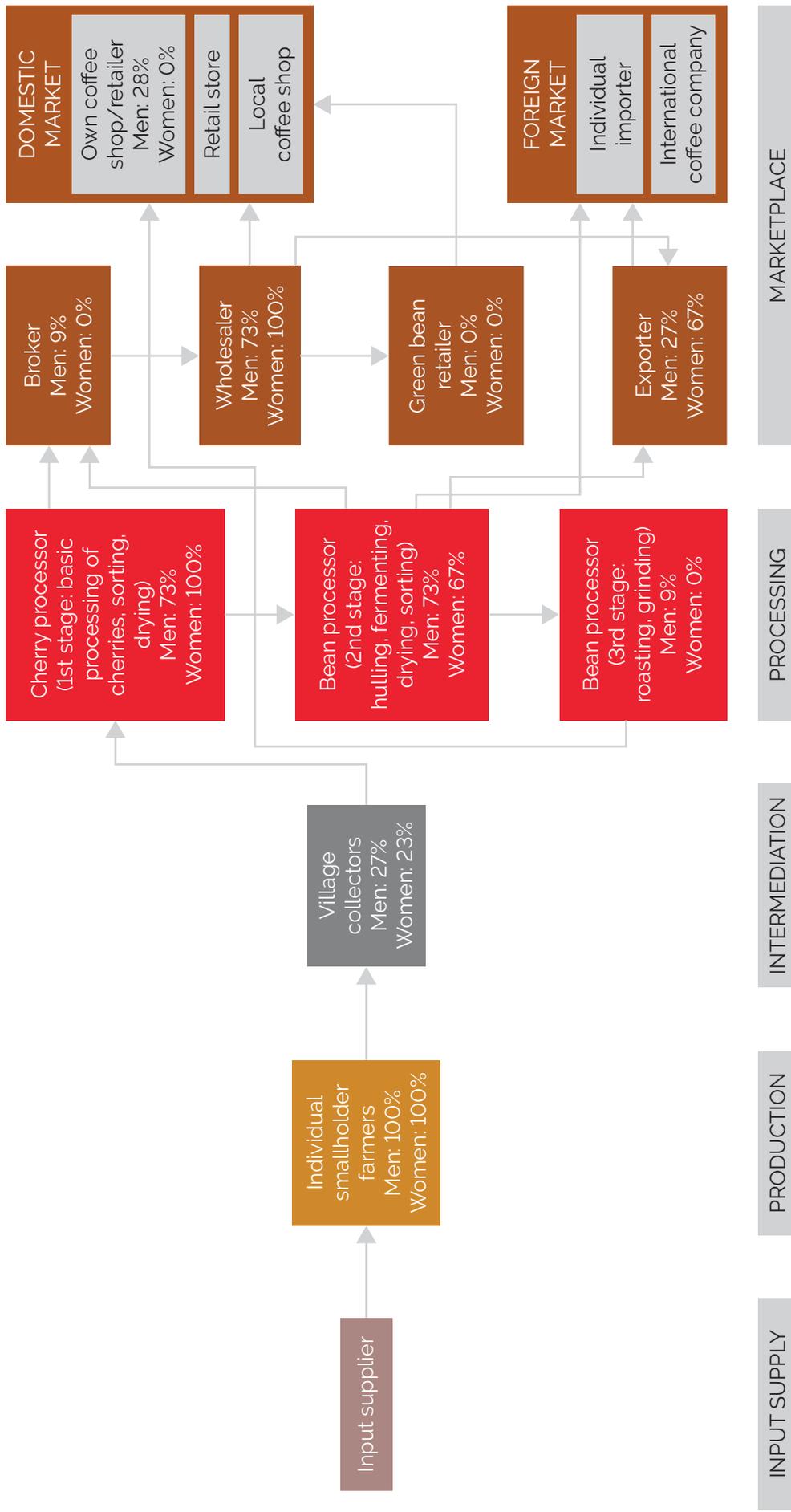
The value chain for cooperatives is different from that of SMEs. Cooperatives can be involved in various stages of the chain, from collection of coffee cherries at farms to husking, sorting, drying, roasting, selling to the domestic market, and exporting. Exhibit 3.2 shows the proportion of surveyed coffee cooperatives (by gender) performing each of the functions or stages of the value chain. Some cooperatives are counted more than once in the overall chain because they perform multiple roles. It is important to note that the exhibit reflects the surveyed cooperatives, but may not capture the roles of cooperatives not covered by the survey.

²⁶ Further research is needed to determine why this is the case.





EXHIBIT 3.2
COFFEE VALUE CHAIN – COOPERATIVES



Source: TPSA gender and trade survey.





Of the 14 co-ops participating in the survey, 11 are men-led and three are women-led.²⁷ All the women-led co-ops are from Gayo, Aceh, and directly export green beans, while only two of the 11 men-led co-ops export. The rest supply exporters and domestic markets.

Within cooperatives, both female and male members largely engage in production and basic processing, although interviews and focus group discussions (FGDs) in Enrekang and Tana Toraja, South Sulawesi indicated that female members are primarily producers and collectors in that area. Farmers may engage in some basic processing before supplying coffee beans to the cooperative. One female farmer notes that the cooperative provides advice on how to process coffee, such as picking only red fruit, hulling the beans immediately, not storing the beans too long, and ensuring that beans are not soaked too long.²⁸ When she sells her coffee to the cooperative, it is processed into clean green beans and then sold. The chairperson of Kokowagayo cooperative explains that coffee must be free of herbicides and artificial fertilizers to be acceptable by the organic certification body.²⁹

There is wide variation in the roles of male and female cooperative members in coffee production and processing. Some cooperatives noted that male and female members may have different tasks. For example, in the Ratu Ketiara Cooperative, male farmers prepare land for planting coffee, as well as pruning and weeding. They are also involved in drying coffee beans, and they collect and bring beans to the cooperative, especially when it involves travel between villages. Female farmers do the picking (harvesting), sorting, drying, hulling, and pruning. Some of them also collect coffee beans from other members within the village.³⁰ Meanwhile, in the Benteng Alla Cooperative, female members prune, pick, sort, dry, and sell coffee beans to the market, whereas male members are responsible for picking up coffee beans from farms and transporting coffee to the market.³¹

In general, Gayo coffee farmers tend to be part of cooperatives, and some of them specifically aim to recruit women farmers. As mentioned above, Café Femenino Foundation offers a higher premium on coffee if women have full access to, or own, the land they farm. Where women are part of a cooperative, especially women-centred cooperatives such as Kokowagayo, they receive their fair share of profits. According to data collected through interviews and FGDs, there are three women-led cooperatives in Gayo, and two other cooperatives that are mainly run by men but have women in high-level positions, such as head of operations.

Where women are part of a cooperative, especially women-centred cooperatives such as Kokowagayo, they receive their fair share of profits.

Do Business Practices Differ Between Men- and Women-Owned Coffee SMEs?

Labour Practices

Most (82 per cent) of the workers hired by the surveyed coffee SMEs are involved in the production phase. (See Table 3.3.) Non-production workers include, for example, those working in administration and finance, sales, and transport/delivery. Table 3.3 also shows the average number of both total workers and production workers per SME.

²⁷ This may be due to the practice in co-ops for a family to be represented by the head of the household, which in practice and by law is the husband.

²⁸ In-person interview with coffee farmer by Mulyana, April 19, 2017.

²⁹ Focus group discussion with management of women's coffee cooperative, facilitated by Leya Cattleya and Dati Fatimah, June 15, 2017.

³⁰ Focus group discussion with management of coffee cooperative, facilitated by Leya Cattleya and Dati Fatimah, June 13, 2017.

³¹ Focus group discussion with female farmers from coffee cooperative, facilitated by Leya Cattleya and Dati Fatimah, May 27, 2017.



TABLE 3.3
MOST COFFEE WORKERS ARE INVOLVED IN THE PRODUCTION PHASE

	Total	Average number per SME
Total number of workers	1,633	22
Number of production workers	1,347	18
Share of production workers	82%	82%

Source: TPSA gender and trade survey.

There is no difference in the labour practices (hiring and payment) of women-owned and men-owned SMEs: Men and women owners both hire more women for certain tasks and more men for other tasks. (See Table 3.4.) The difference in the tasks assigned to female and male workers explains the wage disparities between them. Note that the responses from SMEs in Table 3.4 must be treated as individual responses and do not reflect the aggregate profile of coffee SMEs surveyed, as only 38 per cent (or 21 SMEs) provided answers to these questions. However, Table 3.4 does offer some evidence of the different tasks men and women typically perform.

TABLE 3.4
MEN AND WOMEN PERFORM DIFFERENT TASKS IN COFFEE PRODUCTION

Task	Number of workers	
	Men	Women
Harvesting	45	71
Collecting	38	0
Peeling	55	0
Drying	128	5
Sorting	29	517
Roasting	32	8
Sorting for export	0	185
Drying for export	17	0
Packaging	8	11
Total	352	797

Source: TPSA gender and trade survey.

Of the respondents, more female than male workers work in harvesting. Many of these female workers either own very small farms or do not own land at all, and therefore may take jobs on other farms. Some of the harvesting work is done through *gotong royong*, where farmers move from one farm to another to help with the harvest on a rotating basis and are unpaid. Only when this labour is insufficient do they hire paid workers.



Sorting cherries and dried coffee is a task given more often to female than men, but the more meticulous task of sorting green beans for export is a task given only to female workers. There are slightly more female than male workers hired for packaging.

The respondent data reveal a gender stereotyping where certain tasks, such as collecting, peeling, and drying for export, are done by men only. The task of sun-drying coffee intended for the domestic market is assigned more often to men and less often to women. More male workers are hired for roasting. Overall, tasks that require physical strength and use of machines, such as collecting, peeling, drying, and roasting, are assigned mostly to men, and tasks that require precision, such as sorting, are assigned to women.

Overall, tasks that require physical strength are assigned mostly to men, and tasks that require precision are assigned to women.

Agricultural workers in the coffee industry, especially those in Gayo, generally earn more than those in other industries. Female coffee workers earn more than other agricultural workers, and more than male workers in the same industry, because they are engaged in tasks such as harvesting and sorting, which are higher-paid than other tasks. The average amount paid to workers in these positions is around Rp 100,000 per day (C\$9.41).³² Daily wages for women range from Rp 36,000 (C\$3.39) to Rp 320,000 (C\$30.11). This is much higher than male workers' daily wage, which ranges from Rp 40,000 (C\$3.76) to Rp 200,000 (C\$18.82).³³

The daily income is higher in Tana Toraja and Enrekang, South Sulawesi than in Gayo, but annual income is lower, as fewer days are worked in a year. Some coffee firms (including SMEs) move the sorting process to other areas where female labour is cheaper.

Export Experience

SMEs in the coffee industry have more export experience than those in the footwear and apparel industries, with 47 per cent of coffee SMEs surveyed actively exporting. The number of women-owned SMEs (including cooperatives) covered by the survey is relatively small, but a higher share of them (64 per cent) are currently exporting when compared with men-owned SMEs (44 per cent). (See Chart 3.4.)



Photo credit: Rita Lindayati.

³² Average wage per task was difficult to establish due to the widely varying responses on wages and output units.

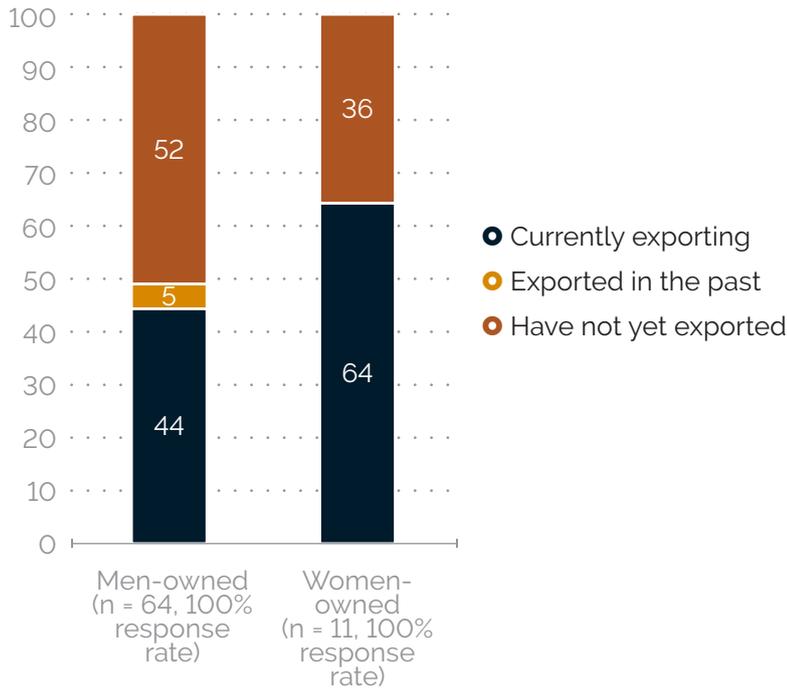
³³ All conversions used the Oanda exchange rate on June 18, 2018. www.oanda.com.



CHART 3.4

A LARGER SHARE OF WOMEN-OWNED COFFEE SMEs ARE EXPORTING

(export experience; percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.

The seven women-owned SMEs (which include the three women-led co-ops) and 28 men-owned SMEs currently exporting rely primarily on bulk cargo shipments rather than personal cargo (e.g., JNE Express, TIKI, Pos Indonesia). (See Chart 3.5.) Most exporters in Gayo and South Sulawesi do not export directly to foreign buyers, but rely on intermediaries to export in bulk to large-scale coffee purchasers and exporters. Exporting by personal cargo refers to sending coffee (either roasted beans or ground coffee) in small quantities to an individual in another country, usually a family member or close relation of the SME owner. The recipient then resells the coffee to buyers in the destination country.



Photo credit: Dati Fatimah.

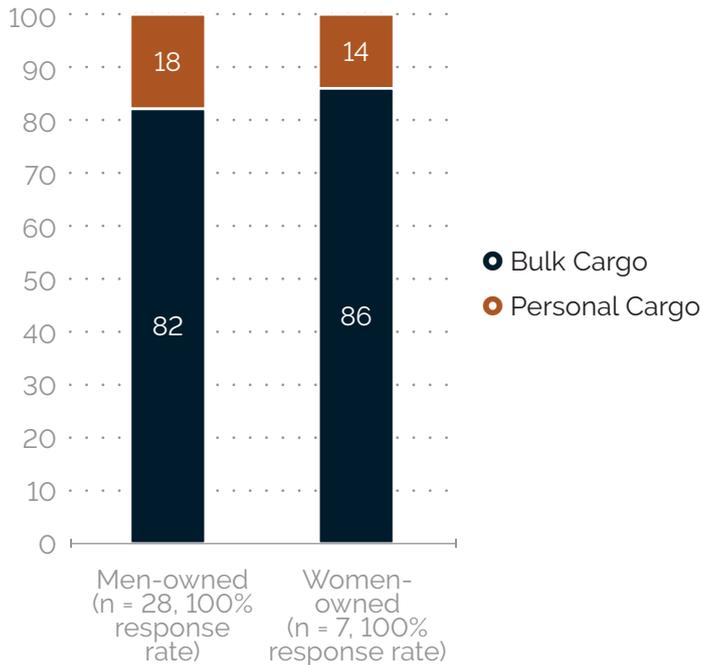




CHART 3.5

MOST COFFEE SMEs EXPORT BY BULK CARGO

(export method; percentage of respondents)



Source: TPSA gender and trade survey.

Of the SMEs currently exporting, men-owned SMEs export larger volumes of coffee than most women-owned SMEs. This is not surprising, as men-owned SMEs that export are larger in size than those owned by women and have been in business longer.

Profit Allocation

The survey results reveal that there are minor differences in profit-spending patterns between female and male owners. Most coffee SME owners surveyed have allocated their profits, in part or in full, back into their business, which is not uncommon for SMEs. (See Chart 3.6.) They use their profits to buy, repair, or expand storage, drying, and sorting facilities, and to buy more land, equipment, and transport vehicles. Others use profits to supplement operating capital needed for daily business operations and workers' wages, especially during harvest season. A few use profits to set up another business. The actual share of profits being reinvested into the company is unknown.

The small size of most SMEs may explain why they reinvest profits into their business first and direct them to other needs, such as children's education, health, home improvement, or vacations, second. Regardless of who (male or female) owns the business, decisions about the specific use of profits are mostly made jointly by spouses, with a few exceptions, particularly in a few men-owned SMEs where decisions are made by men only. It is important to note that profit from the business is income for an SME's household. As the data suggests, the use of income is decided upon jointly by spouses in the household.

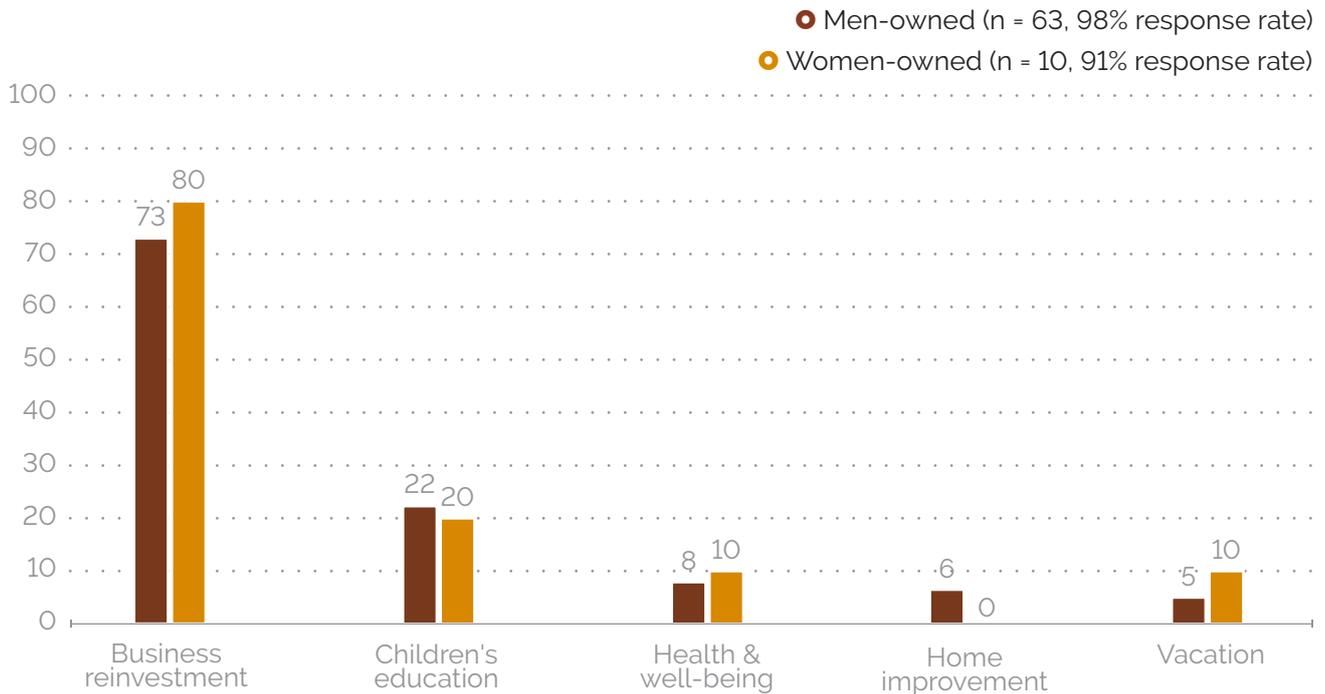




CHART 3.6

MOST COFFEE SMEs REINVEST PROFITS BACK INTO THE BUSINESS

(profit allocation by gender; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.

The coffee business can be lucrative. One female coffee merchant notes that her business has helped her make a living: "I have sent three children to college, and another child is going to do a post-graduate degree, thanks to coffee."³⁴ One male SME owner attributes his success as a businessman to his coffee roasting and coffee shop business, which is more profitable than his other businesses.³⁵

Farmers who are members of Fairtrade-certified coffee cooperatives benefit from the premium paid by Fairtrade, which also allocates funds for social development programs for these cooperatives. These programs could include training for members on cooperative principles and values, training for boards on democratic governance, or health services for members.

Decision-Making

When analyzing the impact of gender differences on exporting, it is important to understand who makes decisions for SMEs, particularly in the areas of production, human resources (hiring, firing, and supervising workers), finance (where to access additional capital, how to use working capital), and domestic and export marketing (where or to whom to sell, at what price). The survey results reveal that across all three industries, the owner is the main decision-maker for most aspects of the business. Thus, women make decisions for women-owned SMEs, and men make decisions for men-owned SMEs.

Across all three industries, the owner is the main decision-maker for most aspects of the business; however, women are less likely to make decisions for men-owned SMEs than men are to make decisions for women-owned SMEs.

³⁴ In-person interview with female coffee collector by Leya Cattleya, June 13, 2017.

³⁵ In-person interview with male SME owner by Mulyana, April 19, 2017.

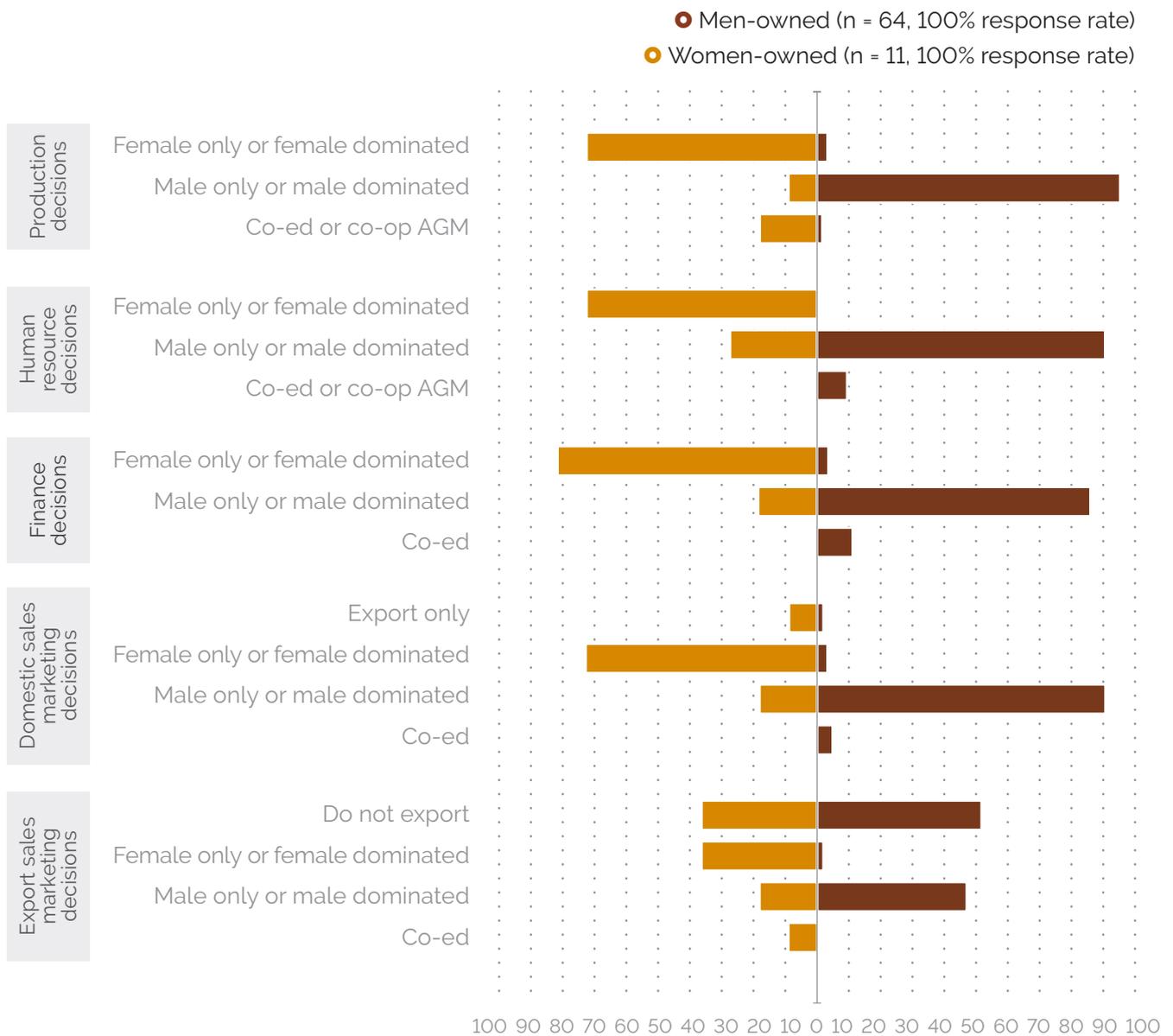


For example, for 82 per cent of women-owned coffee SMEs, financial decisions are made or dominated by women. (See Chart 3.7.) For the remaining 18 per cent of women-owned SMEs, such decisions are made by men or dominated by men. In a few cases, decisions are made jointly by men and women (usually spouses) or at the annual general meeting (AGM) of the co-op. Chart 3.7 reveals that women are less likely to make decisions for men-owned SMEs than men are to make decisions for women-owned SMEs.

CHART 3.7

MOST BUSINESS DECISIONS ARE MADE BY THE OWNER OF THE COFFEE SME, REGARDLESS OF GENDER

(decision-making power by gender; percentage of respondents)



Source: TPSA gender and trade survey.





Women try to find ways for their voices to be heard when running a coffee business. Although the 1974 *Marriage Law* makes their independent entry into and participation in business more challenging, an all-women cooperative can help women achieve this goal. (See "Forming Women's Cooperatives Helps Women's Voices Be Heard.")

Forming Women's Cooperatives Helps Women's Voices Be Heard

By tradition and by law (the 1974 *Marriage Law*), Indonesian men are considered heads of household. While this mindset is slowly changing in urban areas, it is still strongly observed in Gayo, Aceh. Many cooperatives in this region allow only one member of a family to join. In most cases, that member is the head of household, almost always a man. Observing that women's voices often go unheard in male-dominated cooperatives, and realizing that many female farmers want to join but cannot, because their families are already represented by their husband, father, or father-in-law, 21 women, some of whom were members of the long-established Permata Gayo Cooperative, decided to set up a cooperative in 2014 open only to women: *Koperasi Kopi Wanita di Gayo* (Women's Coffee Cooperative of Gayo, or Kokowagayo).

A similar case is that of the cooperative Ratu Ketiara, which was established in 2009 to enable more female farmers to become members of a cooperative and earn more for their coffee beans. Ketiara buys members' coffee beans for Rp 80,500/kilogram, which is higher by at least Rp 10,000/kilogram than prices offered by other buyers. Members also benefit from programs offered by the cooperative, such as training in pruning techniques and environmental awareness, and access to equipment and medical services.

It is important to note that the establishment of both the Kokowagayo and Ratu Ketiara cooperatives was initiated by women leaders who were motivated to share the benefits of cooperative membership with more female farmers. These leaders helped female farmers negotiate with their spouses to allocate a portion of their family's farmland for them to cultivate coffee, thus making them eligible for cooperative membership. They spearheaded the process of obtaining Fairtrade and organic certification by reaching out to these international certification bodies and instituting measures to ensure membership compliance with certification requirements. Getting these certifications made it possible for members to receive premiums for their coffee, thereby increasing farmers' income. They led their cooperatives in establishing links with financial service providers that offer not just affordable credit but also business advisory services and grants for social services. They also led their cooperatives in meeting the requirements and managing the complex process of exporting, to the further benefit of their members. Their business acumen has been instrumental to the success of these cooperatives.

Key Differences in Business Practices

- Men and women SME owners both hire more women for certain tasks and more men for other tasks. Tasks that require physical strength and machine use are typically assigned to men, while tasks that require precision are assigned to women.
- A larger percentage of women-owned coffee SMEs are currently exporting, but the export volume of men-owned SMEs that export is larger than that of women-owned SMEs.
- Most decision-making is done by the business owner, regardless of gender; however, women are less likely to make decisions for men-owned SMEs than men are for women-owned SMEs.
- Women's voices are often unheard in male-dominated cooperatives, prompting them to form their own.





Do Women in the Coffee Industry Have Access to the Resources Needed to Run Their Business and to Export?

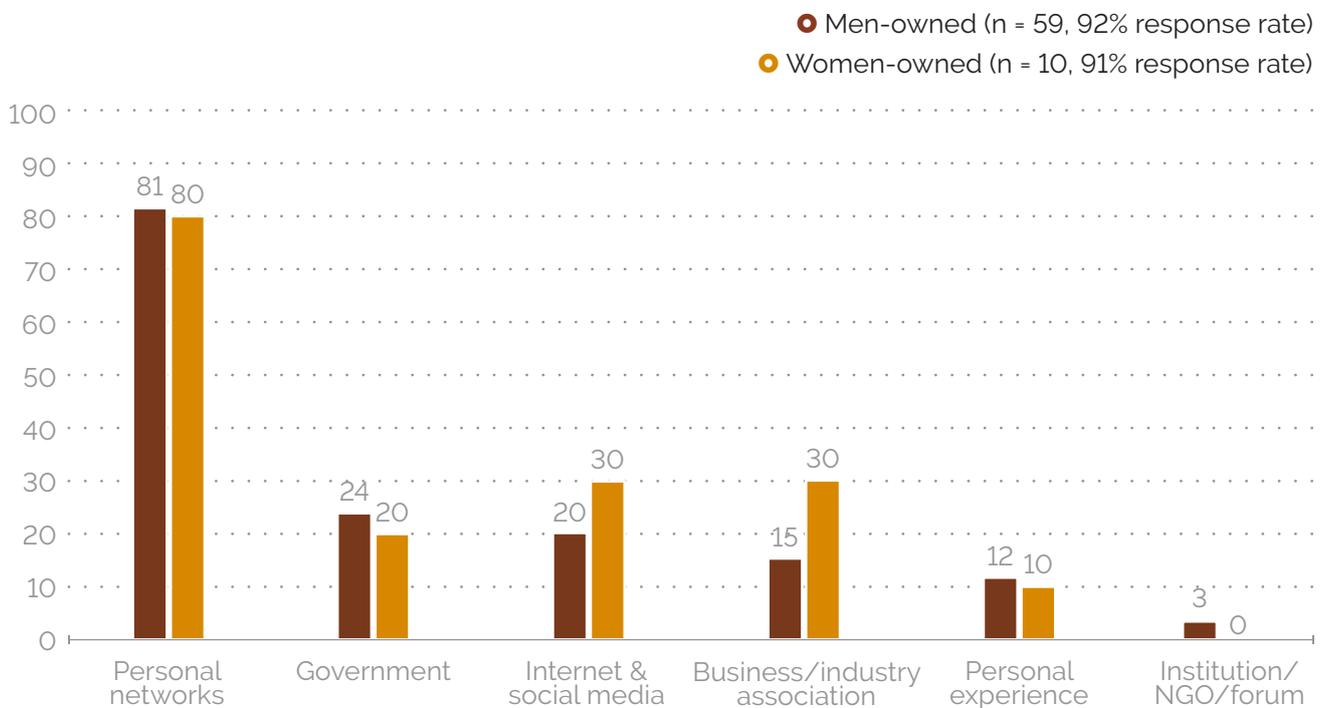
Market Information

To run their business, both domestically and internationally, firms require information about market opportunities and requirements. Survey respondents were asked to identify where they obtain information on how to distribute and sell their products. They could select more than one source. For both men- and women-owned SMEs, the most-cited source was the respondent's personal network, which includes friends, relatives, and business contacts. (See Chart 3.8.) Far fewer relied on government sources or business and industry associations. However, more women-owned than men-owned SMEs accessed market information via the internet and social media and from business and industry associations. It is important to note that the proportion of women-owned SMEs who export (64 per cent) is higher than that of men-owned SMEs (44 per cent). (See Chart 3.4.)

CHART 3.8

MOST COFFEE SMEs RELY ON THEIR PERSONAL NETWORKS FOR MARKETING INFORMATION

(source of marketing information; percentage of respondents)



Note: Respondents could choose more than one option.

Source: TPSA gender and trade survey.

During in-depth interviews and FGDs, some women SME owners noted that they face constraints to obtaining market information and marketing their coffee, as they require their husbands' permission to leave their homes to meet with potential buyers.



SMEs Speak About... Balancing the Roles of Wife, Mother, and Businesswoman

I became a businesswoman because I wanted to earn my own income. My husband insisted that my role was to stay home, take care of our children, and do household chores. He forbid me to go out and get a job as a government employee. When our first child was almost three years old, I asked him to let me study education in a local university, teach later on, and get home around noon. He still disagreed.

Before marriage, my husband was an independent-minded man, a university graduate, who worked in a big coffee cooperative. But he was conservative when it came to our gender roles. He would not even let me help with our coffee farm. However, things began to change when he realized he could not handle some domestic matters, such as taking care of our children, when I am away from home or sick. During the latter, he had to ask for help from my sister, as he could not do the cooking. An injury to his hand while working on the farm made him change his mind. He realized that he needed me to manage our farm.

He slowly became used to me being independent, which led me to starting a business selling coffee beans and running a coffee shop close to home. Later, I joined a coffee cupper group with six male members, who observed that my mobility is constrained. I could not simply go out when I wanted, as my husband continued to be restrictive and often complained about business activities that required me to be away from home. As my business grew, I assigned my husband to represent my business in formal situations, when in reality I am the one running the business. I always have to juggle my roles as wife, mother, and businesswoman.

—Female coffee SME owner who sells coffee beans and runs a coffee shop in Gayo, Aceh

SMEs or individual producers not linked to a well-run cooperative might have difficulty obtaining market information. An informant notes that when he started his coffee-exporting business, he did not understand the level of quality the foreign buyer was expecting. One time, the goods that he sent were not what the buyer requested, and he had to sell for a lower price.³⁶

Production Information

A similar story developed when SMEs were asked where they seek information about production, including labour, raw materials, production processes, and use of equipment and machinery. Most coffee owners, male and female, relied on their personal networks for information about production. (See Chart 3.9.) However, one clear difference emerged: Nearly one in four men-owned SMEs said they relied on their personal experience and knowledge, while none of the women-owned SMEs said the same. For example, as using machines is a task usually given to men, some female SME owners reported not knowing how to operate machines such as roasters, and therefore are fully dependent on their husbands or male workers to operate and repair them when they break down.

The proportion of women-owned SMEs who get information about production from sources other than their personal networks is higher than that of men-owned SMEs. In other words, women are more likely than men to get information from formal sources. The fact that more women-owned SMEs than men-owned SMEs export might account for this difference.

³⁶ In-person interview with male coffee industry exporter by Bewanti Dahani Silitonga, April 11, 2017.

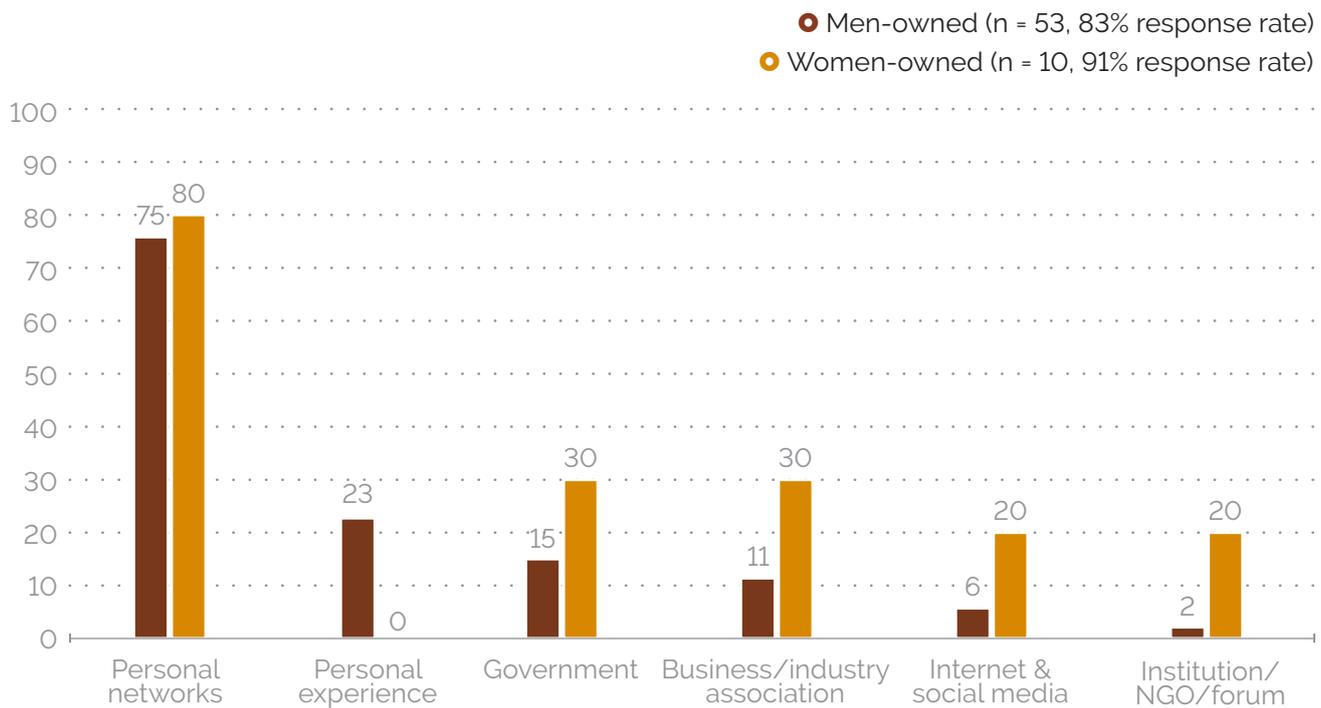




CHART 3.9

MOST COFFEE SMEs RELY ON THEIR PERSONAL NETWORKS FOR PRODUCTION INFORMATION

(source of production information; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.



Photo credit: Dati Fatimah.



Photo credit: Rahman Dako.





Government Support

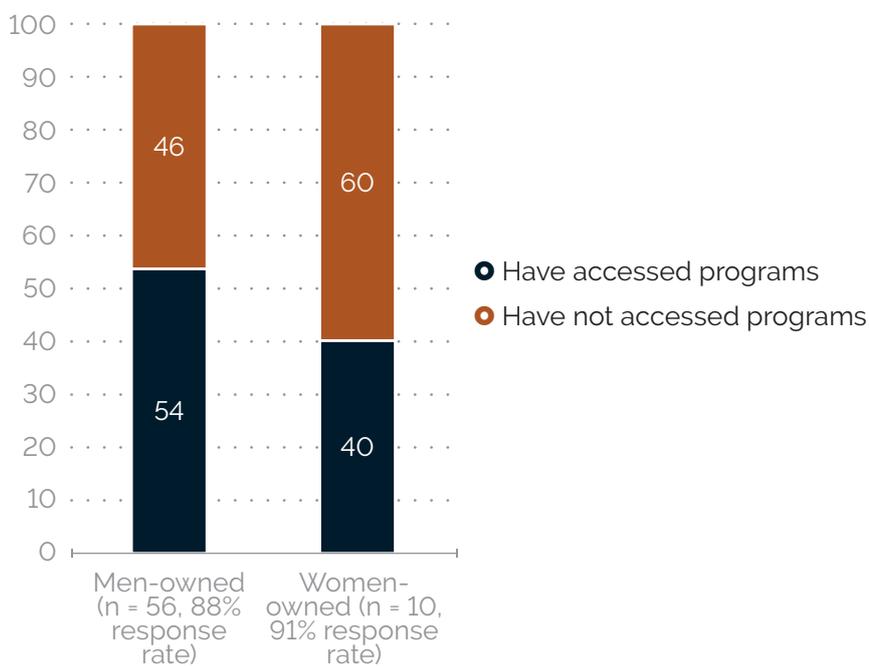
Overall, 67 per cent of both men- and women-owned coffee SMEs surveyed reported interacting with government institutions. This is a higher share than those in the footwear or apparel industries. Interaction was broadly defined and included seeking information on a wide range of topics related to the industry and visits by these institutions, such as extension workers with provincial and local governments, the Ministry of Trade, the Ministry of Cooperatives and SMEs, and the Ministry of Industry.

Interacting with government institutions does not always translate into receiving assistance or accessing programs. Only 40 per cent of women-owned SMEs and 54 per cent of men-owned SMEs actually accessed government assistance programs. (See Chart 3.10.)

CHART 3.10

MANY COFFEE SMEs HAVE NOT ACCESSED GOVERNMENT ASSISTANCE PROGRAMS

(percentage of respondents)



Source: TPSA gender and trade survey.



Photo credit: Rita Lindayati.



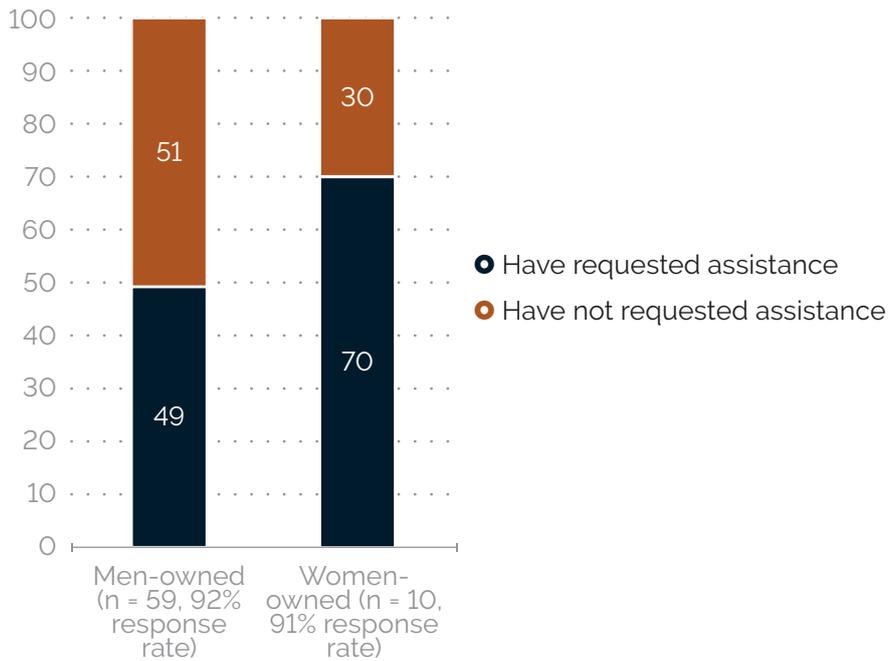
Export Assistance

Female owners are more likely than male owners to request assistance with expanding their exports or beginning to export. Seventy per cent of female owners versus 49 per cent of male owners in the coffee industry have requested such assistance. (See Chart 3.11.) Almost all SMEs that are currently exporting have requested assistance. This may indicate that the help available is effective, that SMEs are aware it exists, and that they are motivated to seek it out.

CHART 3.11

WOMEN-OWNED COFFEE SMEs ARE MORE LIKELY TO REQUEST EXPORT ASSISTANCE

(percentage of respondents)



Source: TPSA gender and trade survey.



Photo credit: structuresxx, Shutterstock.com.



Photo credit: Rita Lindayati.



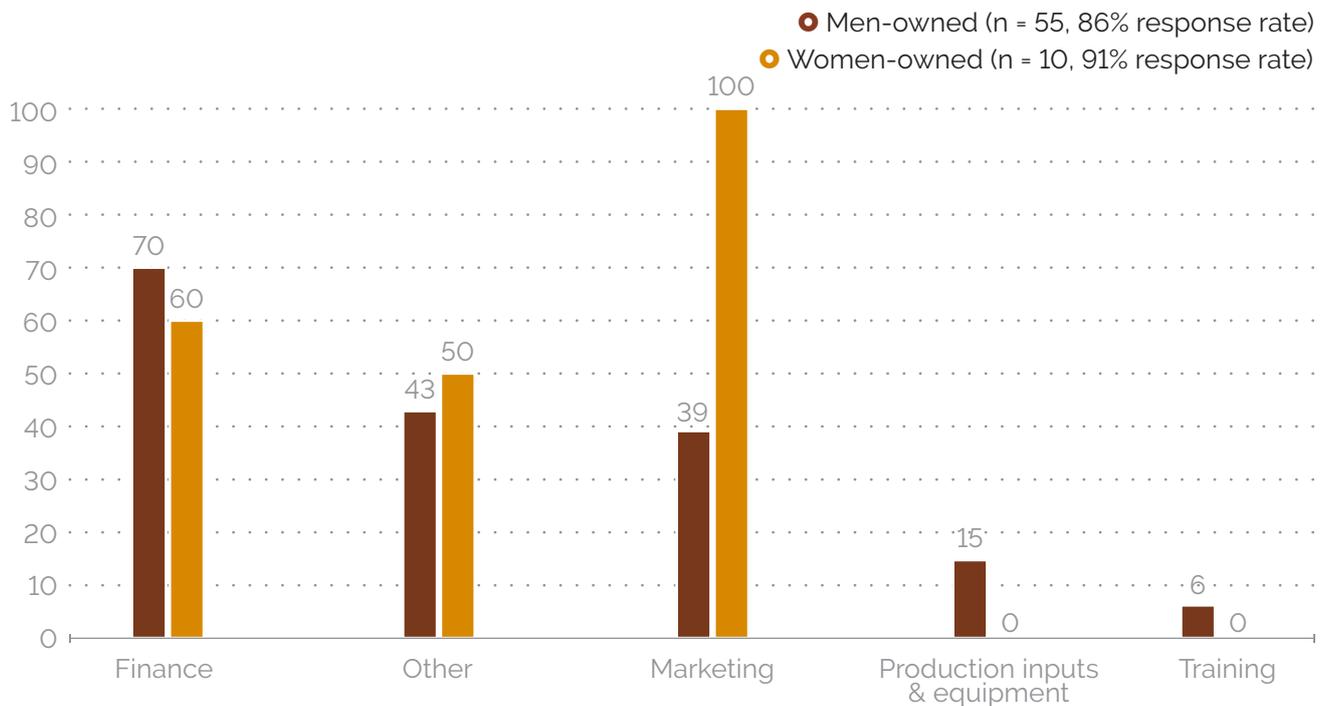


Respondents were then asked what type of export assistance they had requested and who they sought it from. Respondents could select multiple answers. All 10 respondents from women-owned SMEs wanted assistance with market access. (See Chart 3.12.) Most respondents from men-owned SMEs wanted financial assistance, as did a large share of women-owned SMEs. In the “other” category, the most common help desired by both men-owned and women-owned SMEs was with regulation, infrastructure, and shipping methods.

CHART 3.12

COFFEE SMEs WOULD LIKE HELP WITH FINANCING AND ACCESSING MARKETS

(type of export assistance requested; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.



Photo credit: Dati Fatimah.

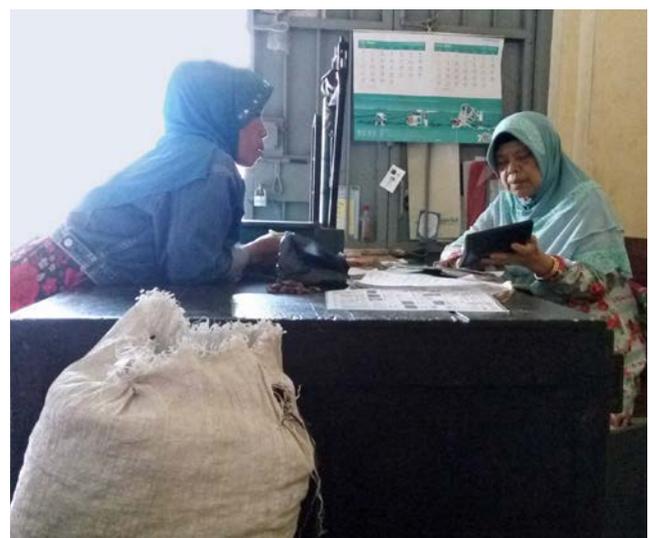


Photo credit: Dati Fatimah.

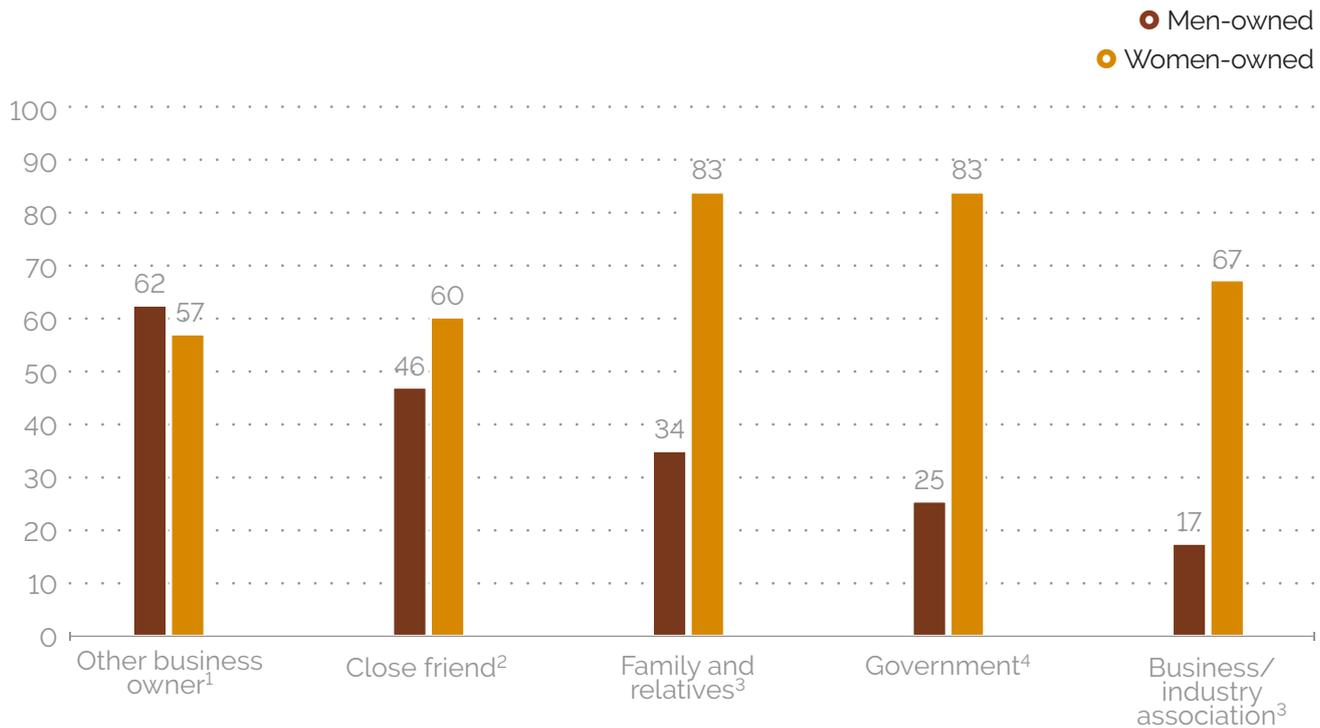


Most men-owned SMEs rely on their personal network for export assistance, followed by relatives. (See Chart 3.13.) Women-owned SMEs rely on their personal network or government, followed by relatives and associations. (See “Ketiara Coffee Traders Grew Out of One Woman’s Network.”) Chart 3.13 also confirms that women are more likely to reach out to those sources than men are. This is not surprising, since 64 per cent of women-owned SMEs are members of an association, compared with only 54 per cent of men-owned SMEs.

CHART 3.13

MOST COFFEE SMEs RELY ON PERSONAL NETWORKS FOR EXPORT ASSISTANCE

(source of export assistance; percentage of respondents)



¹ Men-owned (n = 29, 45% response rate); women-owned (n = 7, 64% response rate)
² Men-owned (n = 28, 44% response rate); women-owned (n = 5, 45% response rate)
³ Men-owned (n = 29, 45% response rate); women-owned (n = 6, 55% response rate)
⁴ Men-owned (n = 28, 44% response rate); women-owned (n = 6, 55% response rate)

*Note: Respondents could choose more than one option.
 Source: TPSA gender and trade survey.*

Ketiara Coffee Traders Grew Out of One Woman’s Network

Rahmah’s family had been in the coffee business for many years as farmers and traders in Gayo, Aceh, a region known for its high-quality Arabica coffee. She learned about cultivating and trading coffee in Aceh, and later in Medan, where larger volumes of dried and hulled coffee are traded. Observing that some of the coffee that landed in Medan was exported, and learning how much more one can earn from exporting, she made her first attempt at doing so by contacting an old friend living in the Netherlands to help find buyers for her Arabica Grade 1 coffee. This led to more orders, prompting her to recruit other coffee traders to form an export cooperative. In 2009, the Ketiara Coffee Traders Cooperative (Kopepi) was established, with 38 traders as founding members. It began exporting coffee in 2012. Later, Rahmah sought the help of volunteers with web design and English-language skills to set up the cooperative’s website, thus making it more accessible to the global market.





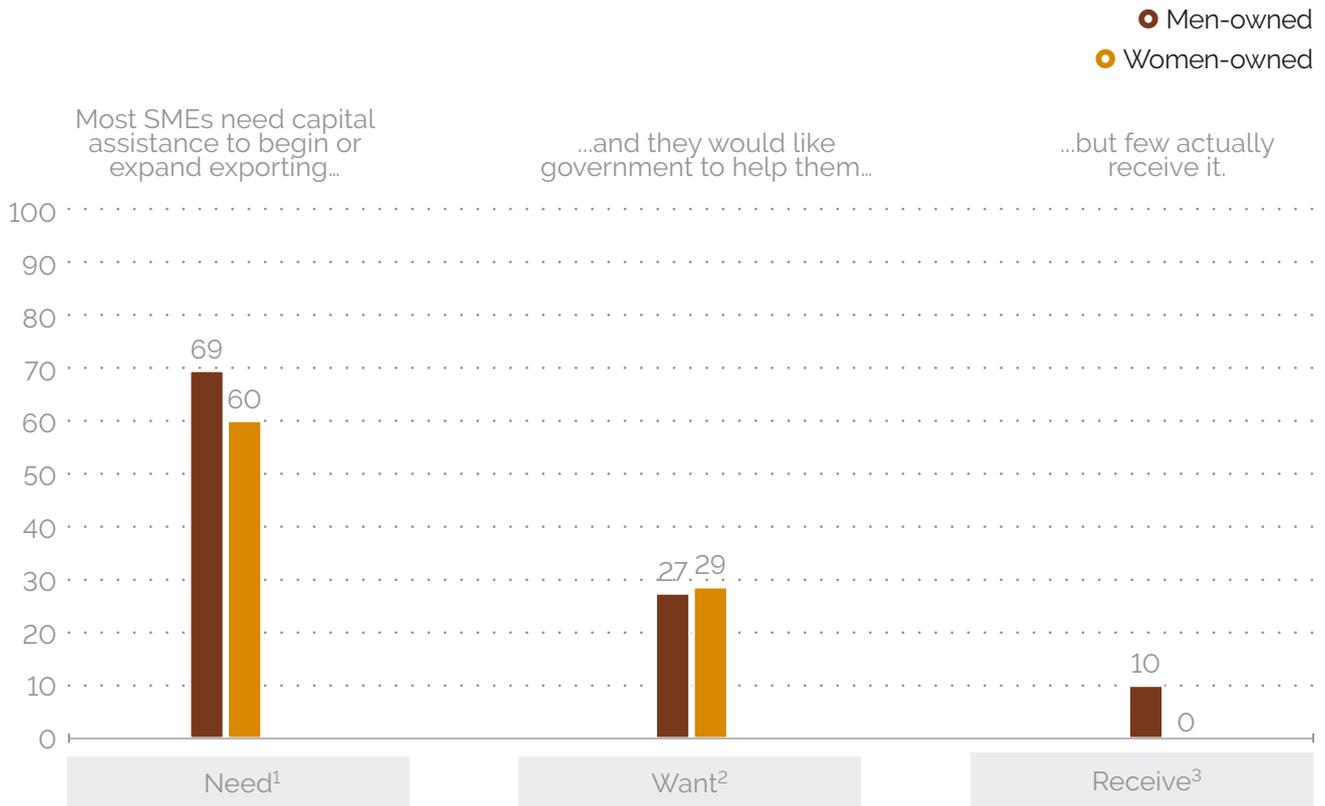
Finance

For financial information, respondents rely mainly on banks and their own knowledge. Many SMEs, regardless of the owner's gender, have trouble accessing financial resources from external sources. Over 60 per cent of respondents need capital assistance to begin or expand exporting, and 28 per cent say they would like government to help them, yet only 10 per cent of respondents from men-owned firms and none from women-owned firms report having actually received support. (See Chart 3.14.)

CHART 3.14

COFFEE SMEs WANT FINANCIAL HELP FROM GOVERNMENT BUT MOST DON'T GET IT

(percentage of respondents)



¹ Men-owned (n = 55, 86% response rate); women-owned (n = 9, 82% response rate)

² Men-owned (n = 48, 75% response rate); women-owned (n = 7, 64% response rate)

³ Men-owned (n = 21, 33% response rate); women-owned (n = 4, 36% response rate)

Source: TPSA gender and trade survey.



The source of initial and subsequent capital for men-owned SMEs is a man, usually the owner himself, 90 and 88 per cent of the time. (See Table 3.5.) Ten per cent and 5 per cent of men-owned SMEs received their initial and subsequent business capital from both men and women, likely their parents or a married couple. No men-owned SMEs borrowed initial or subsequent capital from women only.

Fifty-five per cent of women-owned SMEs borrowed their initial capital from women, while 27 per cent borrowed from men. For subsequent capital, 64 per cent of women-owned SMEs borrowed from women and 9 per cent from men. It is important to note that where the source of capital is not an individual (for example, a bank), the gender of the borrower or creditor is the one cited.

TABLE 3.5
MEN- AND WOMEN-OWNED COFFEE SMEs HAVE DIFFERENT SOURCES OF CAPITAL
 (percentage of respondents)

Creditor for initial business capital			
	Men-owned SMEs (n = 60, 94% response rate)		Women-owned SMEs (n = 11, 100% response rate)
Men-owned from men	90	Women-owned from men	27
Men-owned from men and women	10	Women-owned from men and women	18
Men-owned from women	0	Women-owned from women	55
Creditor for subsequent business capital			
	Men-owned SMEs (n = 54, 84% response rate)		Women-owned SMEs (n = 11, 100% response rate)
Men-owned from men	88	Women-owned from men	9
Men-owned from men and women	5	Women-owned from men and women	18
Men-owned from women	0	Women-owned from women	64
No subsequent capital needed	7	No subsequent capital needed	9

Source: TPSA gender and trade survey.



Initial capital for women-owned SMEs comes mainly from themselves (36 per cent) or from their families (36 per cent). (See Table 3.6.) Eighteen per cent comes from their other business. Only after they are more established do they seek credit from a bank or from international investment banks such as Root Capital, which are willing to lend out large amounts at interest rates lower than other banks, accept guarantee of a sales order as collateral, and provide technical assistance to improve the SME's productivity. (See "Root Capital Invests in Coffee.")

Root Capital Invests in Coffee

Root Capital is a non-profit social investment fund that seeks to improve the lives of rural farmers by connecting them with the formal economy.* In its lending practice, an export contract serves as acceptable collateral, making it easy for coffee cooperatives to borrow. When it restarted its lending in Indonesia in 2014, it looked to Ketiara Cooperative first. It offered them a US\$550,000 trade credit loan, which allowed Ketiara to pay farmers in the period between harvesting coffee and selling it on the global market. Since then, the business has grown with Root Capital as it increased its loan size to US\$1 million in 2015, and to US\$1.5 million in 2016. The cooperative has paid back each loan in full.** Non-collateral lending is an effective means of enhancing access to credit for SMEs and cooperatives, especially those owned or led by women, which in general are smaller than those owned or led by men.

* Root Capital, "About Us."

** Root Capital, "Ketiara."

TABLE 3.6
COFFEE SMEs DRAW ON DIVERSE SOURCES FOR CAPITAL
(percentage of respondents)

Sources of capital	Men-owned SMEs		Women-owned SMEs	
	Initial capital (n = 57, 89% response rate)	Subsequent capital (n = 51, 79% response rate)	Initial capital (n = 11, 100% response rate)	Subsequent capital (n = 7, 64% response rate)
Bank	5	66	0	29
Family	12	2	36	14
Personal capital	60	22	36	14
Savings and credit cooperatives	21	6	9	0
Other business	0	0	18	0
International investment bank	0	2	0	43
CSR from state- owned enterprise	2	2	0	0

Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.



Men's source of external capital is usually a formal bank. The loan amounts received by men- and women-owned SMEs also differ. The maximum value of loans that men-owned SMEs receive is double that received by women-owned SMEs (Rp 10 billion versus Rp 5 billion).³⁷

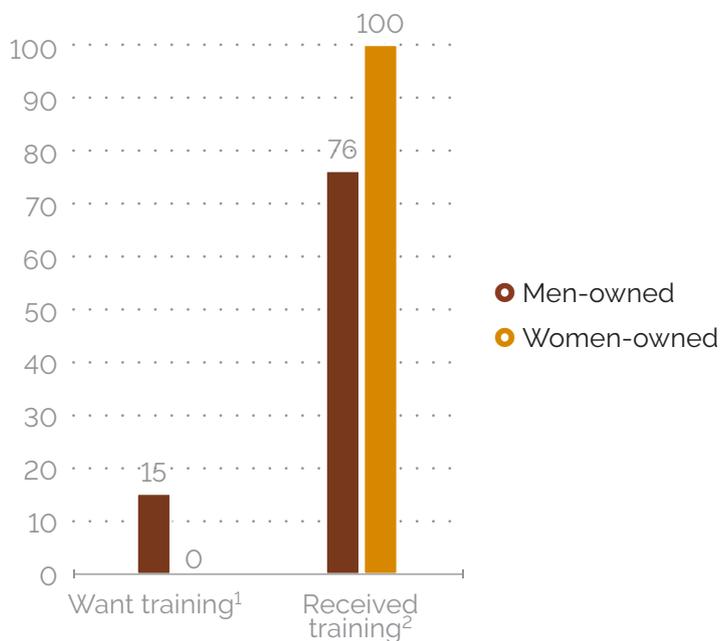
Training

Very few respondents said they wanted government help in the form of training about general business practices, yet training was one of the most common forms of assistance provided by government, and a large proportion of SMEs have received it. (See Chart 3.15.) This is not to conclude that training is not useful; SMEs may have already received training and now want assistance in other, more practical areas, such as financing and market access through trade facilitation. Coffee SMEs expect government to facilitate linkages with both domestic and foreign markets, and to help them grow their business and undertake exporting. The capital required for a coffee business to succeed is quite high, making finance a perennial need.

CHART 3.15

MOST COFFEE SMEs HAVE RECEIVED GOVERNMENT-ASSISTED TRAINING

(percentage of respondents)



¹ Men-owned (n = 48, 75% response rate); women-owned (n = 7, 64% response rate)

² Men-owned (n = 21, 33% response rate); women-owned (n = 4, 36% response rate)

Source: TPSA gender and trade survey.

The training that coffee SMEs received from government is provided by agricultural extension workers who teach farmers proper coffee cultivation techniques. But in some cases, the technology taught is generic and lacking in field exercises, rather than hands-on and specific to coffee cultivation, which disappoints farmers. Also, agricultural training is commonly attended by male farmers, who are confident in asking questions of the male extension workers, while female farmers feel less confident in doing so. Female farmers would like the option of

Female farmers would like the option of working with female agricultural extension workers with whom they might feel more at ease, which would help them absorb and apply new knowledge.

³⁷ Equivalent to approximately C\$100,000 and C\$50,000, respectively.





working with female agricultural extension workers with whom they might feel more at ease, which would help them absorb and apply new knowledge.

Business Networks

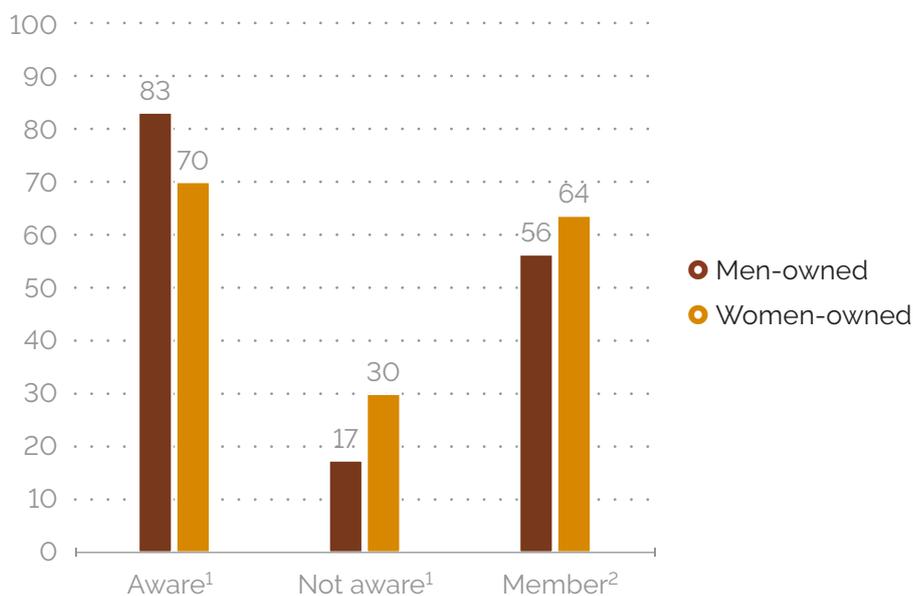
Fifty-six per cent of men-owned and 64 per cent of women-owned coffee SMEs report being a member of an industry association. (See Chart 3.16.) These shares are higher than for the footwear or apparel industries. Somewhat surprisingly, 30 per cent of women-owned SMEs report being unaware of relevant associations.

If an SME sees any benefit to joining an association, it is related to information that can be gleaned about marketing, production systems, and production inputs.

CHART 3.16

MOST COFFEE SMEs ARE AWARE OF ASSOCIATIONS BUT FEWER JOIN THEM

(percentage of respondents)



¹ Men-owned (n = 64, 100% response rate); women-owned (n = 10, 91% response rate)

² Men-owned (n = 55, 82% response rate); women-owned (n = 7, 64% response rate)

Source: TPSA gender and trade survey.

Key Differences in Access to Resources

- The most-cited source of market information for both women- and men-owned SMEs is their personal network; however, more women-owned SMEs use the internet and social media as well as business and industry associations to find market information.
- Both men- and women-owned SMEs also rely mostly on personal networks for production information; however, nearly one in four men-owned SMEs rely on their own knowledge and personal experience, while no respondents from women-owned firms do so. Women are more likely than men to seek this information from formal sources.
- A larger share of men-owned SMEs accessed government assistance programs.
- More women-owned than men-owned SMEs want export assistance related to marketing and market access.
- Women are more likely than men to reach out for export assistance.
- Men-owned SMEs are more likely to provide their own initial capital, while women rely equally on their own resources and capital from family.



- Only once established do women-owned SMEs seek credit from banks or international investment banks.
- The fact that more than half of women-owned SMEs export may explain why a larger share of them join associations, through which they can access market information.
- Women's household burden and need for spousal permission reduce their ability to run their business, restrict their participation in export marketing events such as trade shows and trade missions, hinder their mobility, and limit their access to information.

Do the Challenges Coffee SMEs Face Differ by Gender?

SMEs surveyed in the coffee industry report facing major challenges running their business and exporting. Many other studies have shown that women face specific challenges as entrepreneurs because of their gender, so this survey hoped to further explore the issue.

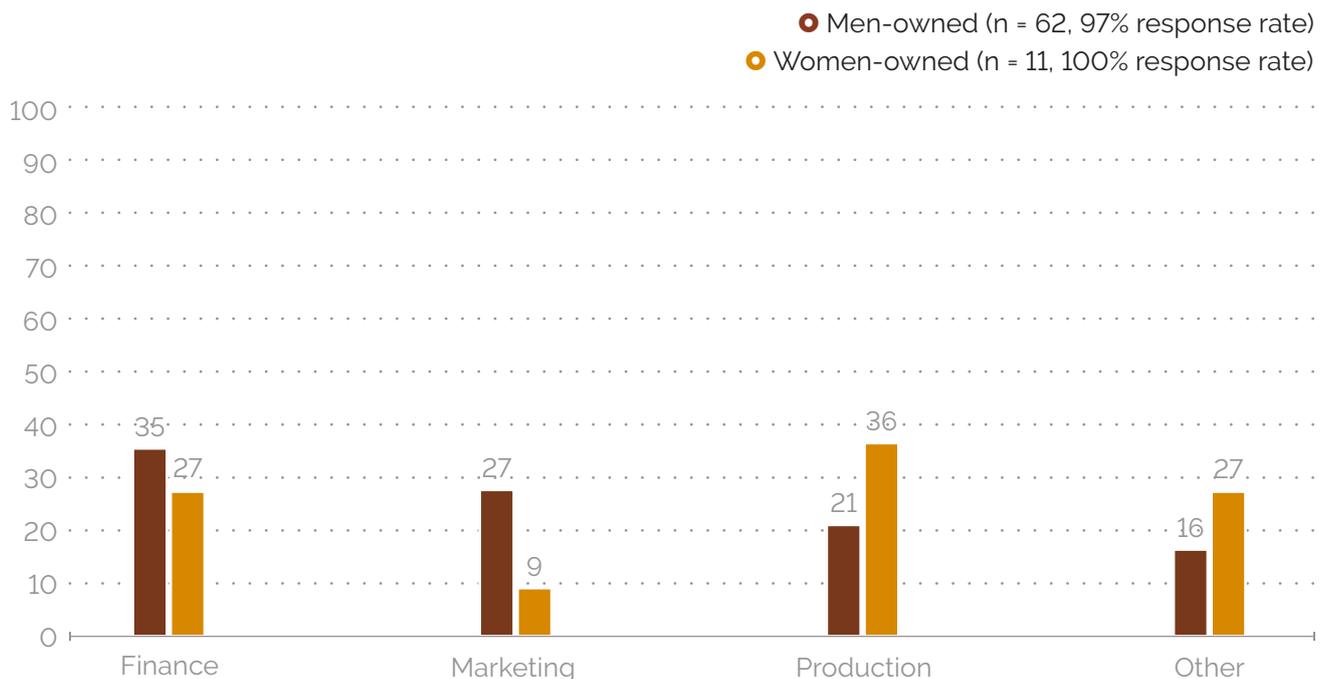
General Business Challenges

Before SMEs can export, they must first be able to manage general business challenges. The top three challenges reported are access to capital, access to markets and market information, and production (access to raw materials, labour, and equipment). (See Chart 3.17.)

CHART 3.17

COFFEE SMEs FACE DIVERSE BUSINESS CHALLENGES

(type of challenge; percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.



Finance

Finance challenges include difficulty accessing capital and finding sources to finance growth. Coffee SMEs, whether owned by men or women, need large amounts of working capital to be able to survive and thrive. Collectors, whose business is buying coffee cherries or dried coffee beans from farmers, need capital to pay farmers in cash. Better-quality coffee also commands a higher price. Farmers must hire additional workers, often on a temporary basis, during harvest season. Those engaged in coffee roasting need good-quality machinery and a large storage facility. SMEs running cafes need capital to purchase grinders and coffeemakers, pay rent, and maintain their space. They also need capital to stock the right volumes of coffee, to ensure that the coffee they serve is fresh and flavourful. For those supplying roasted coffee beans or ground coffee to supermarkets, it can take a long time to receive payment for goods delivered, as suppliers are paid on a consignment basis.

Coffee SMEs, whether owned by men or women, need large amounts of working capital to be able to survive and thrive.

One coffee SME respondent noted that he needs enough capital to keep the cycle from production to processing to marketing continually moving. He feels that his business has not been as successful as he wants because he cannot yet increase production and effectively market his own products. In addition, he must have capital on hand to buy raw materials after a lean harvest. He needs a minimum of Rp 500 million to buy stock before the beginning of the planting season, which means that he must hold stock between April and December.

The high interest charged by banks and the collateral requirements for loans are the strongest deterrents to borrowing.

Despite identifying access to capital as a major challenge, most respondents stated that they did not require external loans or financing. There is no material difference between male and female

responses to this question. (See Chart 3.18.) The high interest charged by banks and the collateral requirements for loans are the strongest deterrents to borrowing. For example, most banks charge between 12 and 15 per cent interest and require collateral equivalent to at least 30 per cent of the loan amount. The collateral requirements affect women more than men because the title of owned property, which can be used for collateral, is usually in the husband's name.



Photo credit: Imam.

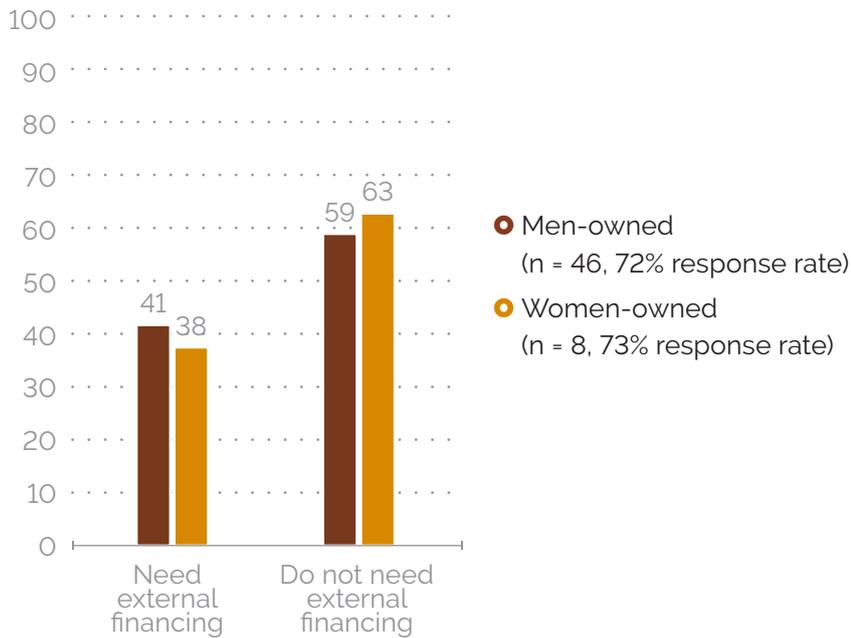




CHART 3.18

MOST COFFEE SMEs DON'T RELY ON EXTERNAL FINANCING

(percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.

SMEs Speak About... External Funding

A coffee farmer who has been exporting since 1998 argues that one of the keys to his success was not depending on external funding: "Third-party funds should be avoided: the 12 to 13 per cent bank rate will not be helpful for a small business and in fact, may lead to the firm becoming indebted. The available credit schemes for SMEs only [emphasize financing], so it's more like financial assistance without sufficient attention to business development."

—Male owner of medium-sized coffee firm in Aceh

One informant notes that her business does rely on banking services, but she would not comment on whether her relationship with the bank runs smoothly or not.³⁸

Many firms choose not to borrow, but instead wait to accumulate savings that they can invest back into their business. If they borrow at all, it is from family, friends, or close relations. There are also indications that followers of the Islamic faith may be reluctant to borrow from external sources that result in debt creation or require interest payments.

It is also important to note that entities such as Root Capital, Café Femenino Foundation, and Fairtrade have been offering coffee cooperatives technical and financial assistance in the form of capacity building, soft loans, grants, and guaranteed markets for the co-ops' coffee.

³⁸ In-person interview with female owner of coffee SME by Leya Cattleya, June 13, 2017.





Marketing

Marketing was a major challenge for 27 per cent of men and 9 per cent of women who answered this question. This may be explained by looking at the type of business the SMEs do. Most do not sell directly to consumers, but rather supply other actors in the chain, such as large collectors, wholesalers, retail shops, or exporters. Many SMEs and cooperatives in South Sulawesi, for example, have a secure market in big foreign companies, which have a local presence and have been buying coffee from this province for many years to export to Japan and the United States. The local presence of these foreign companies and large Indonesian exporters who are not from the province (that is, either South Sulawesi or Aceh) pose stiff competition to coffee SMEs in these areas.

SMEs Speak About... Competing With Large Exporters

"Market competition is getting stiff in Gayo as big coffee exporters who are not from Aceh have now established trading houses in Bener Meriah and Takengon. Previously, they were just in the neighboring province of North Sumatra, particularly in the port city of Medan, the traditional regional trading hub of different commodities, including coffee from Gayo. The presence of big exporters in Aceh means that they buy coffee directly from farmers, in quantities as few as one or two sacks. This means that the local Acehnese business owner must compete with these big exporters in attracting farmers and village collectors to supply to them. They would have to raise more funds to be able to pay farmers the same price as big exporters. There is no government regulation that protects Acehnese coffee businesses from these exporters by preventing them from setting up trading houses in Bener Meriah. The way to mitigate this challenge is by improving relations with the farmers in a business system that is open and trustworthy."

—Male SME collector and warehouse owner in Aceh

Among the 11 women-owned coffee SMEs, only one considered marketing a challenge. Six of these SMEs export directly, mostly in container-loads by bulk. Three women-owned SMEs are cooperatives in Aceh, one of which exports directly, while the other two export indirectly or through other, men-led cooperatives. Certifications for producing organic coffee from international bodies link them to global supply chains. Coffee cooperatives have had to make improvements to meet the increasing demand for high-quality organic coffee. (See "Ketiar Coffee Traders Cooperative Opens Its Membership to Meet Increased Demand.")

Ketiara Coffee Traders Cooperative Opens Its Membership to Meet Increased Demand

To be able to meet the continually increasing demand for Arabica Grade 1 green coffee beans, Ketiara Coffee Traders Cooperative decided to open its membership to farmers. At the same time, the co-op obtained organic certification, which made their coffee even more attractive to the foreign market. The co-op now has over 1,700 members (half of whom are women). As of 2017, Ketiara Cooperative exports 30 containers per year.

Production

A larger share of women-owned than men-owned SMEs cite challenges related to production. These include difficulty accessing good-quality coffee beans, the cost of labour (especially during harvest season), the availability and cost of equipment, and the cost of storage and drying space. SMEs that act as collectors complained about the quality of coffee beans bought from farmers who may have inadequate knowledge of organic coffee production. Others encountered organic coffee mixed with non-organic.





SMEs Speak About... Domination by Large Companies

According to one male owner of a coffee SME who sells Arabica green beans and roasts coffee in his own shop, sells online, and supplies supermarkets, there is a huge coffee company in South Sulawesi that monopolizes almost all the coffee in Tana Toraja and has a negative effect on the supply of coffee. This company ships to its parent company in Japan, which reduces the amount of good-quality raw coffee available to small local businesses, such as the one owned by the respondent's son. According to the respondent, coffee that falls below this company's standards is what is left for most local businesses to trade. Some businesses also carry second-class quality coffee that is brought out of Tana Toraja to Makassar and to other provinces. He says the price at which the company buys from farmers is the same as the price paid by local businesses in Tana Toraja. However, because the company has the financial capacity to pay farmers in cash immediately, farmers prefer to sell their coffee to this company.

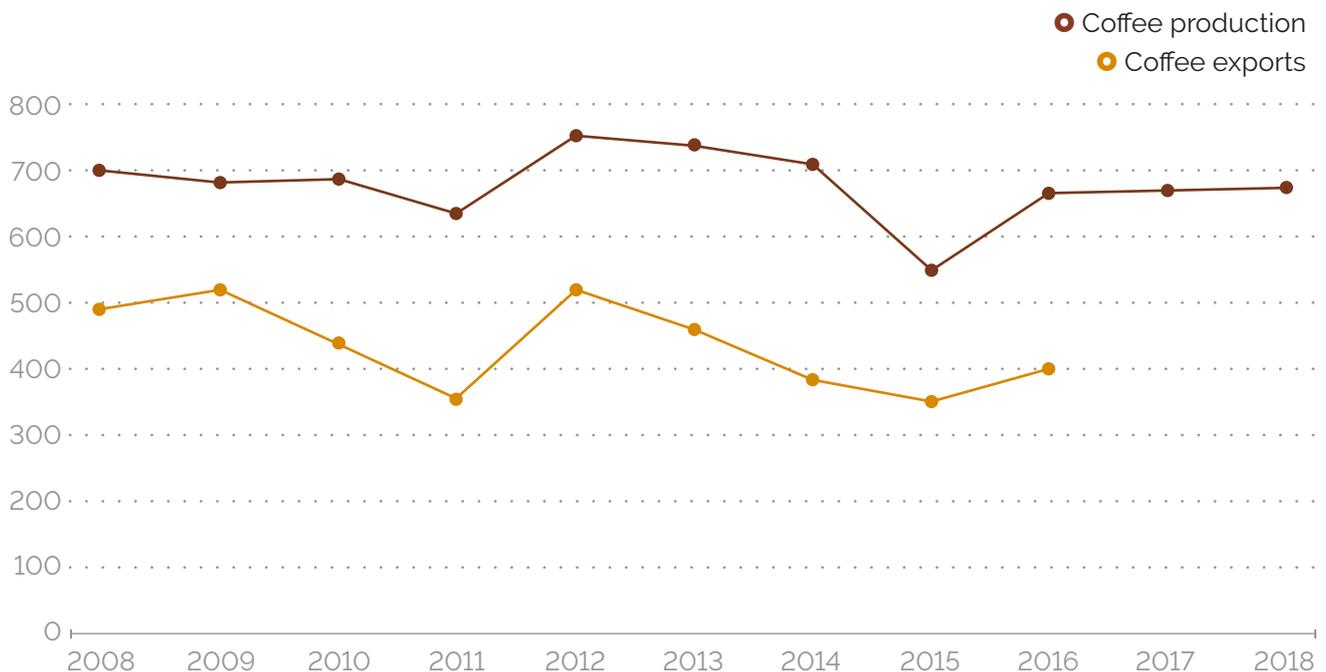
—Male coffee SME owner in Tana Toraja, South Sulawesi

Competition for coffee beans gets stiffer as coffee production decreases. Coffee production volume declined from a high of 748,000 tonnes in 2012 to 674,000 tonnes in 2018.³⁹ (See Chart 3.19.) A similar pattern is observed in export volume—from a high of 520,000 tonnes in 2012 to 400,000 tonnes in 2016.

CHART 3.19

COFFEE PRODUCTION AND EXPORTS HAVE DECLINED

(tonnes, 000s)



Source: Indonesia Investments.

³⁹ Indonesia Investments, "Coffee."





SMEs Speak About... Coffee Quality Challenges

One female SME owner who operates coffee shops in Gayo, Aceh, says she prefers to sell only good-quality coffee, but that farmers are unable to supply her with the quality she wants. She also noticed that some of the coffee being sold to her was inconsistent: the coffee at the top of the sack would be better than what was below. She realized that farmers really need money, but are not equipped to produce the quality of coffee that commands a good price, so she decided to invest in helping farmers improve their production practices, and thereby become able to supply her with good-quality coffee.

—Female coffee SME owner in Aceh

Labour becomes scarce and wages rise during harvest season, and if SMEs lack the money to pay higher wages, it can cause delays in supplying coffee to buyers. The average net income of agricultural workers in Aceh is Rp 1.1 million (C\$103.51) per month, or Rp 37,000 (C\$3.48) per day. In South Sulawesi, it is Rp 790,000 (C\$74.33) per month or Rp 26,000 (C\$2.44) per day.⁴⁰ For coffee workers, especially during harvest season, wages range from Rp 40,000 (C\$3.76) to Rp 200,000 (C\$18.82) per day for men and from Rp 36,000 (C\$3.39) to Rp 320,000 (C\$30.11) per day for women.⁴¹

AVERAGE NET INCOME

AGRICULTURAL WORKERS		COFFEE WORKERS	
ACEH	SOUTH SULAWESI	MEN	WOMEN
Rp 1.1 million/month (C\$103.51) or Rp 37,000/day (C\$3.48)	Rp 790,000/month (C\$74.33) or Rp 26,000/day (C\$2.44)	Rp 40,000/day (C\$3.76) to Rp 200,000/day (C\$18.82)	Rp 36,000/day (C\$3.39) to Rp 320,000/day (C\$30.11)

Investment in equipment or storage and drying facilities can be out of reach for many individual farmers. Over the last decade, domestic consumption of coffee has increased and coffee shops have mushroomed, leading to stiffer competition in the coffee business. For coffee cooperatives, especially those that are exporting either directly or indirectly, accessing high-quality coffee can be a challenge, as some members are not yet able to fully comply with organic or Fairtrade requirements.⁴²

Other

Some SMEs reported that changes in weather patterns have affected the productivity of farms, which in turn causes other problems, such as an inability to supply the required quality and volume of coffee to buyers on the date they expect it. One informant notes that, in the last three years, the quality of Gayo coffee was lower and had reduced flavour quality due to adverse weather, and that 2015 in particular saw a significantly reduced coffee harvest.⁴³ Due to heavy rains that same year, farmer-members of Benteng Alla Cooperative converted some land that was previously planted with coffee into vegetable farms.⁴⁴

Women who are village coffee collectors often have to rely on their husbands to accompany them when picking up coffee in remote mountain villages.

⁴⁰ BPS, "Average of Net Income"; TPSA gender and trade survey.

⁴¹ TPSA gender and trade survey.

⁴² Focus group discussion with management of coffee cooperative, facilitated by Leya Cattleya and Dati Fatimah, May 27, 2017.

⁴³ In-person interview with male quality control supervisor of a medium-sized coffee firm by Muklas Aji Setiawan, April 11, 2017.

⁴⁴ Interview with Chairperson of Benteng Alla Cooperative by Leya Cattleya and Dati Fatimah, May 27, 2017.



Poor road infrastructure makes collecting coffee from farms difficult, time-consuming, and sometimes dangerous, especially as many farms are located in mountainous areas. Women who are village coffee collectors often have to rely on their husbands to accompany them when picking up coffee in remote mountain villages. Transporting coffee from farms to other actors in the supply chain is costly and eats up profit margins.

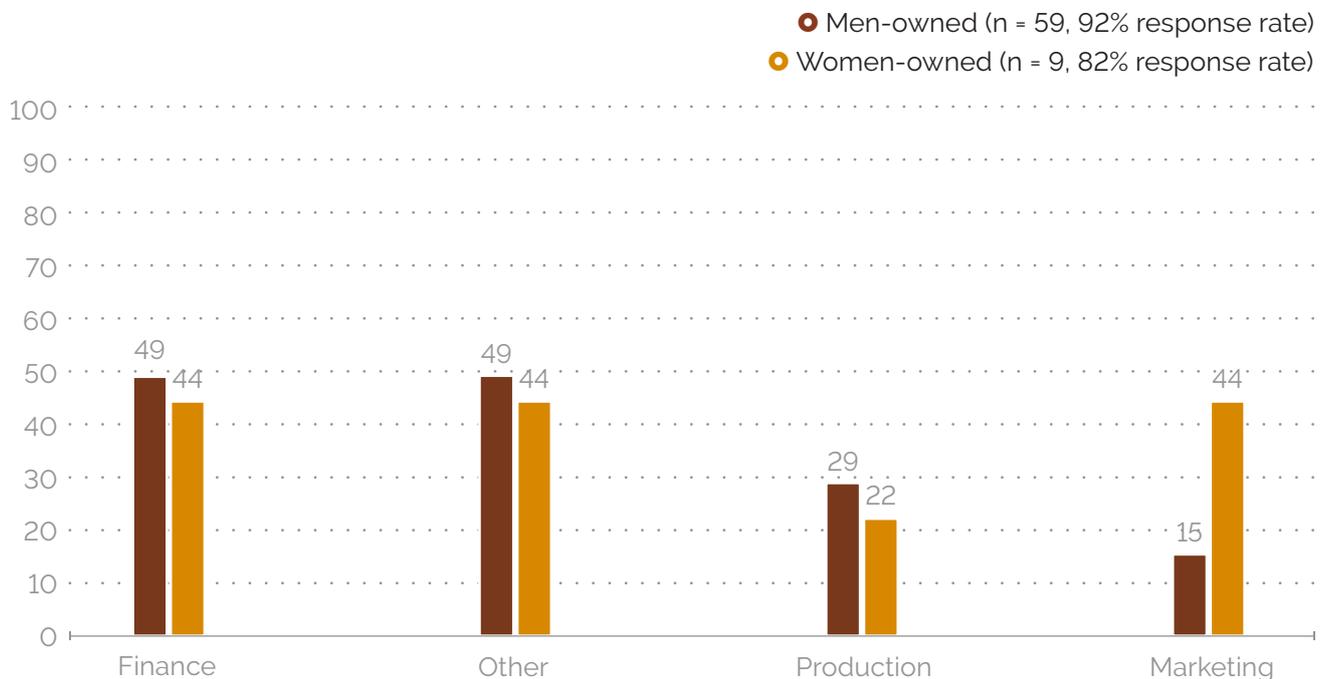
Export Challenges

SMEs that are already exporting report facing export-specific challenges. (See Chart 3.20.) These echo the common business challenges shown in Chart 3.17, including access to capital with reasonable interest rates and collateral conditions, limited production capacity, complicated regulatory processes, difficulty accessing raw materials, poor marketing, and hiring workers. Two men-owned SMEs, for example, said that they would need Rp 2 billion to facilitate exporting, but they cannot access loans of more than Rp 100 million.

CHART 3.20

COFFEE SMEs FACE CHALLENGES TO EXPORTING

(type of challenge; percentage of respondents)



Note: Respondents could choose more than one option.

Source: TPSA gender and trade survey.

The coffee production process can be challenging. Access to dependable and affordable labour, especially at harvest time, is critical. An informant explains that in some areas, workers prefer to work on vegetable farms, where they can make more money, as harvesting occurs three times per year while coffee is harvested once a year.⁴⁵

Both male and female respondents noted that an advance cash payment is required to purchase coffee beans from farmers and agents. If an exporter fails to fulfill an order, it has an adverse impact on future exports. Moreover, equipment required for coffee processing, including roasting, grinding, and brewing, is

⁴⁵ In-person interview with son of male coffee SME owner who acts as supervisor in the production process (roasting and grinding of coffee) by Dany Hadiana and Mulyana, April 14, 2017.



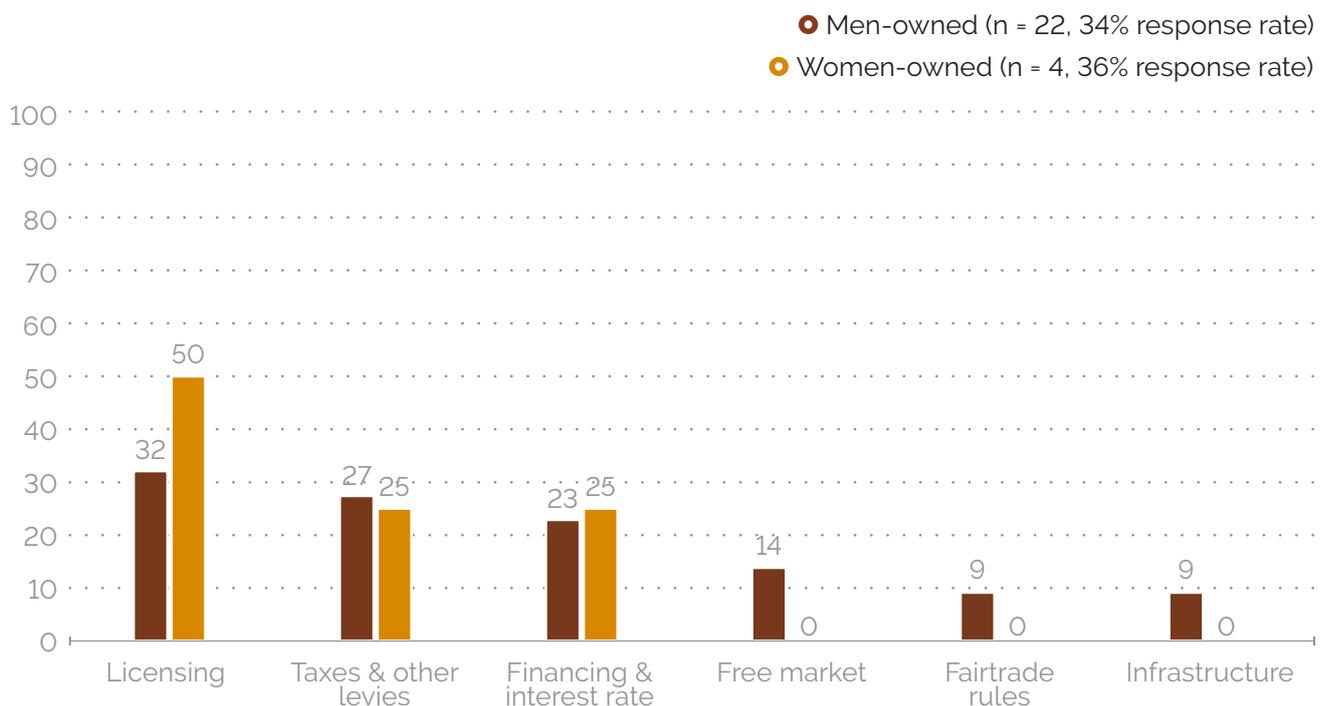


expensive. The ability to export a high-quality product is directly linked to having the required equipment for coffee processing, particularly drying coffee beans.

Regulations Impeding Business Development

Survey respondents were asked if regulations were an obstacle to operating their SME. Forty-one per cent replied "yes," while 60 per cent felt that regulations did not pose a barrier for them. There were few differences in responses from men and women. The regulations that most often posed obstacles for the coffee industry were export licensing, taxation, securing external financing, and high interest rates. (See Chart 3.21.)

CHART 3.21
LICENSING REGULATIONS HINDER COFFEE EXPORTS
 (hindrances to exporting; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.

Licensing requirements were a major challenge for women, with 50 per cent of female respondents finding it difficult to obtain export licenses in an effective and timely manner. One female informant notes that "we have not yet mastered the required knowledge on export procedures and systems."⁴⁶ She then added that they were satisfied not to run their own exporting business. SMEs that are already exporting generally rely on export service agencies to facilitate obtaining the required licenses.

In addition to export licenses, obtaining other certifications, such as organic certification, can consume considerable resources. One male informant whose role within the cooperative is to oversee Fairtrade and organic certification notes that it took a year to obtain organic certification, and another to secure Fairtrade certification. Annual audits are conducted, and the cooperative imposes strong sanctions on farmers who

⁴⁶ Focus group discussion with management of women's coffee cooperative, facilitated by Leya Cattleya and Dati Fatimah, June 15, 2017.





fail to comply with the strict rules around, for example, pesticide use.⁴⁷ Organic certification can also be expensive, which might prevent cooperatives and SMEs from applying. One male informant notes that the cost for certification is so high that it is not worth it, despite the better price offered for organic coffee.⁴⁸

Some coffee respondents expressed their view that a local government levy imposed on the industry reduces their profit margin. For example, in Aceh, an additional Rp 250 per kilogram of green beans must be paid as a levy to the local government if the coffee is brought outside of Aceh by land. Without paying this levy, coffee cannot be brought to Medan, where distribution to various parts of Indonesia and overseas takes place. However, this additional levy is not imposed if coffee is bought directly from farmers.

Obtaining permits and customs forms can also be a challenge. While exporters in Gayo and Medan benefit from a simple decentralized system, exporters in South Sulawesi still need to apply for a customs registration number every four years in Jakarta.⁴⁹ Multiple layers of bureaucracy often also mean multiple levels of informal fees for permits.

Key Differences in Challenges SMEs Face

- Men- and women-owned coffee SMEs face the same general business challenges, but differ as to which they consider the most serious.
- More men- than women-owned SMEs consider finance and marketing their main challenges. This may be due to assistance women-owned SMEs have received from international groups.
- A larger proportion of women-owned SMEs cite production challenges, particularly the quality of coffee beans produced by farmers. This is exacerbated by the steadily decreasing productivity of the coffee industry as a whole.
- A larger share of women-owned SMEs cited licensing requirements as a challenge to their business.

Are Coffee SMEs Confident About the Outlook for Their Business?

Most respondents have a positive outlook on the future growth potential of their SME. Women-owned SMEs have a strong positive outlook, with 91 per cent reporting feeling positive about the future of their business. (See Chart 3.22.) This is for the most part echoed by men-owned SMEs, with 77 per cent citing a positive outlook and 19 per cent seeing unchanged growth potential.



Photo credit: Said Fauzan Baabud.

⁴⁷ Focus group discussion with management of coffee cooperative, facilitated by Leya Cattleya and Dati Fatimah, June 13, 2017.

⁴⁸ Focus group discussion with female farmers from coffee cooperative, facilitated by Leya Cattleya and Dati Fatimah, May 27, 2017.

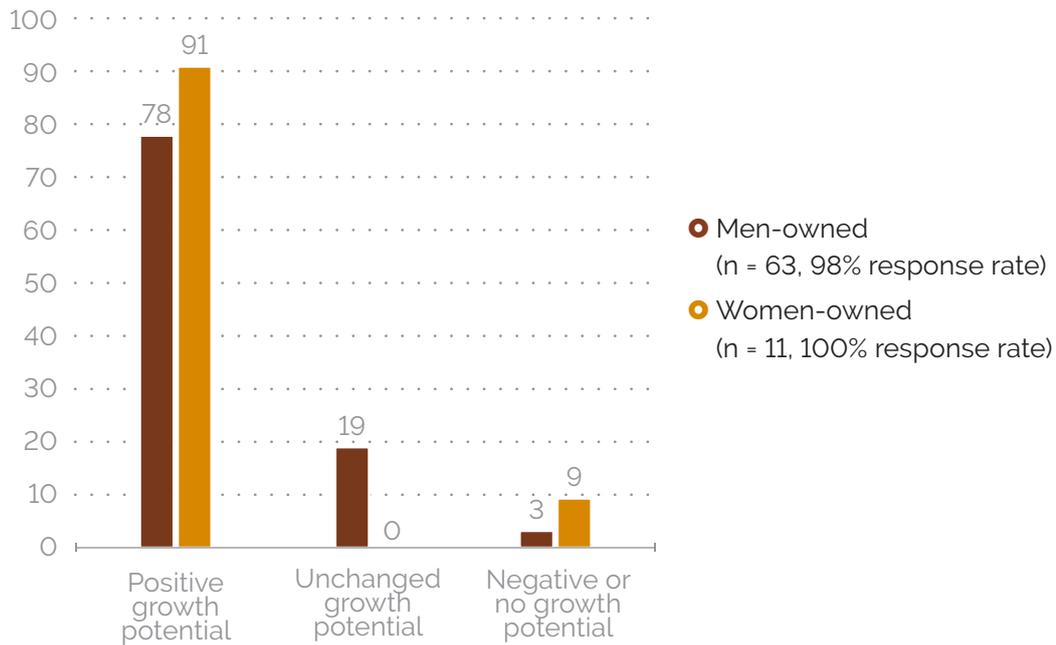
⁴⁹ The Indonesian government had nationalized the One-Stop-Shop (OSS) model to contribute to creating a good business climate, reducing corruption, and bringing about bureaucratic reforms. Although more than 90 per cent of 497 districts in Indonesia had adopted the OSS model by 2013, most of the OSSs had limited authority in processing the numerous licenses required by local governments. This meant that many businesses were still forced to go outside of the OSS to local government offices to obtain sectoral licenses. While Aceh business owners and exporters can apply and claim their licenses within the province, their counterparts in South Sulawesi must go to Jakarta for this purpose. See Rahman, "Licensing Reform in Indonesia."



CHART 3.22

MOST COFFEE OWNERS THINK THEIR GROWTH POTENTIAL IS POSITIVE

(percentage of respondents)



Source: TPSA gender and trade survey.



Photo credit: Imam.



Photo credit: Jarek Tan.





FOOTWEAR INDUSTRY



WOMEN-OWNED SMEs

MEN-OWNED SMEs

More women-owned SMEs request export assistance



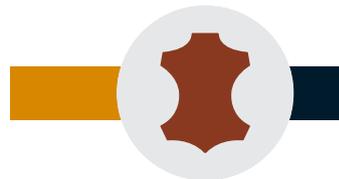
Fewer women-owned SMEs obtain subsequent capital from a bank



More women-owned SMEs join business or industry associations



More women-owned SMEs have trouble accessing raw materials



More women-owned SMEs have trouble exporting due to complex regulations



More women-owned SMEs cite challenges obtaining export licenses





CHAPTER 4:

FOOTWEAR INDUSTRY RESULTS

What Does Indonesia's Footwear Industry Look Like?

Footwear production has become an increasingly important contributor to Indonesia's economy over the last decade, due in large part to a swift expansion in export capacity. Among the 10 largest global footwear exporters, only Vietnam has increased their footwear exports more than Indonesia in the last decade. As a result, Indonesia is now the world's sixth-largest footwear exporter and accounts for 3.4 per cent of global exports, up from 2.2 per cent a decade ago. Although Indonesia's total footwear exports are still well below those of China, Vietnam, and Italy, the country is well-situated within the second grouping of major international footwear producers along with countries like Germany, Belgium, and the Netherlands.⁵⁰

Although its footwear sector is growing and performing well in aggregate, the Indonesian Footwear Association (APRISINDO) identifies some broad challenges for the industry, including the high costs of logistics and electricity, the inability to respond to spikes in demand at certain times of year, and relatively high input costs. APRISINDO reported that SMEs are affected by rising minimum wages and restrictions relating to a flexible workforce.⁵¹ Despite these challenges, Indonesia's cheap labour force, large domestic market, regional integration, and government support all point to the potential of the footwear industry.⁵²

To understand the roles, contributions, and challenges of SMEs in the footwear industry in Indonesia, it is important to note that footwear production is diverse. The first group is large multinational companies that produce high-quality casual and sports footwear intended for export. The second group is SMEs producing premium leather shoes and customized shoes in small volumes. The third group is footwear made from medium-quality leather or synthetic leather, intended mainly for the local market. The final group is comprised of low-quality casual shoes, many of which are copied or counterfeit versions of popular brands. This group faces strong competition from cheap imports from China, which are of equal or greater quality compared with Indonesian-made footwear. The existence of a counterfeit market for footwear is also a factor in creating a competitive environment. Engagement in counterfeit production carries a risk for producers, as such products might be seized.

⁵⁰ The Conference Board of Canada, *An Analysis of the Global Value Chain*, 1.

⁵¹ Fadila, *Identifying High-Potential Indonesian Commodities*, Appendix A.

⁵² Fadila, *Identifying High-Potential Indonesian Commodities*, 36.





Do Business and Owner Profiles Differ by Gender in the Footwear Industry?

One of the survey's objectives was to determine whether there are substantial differences between the characteristics of SMEs owned by women and those owned by men.

Size

As mentioned in Chapter 3, there are two main methods used to define the size of a firm: employment and annual sales. (See Table 4.1.)

TABLE 4.1
DEFINING THE SIZE OF FOOTWEAR SMEs

	Number of employees	Annual sales
Micro	1–4 people	< Rp 300 million
Small	5–19 people	Rp 300 million–2.5 billion
Medium	20–99 people	Rp 2.5–50 billion
Large	≥ 100 people	> Rp 50 billion

Sources: Government of Indonesia Law No. 20/2008; BPS.



Photo credit: Julia Sembering.





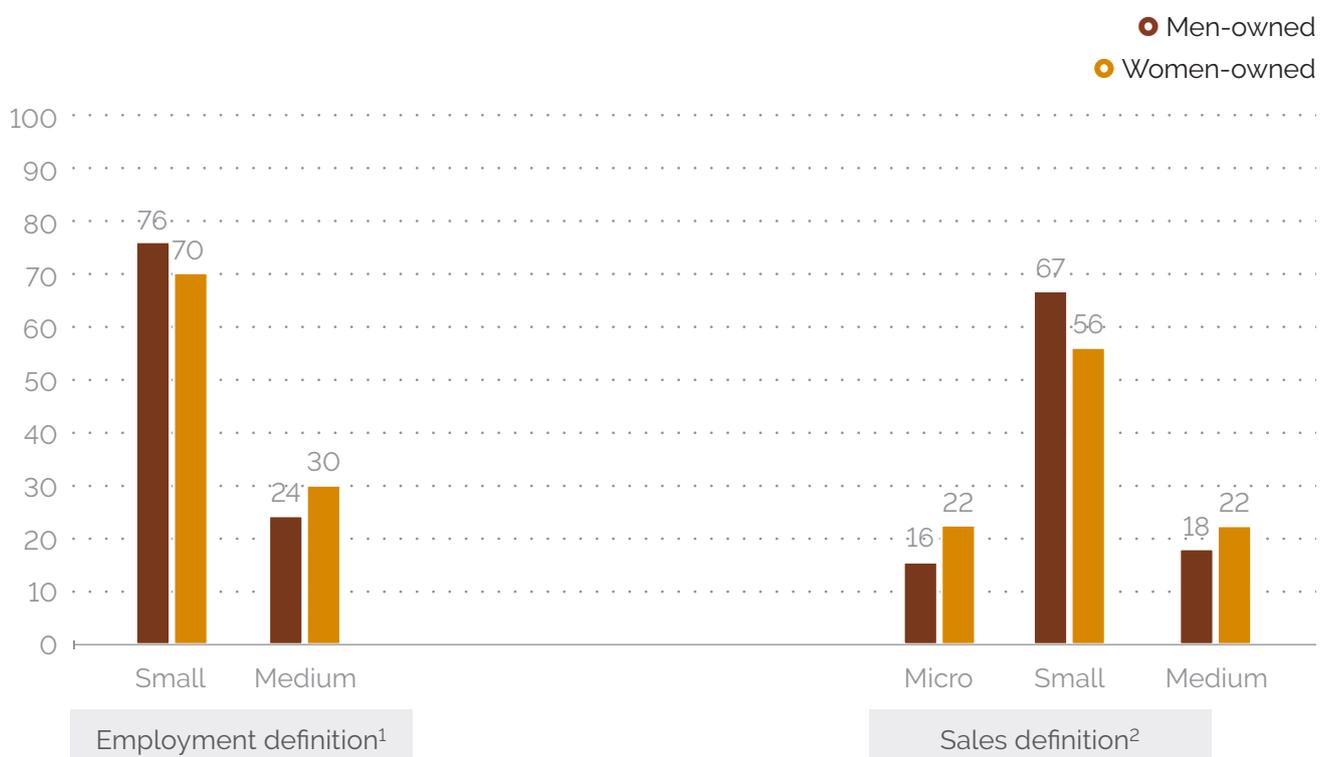
Most SMEs in the footwear industry are small by both the employment and sales definitions; however, classifications change depending on the definition used. (See Chart 4.1.) Some SMEs classified as small using the employment definition become micro by the sales definition, and some medium SMEs become small. These trends apply to both men-owned and women-owned SMEs. Unlike the coffee industry, none of the surveyed footwear SMEs are defined as large by the sales definition.

The sales definition seems to better reflect SMEs' actual size in terms of operations. The employment definition can be misleading, as labour in the footwear industry can vary depending on the order cycle. It also appears that women-owned SMEs are generally smaller than men-owned SMEs, gauging from the proportion of micro-sized SMEs revealed by using the sales definition.

CHART 4.1

MOST FOOTWEAR SMEs ARE SMALL

(size of firm defined by employment and annual sales; percentage of respondents)



¹ Men-owned (n = 46, 100% response rate); women-owned (n = 10, 100% response rate)

² Men-owned (n = 45, 98% response rate); women-owned (n = 9, 90% response rate)

Note: Numbers may not equal 100 per cent due to rounding.

Source: TPSA gender and trade survey.





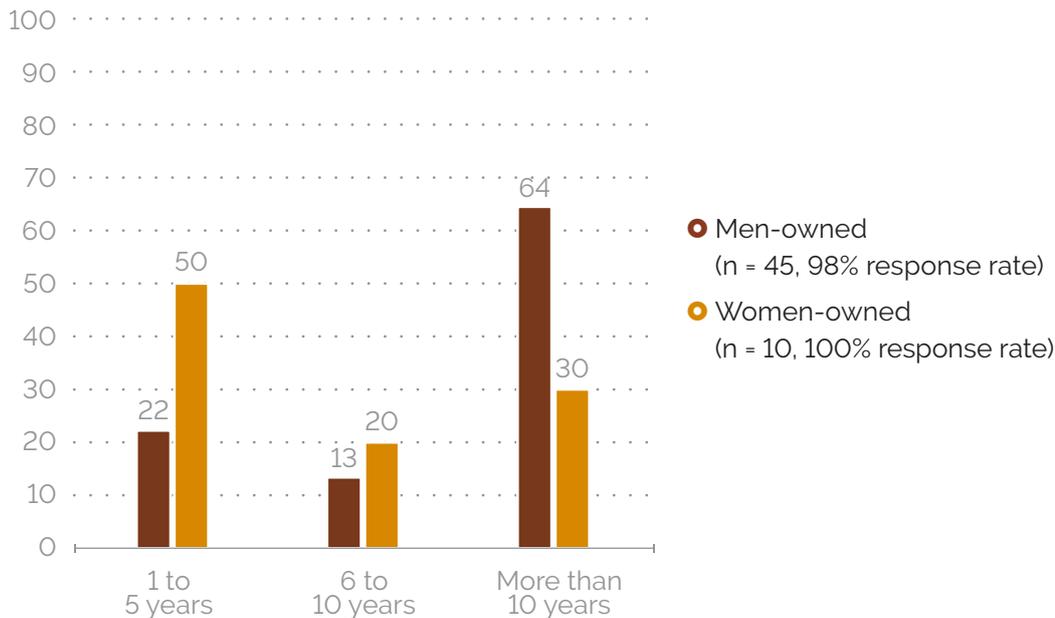
Years in Business

SMEs in the footwear industry tend to have been in business longer than those in the coffee industry. Also in contrast to the coffee industry, a larger share of SMEs owned by men have been in operation for 10 years or more, compared with those owned by women. (See Chart 4.2.) Only 30 per cent of women-owned SMEs have been in business longer than 10 years, compared with 64 per cent of men-owned SMEs. Women are more likely to have a newly established business: 50 per cent of women owners report having been in operation for five years or less.

CHART 4.2

MEN-OWNED FOOTWEAR SMEs HAVE BEEN IN BUSINESS LONGER

(years in business; percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.



Photo credit: Dati Fatimah.





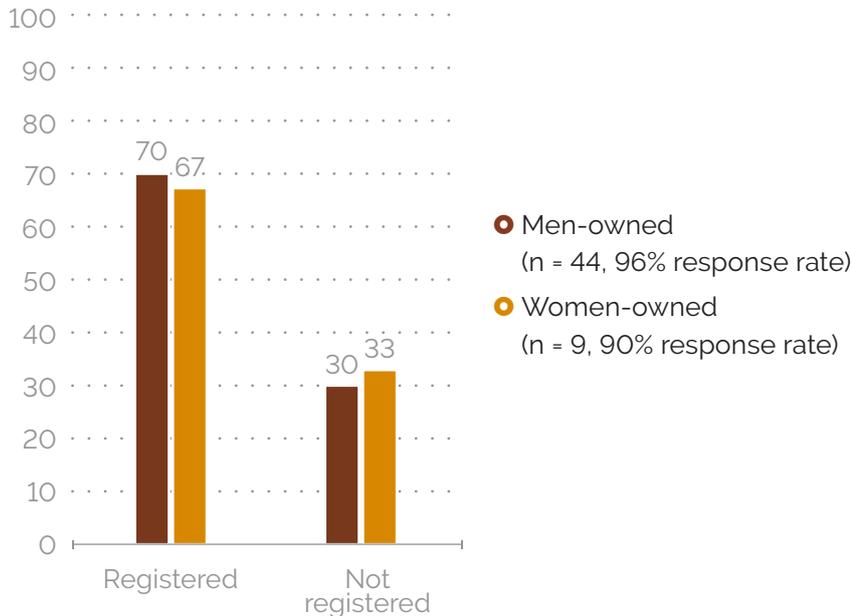
Registration

Both men and women operating in the footwear industry tend to register their SME, and registration practices among both men- and women-owned SMEs are virtually the same. (See Chart 4.3.) Seventy per cent of men and 67 per cent of women reported having some form of business registration.

CHART 4.3

MOST FOOTWEAR SMEs REGISTER THEIR BUSINESS

(percentage of respondents)



Source: TPSA gender and trade survey.

Owner Profile

Ninety-six per cent of male and 90 per cent of female footwear SME owners are married.

There is a large difference between the education levels of men and women owners in the footwear industry. Women tend to be better educated: 11 per cent of female owners have a post-secondary diploma, 33 per cent have a bachelor's degree, and 23 per cent have a post-graduate degree.

Women owners of footwear SMEs are better educated than men owners.

Only 18 per cent of male owners have a bachelor's degree and none have a post-graduate degree. As well, just 11 per cent of female owners lack a high school diploma, compared with 27 per cent of male owners. (See Table 4.2.)

Many of the women-owned SMEs were founded by women who not only had previous experience in the footwear industry, but were also well-educated. It was observed by researchers that an owner with this type of background is more likely to target a higher-end niche market. For example, the footwear company E-Three produces customized footwear for clients with special needs.⁵³

⁵³ In-person interview with female footwear SME owner and exporter by Dati Fatimah, August 7, 2017.





TABLE 4.2

WOMEN FOOTWEAR OWNERS ARE BETTER EDUCATED
(percentage of respondents by highest level of education)

	Men-owned (n = 44, 96% response rate)	Women-owned (n = 9, 90% response rate)
Elementary diploma (grade 1–6)	16	11
Junior high school diploma (grade 7–9)	11	0
High school diploma (grade 10–12)	55	22
Post-secondary diploma or certificate	0	11
Bachelor's degree	18	33
Post-graduate degree	0	22

*Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.*

Key Differences in Business and Owner Profiles

- Most SMEs in the footwear industry are small; however, more women-owned than men-owned SMEs become micro when using the sales definition rather than the employment definition.
- Men-owned footwear SMEs surveyed have been in business longer than women-owned SMEs.
- Women SME owners in the footwear industry tend to be better-educated than men owners.

Do Women- and Men-Owned SMEs Occupy Different Positions in the Footwear Value Chain?

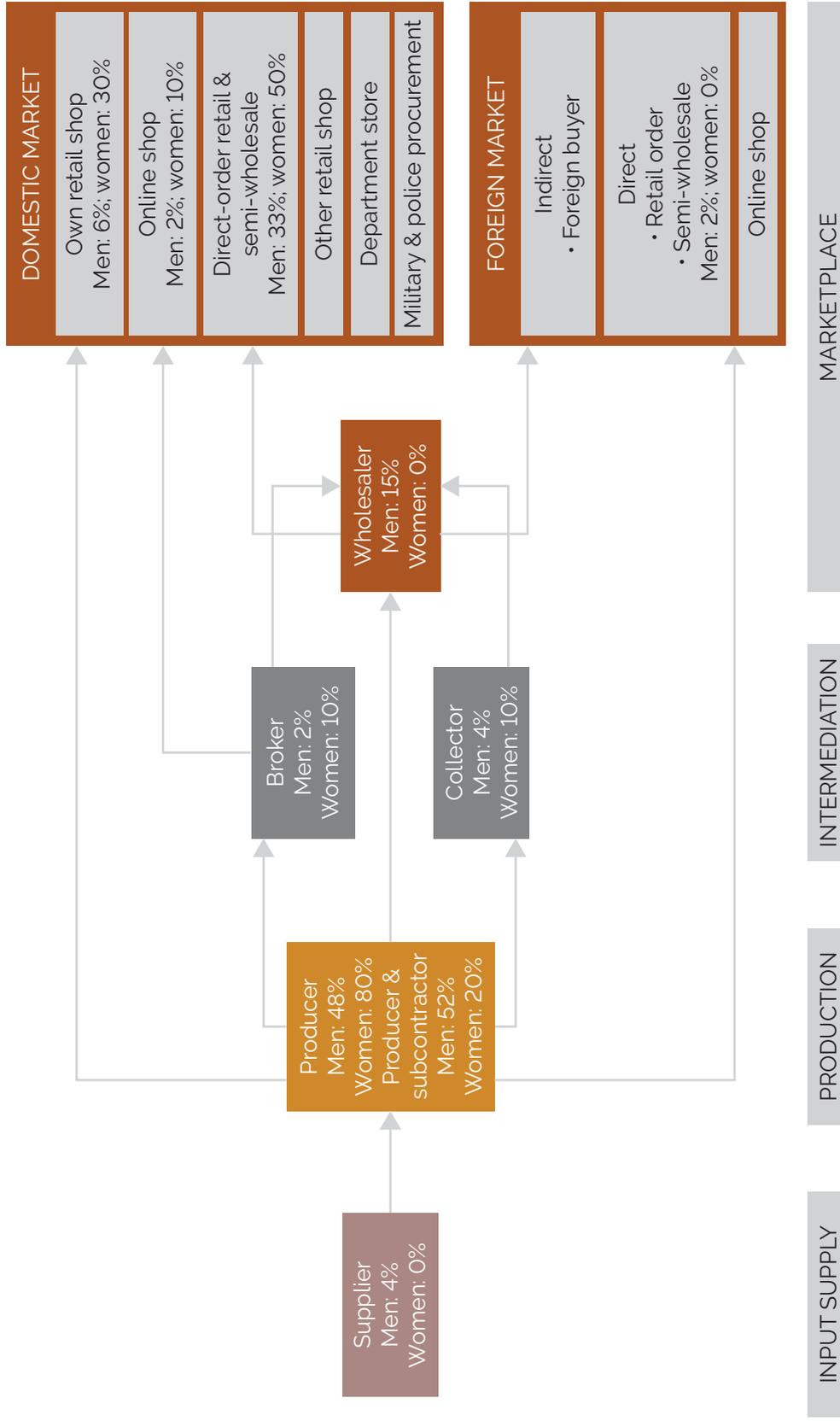
Business Activities and Position in the Value Chain

The actors in the footwear industry value chain are: input/raw material suppliers; producers or producer-subcontractors; brokers; collectors; and traders (wholesalers and retailers) for the domestic market and for the export market. Exhibit 4.1 shows the proportion of surveyed footwear SMEs (by gender) performing each of the functions or stages of the value chain. Some SMEs are counted more than once in the overall chain because they perform multiple roles. It is important to note that the exhibit reflects the surveyed SMEs, but may not capture the roles of footwear SMEs not covered by the survey.

All the SMEs surveyed are producers of footwear and perform more than one role in the value chain, except for one man-owned SME whose sole business is supplying raw materials for footwear manufacturing. Because of competition posed by cheap footwear imports from China, many SMEs produce only when they receive an order, and just a few have their own retail shops. Production volume is normally kept low to avoid accumulating slow or non-moving inventory, thus hindering the steady flow of working capital. Those SMEs who own shops maintain just enough inventory to ensure a constant supply of merchandise. Typically, a footwear SME will solicit and receive an order from a wholesaler, collector, or retailer, and manufacture according to the style, material, and quantity specifications stated in the order. Some SMEs will design and produce a few samples, create a catalogue of these samples, and market these to wholesalers or retailers not just in the area where their business operates but also in other areas, mainly cities.



EXHIBIT 4.1
FOOTWEAR VALUE CHAIN



Source: TPSA gender and trade survey.





When an SME receives an order, it is usually from a collector, who normally provides the specifications of the footwear to be manufactured, and in some cases provides the raw materials as well. In this arrangement, the collector is the subcontractor and the SME is the subcontractee. The SME is paid a price per piece agreed upon with the collector. It is important to note that the footwear SMEs surveyed perform multiple roles such as the ones described above. Using varied sales approaches seems to be the way SMEs survive in the footwear business. A few other SMEs sell cheap Chinese footwear imports alongside the ones they manufacture, and this practice appears to be increasing, according to the SMEs surveyed.

80 per cent of the women-owned SMEs manufacture and sell their products.

The proportion of women-owned SMEs in the survey is small: only 18 per cent, with the other 82 per cent men-owned SMEs. Eighty per cent of these women-owned SMEs manufacture and sell their products through their own retail store or semi-wholesale business, or through retail shops owned by other SMEs. Twenty per cent of them also act as producer-subcontractee, accepting job orders from brokers or wholesalers to produce footwear according to specifications. In most cases, the raw materials are supplied by whoever requested the work. It is a common practice for SMEs with retail shops to offer two prices for their footwear products: one for purchases of one or two pairs, and another for purchases of at least six pairs, which is considered semi-wholesale price. The price per piece goes down as the volume of purchase rises. Half of the women-owned SMEs in the survey sell on the basis of a direct order from a collector, wholesaler, or another retailer, and offer a semi-wholesale price. A third of them have their own retail shop.

Forty per cent of women-owned SMEs are currently exporting and 20 per cent have exported in the past. These SMEs with export experience cater to specialty or niche markets, producing and exporting fashionable leather footwear in low volumes but sold at a price considerably higher than footwear sold in the domestic market. (See "Sixty Per Cent of Women-Owned SMEs Cater to Specialty or Niche Markets.") Those who export or have exported use social media to market their products, and 30 per cent have their own website. A higher education level might contribute to an increased likelihood of accessing these niche, higher-value markets and using social media for marketing. The remaining 40 per cent have export potential, based on the quality of the footwear products they manufacture.

40 per cent of women-owned SMEs are currently exporting, 20 per cent have exported in the past, and 40 per cent have export potential.



Photo credit: Dati Fatimah.



Photo credit: Dati Fatimah.





Sixty Per Cent of Women-Owned SMEs Cater to Specialty or Niche Markets

One female SME owner uses animal derivatives such as leather, snake, and crocodile skins in her fashionable shoe products. She penetrated a niche market via the internet, established her own brand, and opened a shop in a big mall in Jakarta.

Another specializes in artfully hand-painted flat canvas shoes. What began as a hobby of painting shoes and giving them as gifts to family and friends has become a real business. Since establishing her own brand, she has diversified by selling not just hand-painted shoes, but regular yet still fashionable women's shoes.

One woman-owned SME manufactures customized shoes for people with asymmetric feet. People with this condition have difficulty walking, and it is hard to find footwear suited to their needs. Her specialty brand has become known among associations that assist people with this type of physical deformity. Her popularity has extended to countries such as Australia and New Zealand.

Another female SME owner used to work in a shoe factory, but now applies her knowledge and unique creativity to her own footwear business by naming and promoting shoes in line with timely and popular social issues. For example, she produced shoes emblazoned with the phrase "Turn back crime!" when the local police were able to avert a terrorist attack in her city. She sells her products online.

Of the men-owned SMEs surveyed, only 17 per cent are both producers and traders of their own footwear; the remaining 83 per cent supply brokers, collectors, or wholesalers, or perform these three roles themselves. This latter group seem to innovate less, remaining within traditional footwear business lines and operating as subcontractees for other brands.

A male informant in Bandung says most of the shoemakers in his sub-district are part of the sub-contracting (or *makloon*) system. He produces shoes to order for a well-known brand. The system makes the small-scale producer dependent on agents, which can be difficult, especially as payments for work are often slow. However, it is still considered less risky than being on your own, as raw materials are provided

Slightly more than half of the men-owned SMEs surveyed are producer-subcontractees.

and there is no hassle trying to sell the product.⁵⁴ Slightly more than half (52 per cent) of the men-owned SMEs surveyed are producer-subcontractees.

scale producer dependent on agents, which can be difficult, especially as payments for work are often slow. However, it is still considered less risky than being on your own, as raw materials are provided



Photo credit: Julia Sembering.



Photo credit: Rony Soerakoesoemah.

⁵⁴ In-person interview with male subcontractee shoe manufacturer who supplies a popular shoe brand by Rizky Ersya Heryana and Anindita Dyah Puspita Rani, April 12, 2017.





Do Business Practices Differ Between Men- and Women-Owned Footwear SMEs?

Labour Practices

Most of the workers (87 per cent) hired by the footwear SMEs surveyed are involved in production, while the other 13 per cent complete other tasks such as administration, finance, sales, and transport (pickup of raw materials or delivery of finished products). (See Table 4.3.)

TABLE 4.3

MOST FOOTWEAR WORKERS ARE INVOLVED IN THE PRODUCTION PHASE

	Total	Average number per SME
Total number of workers	1,071	19
Number of production workers	929	17
Share of production workers	87%	87%

Source: TPSA gender and trade survey.

There are differences in the tasks that female and male workers do. (See Table 4.4.) Please note that the responses from SMEs in Table 4.4 must be treated as individual responses and do not reflect the aggregate profile of footwear SMEs surveyed, as only 64 per cent (or 36 SMEs) provided answers to these questions. However, Table 4.4 does offer some evidence of the different tasks men and women typically perform.

TABLE 4.4

MEN AND WOMEN PERFORM DIFFERENT TASKS IN FOOTWEAR PRODUCTION

Task	Total labour	
	Men	Women
Design	65	20
Cut	139	1
Sew	216	93
Sole	232	0
Insole	50	0
Press	125	0
Accessories	35	1
Finish	64	60
Package	32	2
Others	24	20
Total	982	197
Share	83%	17%

Source: TPSA gender and trade survey.



Women make up just 17 per cent of footwear production workers.

The footwear production process is dominated by male workers. Women make up just 17 per cent of production workers. The numbers in the breakdown

of production workers by task in Table 4.4 are higher than the number of total workers in Table 4.3, as one worker may be hired for more than one task. For example, a worker might be paid to design, cut, and sew.

No female workers were hired for the following tasks: sole, insole, and press. Only one female worker was hired for adding accessories and one for cutting material. Two female workers were hired for packaging, compared with 32 male workers. The gender differences by task shown in Table 4.4 do not differ based on whether the SME owner is male or female.

There is no breakdown by gender for non-production workers.

Table 4.4 also illustrates gender stereotyping in footwear production, where tasks that require some physical strength are commonly given to male workers, while tasks given to women require neatness and precision. For example, in the production of leather military shoes, cutting the leather, sewing, and joining the upper and lower part of the shoes are assigned to men, while pattern-making, finishing, and packaging are assigned to women. Some SME owners observed that women are more attentive to detail and thus are better able to produce precise patterns and neat finishing touches on the footwear. For the same reason, more female workers are hired in the production of sandals and shoes made of fabric, where they do the stitching and gluing of the top part of the shoes. In some cases, women prefer not to work in footwear production due to unsatisfactory working conditions, such as poor lighting and ventilation and a lack of toilets exclusively for women.

Gender stereotyping is common in footwear production, where tasks that require some physical strength are commonly given to male workers, while tasks given to women require neatness and precision.

However, one medium-sized SME that supplies shoes for the military offers both female and male workers the opportunity to do whatever tasks they are willing to do, regardless of their gender. (See "Beyond Gender-Role Stereotypes.") This practice gives female and male workers equal opportunity to learn new tasks and move up in the company.

Beyond Gender-Role Stereotypes

Over half of the workers in a family-owned footwear firm on the outskirts of Bandung are women. They perform all tasks, from factory worker to manager. Three out of four members of the company's board of directors are women. While gender-role stereotyping is common in the footwear industry, it is different at this firm.

The company's trust in their female employees is made evident in the full range of tasks assigned to them and the wide array of positions they hold. Female employees work in production as assembly line workers doing sewing and gluing, and as production and quality-control supervisors. Some operate machines, a task commonly assigned to male workers at other companies. In the administration department, female employees work as clerks and managers.

The operations manager reported that some employers in the footwear industry view female workers as obedient and more manageable than male workers. But that's not the reason why this company trusts female workers. Their reliability and passion for learning new things make them assets to the company. Although women are not viewed by Indonesian society as principal breadwinners for their families, the company recognizes that, in fact, many of their female workers hold this responsibility.





Export Experience

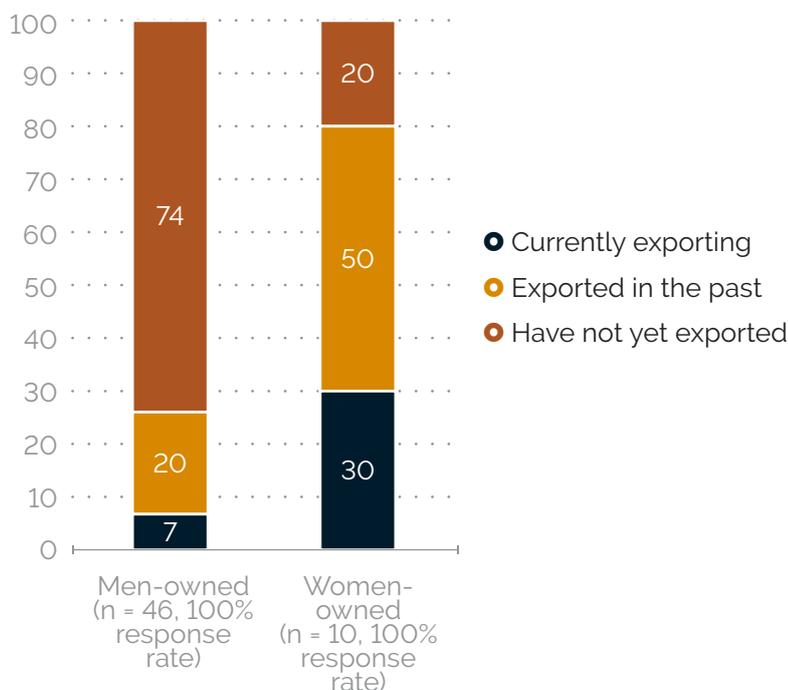
Only six of 56 footwear SMEs reported they are currently exporting (7 per cent of men-owned SMEs and 30 per cent of women-owned SMEs). (See Chart 4.4.) Notably, of the 10 women-owned SMEs who responded, half have exported in the past, while just 20 per cent of men-owned SMEs have done so. That means the proportion of women-owned SMEs with exporting experience is much higher than for men-owned SMEs and is markedly similar to the proportion of women owners who have post-secondary education. That may account for the type of activities that women-owned SMEs engage in, compared with their male counterparts. More women-owned SMEs are or have engaged in exporting and selling their own footwear products to high-end niche markets, while men-owned SMEs are mostly subcontractees for other brands and therefore less involved in exporting, distributing, and selling their own products or labels.

The proportion of women-owned SMEs with exporting experience is much higher than for men-owned SMEs and is markedly similar to the proportion of women owners who have post-secondary education.

CHART 4.4

FEW FOOTWEAR SMEs ARE CURRENTLY EXPORTING

(export experience; percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.

All six of the footwear SMEs currently exporting use bulk cargo rather than personal cargo. One informant, who owns a large footwear firm, chooses to sell his goods to a wholesaler, who in turn exports the goods. He also exports footwear via direct order on a pre-order basis, explaining that "the pre-order method will minimize the risk of future loss." He adds that "many SMEs have no idea [how] to enter the export market or international market."⁵⁵

⁵⁵ In-person interview with a medium-sized footwear firm by Antonius Nur Hadi Kusno, April 23, 2017.





Another informant, who has been in the footwear industry for 30 years, says that although footwear producers in the Cibaduyut area of Bandung have production expertise, they are unable to succeed at exporting “due to the lack of government efforts to provide the necessary knowledge on export procedures,”⁵⁶ and that only a handful of large companies are able to export. He adds that footwear producers are reluctant to export “because it is too complicated for them to deal with the administration and required permits.”⁵⁷

Another male footwear producer corroborates these challenges, explaining that it is difficult to enter the export market due to barriers that include a lack of access to raw materials, making it hard to meet production requirements. In addition, to meet higher production targets, he would have to recruit more workers, which is a challenge in the Bogor sub-district of Ciomas.⁵⁸

Profit Allocation

The vast majority of footwear SME owners surveyed allocate their profits, either in part or in full, back into their business. (See Chart 4.5.) Profits are used to purchase a new or expanded storage facility, new equipment, or a transport vehicle for delivery of finished goods; develop new designs; try out new packaging; or increase production volume. The actual share of profits being reinvested into the company is unknown. The small size of most SMEs may explain why they reinvest profits into their business first and use them to pay for other needs, such as children's education, health, home improvement, and vacation, second.

Men are more likely to use profits for private consumption, while women are more likely to allocate profits to other spending, such as repayment of debts.

Some differences emerge between men- and women-owned SMEs: men are more likely to use profits for private consumption, while women are more likely to allocate profits to other spending, such as repayment of debts.



Photo credit: Julia Sembering.

⁵⁶ In-person interview with male subcontractee of shoes supplying a popular shoe brand by Rizky Ersa Heryana and Anindita Dyah Puspita Rani, April 12, 2017.

⁵⁷ Ibid.

⁵⁸ In-person interview with male owner of medium-sized shoe firm who also acts as subcontractor and wholesaler by Mulyana, April 23, 2017.

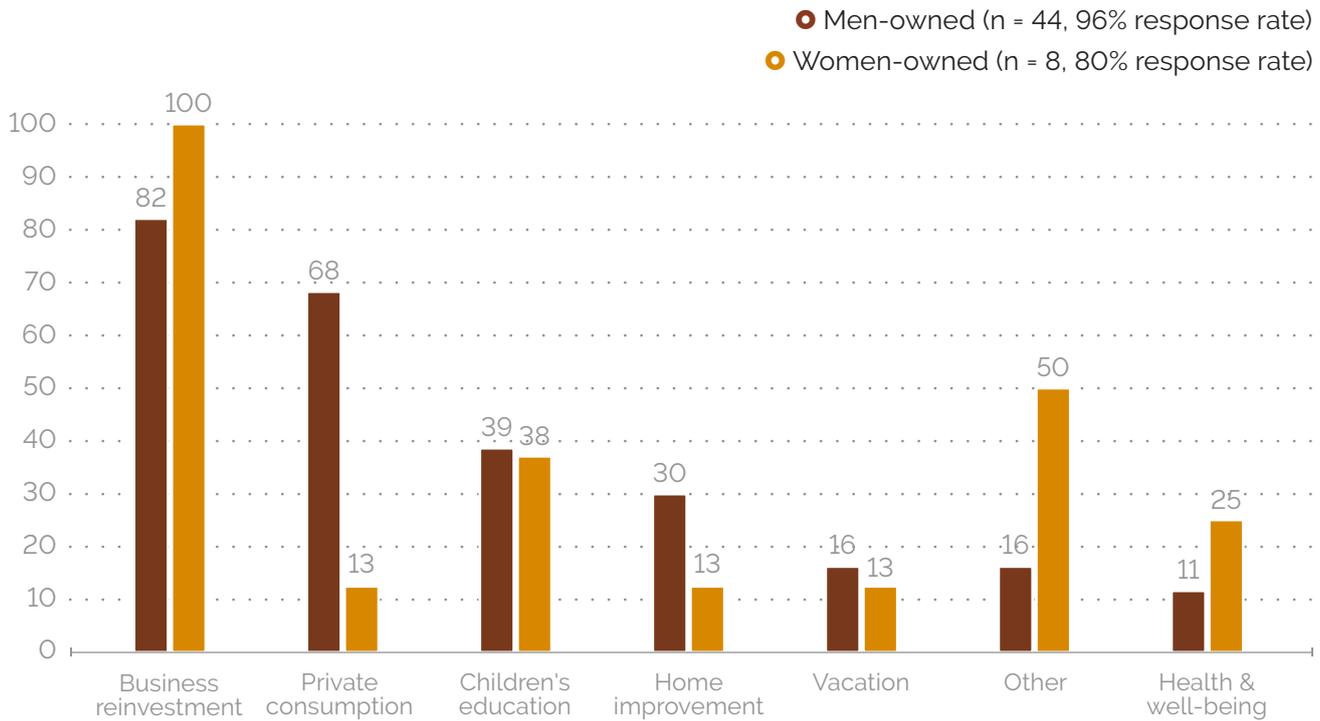




CHART 4.5

MOST FOOTWEAR SMEs REINVEST PROFITS BACK INTO THE BUSINESS

(profit allocation by gender; percentage of respondents)



Note: Respondents could choose more than one option.

Source: TPSA gender and trade survey.

Decision-Making

An important part of analyzing the impact of gender differences on exporting is understanding who makes decisions on behalf of an SME, particularly in the areas of production, human resources (hiring, firing, and supervising workers), finance (where to access additional capital, how to use working capital, how to allocate profits), and domestic or export marketing (where or to whom to sell, at what price). The survey results reveal that, across all three industries, the business owner is the main decision-maker for most aspects of the business. Thus, women make decisions for women-owned SMEs, and men make decisions for men-owned SMEs. This is true in the footwear industry for decisions around production, human resources, finance, and domestic sales marketing. (See Chart 4.6.)

While decisions on how to allocate business profits are generally made by the business owner, there are cases where the decision is made jointly by the husband and wife.

For example, in all women-owned footwear SMEs, production decisions are made or dominated by women; in 91 per cent of men-owned footwear SMEs, these decisions are made or dominated by men. For the remaining 9 per cent of men-owned SMEs, production decisions were made or dominated by women, or made jointly by men and women, usually spouses.

For decisions around finance, again men make the decisions in men-owned SMEs and women make the decisions in women-owned SMEs. However, a closer look at the detailed data shows that while decisions on how to allocate business profits are generally made by the business owner, there are cases where the decision is made jointly by the husband and wife. For example, in 40 per cent of women-owned SMEs, the decision to reinvest in the business is made jointly by the couple.



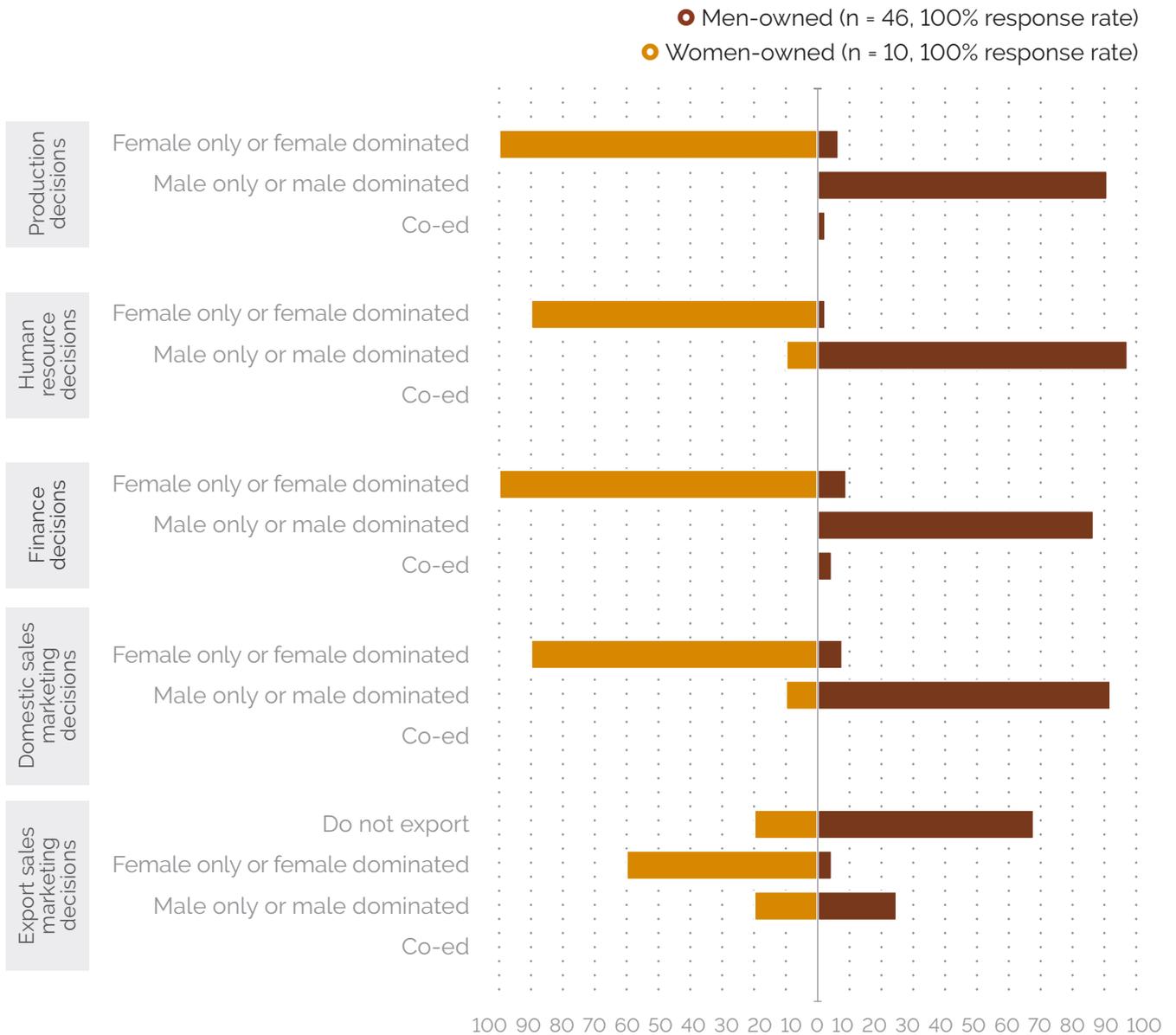


One notable exception is export sales and marketing, where decisions at women-owned SMEs were often made or dominated by men. Chart 4.6 reveals that fewer women make decisions for men-owned SMEs than men make for women-owned SMEs.

CHART 4.6

MOST BUSINESS DECISIONS ARE MADE BY THE OWNER OF THE FOOTWEAR SME, REGARDLESS OF GENDER

(decision-making power by gender; percentage of respondents)



Source: TPSA gender and trade survey.





Key Differences in Business Practices

- The footwear production process is dominated by male workers, with women making up only 17 per cent of workers hired for production.
- Gender stereotyping is widespread in footwear production: Tasks that require some physical strength are commonly given to male workers, while tasks assigned to women require neatness and precision.
- The proportion of women-owned SMEs who currently export or have exported in the past is much higher than that of men-owned SMEs.
- While both women-owned and men-owned SMEs reinvest profits in their business, men-owned SMEs are more likely to use profits for private consumption, while women are more likely to allocate them to other types of spending, such as repayment of debts or health and well-being.
- While the business owner is the main decision-maker for four aspects of the business (production, finance, human resources, and domestic marketing), decisions about export sales and marketing in women-owned SMEs are often made or dominated by men.

Do Women in the Footwear Industry Have Access to the Resources Needed to Run Their Business and to Export?

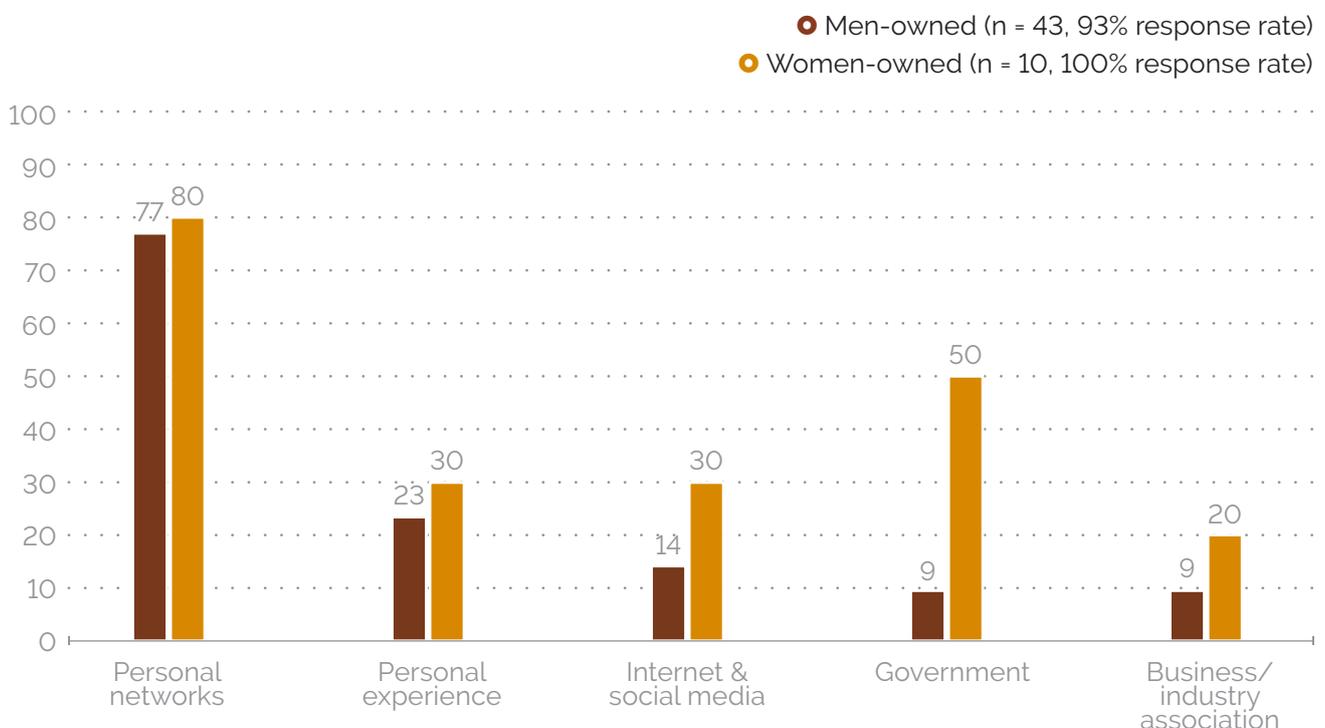
Market Information

To effectively run their business, both domestically and internationally, SMEs need information about market opportunities and requirements. Footwear survey respondents were asked to identify where they obtain information about how to distribute and sell their products. They could choose more than one source. For both men- and women-owned footwear SMEs, the most-cited source was the respondent's personal network, including friends and relatives. (See Chart 4.7.) A larger share of women used other sources, including government, the internet and social media, personal experience, and business and industry associations.

CHART 4.7

MOST FOOTWEAR SMEs RELY ON THEIR PERSONAL NETWORKS FOR MARKETING INFORMATION

(source of marketing information; percentage of respondents)



Note: Respondents could choose more than one option.

Source: TPSA gender and trade survey.



Production Information

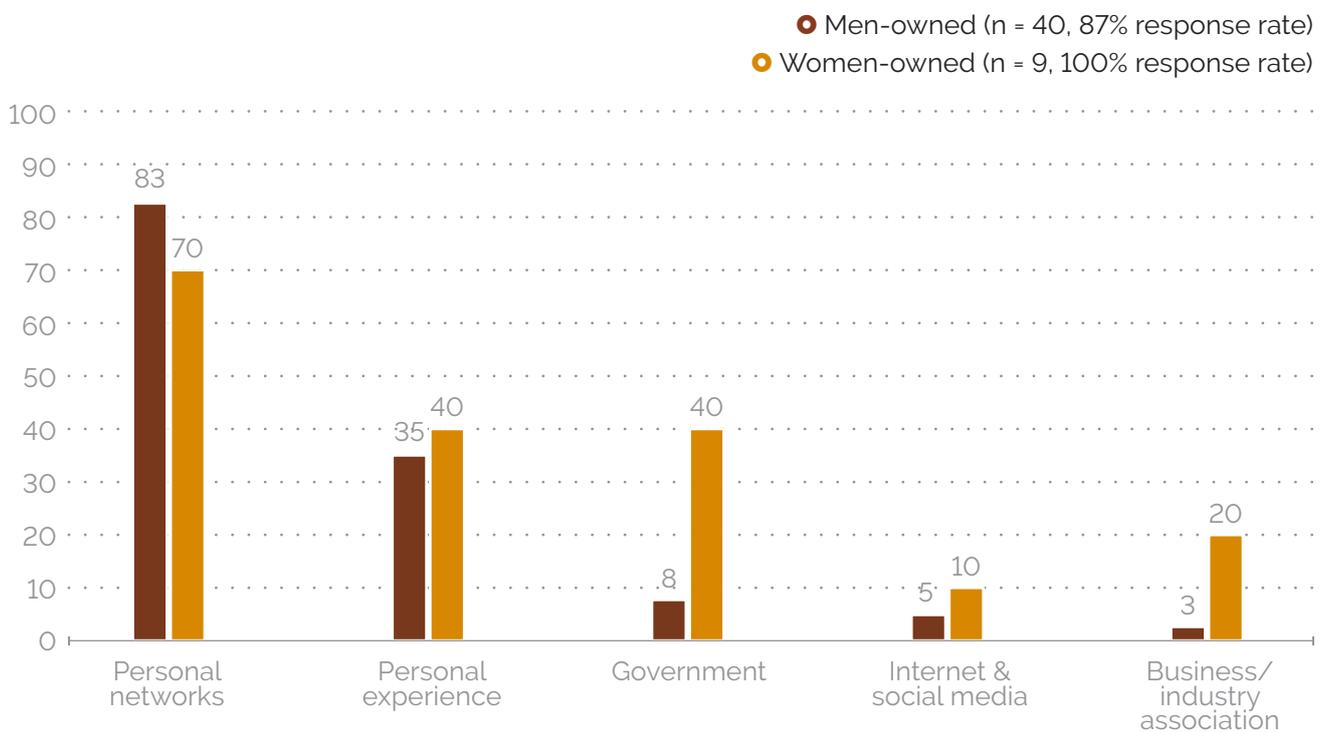
Similarly, when SMEs were asked where they find information about the production side of their business, including labour, raw materials, use of equipment and machinery, and production processes, most reported relying on personal networks, including family and friends. (See Chart 4.8.) The proportion of women-owned SMEs who get production information from sources other than personal networks is higher than for men-owned SMEs. The fact that a larger share of women-owned SMEs are currently exporting or have exported in the past could account for this difference.

The proportion of women-owned SMEs who get production information from sources other than personal networks is higher than for men-owned SMEs.

CHART 4.8

MOST FOOTWEAR SMEs RELY ON THEIR PERSONAL NETWORKS FOR PRODUCTION INFORMATION

(source of production information; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.





Government Support

A larger share (70 per cent) of women-owned footwear SMEs surveyed reported having interactions with government institutions, compared with 33 per cent of men-owned SMEs. Interaction was broadly defined, and included seeking information about a wide range of industry-related topics, as well as visits from extension workers with provincial and local governments, the Ministry of Trade, Ministry of Cooperatives and SMEs, and Ministry of Industry. The surveyed SMEs in the footwear industry have less interaction with government than those in the coffee or apparel industries.

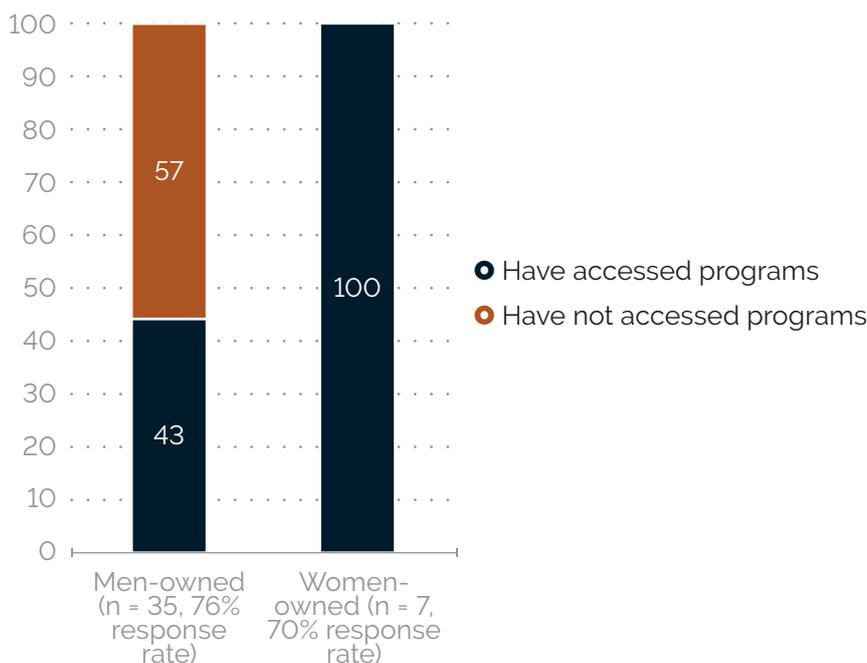
The surveyed SMEs in the footwear industry have less interaction with government than those in the coffee or apparel industries.

The larger share of women-owned SMEs interacting with government institutions translates into a higher proportion accessing government support. (See Chart 4.9.) Only 44 per cent of men-owned SMEs accessed government assistance, while all of the women-owned SMEs who answered this question reported having accessed government support.

CHART 4.9

A LARGER SHARE OF WOMEN-OWNED FOOTWEAR SMEs HAVE ACCESSED GOVERNMENT ASSISTANCE PROGRAMS

(percentage of respondents)



Source: TPSA gender and trade survey.



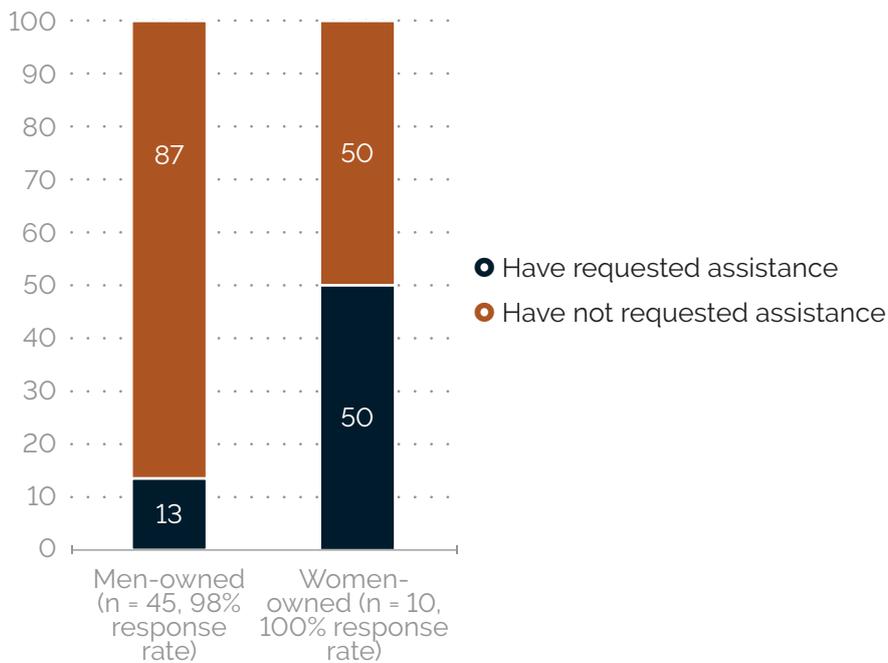
Export Assistance

SME owners were asked if they had ever requested assistance with expanding their exports or starting to export. Only 13 per cent of respondents from men-owned SMEs reported doing so, while half of women-owned SMEs did. (See Chart 4.10.) Given the small number of footwear SMEs engaged in exports, these low numbers can be expected.

CHART 4.10

WOMEN-OWNED FOOTWEAR SMEs ARE MORE LIKELY TO REQUEST EXPORT ASSISTANCE

(percentage of respondents)



Source: TPSA gender and trade survey.



Photo credit: Julia Sembering.





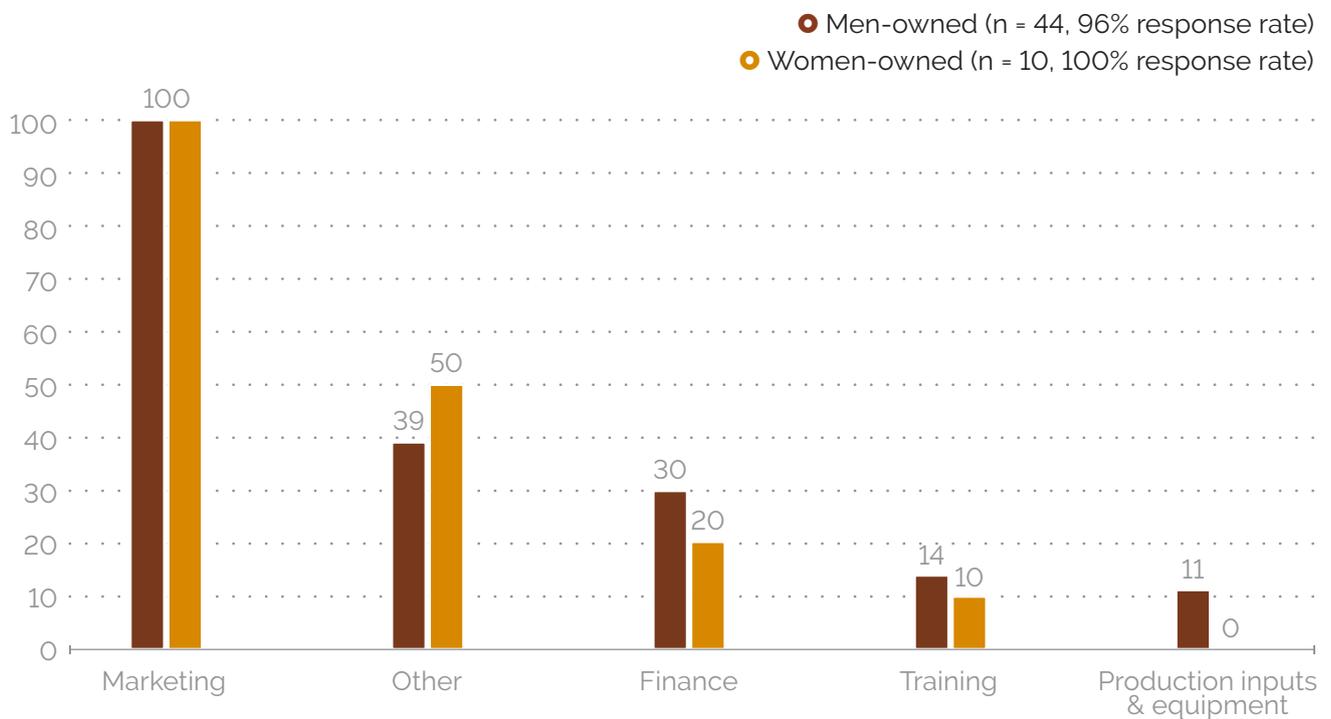
Respondents were then asked what type of export assistance they would like to receive, and could select multiple answers. While few footwear SMEs had sought export assistance, all responded that they would like help understanding how to export, making connections with buyers, and finding market information. (See Chart 4.11.) A male informant observes that SMEs need long-term facilitation to access profitable markets.⁵⁹ Thirty per cent of men-owned SMEs and 20 per cent of women-owned SMEs want financial assistance with exporting. Some women-owned SMEs noted that they would like help with labour inputs and production capacity issues. In the “other” category, the most common help wanted by both men-owned and women-owned SMEs was with regulation, infrastructure, and shipping methods.

30 per cent of men-owned SMEs and 20 per cent of women-owned SMEs want financial assistance with exporting.

CHART 4.11

FOOTWEAR SMEs WOULD LIKE HELP ACCESSING EXPORT MARKETS

(type of export assistance requested; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.

⁵⁹ In-person interview with male owner of medium-sized shoe firm, who also acts as subcontractor and wholesaler by Mulyana, April 23, 2017.



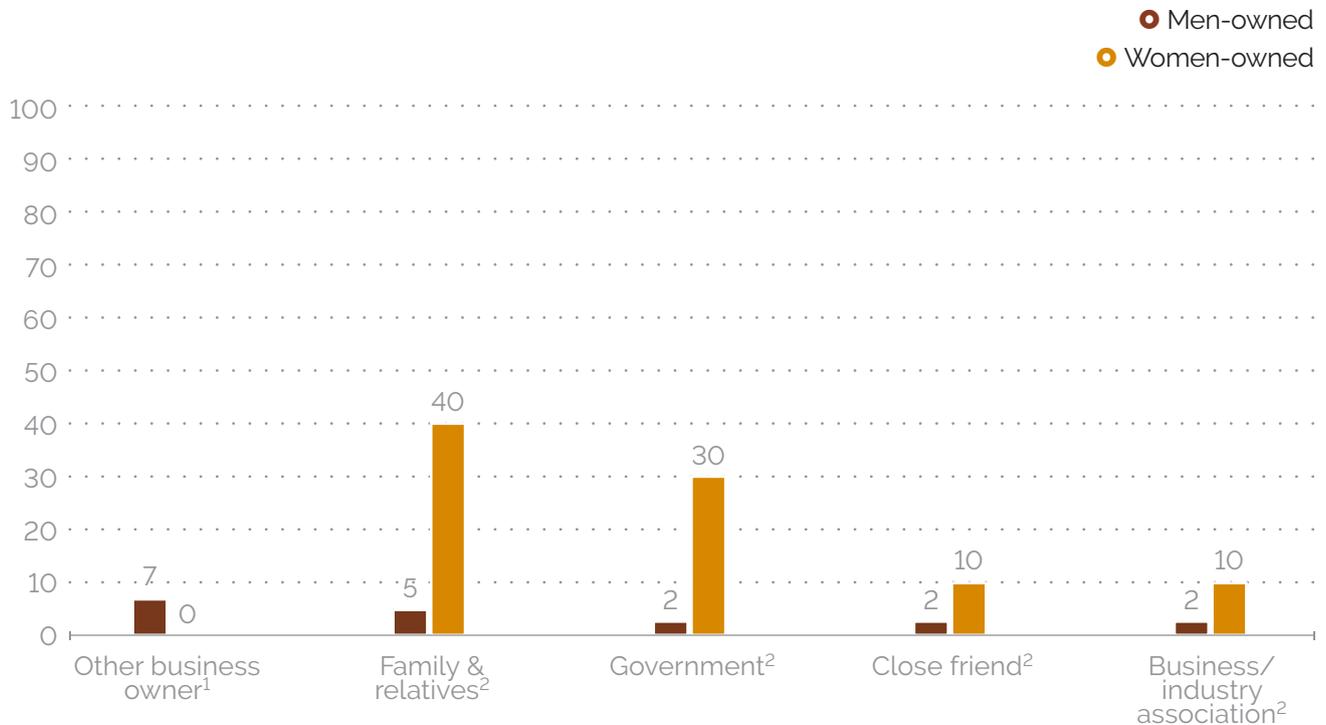


Women-owned footwear SMEs are also much more likely to reach out for export assistance than men, mostly to family and government. (See Chart 4.12.)

CHART 4.12

WOMEN-OWNED FOOTWEAR SMEs MORE LIKELY TO ASK FOR ASSISTANCE

(source of export assistance; percentage of respondents)



¹ Men-owned (n = 45, 98% response rate); women-owned (n = 10, 100% response rate)

² Men-owned (n = 44, 96% response rate); women-owned (n = 10, 100% response rate)

Note: Respondents could choose more than one option.

Source: TPSA gender and trade survey.



Photo credit: Dati Fatimah.





Finance

Most respondents in the footwear industry rely on their own knowledge for information about financing. Some SMEs, regardless of the owner's gender, have trouble accessing financial resources from external

75 per cent of women-owned SMEs want government help to access capital.

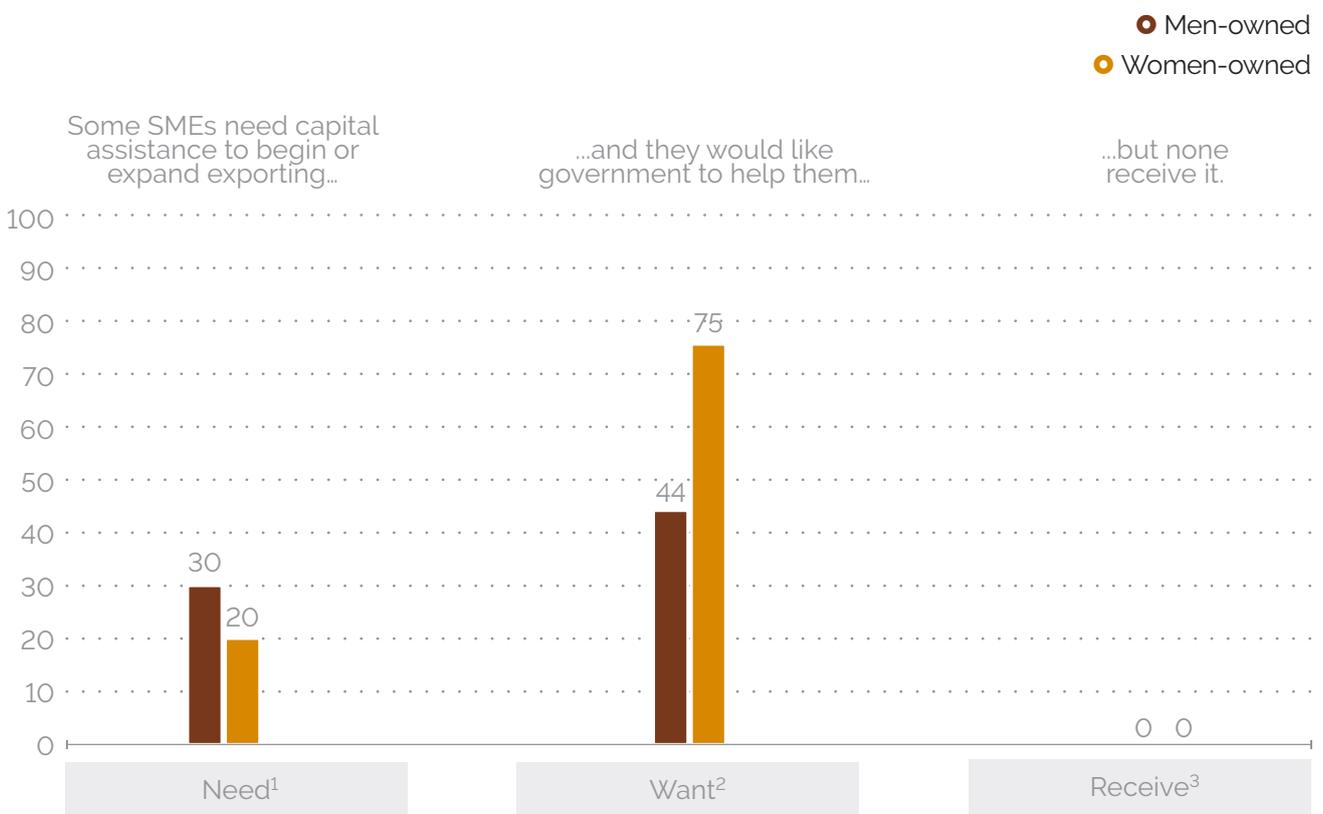
sources. Thirty per cent of respondents from men-owned SMEs and 20 per cent from women-owned SMEs have trouble accessing capital, mainly due to high interest rates and collateral demands from

formal financial service providers, such as banks. A much larger share (44 per cent of men-owned SMEs and 75 per cent of women-owned SMEs) say they would like government support to help them access capital; however, none have received it. (See Chart 4.13.)

CHART 4.13

FOOTWEAR SMEs WANT FINANCIAL HELP FROM GOVERNMENT BUT DON'T GET IT

(percentage of respondents)



¹ Men-owned (n = 43, 93% response rate); women-owned (n = 10, 100% response rate)

² Men-owned (n = 36, 78% response rate); women-owned (n = 8, 80% response rate)

³ Men-owned (n = 8, 17% response rate); women-owned (n = 6, 60% response rate)

Source: TPSA gender and trade survey.





The source of initial and subsequent capital for men-owned SMEs is a man, usually the owner himself, 96 and 78 per cent of the time. (See Table 4.5.) Four per cent of men-owned SMEs received their initial and subsequent business capital from both men and women, likely their parents or a married couple. No men-owned SMEs borrowed initial capital from women only, and just 2 per cent did so for subsequent capital. Eighty per cent of women-owned SMEs borrowed initial capital from women, while 20 per cent borrowed from both men and women. For subsequent capital, 70 per cent of women-owned SMEs borrowed from women, while 20 per cent borrowed from both men and women.

TABLE 4.5

MEN- AND WOMEN-OWNED FOOTWEAR SMEs HAVE DIFFERENT SOURCES OF CAPITAL

(percentage of respondents)

Creditor for initial business capital			
	Men-owned SMEs (n = 46, 100% response rate)		Women-owned SMEs (n = 10, 100% response rate)
Men-owned from men	96	Women-owned from men	0
Men-owned from men and women	4	Women-owned from men and women	20
Men-owned from women	0	Women-owned from women	80
Creditor for subsequent business capital			
	Men-owned SMEs (n = 45, 98% response rate)		Women-owned SMEs (n = 10, 100% response rate)
Men-owned from men	78	Women-owned from men	0
Men-owned from men and women	4	Women-owned from men and women	20
Men-owned from women	2	Women-owned from women	70
No subsequent capital needed	16	No subsequent capital needed	10

Source: TPSA gender and trade survey.



Table 4.6 shows the diverse sources of capital that SMEs borrowed from. While most men-owned SMEs (89 per cent) rely on themselves or family as sources of initial capital, slightly more than half of them get their subsequent capital from banks (51 per cent) or other actors in the value chain (16 per cent) such as subcontractors. The same pattern can be observed among women-owned SMEs, as they rely on their personal savings and family to source initial capital and seek wider sources for subsequent capital. However, 60 per cent of them continue to rely on the same sources of initial capital—themselves and their families.

TABLE 4.6
FOOTWEAR SMEs DRAW ON DIVERSE SOURCES FOR CAPITAL
 (percentage of respondents)

Sources of capital	Men-owned SMEs		Women-owned SMEs	
	Initial capital (n = 44, 95% response rate)	Subsequent capital (n = 43, 93% response rate)	Initial capital (n = 10, 100% response rate)	Subsequent capital (n = 10, 100% response rate)
Bank	2	51	0	20
Family	23	5	50	30
Personal capital	66	26	50	30
Other person in the value chain	7	16	0	0
Friends	2	2	0	0
Partnership	0	0	0	10
Savings and credit cooperatives	0	0	0	10

Source: TPSA gender and trade survey.

Survey data also showed that the amount men-owned SMEs borrow is larger (ranging from Rp 10 million to Rp 1 billion) than that of women-owned SMEs (ranging from Rp 5 million to Rp 300 million). Women are less inclined to borrow, due to the high interest they have to pay, the high risks of borrowing, and the inflexibility of repayment arrangements required by formal lending institutions. Furthermore, SMEs owned by women are smaller than those owned by men.



Training

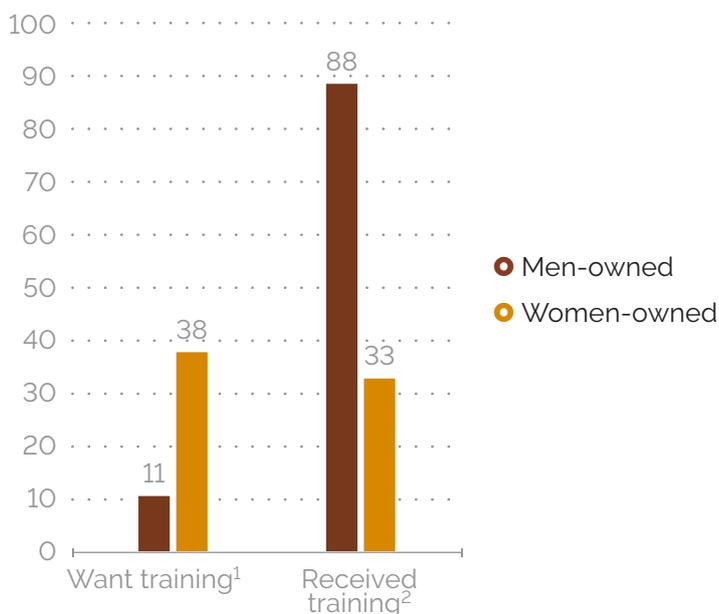
Footwear SMEs owned by women are more likely to want government-assisted training. Thirty-eight per cent of women-owned SMEs reported wanting government to help them improve their business through training, compared with only 11 per cent of SMEs owned by men. (See Chart 4.14.) Yet 88 per cent of men-owned SMEs had received training, while just 33 per cent of women-owned SMEs had done so. It should be pointed out that very few men-owned SMEs answered this question, but it is still interesting that there was a disconnect between the type of training SMEs described wanting from government and what they have received. Training was one of the most common forms of assistance offered by government, and a large proportion of SMEs have received it, but a higher share of footwear SMEs said they wanted government help to facilitate links with markets to support their business. They also reported wanting government help with financing. This is not to conclude that training was not useful; it could be that they have already received training and now want assistance in other areas, such as financing and trade facilitation.

A high share of footwear SMEs said they wanted government help to facilitate links with markets.

CHART 4.14

WOMEN-OWNED FOOTWEAR SMEs MORE LIKELY TO WANT GOVERNMENT-ASSISTED TRAINING

(percentage of respondents)



¹ Men-owned (n = 36, 78% response rate); women-owned (n = 8, 80% response rate)

² Men-owned (n = 8, 17% response rate); women-owned (n = 6, 60% response rate)

Source: TPSA gender and trade survey.

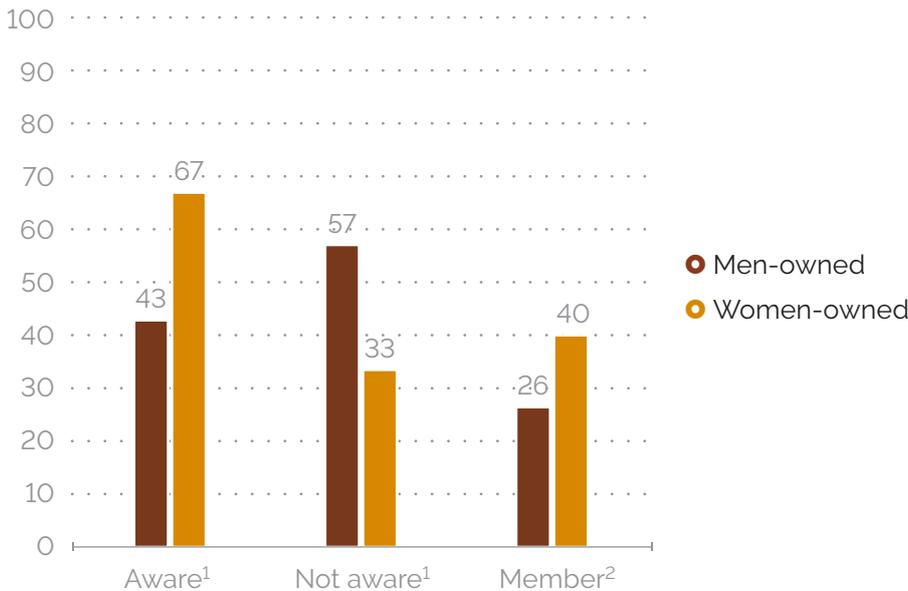


Business Networks

Footwear-industry SMEs are less likely to join a business or industry association than those in the coffee industry, and men-owned SMEs in the footwear industry are less aware of associations than those in the coffee industry. A higher share of women footwear SME owners are aware of associations compared with male owners. Among female respondents, 67 per cent report being aware of associations, while only 43 per cent of men are. (See Chart 4.15.)

CHART 4.15

FEW MEN-OWNED FOOTWEAR SMEs ARE AWARE OF ASSOCIATIONS; EVEN FEWER JOIN THEM (percentage of respondents)



¹ Men-owned (n = 42, 91% response rate); women-owned (n = 9, 90% response rate)

² Men-owned (n = 21, 46% response rate); women-owned (n = 6, 60% response rate)

Source: TPSA gender and trade survey.

As in the coffee and apparel industries, awareness does not always translate into membership. The rate of association membership for men-owned SMEs is modest, at 26 per cent. Women are more likely than their male counterparts to be association members, at 40 per cent, but that number is still lower than the share who are aware of associations. A small number of respondents reported believing there are few or no benefits to membership, attributing this belief to governance issues within the association, inactive associations, or associations targeting specific types of producers. For example, one respondent said that the benefits of association membership are often not fairly distributed among members.

Women are more likely than their male counterparts to be association members.

If a footwear SME does join an association, it is more likely to be a local association than a national one. Local associations include the Asosiasi Sepatu Sandal Cipadung, Tamansari (Sandal Footwear Association of Cipadung, Tamansari, or ASSCT), the Paguyuban Pengrajin Sepatu Bogor Raya (Community of Footwear Craftspeople of Bogor Raya, or PPSBR), the Asosiasi Pengrajin Sepatu Ciomas in Bogor (Association of Footwear Craftspeople in Ciomas, Bogor, or APSC), and the Asosiasi Pengrajin Alas Kaki Indonesia (Association of Footwear Craftspeople in Bandung, or APAI).





Among the four women-owned SMEs who are members of an association, three shared their thoughts on the benefits of membership, which for them include information about markets and production inputs as well as training. Those were also the benefits most frequently cited by the 12 men-owned SMEs who shared their perspectives.

Key Differences in Access to Resources

- A larger share of women-owned than men-owned SMEs consulted sources other than their personal networks for market and production information.
- All women-owned SMEs had received some form of government support, compared with less than half of men-owned SMEs.
- A larger share of women-owned footwear SMEs reported interacting with government institutions and accessing government assistance.
- Half of the women-owned SMEs had requested export assistance, compared with only 13 per cent of men-owned SMEs.
- Women-owned footwear SMEs are much more likely to reach out for export assistance than men, mostly to family and government.
- Men-owned SMEs tend to access subsequent capital from external sources, especially banks, rather than personal capital or family (as they do for initial capital), while women-owned SMEs rely more on personal capital and family for both initial and subsequent capital.
- While women-owned SMEs are more likely than men-owned to want government-assisted training, a larger share of men-owned than women-owned SMEs actually received such training.
- More women-owned than men-owned SMEs are aware of and are members of business or industry associations.

Do the Challenges Footwear SMEs Face Differ by Gender?

Some footwear respondents reported that the Indonesian footwear industry declined between the 1980s and the 2000s. They attributed this decline to the flooding of the market with cheap imports from China that locally made footwear cannot compete with. SMEs surveyed in all three industries reported facing considerable challenges to building a company with export potential. Barriers exist at all stages of operating a business, including exporting.

SMEs surveyed in all three industries report facing significant challenges to building a company with export potential.

General Business Challenges

The top challenge for footwear firms is finding skilled labour and accessing raw materials (these two issues are grouped together under production). (See Chart 4.16.) The difference between women and men who regard production as a main business challenge may be explained by the fact that more than

More than half of the women-owned SMEs surveyed cater to a niche, higher-end market and sell directly to customers.

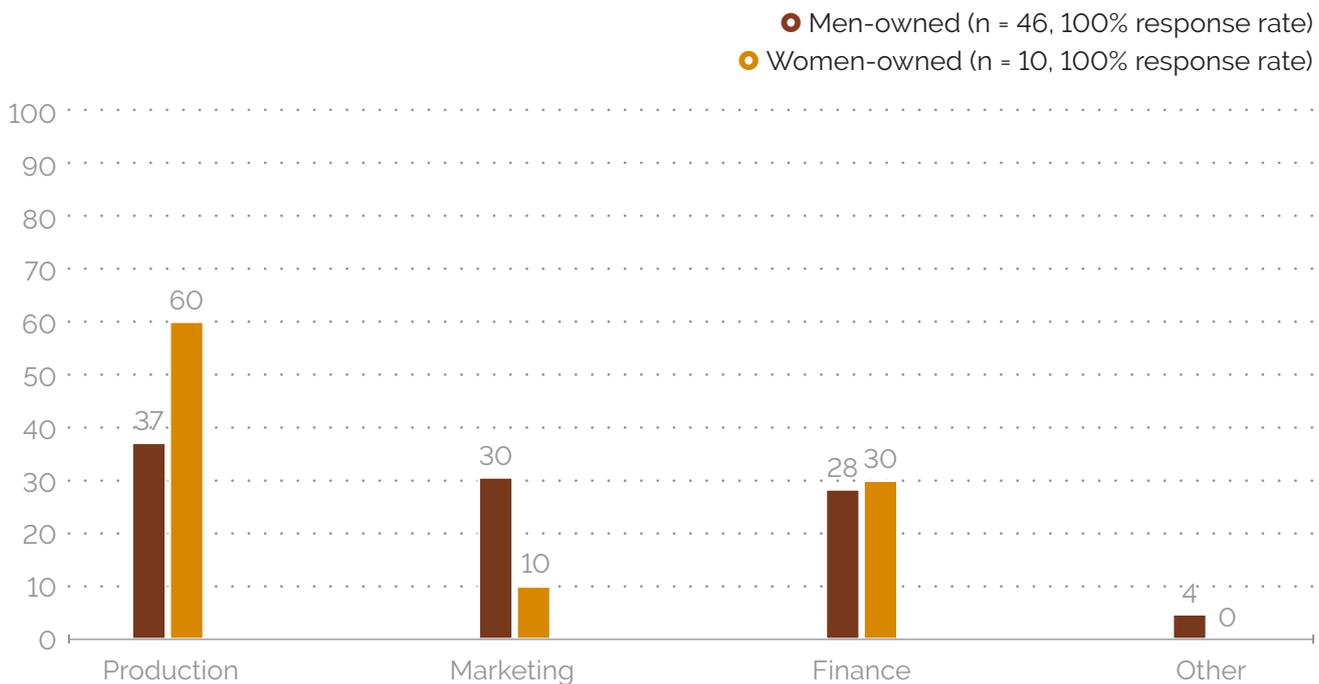
half of the women-owned SMEs surveyed cater to a niche, higher-end market and sell directly to customers. These SMEs produce leather footwear that requires highly skilled workers to produce high-quality products.



CHART 4.16

FOOTWEAR SMEs FACE DIVERSE BUSINESS CHALLENGES

(type of challenge; percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.

Production

Across all three industries, some 17 per cent of respondents listed access to raw materials as one of the challenges they face. In the footwear industry, 15 per cent of male owners highlighted this as a challenge, as did 30 per cent of female owners. Some raw materials, such as leather, are expensive, while others, such as fabric, buttons, soles, insoles, and thread, are sometimes unavailable. Imported raw materials are usually difficult to obtain, especially when their release is held up by customs.

A male owner of a footwear business in Bandung reports that limited availability of raw materials, which he purchases from Jakarta and Tangerang, is the main challenge for his business, which requires synthetic leather and fabric that are both imported from China. He recounts that he had to shut down production for two weeks in 2016 “as the imported materials were retained [at port], without any clear reason.”⁶⁰

An informant who supplies the footwear industry in the town of Cikupa within the Tangerang district explains that the lack of prompt access to good-quality raw materials constrains the quality of goods that can be produced. There is also competition among SMEs for raw materials, especially during peak seasons such as *Idul Fitri* (the festival celebrating the end of Ramadan in the Muslim faith). As a supplier of raw materials, he sees himself as being in a privileged situation.⁶¹

The lack of prompt access to good-quality raw materials constrains the quality of goods that can be produced.

⁶⁰ In-person interview with male owner of medium-sized footwear firm by Mulyana, April 23, 2017.

⁶¹ In-person interview with male footwear SME owner by Antonius Nur Hadi Kusno, April 20, 2017.



Each of the three industries rely on skilled labour to produce their products. Across all three industries, just over 13 per cent of respondents report that finding skilled labour is a challenge. The percentage is slightly higher for women-owned businesses, including those in footwear, at 21 per cent.

The footwear industry relies on qualified workers, but the number of skilled workers has declined as fewer young people are interested in working in the industry. Some of those with experience and skill in footwear-making have started their own businesses, exacerbating the already-stiff competition caused by cheap Chinese imports. A male footwear entrepreneur producing leather shoes says that although there is a large labour supply, it is difficult to find those with the skills to make shoes from genuine leather, which is more difficult to work with than imitation leather.⁶² Unskilled workers need to be trained to produce shoes whose quality is acceptable to the SME owner and to buyers.

The footwear industry relies on skilled workers, but their number has declined as fewer young people are interested in working in the industry.

A female footwear worker cites hiring workers as a challenge. She says it is difficult to hire men in the Cibaduyut area of Bandung. More men than women are needed in the leather footwear industry because some tasks, such as sole-making and quality control,

are usually done by men. She adds that "many of the workers who are skilled in this industry leave the profession or move to other places such as Jakarta or Bogor to secure higher wages. In the past, children would be involved in production from an early age, gaining the required skills to become master craftsmen. This regeneration no longer occurs, as government regulations now forbid young children from working." She also explains that "after completing high school, they are generally not interested in becoming shoemakers; they seek jobs with higher wages."⁶³ Quick turnover is common in the footwear industry, which further affects the productivity and profitability of the business.

Female workers are preferred for making sandals and shoes from soft materials such as fabric, because the work requires pattern-cutting, gluing, and sewing, and does not involve stretching and fitting leather into molds, which requires great physical strength (presumed to be possessed in greater quantity by men).

Marketing

Marketing was cited as a major challenge by 30 per cent of male respondents in the footwear industry, compared with 10 per cent of female respondents. As mentioned above, Indonesian footwear SMEs face serious competition from cheap footwear imports from China, and while locally made footwear may be of better quality, customers prefer to buy the cheaper imports. Difficulty selling footwear can also be attributed to a lack of information about potential buyers and their demands, especially in the export market. To combat these marketing challenges, SMEs broaden their markets by reaching out to different segments and not limiting themselves to specific individual buyers. Thus, it is common for an SME to sell to wholesalers, other small retailers, department stores, and distributors, as well as in his or her own shop. Others sell both imported Chinese-made footwear and locally made shoes. A few are starting to sell online. Women-owned SMEs, in particular, target high-end niche markets.

⁶² In-person interview with male footwear SME owner by Mulyana, April 23, 2017.

⁶³ In-person interview with young female worker at an SME by Anindita Dyah Puspita Rani, April 13, 2017.





SMEs Speak About... Taking Advantage of E-Commerce

One young female footwear SME owner has chosen to embrace the increasing trend toward e-commerce in Indonesia. "Some say the economy is sluggish, because the mall is now deserted. In my opinion, it is because people have switched to buying online. That's why internet traffic is bustling," she says. Her target market is upper-middle-class Indonesians, especially fashion-conscious women who are particular about comfort. This group is not particularly price-sensitive, but is very concerned about service and quality. Therefore her business must be highly responsive to customers through its website and social media platforms, such as Instagram and Facebook.

When she started out, the major challenge her business faced was convincing clients that its products were reliable, as many Indonesians have had negative experiences with online shopping. A frequent complaint is that the product received is different or of lower quality than what was promised by the seller. Fulfilling promised specifications and product quality, as well as being responsive to customers, are essential to building customer confidence.

Her business offers free return shipping as well as full reimbursement if the buyer is dissatisfied. In doing so, the owner believes that satisfied customers will promote her products to others. Her experience has shown that one happy buyer brings in a minimum of three other buyers.

"I have been helped by many people who wear our products and offer testimonials through our social media platforms, and I do not have to pay them for it."

—Female owner of a footwear SME in Bandung

A male informant who owns a large footwear business says that "the obstacle to exporting for an SME is ultimately [related to] the difficulty in obtaining information about foreign markets and the fact that these markets are already saturated with goods from China. It is also a challenge to get imported raw materials. The government's export assistance consists mainly of offering multiple in-class trainings on exporting, but the approach is not effective, and what SMEs need is someone to facilitate their access to new markets."⁶⁴

Finance

Accessing capital is a common problem for SMEs, and the survey results indicate that over 30 per cent of respondents in the footwear industry see it as a major challenge to developing their business. SMEs need capital to buy raw materials and packing materials, pay workers, and cover shipping costs. The need for extra capital arises when an SME receives large or multiple orders, thus requiring more funds to pay for the cost of the above items. Many SMEs are beset with liquidity problems, as workers are paid weekly and always in cash, yet payment for products sold is done by cheque, whose clearing period can be three months from the date of issue. A manufacturer's profit margin is usually low. In many cases, sales are made on a consignment basis, which further worsens an SME's liquidity problem. These businesses need adequate working capital to cover the cost of completing large orders while maintaining regular inventory and the ability to pay their workers in cash and on time.

Over 30 per cent of respondents in the footwear industry cite accessing capital as a major challenge to developing their business.

Constrained access to capital is felt acutely by SMEs engaged by subcontractors, where price is determined by the subcontractor and income is derived solely from payment for finished products, yet workers must be paid weekly in cash.

⁶⁴ In-person interview with male footwear SME owner by Antonius Nur Hadi Kusno, April 20, 2017.



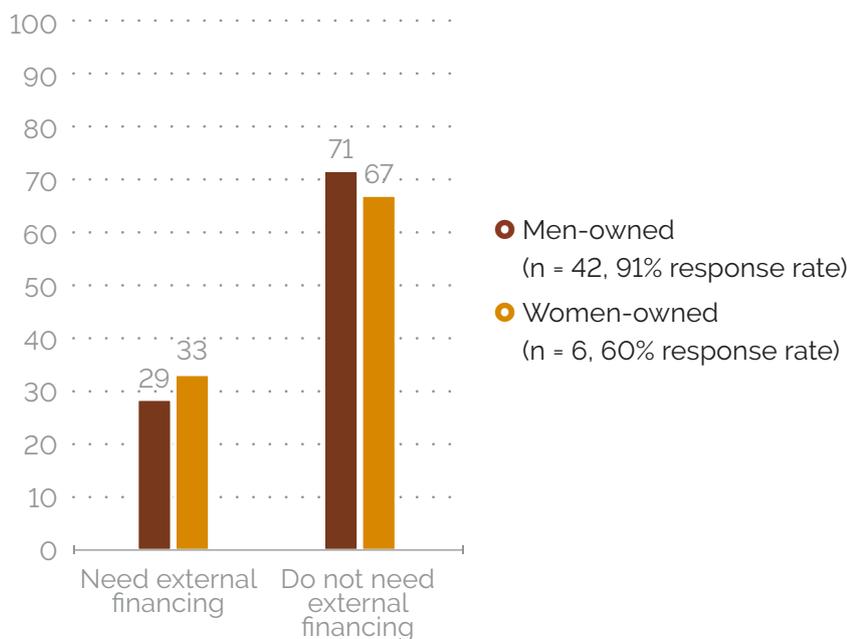


Despite identifying access to capital as a major challenge, most respondents said they do not rely on external loans or financing. (See Chart 4.17.) Most SMEs prefer to rely on their own savings for capital, but if those prove inadequate, they borrow from family, business partners, or friends, rather than a bank. For example, a male footwear business owner explains that he inherited his business from his parents, and when he had enough money saved, he opened a wholesale shoe store.⁶⁵

CHART 4.17

MOST FOOTWEAR SMEs DON'T RELY ON EXTERNAL FINANCING

(percentage of respondents)



Source: TPSA gender and trade survey.

There are several reasons why SMEs prefer not to borrow from banks:

- SMEs find bank interest rates high. This is particularly true for domestic banks, where interest rates range between 12 and 15 per cent. An interest rate above 10 per cent is considered high by most SMEs.
- Banks require collateral equivalent to at least 30 per cent of the loan amount.
- Applying for a loan is time-consuming, requiring an SME to gather pertinent business documents and await the application's processing and approval, when they need the funds immediately.
- In some cases, the minimum amount available for loan is higher than the amount an SME needs. Many banks require borrowers to take out a minimum loan of Rp 100 million.
- The repayment schedule is incompatible with the production and income cycles of their business. Many banks require fixed monthly repayments over a period of one year. Banks' inflexibility concerning repayment often puts SMEs in a bind, as they must try to meet their financial obligations to suppliers and workers while repaying their loan. Some SMEs reported avoiding borrowing from banks after such experiences.

The government has introduced programs to enhance SME access to capital. One such program was the *Kredit Usaha Rakyat* or KUR (People's Credit for Business), where the interest rate for loans to SMEs

⁶⁵ In-person interview with male footwear SME owner by Mulyana, April 23, 2017.





was reduced from 22 per cent to 12 per cent.⁶⁶ A few of the SMEs surveyed borrowed through the KUR program, but while the official interest rate was lower, some reported still having to pay unofficial fees.

A female informant reports that she wanted to borrow from a bank, but after discussing it with her husband, decided not to because the interest was too high and the bank required a lot of collateral. She says that she needs the capital, but at a lower interest rate. Another female informant says obtaining a bank loan takes a long time, and she needs money quickly.⁶⁷

It is also noteworthy that there was a high non-response rate by women-owned firms to finance-related questions such as this one, with 40 per cent declining to answer, while just under 9 per cent of male respondents declined to respond. The reasons for this disparity are not clear.

In cases where a loan was obtained, the business owner is likely to be the principal investor in the business or the main loan or credit applicant for the business, for both initial and subsequent capital fundraising. As noted above, the research found that, overwhelmingly, the owner makes business decisions for his/her SME. It therefore follows that he or she is the most likely investor and the principal credit applicant.

Export Challenges

Those SMEs already exporting report challenges related specifically to such activity. In the footwear industry, the top challenge was lack of access to information about markets, such as where potential markets are located and what type and style of footwear they want. (See Chart 4.18.) This challenge is a particular concern for women-owned SMEs, as they market their own footwear products and most of them cater to high-end niche markets where styles change more frequently.

Lack of access to market information is a particular concern for women-owned SMEs.

The second-most-common challenge is related to production, specifically access to raw materials and availability of skilled workers who can produce good-quality footwear. These constraints affect SMEs' capacity to produce and fulfill orders from collectors, wholesalers, or direct buyers. Some of the raw materials are imported, and as one male footwear SME owner in Bandung reported: "The prices of leather, soles, and inner soles continue to rise, reducing what we can earn per pair. It does not help that, sometimes, the release of these imported raw materials from customs is delayed, so we are not able to produce on time and the client gets upset with us."



Photo credit: Julia Sembering.

⁶⁶ The KUR program is implemented by three government-owned banks: Bank Mandiri, Bank Rakyat Indonesia, and Bank Nasional Indonesia.

⁶⁷ In-person interview with two female footwear SME employees by Rizky Ersya Heryana and Anindita Dyah Puspita Rani, April 13, 2017.

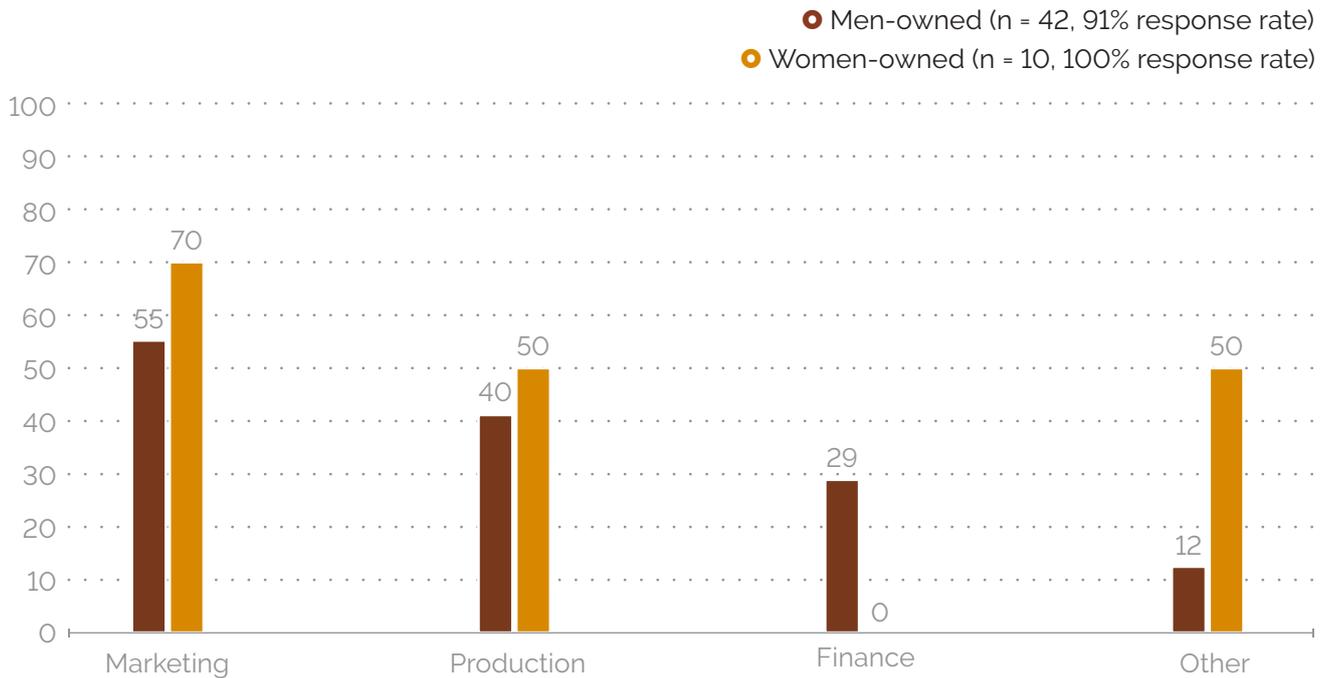




CHART 4.18

FOOTWEAR SMEs FACE CHALLENGES TO EXPORTING

(type of challenge; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.

A female owner reported that skilled labour is getting hard to find, as many workers have gone to work in big shoe factories owned by foreign firms, where income is more stable compared with working for an SME, where work is mostly seasonal and order-dependent.

The third-most-common challenge is finance. As mentioned above, high interest rates and collateral requirements make SMEs reluctant to borrow from banks, yet they need adequate operating capital for production. This challenge is acutely felt by men-owned SMEs who do subcontracted work, as they have to pay their workers every week while payment for their completed orders may arrive a month or more later.

The “other” challenges are related to complex regulations. A male respondent explained that producers can be reluctant to export because “it is too complicated for them to deal with administration and required permits.”⁶⁸

Informants were also asked to identify what type of support they would need to expand or develop their export capacity. The results show that the requested areas of intervention correspond closely with the challenges identified. (See Chart 4.11.)

Regulations Impeding Business Development

SMEs in the footwear industry were asked if regulations were an obstacle to operating their business. Forty-two per cent of the 31 men who answered the question and 57 per cent of the seven women reported that some regulations represent a barrier.

⁶⁸ In-person interview with male footwear SME owner by Rizky Ersya Heryana and Anindita Dyah Puspita Rani, April 12, 2017.



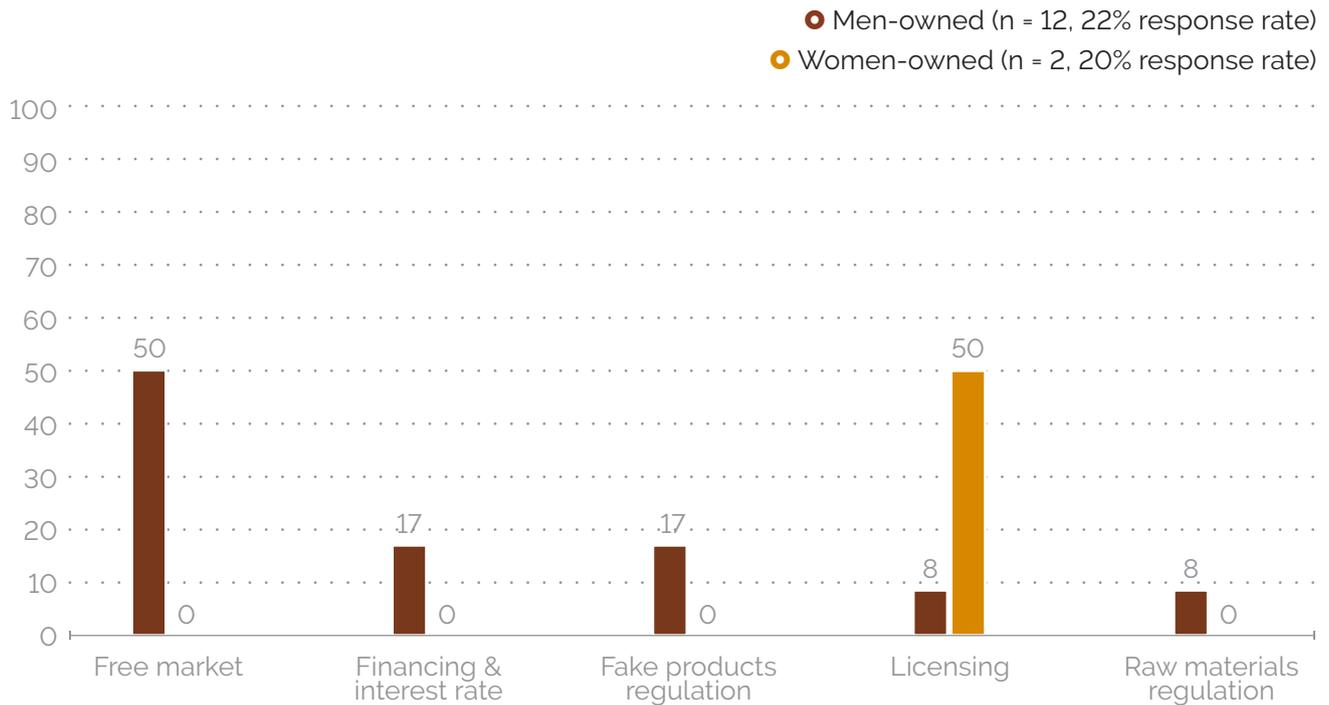


Half of the respondents from men-owned firms mentioned that the government policy which opens the Indonesian market to cheap footwear imports is an impediment to the development of SMEs in the footwear industry. (See Chart 4.19.) Other obstacles cited were the proliferation of fake or counterfeit products, financing regulations, access to imported raw materials, and licensing. The two respondents from women-owned firms cited only licensing regulations as impeding their business development. One of the female business owners reported that going to a government office to fulfill export licensing requirements is time-consuming.

CHART 4.19

REGULATIONS RELATED TO FREE MARKET AND LICENSING CITED AS OBSTACLES

(obstacles to exporting; percentage of respondents)



Note: Respondents could choose more than one option.

Source: TPSA gender and trade survey.

Key Differences in Challenges SMEs Face

- Men- and women-owned footwear SMEs face the same general business challenges, but differ as to which they consider to be the most serious.
- A larger proportion of women-owned footwear SMEs cite production challenges, particularly accessing raw materials and finding skilled labour.
- A larger proportion of men-owned SMEs consider marketing their main challenge, specifically competing with cheap footwear imports from China.
- For women-owned firms that export, accessing market information is a challenge, particularly as they market their own footwear products and most of them cater to high-end niche markets where styles change more frequently.
- A larger share of women-owned SMEs said licensing requirements are a challenge to their business.



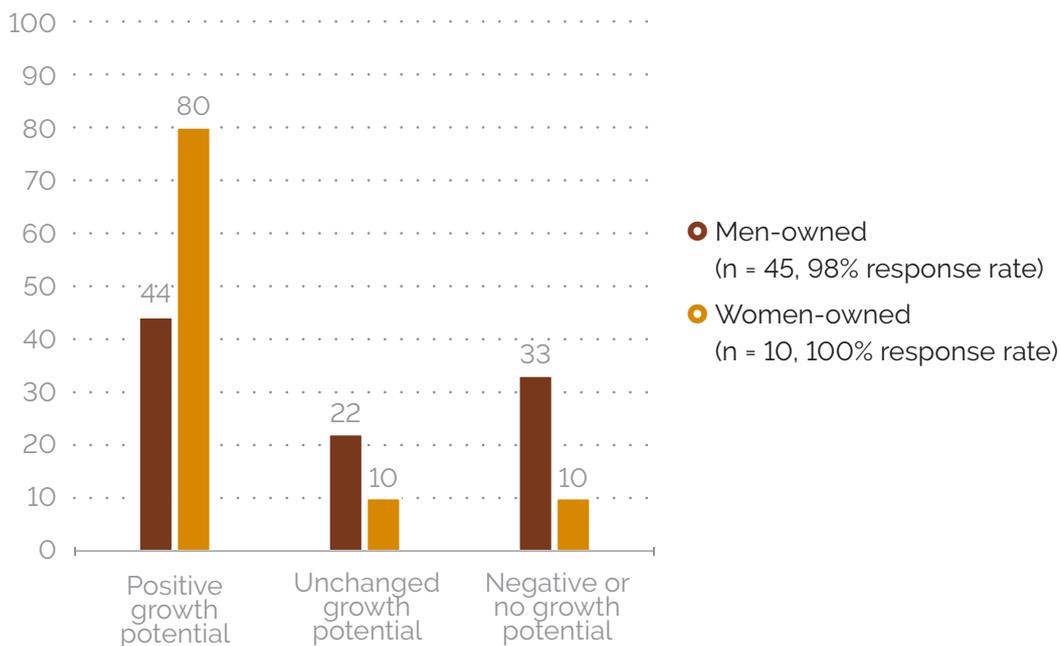
Are Footwear SMEs Confident About the Outlook for Their Business?

Eighty per cent of female owners surveyed in the footwear industry have a strong positive outlook. However, male owners in the footwear industry have a different perspective: only 44 per cent have a positive outlook, and one-third have a negative outlook for their business. (See Chart 4.20.) It is important to note that due to stiff competition from cheap footwear imports, many men-owned footwear SMEs have become subcontractees to large footwear firms, while women-owned SMEs have leveraged opportunities opened up by digital marketing, thus mitigating the challenges caused by this influx of cheap imports into the Indonesian market.

CHART 4.20

WOMEN FOOTWEAR OWNERS MORE POSITIVE ABOUT GROWTH POTENTIAL

(percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.



Photo credit: Julia Sembering.





APPAREL INDUSTRY



WOMEN-OWNED SMEs

MEN-OWNED SMEs

More women-owned SMEs get market information from formal sources



Fewer women-owned SMEs rely on their personal networks for production information



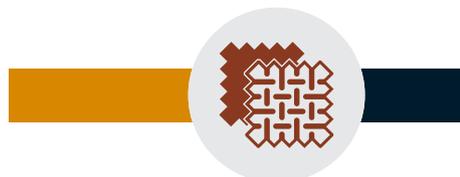
More women-owned SMEs want export assistance related to labour inputs and production capacity



More women-owned SMEs rely on their own personal capital for subsequent financing



More women-owned SMEs have trouble finding skilled labour and accessing raw materials



More women-owned SMEs cite challenges related to tax regulations





CHAPTER 5:

APPAREL INDUSTRY RESULTS

What Does Indonesia's Apparel Industry Look Like?

Apparel products have been an important export commodity for Indonesia, with export values totalling US\$7.9 billion in 2017, up from US\$5.6 billion a decade earlier.⁶⁹ Most of those products came from companies with foreign investments that supply sports and casual apparel to big-name brands such as Nike and Adidas. An emerging trend in Indonesia's apparel exports is Muslim apparel products (mostly for women, such as blouses, skirts, prayer veils, hijab, and sarong, the latter of which can also be worn by men) that attract large markets in other Muslim countries such as Malaysia, Nigeria, and Saudi Arabia.⁷⁰ However, Indonesia still lags behind other exporters of Muslim garments such as India, Turkey, and Bangladesh.⁷¹

Indonesia has been actively promoting the export of batik products, including apparel.

Indonesia has claimed batik as being of Indonesian origin, and hand-painted batik was recognized as Indonesia's cultural heritage by the United Nations Educational, Scientific, and Cultural Organization

(UNESCO) in 2009.⁷² The country has been actively promoting the export of batik products, including apparel. In 2015, Indonesian batik exports totalled US\$156 million, a 10 per cent increase over the previous year.⁷³

Authentic Indonesian batik products are either hand-painted or stamped manually. The more elaborate the design, the longer it takes to produce a batik fabric. While computerized printing of batik fabric designs is now available, the traditional technique of drawing the design onto the fabric is still widely practiced by Indonesian SMEs. Indonesia also produces mass-produced and machine-made batik products. All Indonesian batik products are facing stiff competition from lower-priced, mass-produced and machine-made batik from China and Vietnam.

Do Business and Owner Profiles Differ by Gender in the Apparel Industry?

One of the survey's objectives was to determine whether there are substantial differences between the characteristics of SMEs owned by women and those owned by men. The share of women-owned SMEs in the survey is highest in the apparel industry (23 per cent) compared with those in coffee (15 per cent) and footwear (18 per cent).



Apparel produced by surveyed SMEs includes a variety of types and designs, including batik, non-batik, uniforms (for sports, schools, government offices, and the military), Muslim clothing (such as women's prayer veils), ethnic clothing (men's sarong, women's kebaya), and other types of casual and formal wear. The quality and price ranges of apparel products also

⁶⁹ United Nations Comtrade database.

⁷⁰ Thomson Reuters, *State of the Global Islamic Economy*.

⁷¹ Ibid.

⁷² Steelyana, *Batik, A Beautiful Cultural Heritage*.

⁷³ Indonesia Ministry of Industry, "Batik Indonesia."





vary widely. In general, Indonesian exports of Muslim apparel consist mostly of women's clothes, but men's sarong is slowly gaining more interest from buyers in the Middle East and African Muslim countries.⁷⁴

Size

There are two main methods used to define the size of a firm: employment and annual sales. (See Table 5.1.)

TABLE 5.1

DEFINING THE SIZE OF APPAREL SMEs

	Number of employees	Annual sales
Micro	1–4 people	< Rp 300 million
Small	5–19 people	Rp 300 million–2.5 billion
Medium	20–99 people	Rp 2.5–50 billion
Large	≥ 100 people	> Rp 50 billion

Sources: Government of Indonesia Law No. 20/2008; BPS.



Photo credit: Rony Soerakoeseomah.

⁷⁴ Global Business Guide, "Indonesia Aiming."



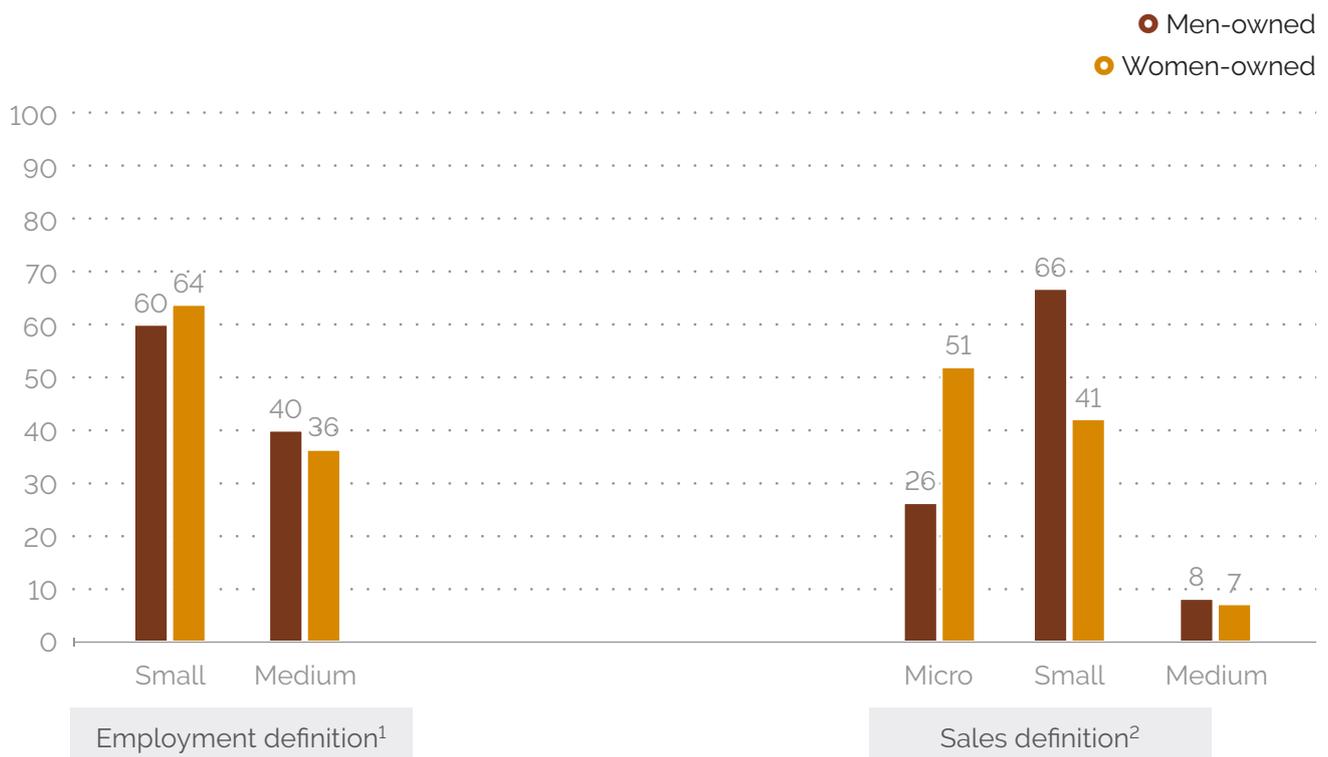


The majority of SMEs in the apparel industry are small by both the employment and sales definitions; however, the distribution changes slightly depending on the definition being used. (See Chart 5.1.) Overall, the firms are smaller when using the sales definition: A large share of SMEs classified as small by the employment definition become micro, and a smaller share become medium, when using the sales definition. More women-owned SMEs become micro when using the sales definition. Unlike the coffee industry, none of the surveyed apparel SMEs are defined as large by the sales definition. Overall, the sales definition better reflects the actual size of SMEs in terms of operations. The employment definition can be misleading, as labour in the apparel industry can vary depending on the order cycle.

CHART 5.1

MOST APPAREL SMEs ARE SMALL

(size of firm defined by employment and annual sales; percentage of respondents)



¹ Men-owned (n = 156, 99% response rate); women-owned (n = 47, 100% response rate)

² Men-owned (n = 145, 92% response rate); women-owned (n = 41, 87% response rate)

Note: Numbers may not equal 100 per cent due to rounding.

Source: TPSA gender and trade survey.





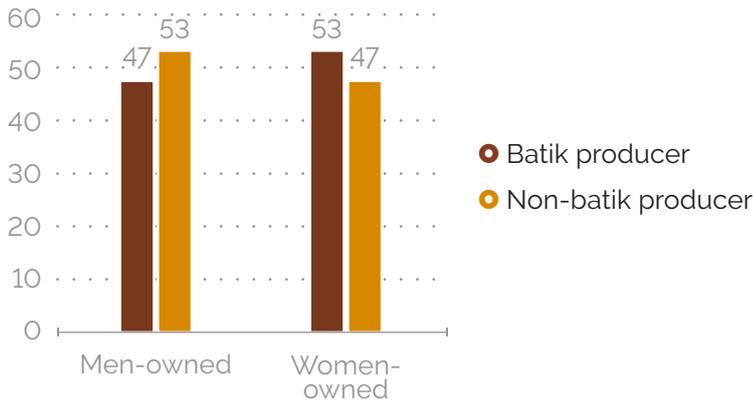
Batik Products

Of the 204 apparel SMEs surveyed, about half produce batik products. This is to be expected, as four of the seven municipalities covered in the survey for the apparel industry are major batik-producing cities in Central Java, although not all batik-producing SMEs surveyed come from these areas. As batik-making is an age-old tradition in these areas, some of the batik SME owners inherited their business from either their parents or grandparents. A slightly higher share of women-owned firms produces batik products (53 per cent) compared with men-owned firms (47 per cent). (See Chart 5.2.)

CHART 5.2

HALF OF APPAREL SMEs PRODUCE BATIK PRODUCTS

(number of SMEs)



Source: TPSA gender and trade survey.



Photo credit: spotters, Shutterstock.com.





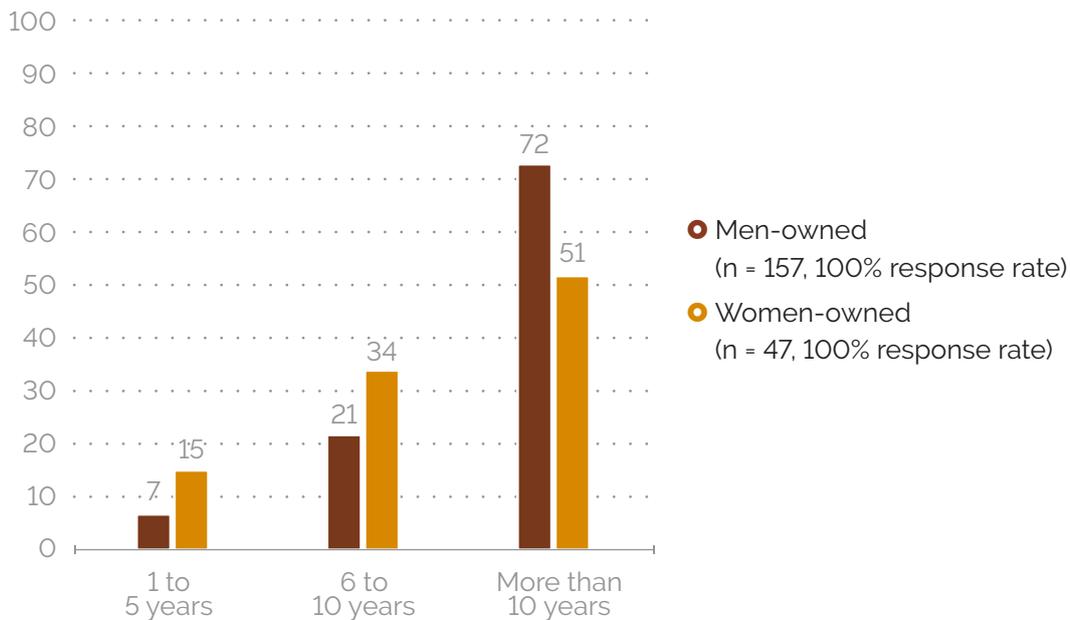
Years in Business

More than 66 per cent of surveyed SMEs in the apparel industry have been in operation for 10 years or more. (See Chart 5.3.) Men-owned apparel SMEs are more likely than woman-owned SMEs to have been operating for 10 or more years. Only 7 per cent of men-owned and 15 per cent of women-owned SMEs surveyed have been in operation for one to five years, which is the lowest share across the three surveyed industries.

CHART 5.3

MEN-OWNED APPAREL SMEs HAVE BEEN IN BUSINESS LONGER

(years in business; percentage of respondents)



Source: TPSA gender and trade survey.



Photo credit: Dati Fatimah.





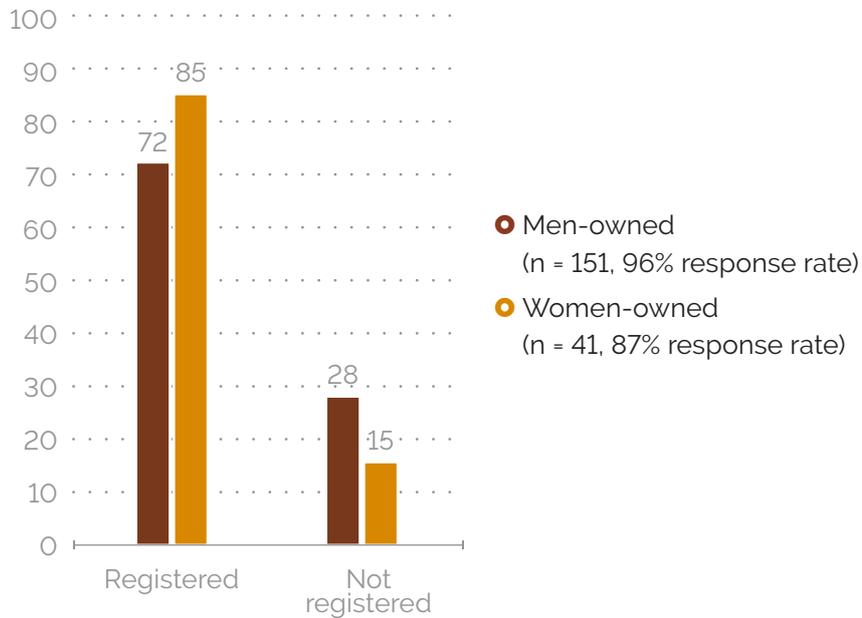
Registration

A larger share (85 per cent) of women-owned than men-owned SMEs (72 per cent) in the apparel industry have registered their business. (See Chart 5.4.)

CHART 5.4

A LARGER SHARE OF WOMEN-OWNED APPAREL SMEs REGISTER THEIR BUSINESSES

(percentage of respondents)



Source: TPSA gender and trade survey.



Photo credit: Rony Soerakoesoemah.





Owner Profile

Most SME owners in the apparel industry (91 per cent of men and 85 per cent of women) are married. The share of men and women with post-secondary education was relatively similar in the apparel industry. Twenty-eight per cent of women owners and 22 per cent of men owners have some post-secondary education, while only 15 per cent of women and 22 per cent of men have less than a high school diploma. (See Table 5.2).

TABLE 5.2

BOTH MEN AND WOMEN APPAREL OWNERS ARE WELL EDUCATED

(percentage of respondents by highest level of education)

	Men-owned (n = 151, 96% response rate)	Women-owned (n = 8, 85% response rate)
Less than elementary diploma	3	0
Elementary diploma (grade 1–6)	19	15
Junior high school diploma (grade 7–9)	13	20
High school diploma (grade 10–12)	44	38
Post-secondary diploma or certificate	7	5
Bachelor's degree	13	18
Post-graduate degree	2	5

Note: Numbers may not equal 100 per cent due to rounding.

Source: TPSA gender and trade survey.

Key Differences in Business and Owner Profiles

- Most SMEs in the apparel industry are small; however, more women-owned SMEs than men-owned SMEs become micro when using the sales definition rather than the employment definition.
- Men-owned apparel SMEs are more likely than women-owned to have been operating for 10 years or more.
- A larger share of women-owned than men-owned apparel SMEs register their businesses.
- While most of the SME owners have only a high school education, more female owners (23 per cent) have at least a bachelor's degree than male owners (15 per cent).



Photo credit: Liem Liliek Setiawan and Rony Soerakoesoemah.



Photo credit: Julia Sembering.



Do Women- and Men-Owned SMEs Occupy Different Positions in the Apparel Value Chain?

Business Activities and Position in the Value Chain

Similar to the SMEs surveyed in the coffee and footwear industries, the surveyed apparel SMEs perform multiple roles in the apparel value chain. (See Exhibit 5.1.) But unlike footwear SMEs, most of the apparel SMEs produce and sell apparel themselves (94 per cent of men-owned and 98 per cent of women-owned SMEs) although a large proportion still act as producer-subcontractees (50 per cent of men-owned and 48 per cent of women-owned SMEs) for collectors or wholesalers. It is important to note that the exhibit reflects the surveyed apparel SMEs, but may not capture the roles of apparel SMEs that did not participate in the survey.

More than half (51 per cent) of men- and women-owned SMEs are wholesalers. Some surveyed SMEs also perform roles in the domestic market, as owners of their own retail shop, online shop, or brand. A few also sell directly to domestic buyers through other means, such as selling their products from home. The main domestic markets for the apparel SMEs surveyed are Jakarta (94 per cent), Bandung (49 per cent), Yogyakarta (43 per cent), and Solo (39 per cent). From these cities, apparel goods are distributed to all parts of the country.

Exporting is done either directly by the manufacturers or through wholesalers. In some cases, SMEs perform both roles. Very few apparel SMEs export, even though they can earn more by doing so. Their main export destinations are neighbouring countries in Southeast Asia and the Middle East, as well as some African countries.

Very few apparel SMEs export, even though they can earn more by doing so.

Those who gain the most in the value chain are SMEs that are able to produce large volumes, have their own shops, and are in a position to subcontract production to other producers. More men-owned SMEs (26 per cent) are in this position than women-owned SMEs (11 to 13 per cent). Many SMEs are subcontractees that do little direct selling (sometimes through a small shop or internet sales).

Exhibit 5.1 shows the proportion of surveyed apparel SMEs (by gender) performing at each stage of the value chain. As in the coffee and footwear industries, men and women often take on roles that are consistent with gender stereotypes in the apparel industry.



Photo credit: Liem Liliek Setiawan and Rony Soerakoeseomah.

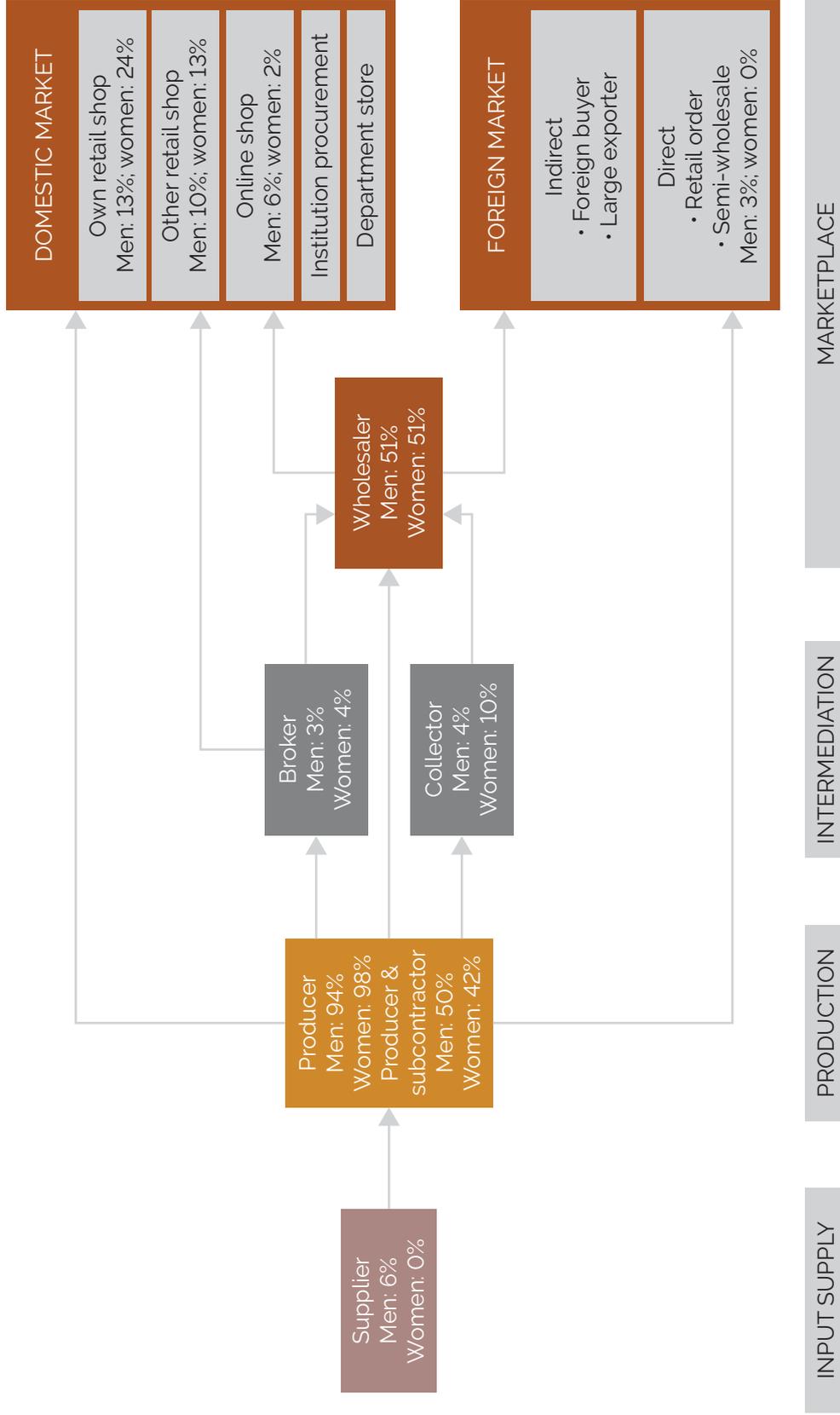


Photo credit: Dati Fatimah.





EXHIBIT 5.1
APPAREL VALUE CHAIN



Source: TPSA gender and trade survey.





SMEs Speak About... The Traditional Division of Labour

“There are aspects of my business that my wife handles and makes decisions about. For example, she designs the clothes and makes samples. There are tasks that I do, such as canvassing and purchasing raw materials. This arrangement works well for her, as it enables her to spend more time at home, especially when our children were young. However, after several occasions where I made mistakes in selecting some raw materials, she opted to do the canvassing and purchasing of raw materials herself. She believes that women are more meticulous and detail-oriented and are more capable of thoroughly inspecting a material before buying it. She is also more persistent than I am in negotiating a lower price. Sellers of raw materials are more inclined to give in to women than to men.”

—Male apparel SME owner in Tangerang

Do Business Practices Differ Between Men- and Women-Owned Apparel SMEs?

Labour Practices

Women-owned SMEs account for 23 per cent of apparel respondents, and they hire 24 per cent of the total number of workers hired by the apparel SMEs surveyed. (See Table 5.3.) There is no evident difference in terms of average number of workers between men-owned and women-owned SMEs.

TABLE 5.3

WOMEN-OWNED SMEs HIRE ONE-QUARTER OF APPAREL WORKERS

	Men-owned SMEs	Women-owned SMEs
Total number of workers	3,288	1,052
Share of total labour	76%	24%
Average number of workers per SME	21	23

Source: TPSA gender and trade survey.

Export Experience

Much like in the footwear industry, only a small share of the SMEs surveyed in the apparel industry are currently exporting, mostly to Malaysia, Singapore, and Saudi Arabia. However, unlike the footwear industry, few have exported in the past. Seventy-eight per cent of men-owned SMEs and 72 per cent of women-owned SMEs neither export nor have exported in the past. (See Chart 5.5.)



Photo credit: Odua Images, Shutterstock.com.

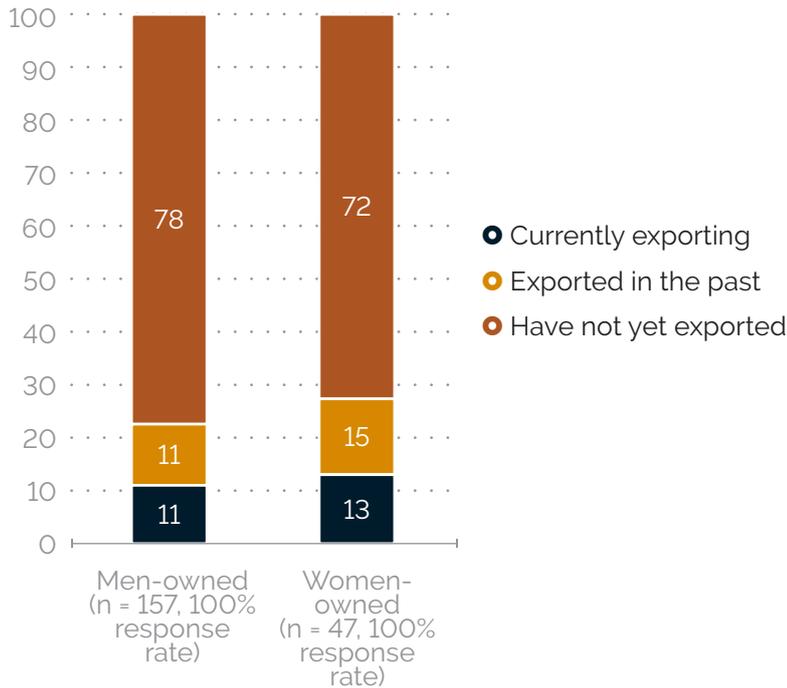




CHART 5.5

MOST APPAREL SMEs HAVE NOT YET EXPORTED

(export experience; percentage of respondents)



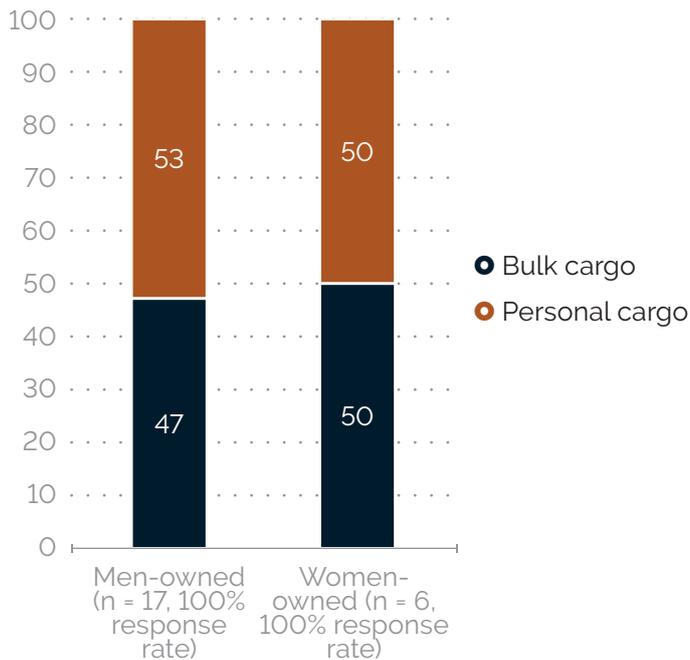
Source: TPSA gender and trade survey.

Of those SMEs currently exporting, about half use personal cargo and half use bulk cargo. (See Chart 5.6.)

CHART 5.6

APPAREL SMEs EXPORT BY BOTH BULK AND PERSONAL CARGO

(export method; percentage of respondents)



Source: TPSA gender and trade survey.





A female batik business owner explains that her SME was an export business from its inception in 1971, and in 1974 began to focus exclusively on production for the export market. Although the company still produces goods for export, they now also supply the domestic market. According to the informant, "export markets provide greater profits, although the procedures are more complicated and require larger amounts of financial capital."⁷⁵

A male batik business owner and trader explains that, in his experience, batik exports are generally conducted by traders rather than producers who, he says, are not aware of the obstacles to exporting batik. With his own company, he has elected to focus on the domestic market.⁷⁶ Some SMEs report that they risk losing the domestic market if they focus on the export market. Although the per-unit profit is lower in the domestic market, the overall profit is large and stable.

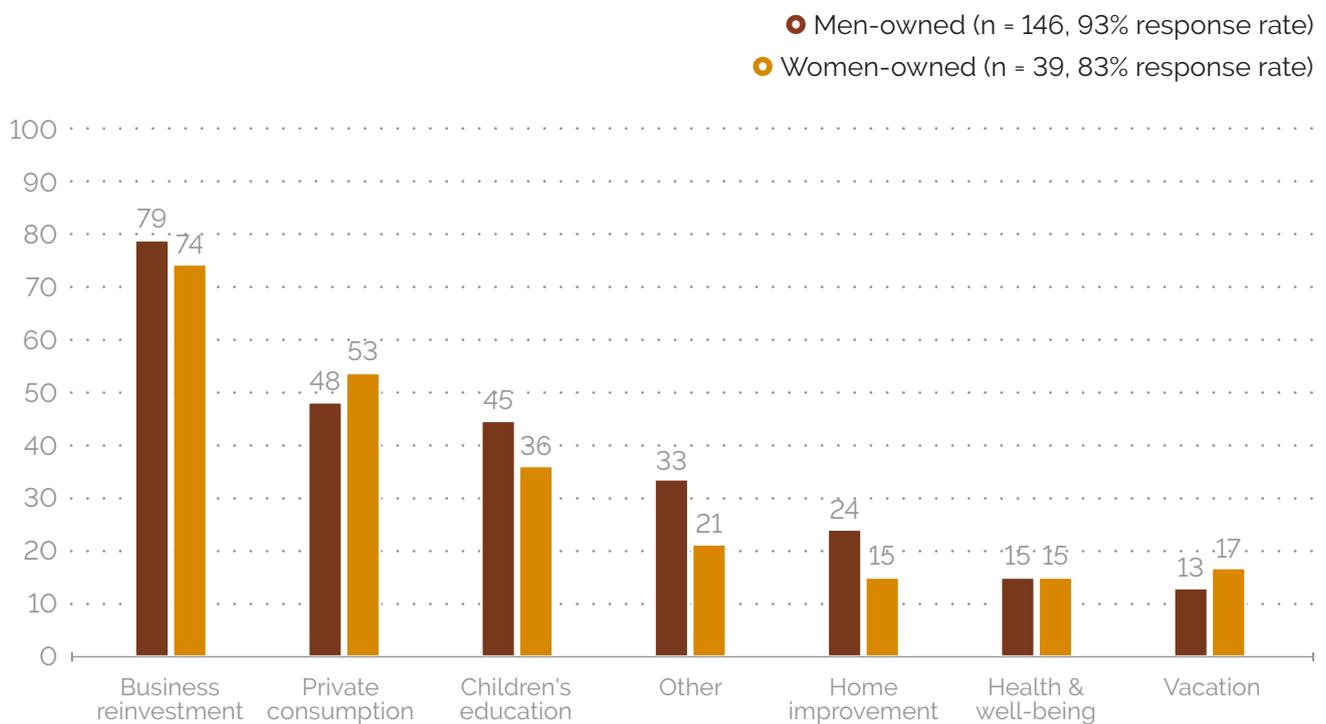
Profit Allocation

As observed in the coffee and footwear industries, the majority of SME owners, regardless of gender, allocate their profits, either in part or in full, back into their business. (See Chart 5.7.) The actual share of profits being reinvested into the company is unknown. They also use profits for private consumption (in second place) and for their children's education (in third place). Except in very few cases, the business owner is the main decision-maker as to whether to reinvest profits back into the business. But as profit is the main source of income for most SMEs' households, decisions about ways to use this income other than reinvestment are made jointly by the couple in the household.

CHART 5.7

MOST APPAREL SMEs REINVEST PROFITS BACK INTO THE BUSINESS

(profit allocation by gender; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.

⁷⁵ In-person interview with female batik SME owner by Pungky Desi Christanti and Astri Briliyanti, April 27, 2017.

⁷⁶ In-person interview with male batik SME owner by Fadila Adibaningtyas, April 18, 2017.





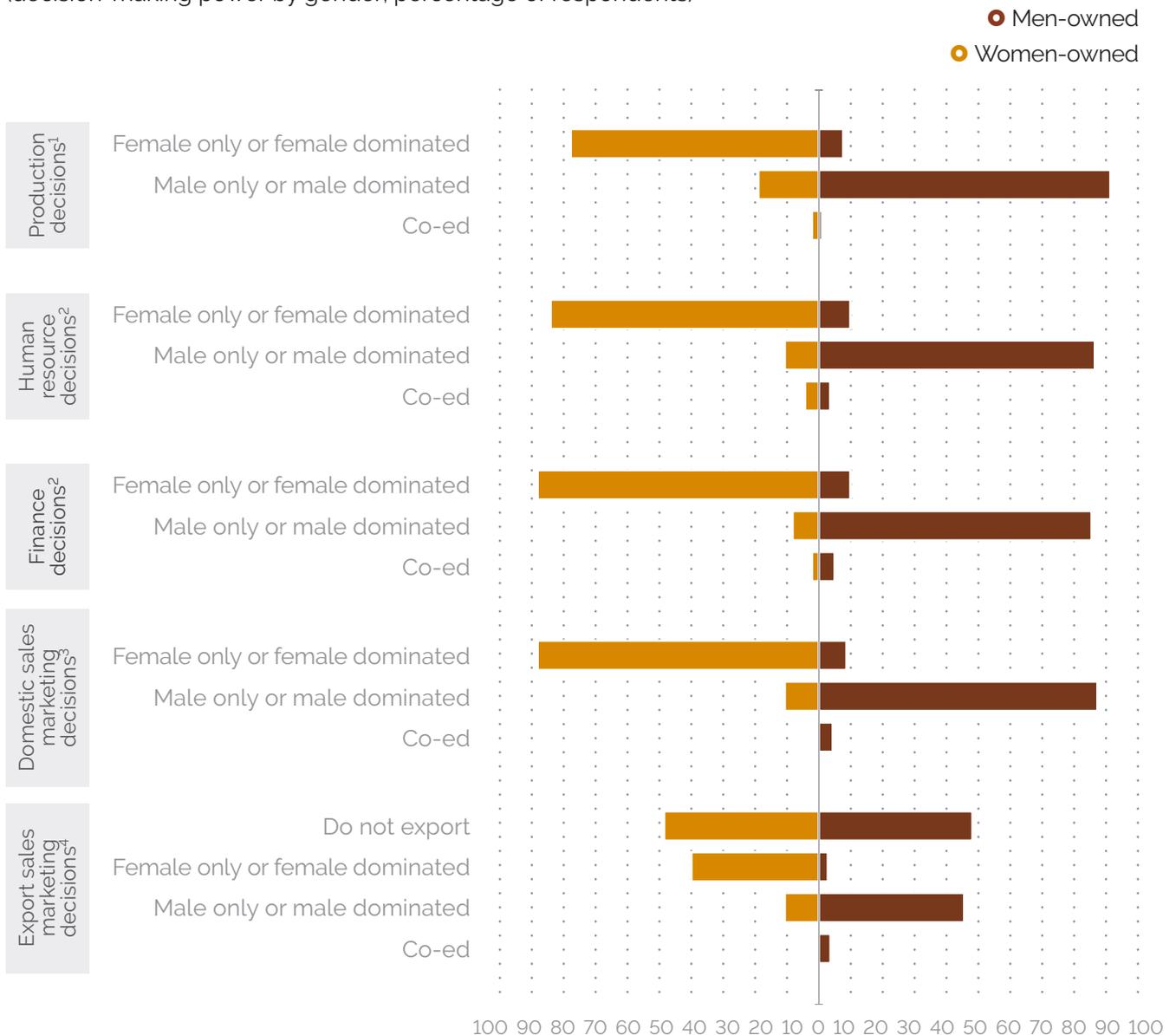
Decision-Making

When analyzing the impact of gender differences on exporting, it is important to understand who makes decisions on behalf of an SME, particularly in the areas of production, human resources (hiring, firing, and supervising workers), finance (where to access additional capital, how to use working capital, and how to allocate profit), and domestic and export marketing (where or to whom to sell, at what price). The survey results reveal that across all three industries, the owner is the main decision-maker for most aspects of the business. Thus, women make decisions for women-owned SMEs and men make decisions for men-owned SMEs. This is true in the apparel industry for decisions around production, human resources, finance, domestic sales marketing, and export sales marketing. (See Chart 5.8.)

CHART 5.8

MOST BUSINESS DECISIONS ARE MADE BY THE OWNER OF THE APPAREL SME, REGARDLESS OF GENDER

(decision-making power by gender; percentage of respondents)



¹ Men-owned (n = 155, 99% response rate); women-owned (n = 47, 100% response rate)

² Men-owned (n = 156, 99% response rate); women-owned (n = 47, 100% response rate)

³ Men-owned (n = 155, 99% response rate); women-owned (n = 46, 99% response rate)

⁴ Men-owned (n = 148, 94% response rate); women-owned (n = 47, 100% response rate)

Source: TPSA gender and trade survey.



For example, in 79 per cent of women-owned apparel SMEs, the decisions around production are made or dominated by women. For the remaining 21 per cent of women-owned SMEs, decisions are made or dominated by men, or made jointly by men and women, usually spouses. Chart 5.8 reveals that fewer women make decisions for men-owned SMEs than men do for women-owned SMEs.

Key Differences in Business Practices

- For both women- and men-owned SMEs, the owner is the main decision-maker for various aspects of the business; however, women make fewer decisions for men-owned SMEs than men make for women-owned SMEs.

Do Women in the Apparel Industry Have Access to the Resources Needed to Run Their Business and to Export?

Market Information

To effectively run a business, both domestically and internationally, SMEs need information about market opportunities and requirements. Survey respondents were asked to identify where they obtain information about distributing and selling their products. They could choose more than one source. For both men- and women-owned SMEs, the most-cited source was the respondent's personal network, including friends and relatives. (See Chart 5.9.) As a secondary source, a larger share of women actively sought information from government sources and business and industry associations, both of which often sponsor SMEs to attend trade shows. More men-owned than women-owned SMEs use the internet and social media to access market information.

SMEs Speak About... Actively Gathering Market Information

"I have no formal education in business management or fashion; I learned by doing. I attended many training events and seminars to get market information and develop my knowledge and skills in the apparel business. I drew lessons from my experience through the ups and downs of my business."

This female apparel SME owner in Bandung has added a second brand to her original brand, and participated in various exhibitions and fashion shows, such as Indonesia Fashion Week and Inacraft, an Indonesian handicraft trade fair. She now has 10 clothing stores for her brand, which is also sold in top department stores in several cities, including Jakarta and Bandung. After receiving technical assistance from the TPSA project, she has ventured into online marketing.

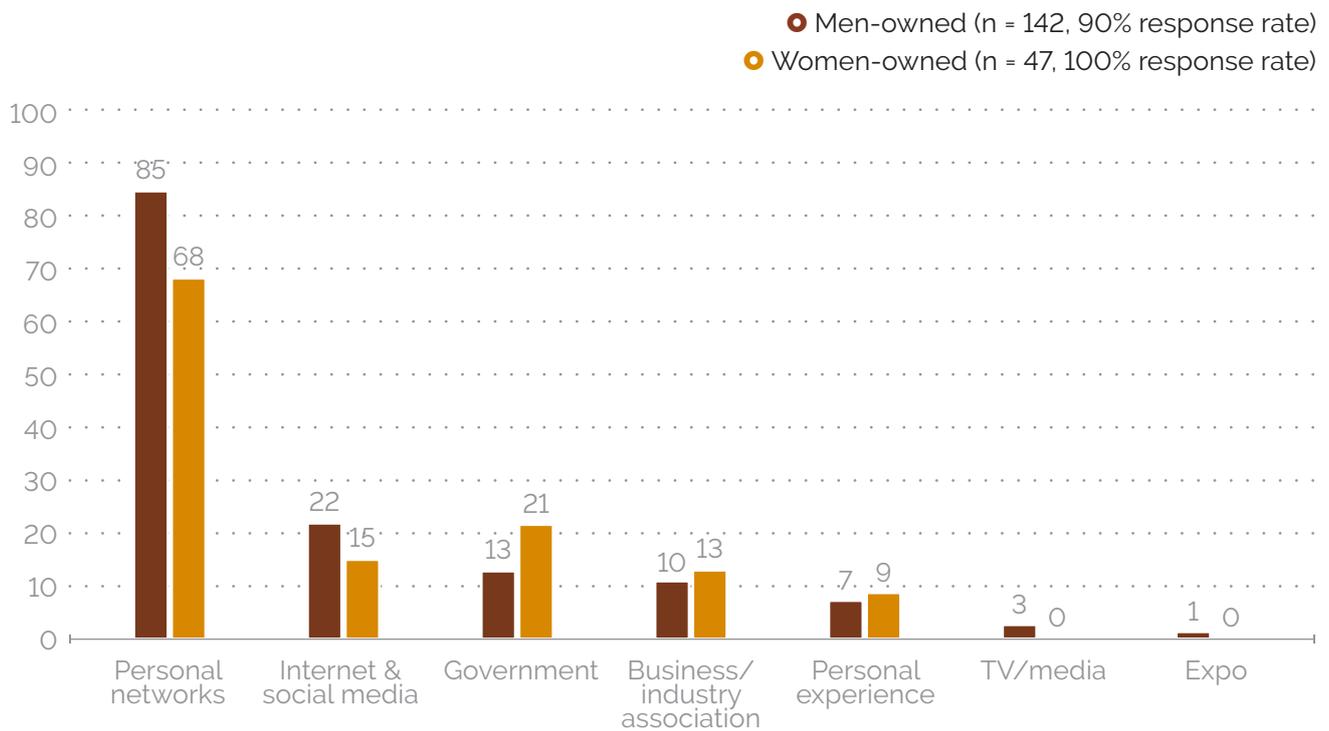
—Female apparel SME owner in Bandung



CHART 5.9

MOST APPAREL SMEs RELY ON THEIR PERSONAL NETWORKS FOR MARKETING INFORMATION

(source of marketing information; percentage of respondents)



Note: Respondents could choose more than one option.

Source: TPSA gender and trade survey.



Photo credit: Julia Sembering.





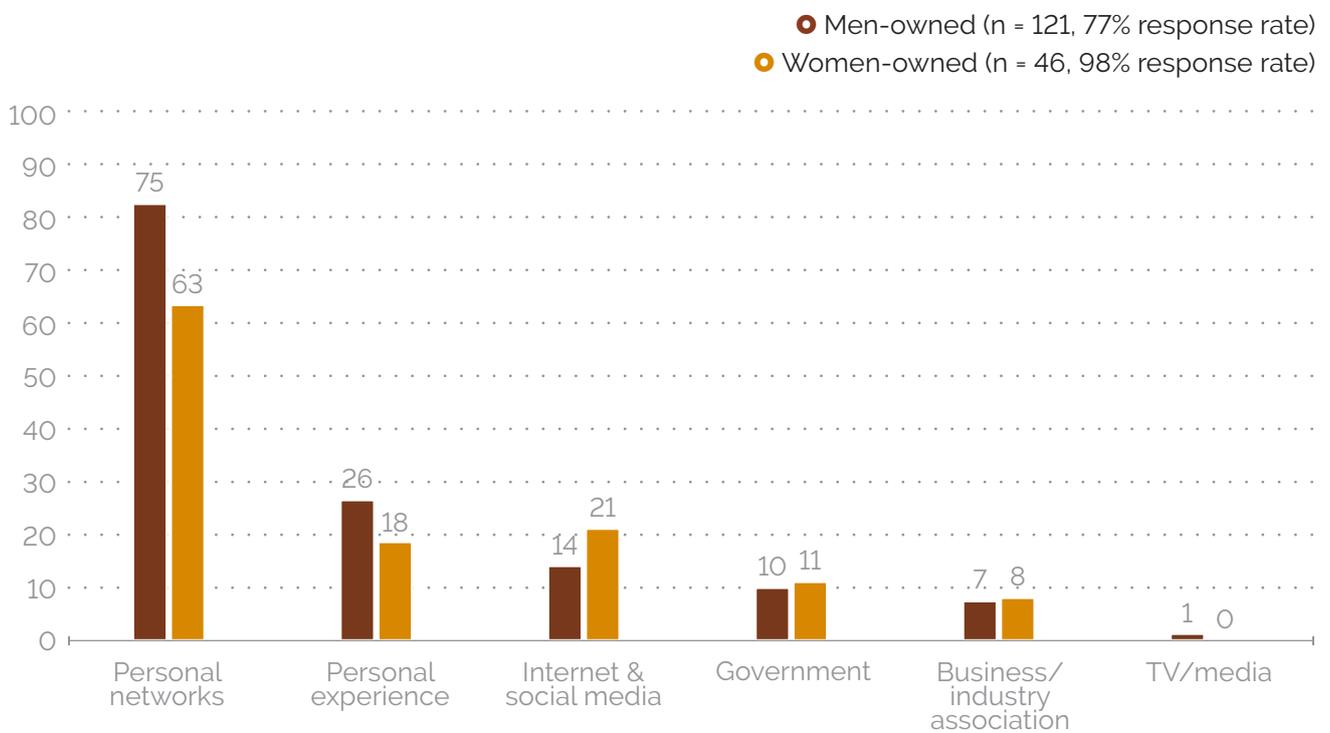
Production Information

As with market information, when SMEs were asked where they find information about the production side of their business, including labour, raw materials, use of equipment and machinery, and production processes, most also relied on their personal networks, including family and friends. (See Chart 5.10.) Many of the batik SMEs either inherited the business from their parents or learned the trade from their parents or grandparents before setting up on their own. As secondary sources, a larger share of men-owned SMEs relied on their own knowledge and personal experience, while a larger share of women-owned SMEs used the internet and social media. It is also important to note that, like SMEs in the footwear industry, apparel SMEs interact with one another informally and frequently, facilitating the sharing of information about production, such as sources of raw materials and new equipment and the availability of skilled workers.

CHART 5.10

MOST APPAREL SMEs RELY ON THEIR PERSONAL NETWORKS FOR PRODUCTION INFORMATION

(source of production information; percentage of respondents)



Note: Respondents could choose more than one option.

Source: TPSA gender and trade survey.





Government Support

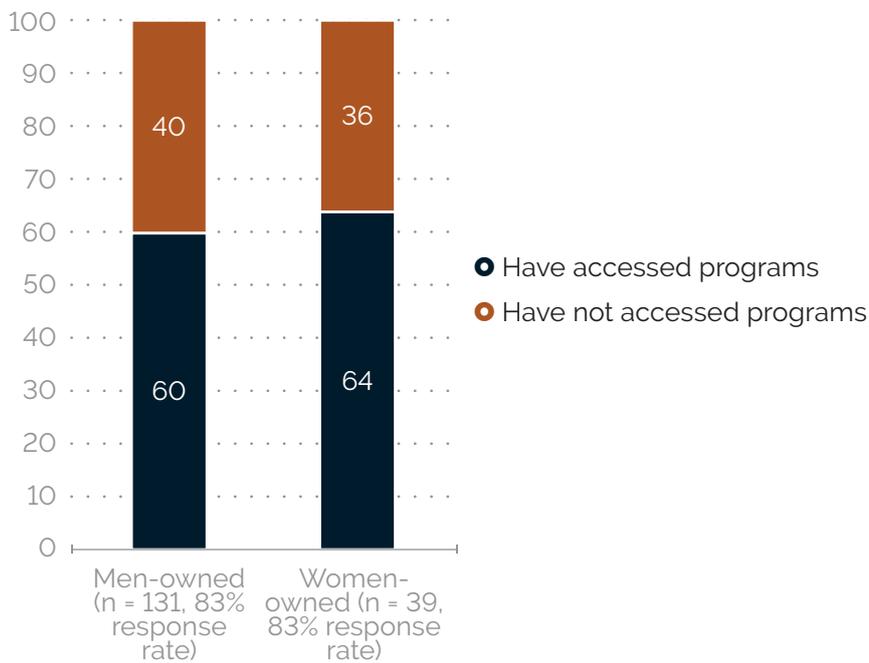
Sixty-four per cent of women-owned apparel SMEs reported having interactions with government institutions, compared with 49 per cent of men-owned SMEs. Interaction was broadly defined, and included seeking information about a wide range of topics related to the industry, as well as visits by extension workers from provincial and local governments, the Ministry of Cooperatives and SMEs, and the Ministry of Industry. The surveyed SMEs in the apparel industry have more interaction with government than those in the footwear industry, but less than those in the coffee industry.

An almost equal share of men- and women-owned SMEs have accessed government support, but a large proportion have not. (See Chart 5.11.)

CHART 5.11

A LARGE SHARE OF MEN- AND WOMEN-OWNED APPAREL SMEs HAVE NOT ACCESSED GOVERNMENT ASSISTANCE PROGRAMS

(percentage of respondents)



Source: TPSA gender and trade survey.



Photo credit: GeorginaCaptures, Shutterstock.com.





Export Assistance

Apparel SME owners were asked if they had ever requested assistance to expand their exports or begin exporting. Only 19 per cent of respondents from both men- and women-owned SMEs reported having done so. (See Chart 5.12.) Given the low

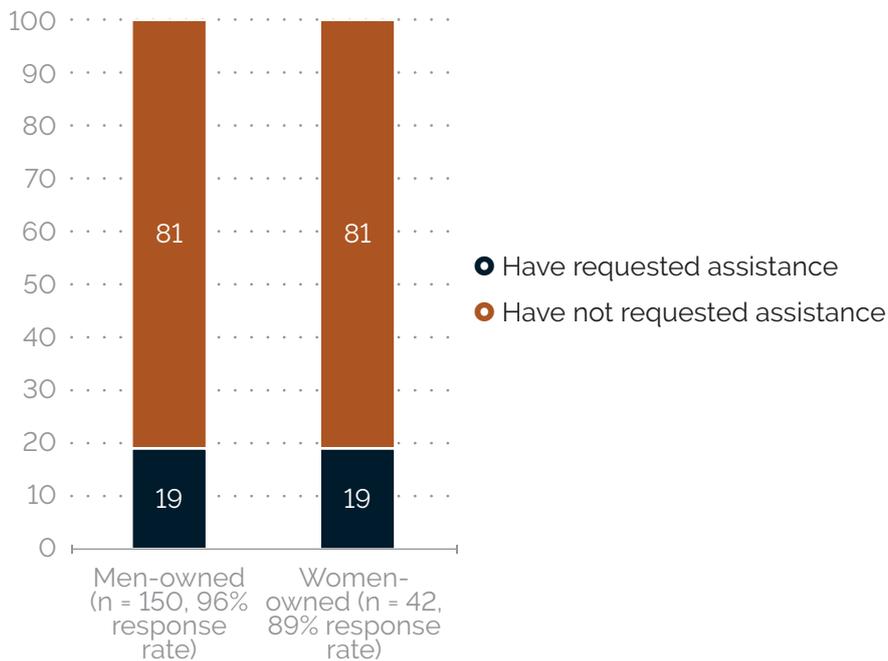
Many apparel SMEs are worried that they run the risk of losing their share of the domestic market if they divide their attention to pursue exporting

number of apparel SMEs engaged in exporting, this makes sense. Many apparel SMEs find that the domestic market is large enough for their business to thrive, and they run the risk of losing their share of that market if they divide their attention to pursue exporting as well.

CHART 5.12

FEW APPAREL SMEs REQUEST EXPORT ASSISTANCE

(percentage of respondents)



Source: TPSA gender and trade survey.



Photo credit: Odua Images, Shutterstock.com.



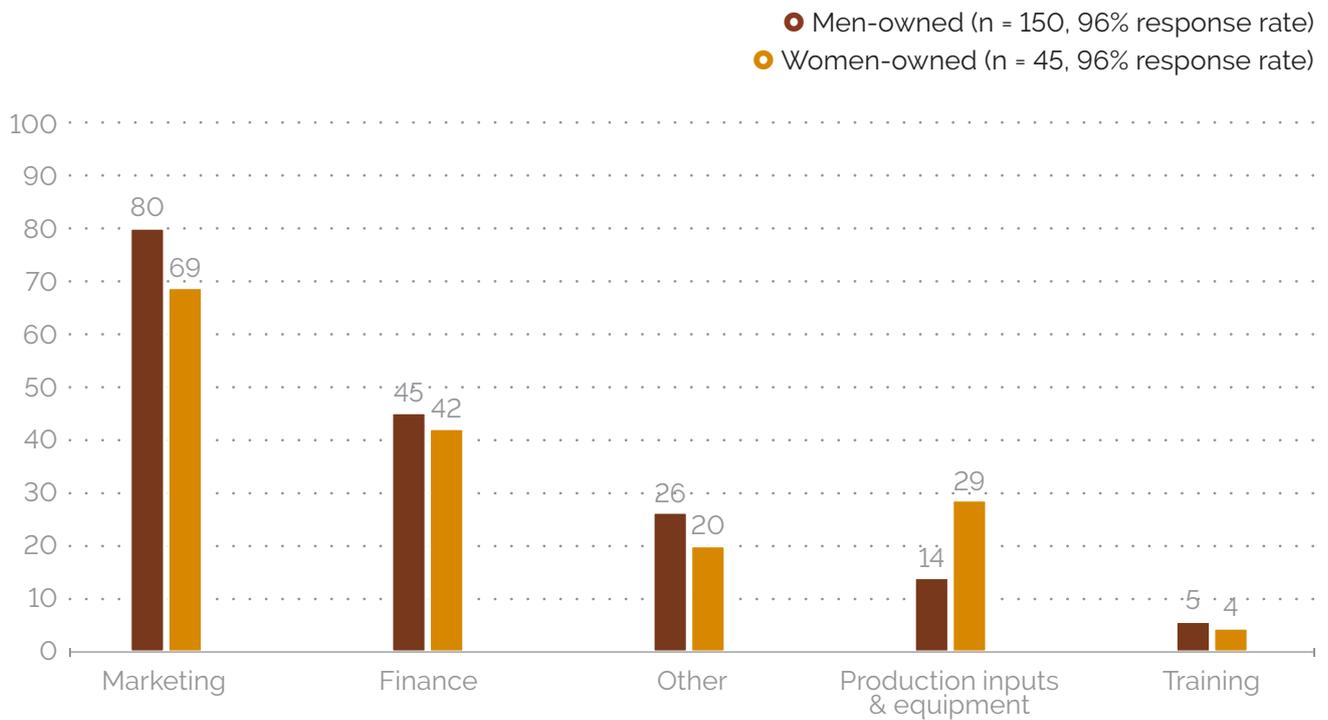


Respondents were then asked what type of export assistance they would like. They could select multiple answers. While few apparel SMEs had actually requested export assistance, almost all responded that they would like it, particularly to help them understand how to export, connect with buyers, and find market information. (See Chart 5.13.) In addition, over 40 per cent wanted financial assistance with exporting. More women-owned SMEs said they would like help with labour inputs and production capacity issues.

CHART 5.13

MOST APPAREL SMEs WOULD LIKE HELP REACHING AND UNDERSTANDING EXPORT MARKETS

(type of export assistance requested; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.



Photo credit: Julia Sembering.



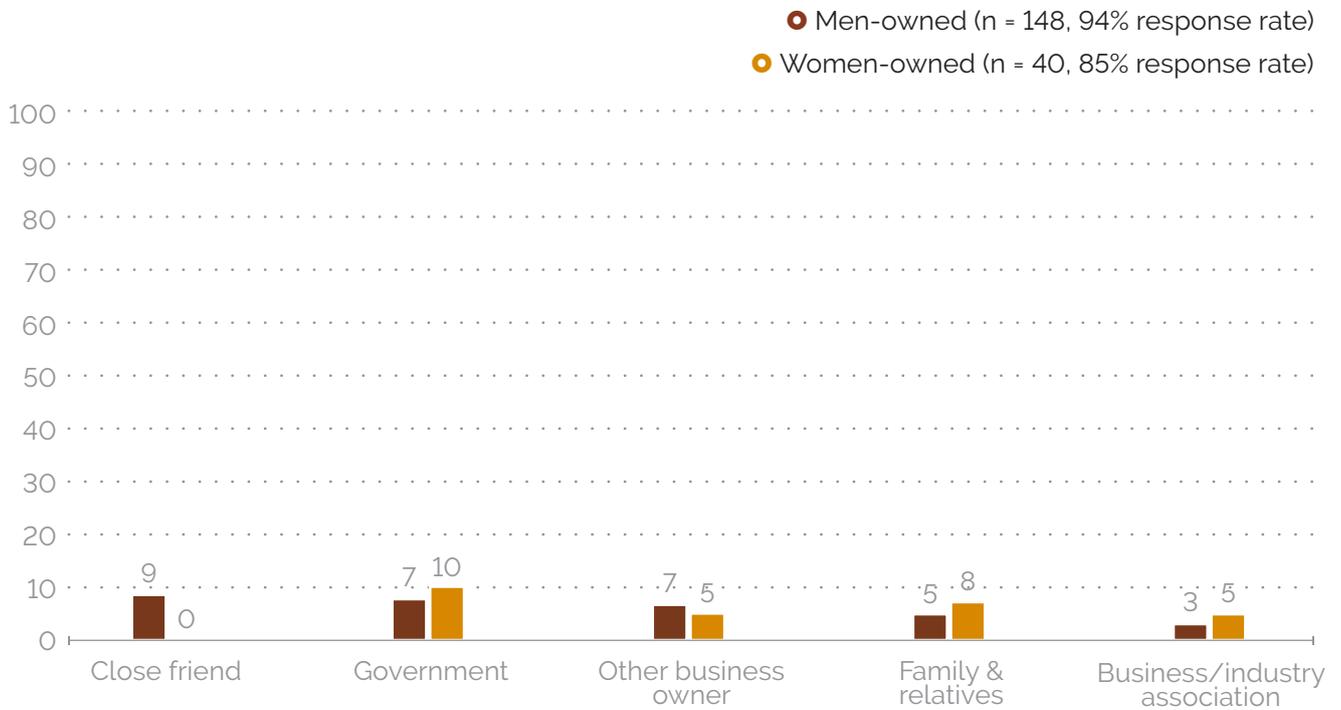


While they would like export assistance, not many apparel SMEs had actually sought out such assistance from government, business and industry associations, friends and relatives, or other business owners. (See Chart 5.14.)

CHART 5.14

VERY FEW APPAREL SMEs HAVE ACTIVELY SOUGHT EXPORT ASSISTANCE

(source of export assistance; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.

Finance

Respondents rely mainly on banks and their own knowledge for information on financing. Many SMEs, regardless of the owner's gender, have trouble accessing financial resources from external sources. Over 40 per cent of respondents have trouble accessing capital, mainly due to high interest rates and collateral demands from formal financial service providers, such as banks. Forty-nine per cent of respondents from men-owned SMEs and 29 per cent from women-owned SMEs said they would like government support to help them access capital, yet less than 10 per cent of respondents reported having actually received support. (See Chart 5.15.) As one male SME owner reports, "Regarding capital, we do not see bank loans as profitable because of the interest rates. Now, more and more SMEs are in a kind of limbo. There has to be an independent body that will strengthen SMEs, including budget allocations from the state."⁷⁷

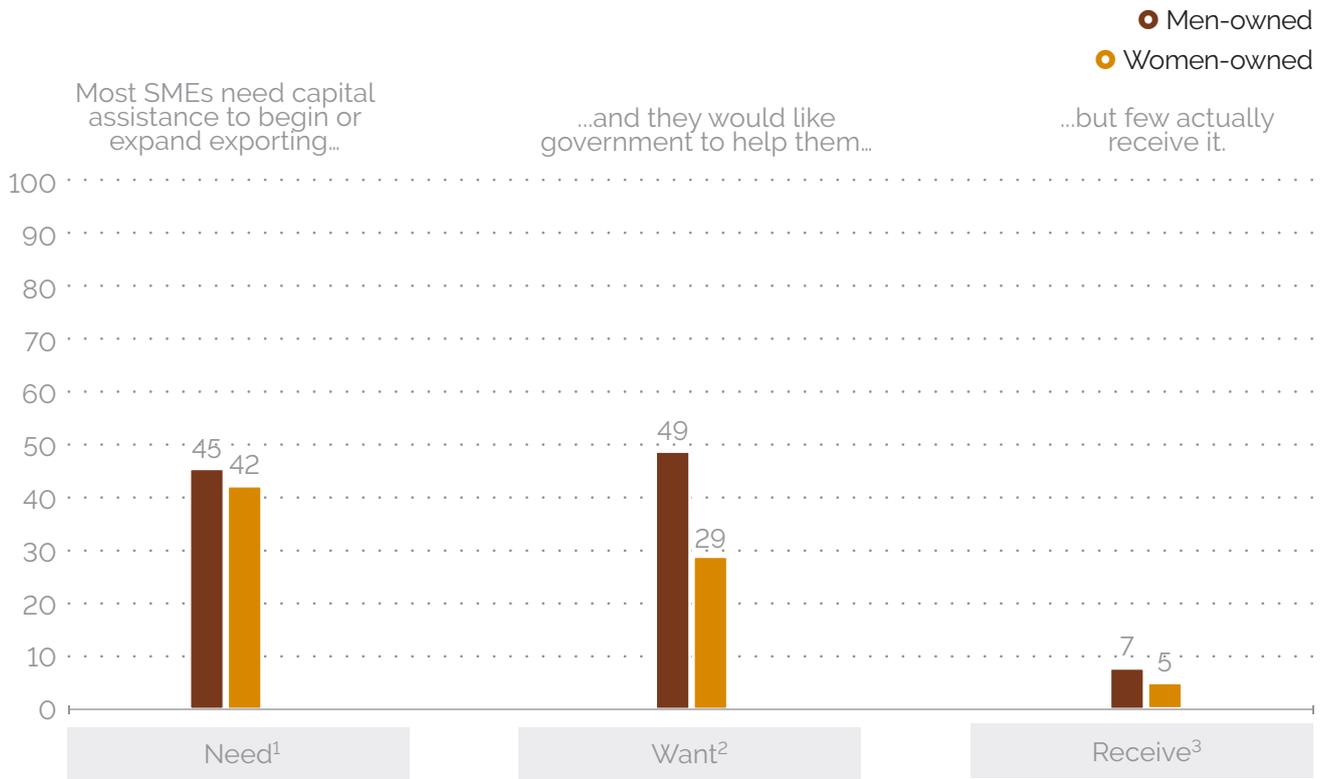
⁷⁷ Focus group discussion with male apparel SME owners, facilitated by Leya Cattleya and Dati Fatimah, May 11, 2017.





CHART 5.15

APPAREL SMEs NEED AND WANT FINANCIAL HELP FROM GOVERNMENT BUT DON'T GET IT
(percentage of respondents)



¹ Men-owned (n = 150, 96% response rate); women-owned (n = 45, 96% response rate)

² Men-owned (n = 128, 82% response rate); women-owned (n = 31, 66% response rate)

³ Men-owned (n = 82, 52% response rate); women-owned (n = 22, 47% response rate)

Source: TPSA gender and trade survey.



Photo credit: raditya, Shutterstock.com.





The source of initial and subsequent capital for men-owned SMEs was a man, usually the owner himself, 84 and 72 per cent of the time. (See Table 5.4.) Eleven per cent of men-owned SMEs received their initial and subsequent business capital from both men and women, likely their parents or a married couple. Five per cent of men-owned SMEs borrowed initial capital from women only, and 1 per cent did so for subsequent capital. Fifty-seven per cent of women-owned SMEs borrowed initial capital from women, while 26 per cent borrowed from both men and women and 17 per cent from men only. For subsequent capital, 60 per cent of women-owned SMEs borrowed from women, while 9 per cent borrowed from men.

TABLE 5.4

MEN- AND WOMEN-OWNED APPAREL SMEs HAVE DIFFERENT SOURCES OF CAPITAL

(percentage of respondents)

Creditor for initial business capital			
	Men-owned SMEs (n = 155, 99% response rate)		Women-owned SMEs (n = 46, 98% response rate)
Men-owned from men	84	Women-owned from men	17
Men-owned from men and women	11	Women-owned from men and women	26
Men-owned from women	5	Women-owned from women	57
Creditor for subsequent business capital			
	Men-owned SMEs (n = 151, 96% response rate)		Women-owned SMEs (n = 43, 91% response rate)
Men-owned from men	72	Women-owned from men	9
Men-owned from men and women	6	Women-owned from men and women	0
Men-owned from women	1	Women-owned from women	60
No subsequent capital needed	22	No subsequent capital needed	30

*Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.*

Both men- and women-owned SMEs used their personal resources (which could be in the form of savings or proceeds from property or valuables sold) or borrowed or received money from family members for the initial capital of their apparel business. Sixty-two per cent of men-owned and 47 per cent of women-owned SMEs used personal resources for initial capital, and 34 per cent of men-owned and 44 per cent of

women-owned SMEs borrowed or received capital from family members. (See Table 5.5.) It is important to note that many of the apparel SMEs, especially those in the batik apparel industry, inherited the business from their parents or grandparents. This

Many of the apparel SMEs, especially those in the batik apparel industry, inherited the business from their parents or grandparents.



explains why the source of initial capital is often a family member. Other SMEs were former batik workers who acquired skills in batik production and learned to run a batik manufacturing and marketing business. For 56 per cent of men-owned and 48 per cent of women-owned SMEs, the main sources for subsequent capital were banks, although a considerable proportion of women-owned SMEs (31 per cent) used their personal savings for subsequent capital.

Some male batik SME owners in Pekalongan reported during a focus group discussion (FGD) that they avoid getting bank loans because they think that it is prohibited (*haram*) as it involves paying interest (*riba*), which is prohibited by Islamic law. Pekalongan itself is considered a *kota santri*, a city strongly influenced by Islamic culture.⁷⁸

One female batik SME owner explains, "The most important thing here is to have very strong capital. Initially, the capital to start this business came from my parents. Afterwards, to develop this business, I borrowed from the bank. Now, there are many offers from banks and cooperatives, so borrowing from a bank is easier. Cooperatives return the interest in the form of dividends and patronage refunds. These days, there are also *Syariah* banks (those that comply with Islamic law), but the return is not as high. Some banks have a capital loan program (e.g., KUR) with an interest rate of up to 0.8 per cent per month."⁷⁹

TABLE 5.5
APPAREL SMEs DRAW ON DIVERSE SOURCES FOR CAPITAL
(percentage of respondents)

Sources of capital	Men-owned SMEs		Women-owned SMEs	
	Initial capital (n = 128, 82% response rate)	Subsequent capital (n = 116, 74% response rate)	Initial capital (n = 45, 96% response rate)	Subsequent capital (n = 42, 89% response rate)
Bank	2	56	4	48
Family	34	14	44	12
Personal capital	62	14	47	31
Another person in the value chain	1	11	4	5
Savings and credit cooperatives	1	1	0	0
Friends	0	3	0	0
CSR from state- owned enterprise	0	1	0	0
International investment bank	0	0	0	2
Partnership	0	0	0	2

Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.

⁷⁸ Focus group discussion with male batik SME owners, facilitated by Dati Fatimah, April 18, 2017.

⁷⁹ In-person interview with female batik SME owner by Pungky Desi Christanti and Astri Briliyanti, April 27, 2017.



Training

Very few respondents said they wanted government to provide training on general business practices, but training was one of the most common forms of assistance provided by government, and almost half of apparel SMEs have received it. (See Chart 5.16.)

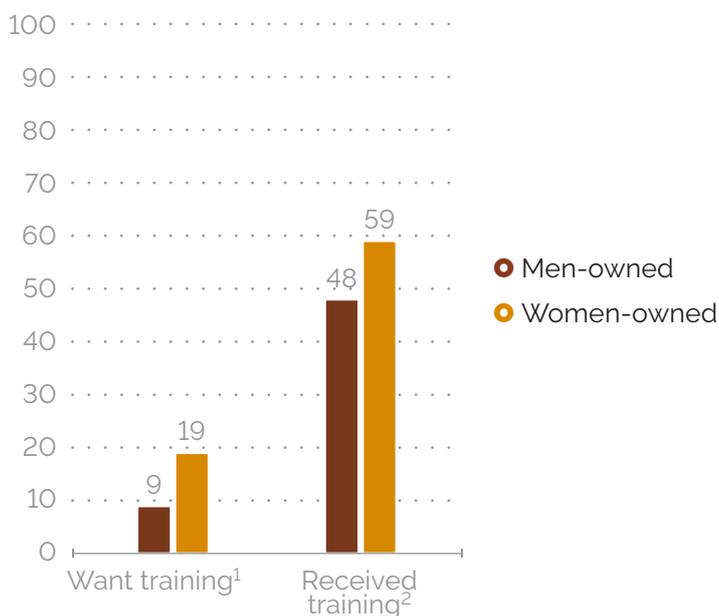
It may be that apparel SMEs would prefer assistance with financing and trade facilitation, not just training on general business practices.

This is not to conclude that the training was not useful; it could be that SMEs would now prefer assistance in other areas, such as financing and trade facilitation. Similar to coffee and footwear SMEs, apparel SMEs want government help facilitating linkages with both domestic and foreign markets to help grow their business. They also want help with financing.

CHART 5.16

MORE SMEs HAVE RECEIVED GOVERNMENT-ASSISTED TRAINING THAN WANT IT

(percentage of respondents)



¹ Men-owned (n = 128, 82% response rate); women-owned (n = 31, 66% response rate)

² Men-owned (n = 82, 52% response rate); women-owned (n = 22, 47% response rate)

Source: TPSA gender and trade survey.

Some SMEs are quite clear about the type of assistance they need from government. For example, a male SME owner that produces embroidered apparel in Semarang states that in order to help SMEs export their products, "it would be better for the government to create a supervisory and advisory body that does not just provide training and then leave SMEs to learn exporting alone, but assists and mentors SMEs in exporting. Exporting is quite complicated, and we need intensive mentoring. The government should help us meet real buyers, not just attend exhibitions, where the results obtained are less than satisfactory."⁸⁰ Some respondents also noted that training should include follow-up in the form of mentoring.⁸¹

⁸⁰ Focus group discussion with male apparel SME owners in Semarang, facilitated by Leya Cattleya and Dati Fatimah, May 11, 2017.

⁸¹ Focus group discussion with male apparel SME owners in Pekalongan, facilitated by Leya Cattleya and Dati Fatimah, April 18, 2017.





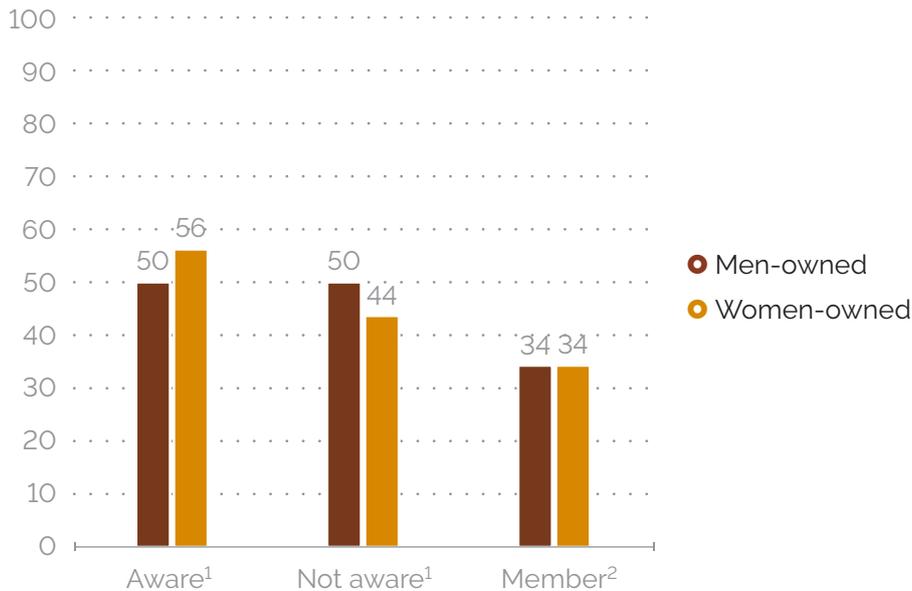
Business Networks

Similar to respondents in the footwear industry, awareness of associations is moderate among apparel SMEs, with half of men-owned and just over half of women-owned respondents claiming knowledge of associations. (See Chart 5.17.) As in the coffee and footwear industries, awareness does not guarantee that the SME will join a business or industry association. Only 34 per cent of both men- and women-owned SMEs are members of an association.

CHART 5.17

MOST APPAREL SMEs DON'T JOIN ASSOCIATIONS, EVEN IF AWARE OF THEM

(percentage of respondents)



¹ Men-owned (n = 144, 92% response rate); women-owned (n = 41, 87% response rate)

² Men-owned (n = 105, 67% response rate); women-owned (n = 31, 66% response rate)

Source: TPSA gender and trade survey.

Members of apparel industry associations report that the most important benefits include information about markets and production inputs, programming and assistance for female entrepreneurs, and the ability to make contacts and network with others in the industry.

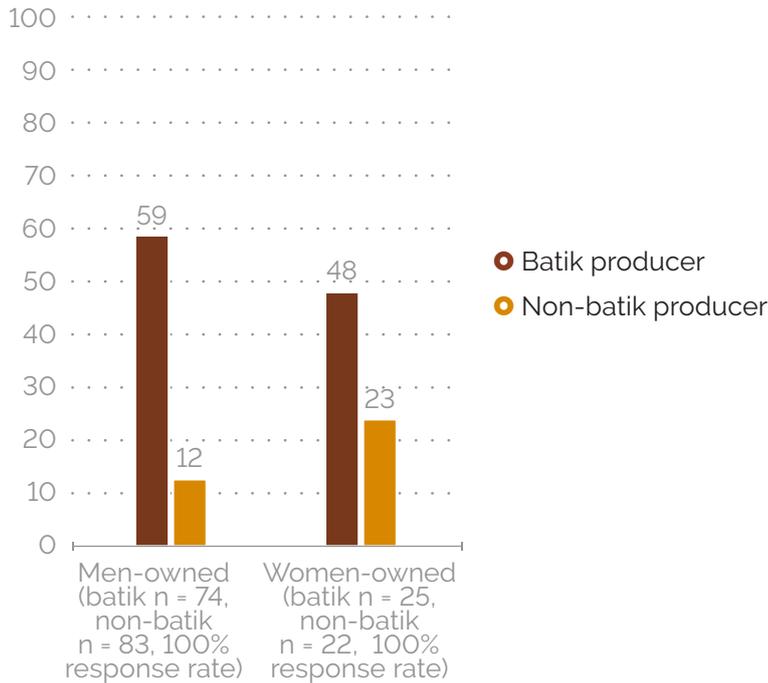
Association membership among batik producers is high: 59 per cent of the 74 men-owned batik SMEs are members of an association and 48 per cent of the 25 women-owned batik SMEs are members. (See Chart 5.18.) These rates are much higher than non-batik producer membership rates. Only 12 per cent of the 83 men-owned non-batik SMEs are members of an association and 23 per cent of the 22 women-owned non-batik SMEs are members of an association. Recent decades have seen the revival of the batik industry, which has been the recipient of government programming. This support is frequently channelled through associations, mostly local ones such as *Paguyuban Pecinta Batik Pekalongan* (Batik Lovers Association of Pekalongan). Therefore, the rate of association membership is higher among batik producers than non-batik apparel producers. Seventy-six per cent of batik producers were aware of the existence of an association, compared with less than 20 per cent of non-batik producers. Other local batik associations include *Komunitas Batik Pewarna Alam* (Natural Dye Batik Community), *Komunitas Batik Warisan* (Batik Inheritance Community), and *Komunitas Pembatik Laweyan* (Batik Producers of Laweyan).



CHART 5.18

BATIK PRODUCERS MORE LIKELY TO JOIN ASSOCIATIONS

(percentage of respondents)



Source: TPSA gender and trade survey.

Key Differences in Access to Resources

- A larger share of women-owned SMEs looked to government sources and business and industry associations for market information, while more men-owned SMEs used the internet and social media.
- For production information, a larger share of men-owned SMEs relied on their own knowledge and personal experience, while a larger share of women-owned SMEs used the internet and social media.
- Sixty-four per cent of women-owned apparel SMEs reported having interactions with government institutions, compared with 49 per cent of men-owned SMEs, but an almost equal share of men- and women-owned SMEs have accessed government support.
- More women-owned SMEs said they would like government help with labour inputs and production capacity issues related to exporting.



Photo credit: Odua Images, Shutterstock.com.



Photo credit: Kzenon, Shutterstock.com.





Do the Challenges Apparel SMEs Face Differ by Gender?

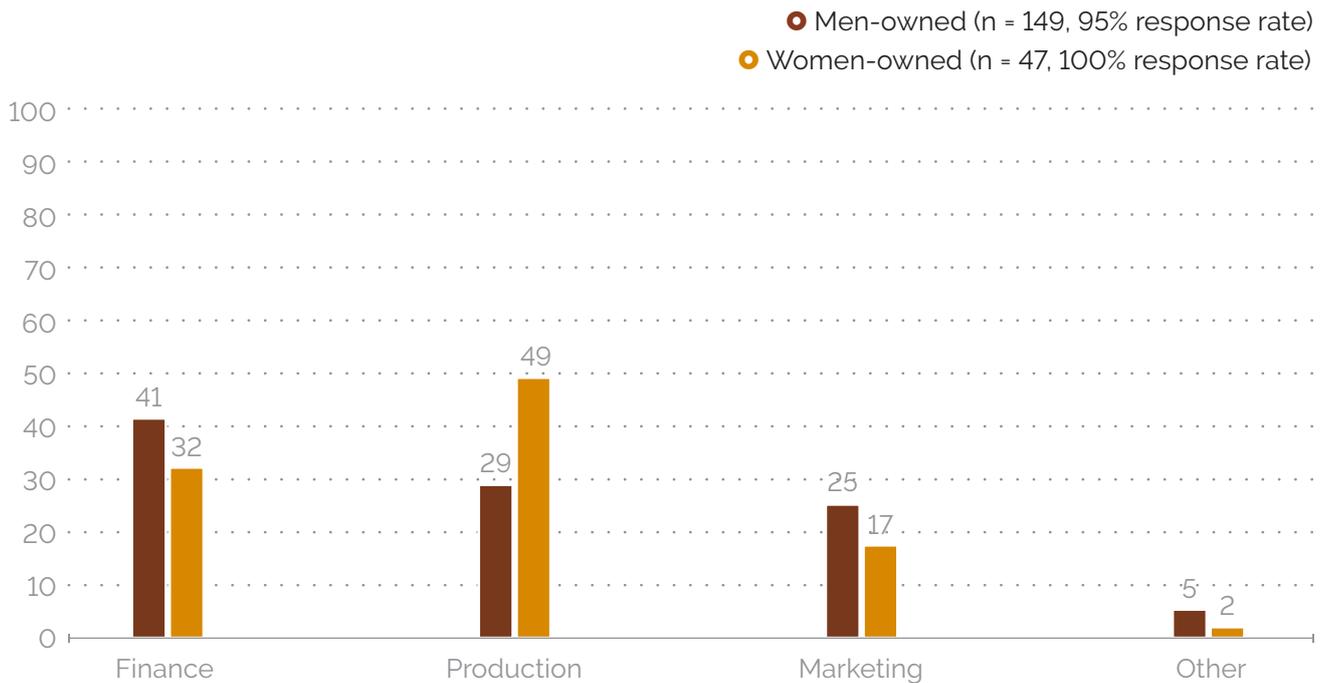
General Business Challenges

The main business challenges are largely shared by respondents across all industries, regardless of the owner's gender. As Chart 5.19 illustrates, those challenges are difficulty accessing capital (finance), poor access to raw materials and skilled labour (production), and trouble accessing markets and gathering relevant market insights (marketing). A larger share of women-owned SMEs cited production challenges.

CHART 5.19

APPAREL SMEs FACE DIVERSE BUSINESS CHALLENGES

(type of challenge; percentage of respondents)



Source: TPSA gender and trade survey.

Finance

The findings for the apparel industry mirror results from the footwear industry. Capital is needed to pay for raw materials, workers' wages, packaging, and in some cases, delivery. Working capital is often tight, as payment may be received several months after products are delivered. Payment is usually done by cheques, which clear after three months. Some respondents reported bounced cheques. In some cases, products are sold on a consignment basis. When cash is tight, raw materials must be purchased on credit, which further reduces the SME's profit margin and the funds available for working capital.



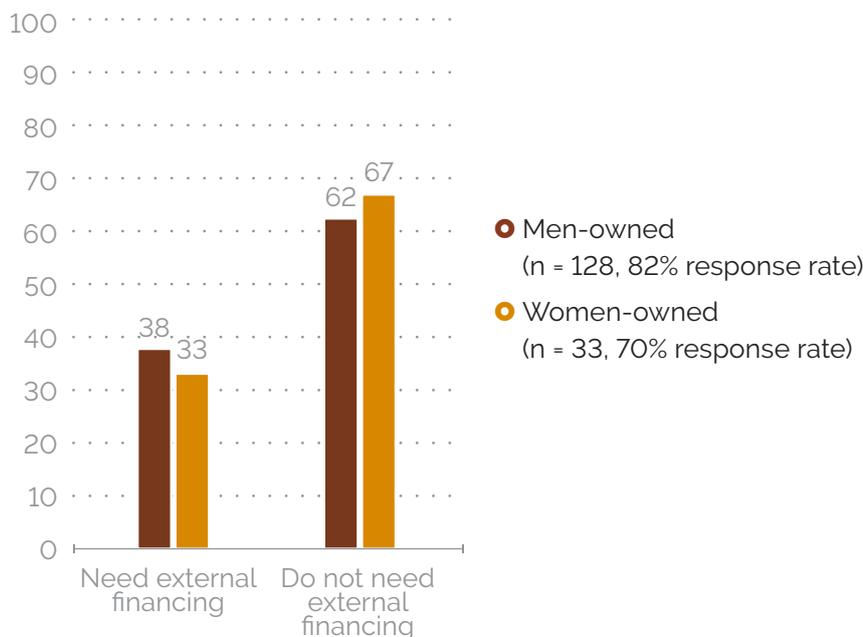


While access to capital is seen as a major challenge, only 38 per cent of men-owned SMEs and 33 per cent of women-owned SMEs reported requiring a loan or external financing. (See Chart 5.20.) This can be explained by the fact that most SMEs prefer to borrow from family and friends. It could also indicate that obtaining a loan is complicated, and is not perceived as a viable solution by many.

CHART 5.20

MOST APPAREL SMEs DON'T RELY ON EXTERNAL FINANCING

(percentage of respondents)



Source: TPSA gender and trade survey.

Some of the stakeholder interviews recognized that accessing adequate capital can be difficult. For example, a male batik business owner states that the “main obstacles in batik export are generally around three issues: production, marketing, and financial capital.”⁸² Interestingly, others interviewed are solution-oriented, finding ways around the challenges themselves. For example, a female apparel business owner explains that “initially, the capital to start this business came from my parents. Afterward, to develop the business, I borrowed from the bank. Now there are many offers from banks and cooperatives so borrowing [...] is easier.”⁸³

Several other interviewees observe that gaining access to capital is much easier these days, and one states that entrepreneurs should deal with problems such as capital themselves, because information is readily available through a variety of sources, including the internet, newspapers, and government offices. (It should be noted that this stakeholder has been in business since 1978 and has both experience and well-developed networks.⁸⁴)

A female producer of jackets from the Cihideung region near Bogor explains that her greatest obstacle is obtaining enough capital to purchase larger quantities of material. She would like to be able to stock up on materials and buy in bulk to get a better price.⁸⁵

⁸² In-person interview with male SME owner and leader of batik producers' association by Fadila Adibaningtyas, April 18, 2017.

⁸³ In-person interview with female batik SME owner by Pungky Desi Christanti and Astri Briliyanti, April 27, 2017.

⁸⁴ In-person interview with male batik SME owner by Ricky Ardian Harahap, April 20, 2017.

⁸⁵ In-person interview with female owner of jacket-producing SME by Mulyana, April 27, 2017.





One batik apparel business provides an example of how capital might be sourced: The husband and wife are co-owners and established their business in 2013. To get their business off the ground, they mortgaged the wife's jewelry. A few years later, when the business required additional working capital, they relied on their parents' assets to serve as collateral for a loan.⁸⁶

Production

Apparel SMEs cited challenges related to accessing raw materials and finding skilled labour. One respondent engaged in the apparel industry in the Binong village in Bandung says suppliers of raw materials hold a great deal of power and can hinder access for small-scale entrepreneurs through pricing or supply constraints.⁸⁷ The respondent adds that capital is necessary to access materials, and that the market in Binong is dominated by a handful of powerful operators in the knitwear garment production business.

Apparel SMEs cited challenges related to accessing raw materials and finding skilled labour.

A female jacket producer reports that for small-scale producers, fabric is purchased on a weekly basis, so a lack of supply can disrupt production.⁸⁸ A male board member of a batik entrepreneurs' cooperative says accessing calico cloth required for batik can be difficult. This cloth is for the most part imported, as are the dyes required in batik production.⁸⁹

One batik business co-owned by a husband-wife team states that initially their main challenge was insufficient capital, but that challenge also impacted their relationship with a fabric supplier.⁹⁰ When they experienced a financial crisis and were unable to pay for materials, they lost the trust of that supplier and were unable to purchase additional fabric for six months.

The general secretary of the Batik Laweyan Village Forum confirms that the price of raw materials is increasing, and the availability of production inputs varies: "Batik production can face delays due to difficulty obtaining raw materials, which impedes an SME's capacity to provide sufficient quality and quantity of their products."⁹¹ He further explains that batik businesses in Laweyan secure raw materials from Solo and Pekalongan. Most of these materials are imported, as Indonesia is not self-sufficient in production of,

Accessing raw materials has become difficult and raw-material prices continue to rise, yet prices for the final product remain constant or decline.

for example, the cotton required to produce mori white cloth, which is in turn used to produce batik. Accessing raw materials has become difficult and raw-material prices continue to rise, yet prices for the final product remain constant or decline.

Apparel producers rely on skilled labour to create their products. Batik production, especially when making a premium product, requires a great deal of skill. There are a number of steps, each requiring specific skills. One businessperson sums it up this way: "It is difficult to recruit premium-level batik artisans. You can easily find people who can do batik around here, but their skills are not up to the level we need."⁹² Another informant says young people prefer other occupations to batik, and choose to work in sewing factories, shops, or supermarkets. They tend to be better-educated, so they can work anywhere. Of the younger generation, only those who have limited opportunities or have dropped out of school end up working in batik.⁹³ (See "Losing the Next Generation of Batik Artists.")

⁸⁶ Focus group discussion with owners and worker of batik SME, facilitated by Dati Fatimah, July 11, 2017.

⁸⁷ In-person interview with male batik SME owner by Rizky Ersya Heryana and Anindita Dyah Puspita Rani, April 14, 2017.

⁸⁸ In-person interview with female batik SME owner by Mulyana, April 27, 2017.

⁸⁹ In-person interview with male chairperson of cooperative of batik SMEs by Radi Ihlas Albani, April 10, 2017.

⁹⁰ Focus group discussion with owners and worker of batik SME, facilitated by Dati Fatimah, July 11, 2017.

⁹¹ In-person interview with male batik SME owner by Fadila Adibaningtyas, April 18, 2017.

⁹² In-person interview with female batik SME owner by Dati Fatimah, July 11, 2017.

⁹³ In-person interview with male batik SME owner by Pungky Desi Christanti, April 11, 2017.



Losing the Next Generation of Batik Artists

Canting Kakung is an informal association of male batik artisans in Laweyan, one of the two largest batik villages in the city of Solo, where almost every household produces stamped or hand-painted batik products, mostly fabric and apparel. Canting Kakung was established in 1976 to provide an avenue for batik artisans to work together, learn the art of batik, trade with each other, and teach children batik painting and stamping from an early age. Although it started out with 100 members, the association currently has only 40 members. The head of the association believes the drop in membership is due to the dwindling interest of young men in batik painting and stamping, as it is laborious work with low pay. Many young people prefer to leave the village for urban areas to find better-paying jobs. Canting Kakung provides courses to teach young people the art and skill of batik-making, but it has been challenging to attract students.

Batik is a traditional process of applying wax and dyes to fabric to achieve intricate and colourful patterns. Over time, the process has evolved from a technique known as *batik tulis*, where the designs were hand-drawn onto fabric, to *batik cap*, where the designs are stamped onto machine-made fabric using specially crafted copper stamps. The shift to new technology for producing batik, specifically from *batik tulis* to *batik cap*, led to a change in gender roles in batik production as more male workers are hired to do *batik cap*, a task that is seen as requiring physical strength. *Batik cap* also requires a larger workspace, which means that a worker has to work in the business owner's facility, not in their own home. *Batik tulis*, on the other hand, can be done in the worker's home, making it preferable for women, who may have to attend to their domestic responsibilities while working.

Hand-drawn batik (*batik tulis*) is the most labour-intensive, and therefore also the most expensive. The various steps in production are pattern design, painting the pattern onto cloth, applying wax to the pattern, colouring the cloth, peeling off the wax, drying, and finally tailoring the cloth into apparel.⁹⁴ An informant from Solo says women generally engage in sewing, painting the pattern onto the cloth, and applying wax to the pattern—a laborious process that requires precision and patience—while men focus on washing and colouring the cloth as well as working with the wax.⁹⁵ It takes between 15 days and six months to hand-paint a piece of batik fabric. Virtually all of this work is done by women. It is common practice for a worker to be paid Rp 5,000 per hour for painting a pattern onto a cloth and Rp 10,000 per hour for colouring the pattern with wax. A hand-painted batik fabric sells for between Rp 500,000 and Rp 40 million on the market.

It takes between 15 days and 6 months to hand-paint a piece of batik fabric. Virtually all of this work is done by women.

Colouring a fabric for batik production is commonly done by soaking several pieces of fabric in a tub with the desired colour dye dissolved in water, but it can also be done one piece of fabric at a time, using a small bucket. This method is preferred by women as it can be done at home. Designing batik prints is done using melted wax, a task often done by women.

In *batik cap*, the *cap*, or stamp, must be precisely made, especially if the pattern is to be stamped on both sides of the fabric. It is imperative that both sides of the cap are identical so that the pattern will be consistent. *Batik cap* work is mostly done by men, and production can be as high as 10 pieces of fabric per day. The market price of a piece of stamped batik fabric ranges from Rp 50,000 to Rp 200,000, while that of a semi-stamped, semi-hand-painted batik fabric ranges from Rp 80,000 to Rp 300,000.

⁹⁴ In-person interview with male chairperson of a cooperative of 40 batik SMEs in Pekalongan by Radi Ihlas Albani, April 10, 2017.

⁹⁵ In-person interview with male batik SME owner by Ricky Ardian Harahap, April 20, 2017.





Machine-printing of batik is done only by men, and production can range from hundreds to thousands of metres per day.

A female batik worker using traditional methods in Pekalongan, Central Java, explains that young girls used to be interested in learning batik and that she started learning when she was in the second grade, but that “now it is difficult to find young women who are interested in learning *mencanting* (applying wax designs to fabric), which is considered a difficult task because it takes a long time to learn and hands are exposed to hot wax. Moreover, the younger generation is reluctant because the wages are low. Therefore, it is difficult to find skilled batik workers.”⁹⁶ She points out that it is easier to find male workers, not for *pencanting* (drawing batik designs) but for colouring, as wages for this task tend to be higher.

A male worker in a batik operation confirms that it is difficult to find skilled workers for *pencanting*: “The younger generation is reluctant to work at this job because it is dirty and difficult.”⁹⁷ Similarly, a batik producer and exporter in Laweyan also mentions that it is getting more difficult to find skilled workers in the sub-district to produce both *batik tulis* and *batik cap*, and that he subcontracts work to other regions to overcome the shortage.⁹⁸

Some batik SMEs are concerned that they do not have copyright protection for their designs and that copying of designs is becoming more prevalent.

Some batik SMEs are concerned that they do not have copyright protection for their designs and that copying of designs is becoming more prevalent. This is often done by foreign firms, such as those from China and Vietnam, who mass-produce designs using machines,

while Indonesian SMEs continue to produce batik in the traditional, labour-intensive and time-consuming way. SMEs want the Indonesian government to enact copyright-protection laws on batik products.

Marketing

Access to markets and obtaining relevant market information were found to be a major challenge for almost half of survey respondents, both men and women. During an FGD with batik producers and exporters, the issue of marketing was flagged as a challenge and an area where government could play a larger role. For example, support finding new markets or revamping local markets would be helpful, as well as more assistance for participation in exhibitions. Another participant in the FGD notes that they have not done any internet marketing but continue to do conventional marketing through retail and wholesale shops.⁹⁹

Other

A number of other challenges were raised by apparel respondents. Men- and women-owned SMEs both cited complicated regulations and administrative processes, as well as excessive bureaucracy.

Export Challenges

Apparel SMEs that are already exporting reported export-specific challenges. About half cited marketing challenges, including access to information about foreign markets and export product requirements. (See Chart 5.21.) Production challenges were also reported, including trouble meeting quality standards, low production capacity, and lack of skilled labour. Like the general business challenges reported above, men- and women-owned SMEs both cited other export challenges that include complicated regulations and administrative processes and excessive bureaucracy. Export-related challenges also included difficulty accessing capital.

⁹⁶ In-person interview with female batik SME owner by Astri Briliyanti, April 11, 2017.

⁹⁷ In-person interview with male batik SME owner by Astri Briliyanti, April 11, 2017.

⁹⁸ In-person interview with male batik SME owner by Ricky Ardian Harahap, April 20, 2017.

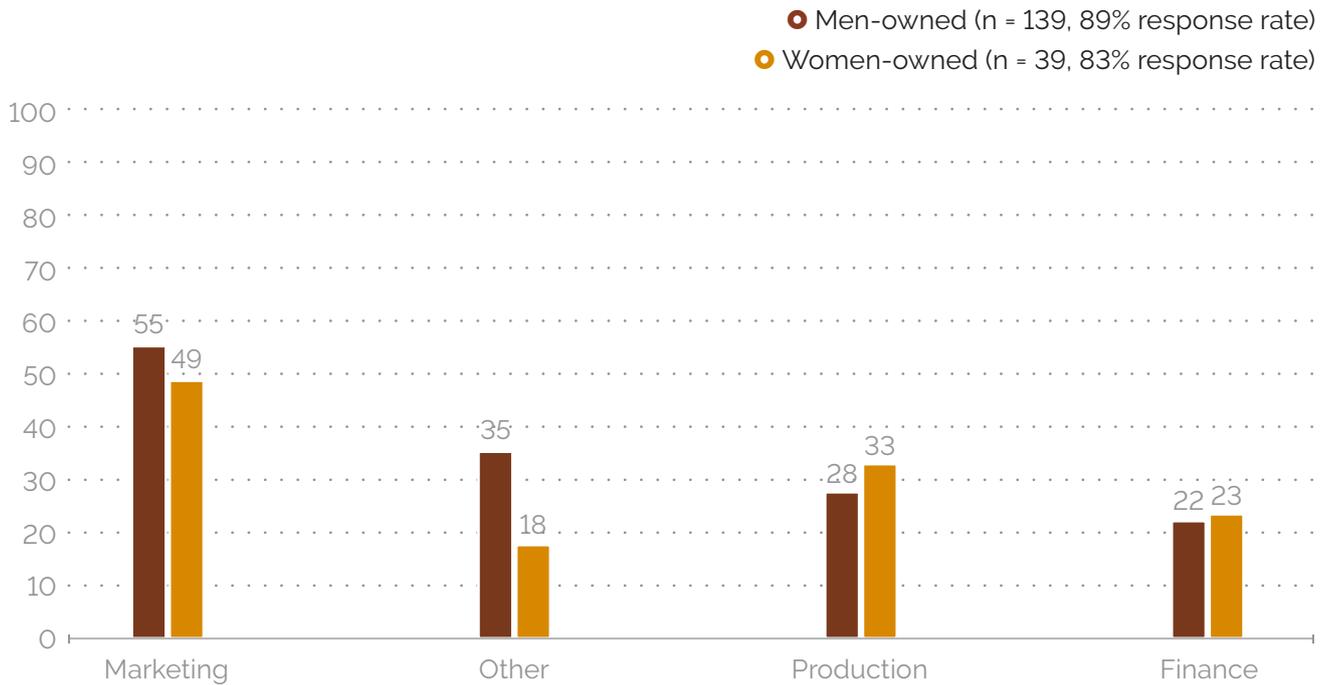
⁹⁹ Focus group discussion with male batik SME owners in Pekalongan by Titik Hartini and Dati Fatimah, April 18, 2017.



CHART 5.21

APPAREL SMEs FACE CHALLENGES TO EXPORTING

(type of challenge; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.

One informant notes that she has attended several international exhibitions, but so far has not been able to secure a bulk deal, and instead has sold smaller quantities. She notes that it would be useful if the government helped organize a special exhibition where producers could meet bulk buyers.¹⁰⁰

Another challenge is inexperience concerning tastes, trends, and quality expectations in export markets. As one informant says, “SMEs here in Pekalongan are not anti-export, but we don’t know the market. What style [does a] foreign buyer like?

Exporting carries a risk: If the quality of the product does not meet the buyer’s specifications, goods might be returned.

Is [a] formal dress style good for the international market? Or better to focus on casual [garments]?”¹⁰¹ Exporting carries a risk: If the quality of the product does not meet the buyer’s specifications, goods might be returned. In the case of batik, it is a challenge to ensure that motifs on every piece in a shipment are the same and that they meet quality expectations.¹⁰²

A lack of proficiency in English, the language of international trade, is a constraint for apparel SMEs, most of whom have only a high school education. For batik SMEs, the challenge is coming up with designs that are attractive to the foreign market, which means that for the North American and European markets they would have to be less ethnic-looking, simpler, and with more muted colours.

Securing adequate financing to launch and support an export business is a barrier for both male and female entrepreneurs. As mentioned above, raw materials are expensive and often imported, and prices

¹⁰⁰ Focus group discussion with female batik SME owners in Pekalongan by Titik Hartini and Dati Fatimah, April 18, 2017.

¹⁰¹ Ibid.

¹⁰² Focus group discussion with male batik SME owners in Pekalongan by Titik Hartini and Dati Fatimah, April 18, 2017.





Securing adequate financing to launch and support an export business is a barrier for both male and female entrepreneurs.

for both the fabric and chemicals required in the batik process have increased.¹⁰³ A female informant says that the "export market provides greater profits, although the procedures are also more complicated and require larger amounts of financial capital."¹⁰⁴

One-third of female respondents stated that production can be a challenge. As noted above, raw materials are costly and can be scarce. A female informant reports that she always asks for a 50 per cent down payment when exporting, to provide working capital and help manage the risk of changes in the price of raw materials.¹⁰⁵

Regulations Impeding Business Development

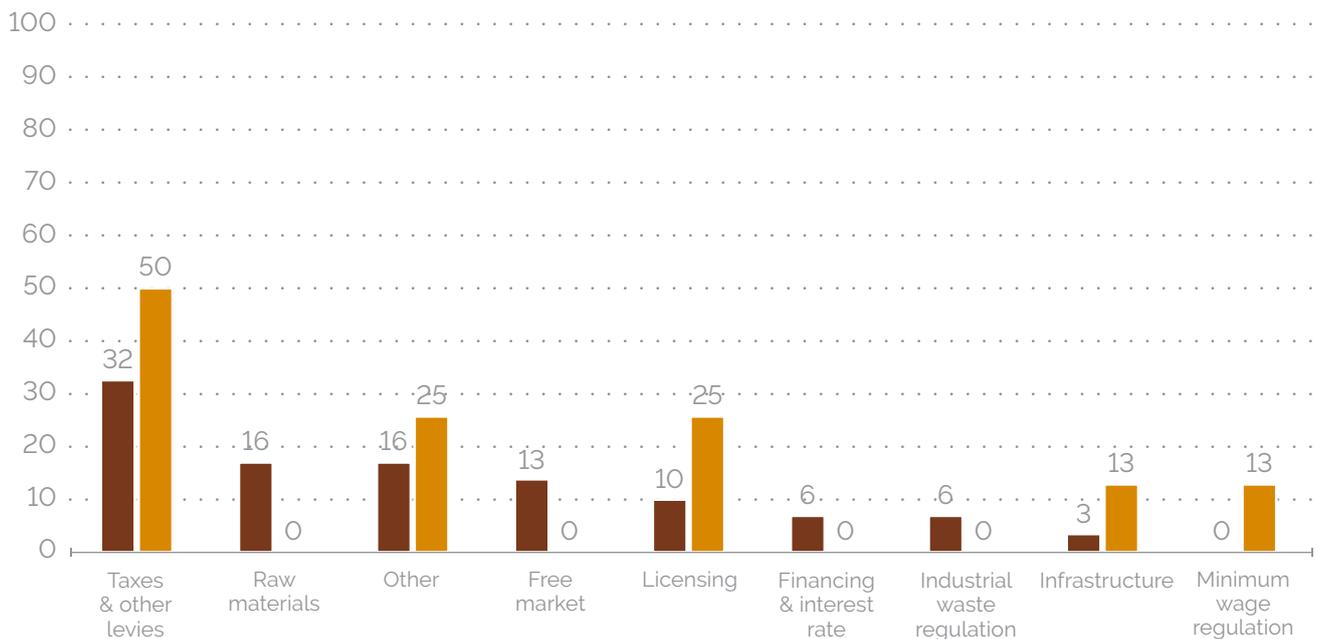
Survey respondents in the apparel industry were asked if regulations were an obstacle to operating their SME. Most respondents in the apparel industry did not find that any particular regulations impeded their ability to operate. Only 27 per cent of men and 22 per cent of women respondents felt that regulations represent a barrier. Among those who did observe problematic regulations, taxation was highlighted, particularly by women. (See Chart 5.22.)

CHART 5.22

TAX REGULATIONS NOTED AS AN IMPEDIMENT

(type of impediment; percentage of respondents)

- Men-owned (n = 32, 20% response rate)
- Women-owned (n = 10, 21% response rate)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.

¹⁰³ Ibid.

¹⁰⁴ Focus group discussion with female batik SME owners in Pekalongan by Titik Hartini and Dati Fatimah, April 18, 2017.

¹⁰⁵ Ibid.





Key Differences in Challenges SMEs Face

- Men- and women-owned apparel SMEs face the same general business challenges, but a larger share of women-owned SMEs cited challenges accessing raw materials and finding skilled labour.

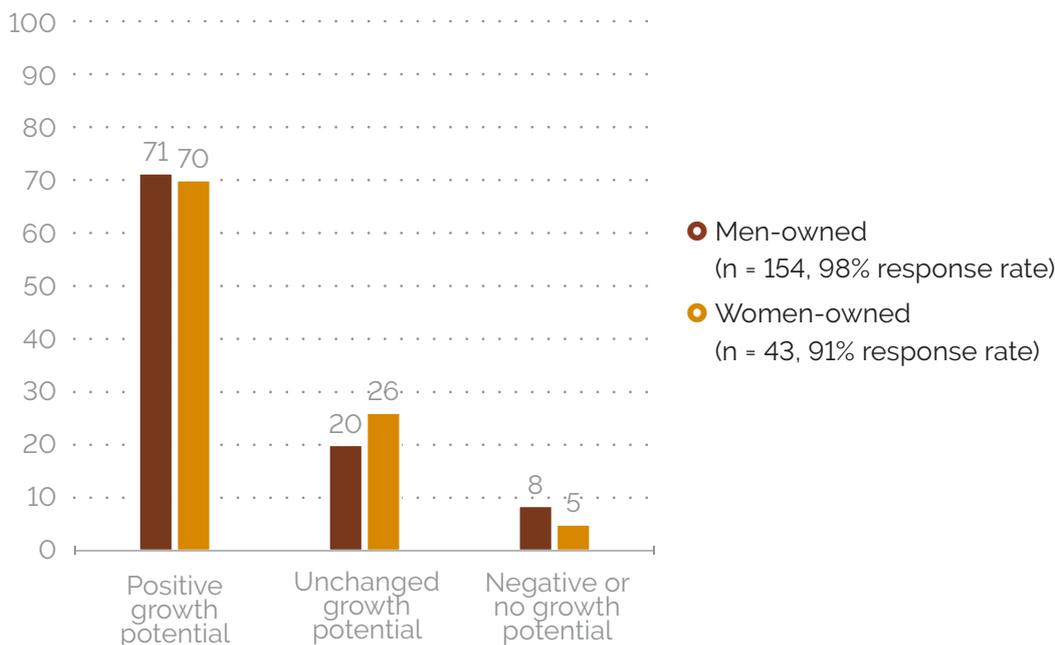
Are Apparel SMEs Confident About the Outlook for Their Business?

Apparel SME owners surveyed are mostly optimistic about the future of their business: some 70 per cent of respondents have a positive outlook on the future, while 20 per cent do not expect to see major changes in the future. (See Chart 5.23.) Less than 10 per cent do not see any potential for future growth. These results are generally consistent between men- and women-owned apparel SMEs.

CHART 5.23

MALE AND FEMALE APPAREL OWNERS SEE POSITIVE GROWTH POTENTIAL

(percentage of respondents)



Note: Numbers may not equal 100 per cent due to rounding.
Source: TPSA gender and trade survey.

It is relevant to note that while the surveyed apparel SMEs have a positive outlook for the future of their individual businesses, the dwindling membership and, in some cases, closure of several batik associations and cooperatives over the past two decades may indicate a slow decline of that industry. It is important that challenges related to skilled labour and marketing, as reported by the surveyed batik apparel SMEs, be further investigated by government and private-sector stakeholders.

Some SMEs in Semarang reported that innovation is an effective approach to mitigating production and marketing challenges. Innovations such as the use of natural dyes, the development of new culturally relevant designs, and expansion into the global market are critical for apparel businesses to survive in an increasingly competitive environment.¹⁰⁶ For example, one male batik SME owner began producing batik products using natural indigo dye. Most of his batik apparel made with these natural dyes has sold out at exhibitions in various parts of Indonesia. Two female batik apparel SME owners innovated by linking their business with tourism, organizing one-day batik hand-painting tours and using social media in their marketing.

¹⁰⁶ Focus group discussion with batik apparel SMEs in Semarang, facilitated by Leya Cattleya and Dati Fatimah, May 11, 2017.





GENDER-BASED CHALLENGES



WOMEN-OWNED SMEs

MEN-OWNED SMEs



More women-owned SMEs think women entrepreneurs face additional challenges because they are women



Women coffee farmers spend more paid and unpaid time working than men coffee farmers



More women-owned than men-owned coffee SMEs recognize the double burden as a challenge for women entrepreneurs



More women-owned than men-owned footwear SMEs recognize the double burden as a challenge for women entrepreneurs



Fewer women-owned than men-owned apparel SMEs recognize the double burden as a challenge for women entrepreneurs



More women-owned SMEs view the need for spousal permission as a challenge





CHAPTER 6:

GENDER-BASED CHALLENGES

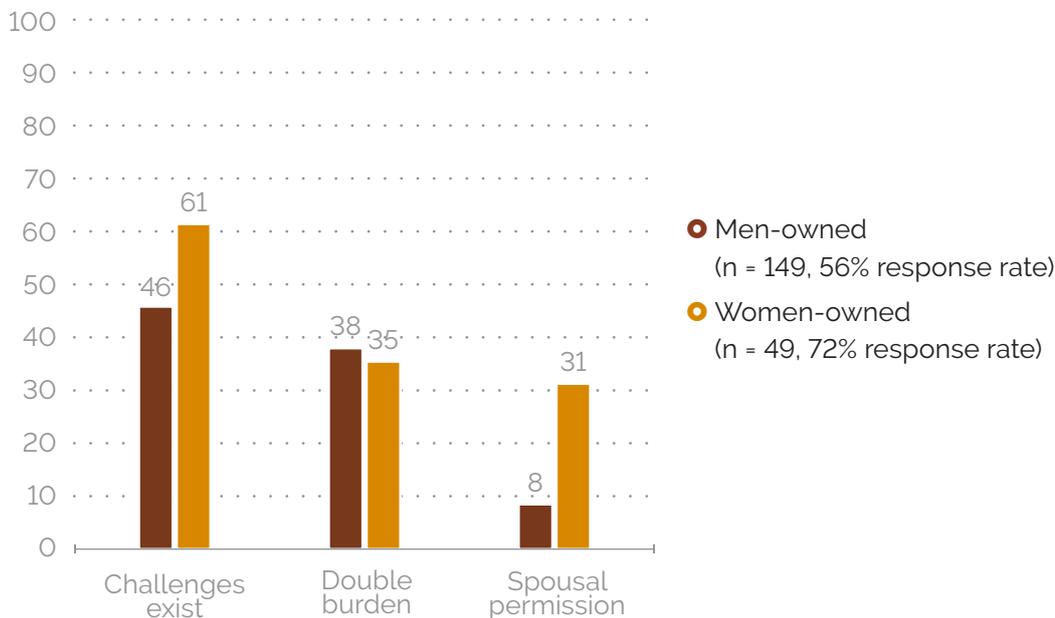
An important goal of the study was to identify the challenges faced by SMEs owned by women and men and determine whether they differ. In general, men- and women-owned SMEs share many of the same challenges: difficulty accessing capital, inadequate expertise in accessing markets, and problems related to production, particularly access to raw materials and skilled labour.

To understand whether survey respondents perceived female entrepreneurs to have additional challenges or ones that differed from those faced by male entrepreneurs, the survey asked respondents to indicate any disadvantages or challenges that women face as SME entrepreneurs because they are women. The two challenges most frequently cited were the double burden and the need for spousal permission. Sixty-one per cent of female respondents think that women entrepreneurs face additional challenges, but only 46 per cent of male respondents share this view. (See Chart 6.1.)

CHART 6.1

MEN AND WOMEN DIFFER IN THEIR PERCEPTION OF CHALLENGES FACING WOMEN SME OWNERS

(type of challenge; percentage of respondents)



Note: Respondents could choose more than one option.
Source: TPSA gender and trade survey.





The Double Burden

An almost-equal proportion of male and female respondents recognize that women face the additional challenge of being responsible for managing the home and taking care of the family while also running a business. This “double burden” was cited by 38 per cent of male respondents and 35 per cent of female respondents. If women are also involved in industry associations, savings and credit groups, or other community organizations, they experience a “multiple burden.” Even if female SME owners are able to hire household help and can call on the support of extended family, which is typical for Indonesian households, they remain principally responsible for managing the home and taking care of family members.

Women face the additional challenge of being responsible for managing the home and taking care of the family while also running a business.

SMEs Speak About... The Double Burden

A female apparel SME owner used to work as a civil servant in her province, but when she started having children, she realized that she needed more time to take care of her family. Her husband also pressured her to stay at home. In addition, her mother was ill and aging. She wanted to do something to occupy herself other than looking after her children, so she started an apparel business as a hobby, specializing in Muslim dresses. This way, she thought she would be able to fulfill two roles: mother and entrepreneur.

When she started, apparel companies targeting Muslim customers were not as widespread as they are now, and her business grew quickly. While she had already given up her government job, the business occupied most of her time. The more it grew, the more complicated her life became. She found it even more of a challenge to balance her time between business and family, even with domestic staff to do most household chores. However, things have improved as her children have grown and become more independent. Balancing her time between the two roles has become less of a problem, and she now feels that she can put more time into her business.

—Female apparel SME owner in Bandung

The in-depth interviews with stakeholders and the focus group discussions confirm the survey's findings. Even where the double burden is not explicitly mentioned as a challenge, women's casual comments indicate a preference for working from home and the need for flexible work hours. In general, child-rearing and domestic work is seen as a woman's responsibility. In the in-depth interviews, female workers mention that they can bring children to work with them.¹⁰⁷ A female manager of an apparel business inherited from her parents explains that as a mother and wife, she needs to take care of the children and household. She does not think it is an obstacle for her to take care of her family.¹⁰⁸

The identification of the double burden as a challenge for female entrepreneurs is consistent with other studies conducted about female SMEs in Indonesia. An International Finance Corporation (IFC) report published in 2016 notes that surveyed women “perceived facing greater pressure than men, who are not expected to engage in housework or child care, hence have more time for their business.”¹⁰⁹

In the coffee industry, three out of four women (75 per cent) who responded to the question cited the double burden as an issue, while just 24 per cent of the 50 men did so. One male respondent from the

¹⁰⁷ In-person interview with female batik SME owner by Astri Briliyanti, April 11, 2017.

¹⁰⁸ In-person interview with female batik SME owner by Mulyana, April 27, 2017.

¹⁰⁹ IFC, *Women-Owned SMEs in Indonesia*, 34.



coffee industry stated: "There should be a balance where women and men can be equally involved and working together." He further noted, however, that women should manage domestic affairs such as child care, as children should not be neglected due to a woman's work at the cooperative.¹¹⁰

During the focus-group discussions with coffee cooperatives, men and women were asked how much time they spent on farm work, household chores and taking care of children, prayer, and rest (including sleep). The results are clear: While women spend less time on farm work, the overall time they spend working (including farm work, household work, and child care) is significantly greater than that of men.

					TOTAL (WORK)	TOTAL (REST/SLEEP)
	0 hrs per day	8.75 hrs per day	1.5 hrs per day	13.75 hrs per day	8.75 hrs per day	13.75 hrs per day
	6.5 hrs per day	6.75 hrs per day	1.25 hrs per day	9.5 hrs per day	13.25 hrs per day	9.5 hrs per day

In the footwear industry, four out of eight female respondents (50 per cent) and 15 out of 33 male respondents (45 per cent) identified the double burden as a challenge for female entrepreneurs. One survey respondent noted that "women face more challenges at home because those who are married must still look after their husbands and families."

SMEs Speak About... Balancing Home and Work

Two young women set up their jointly owned shoe business. One of them was responsible for the production side, while the other handled promotion and marketing. After the woman responsible for production got married and had her first child, it became difficult for her to handle her business responsibilities. Thankfully, her business partner agreed to shift roles to accommodate her situation. The first woman is now responsible for developing the business's online marketing strategy and managing its implementation, which she can do while at home with her infant. This arrangement satisfies both her and her husband, who expects her to manage the household.

—Two female owners of a footwear SME in Bandung

In the apparel industry, 10 of 37 female respondents (27 per cent) perceived the double burden to be a challenge, while 30 of 66 male respondents (45 per cent) did. A number of survey respondents noted that taking care of family has an impact on a woman's ability to operate a business. For example, one respondent noted that she is currently on hiatus from designing her own products because she is focused on raising her toddler. Another respondent agreed that the double burden is a challenge; she cannot fully run her business because her time is limited and she has duties as a mother and wife.

¹¹⁰ In-person interview with researcher and coffee expert by Muklas Aji Setiawan, April 10, 2017.





SMEs Speak About... Equal Priorities

One female SME owner does not see her dual roles as family manager and businesswoman as a double burden or problematic, although she recognizes that she has more daily responsibilities than her husband, as she must manage her time to look after both her family and her business. She feels that her husband is fully supportive of her business, but that it is also her duty to take care of her family. Both are priorities, and she thinks she has been able to manage them well. Even while her children are growing up, she has established and manages her own boarding school for orphans as an additional activity apart from her business.

—Female batik apparel SME owner in Pekalongan

Spousal Permission

Overall, one-third (31 per cent) of female owners surveyed across the three industries viewed the need for spousal permission as an obstacle to running a business, while only 8 per cent of male SME owners acknowledged this as a challenge for women. In the footwear industry, female survey respondents indicated that their greatest challenge was the need for spousal permission. One female respondent who works in the apparel industry noted that while she did not personally experience this barrier, many do. She explained that “essentially, women are not as free as men, because almost everything requires the husband’s consent. In addition to that, there are religious norms as a Muslim where there are boundaries between men and women.”¹¹¹

Female SME owners describe how spousal permission delays women’s entry into business and prevents women already in business from accessing beneficial opportunities and resources. The need for spousal permission inhibits women from pursuing endeavours they are interested in, even if their impetus for such endeavours is their family’s welfare. Male SME owners are free to make decisions and are unencumbered by social norms that restrict their choices and physical mobility. In brief, they do not experience the same constraints that female SME owners do because of their gender.



Photo credit: Imam.

¹¹¹ In-person interview with female apparel SME owner in Pekalongan by Pungky Desi Christanti and Astri Briliyanti, April 27, 2017.





Photo credit: Rita Lindayati.





CHAPTER 7:

CONCLUSION AND RECOMMENDATIONS

Across all three industries, women owners are more educated. They are more likely to request export assistance, use the internet and social media, and access information from government and industry associations.

As entrepreneurs, both women and men SME owners across the three industries face similar challenges in running their businesses and in exporting. Both women- and men-owned SMEs have difficulty finding market information, accessing affordable credit, obtaining quality inputs in a timely manner, and getting appropriate, practical, and

focused training, including mentoring. In addition, both women and men SME owners noted the excessive time involved in obtaining the appropriate licenses and registrations.

However, the study does indicate several areas where there are major differences between the men- and women-owned SMEs. Across all three industries, women owners are more educated. They are more likely to request export assistance, use the internet and social media, and access information from government and industry associations. Hence, export and domestic market training would be welcomed and used by women-owned SMEs. However, the training needs to be practical and focused on their particular industry. Women-owned SMEs in both the footwear and apparel industries tend to be smaller and younger than their male counterparts; they could use help growing their businesses. In addition, women-owned SMEs across all three industries tend to have more difficulty accessing the raw materials and skilled labour that they need.

Women-owned SMEs across all three industries tend to have more difficulty accessing the raw materials and skilled labour that they need.

Cross-Cutting Recommendations

To ensure that women-owned SMEs are positioned to capitalize on opportunities offered by domestic and international trade, the following recommendations are presented to key stakeholders for all three industries:

Recommendations for Government

- Enhance SMEs' access to information about financial service providers other than banks and about banks that have served women-owned SMEs.
- Enhance SMEs' access to regular business credit by supporting the credit programs of financial service providers that offer collateral-free and low-interest loans.
- Improve the outreach of Bank Export-Import (Bank Ex-Im) and other export credit agencies by making requirements for export credit more affordable to SMEs and more accessible through increased physical presence in small urban and semi-urban areas where SMEs operate.
- Enhance SMEs' access to market intelligence (as opposed to just relying on personal networks), including customer contact information, both for domestic and foreign markets, by establishing local offices and online sites for market information, similar to one-stop shops for business licensing. The sources for this information should include intelligence gathered by trade commissioners and officials at the Ministry of Trade.



- Consider placing suitable representatives of the private sector in the trade offices of Indonesia's official delegations overseas, especially in the top foreign destinations for coffee, footwear, and apparel exports, to facilitate linkages between Indonesian SMEs and potential foreign buyers.
- Continue to provide export assistance to SMEs, especially to women-owned SMEs, who are more likely than men-owned SMEs to seek such assistance from government. However, ensure that such assistance is industry-specific, practical, needs-based, and supplemented with market information.
- Provide support for expanding the e-commerce presence of SMEs via assisting their participation in appropriate platforms to more effectively and transparently connect with markets.
- Promote equal access for male and female workers to skills-enhancement training on a wide range of tasks in each industry, to mitigate gender-role stereotyping in both product manufacturing and business management. This will increase opportunities for women to work in higher-paying jobs, particularly in the footwear and apparel industries.
- Streamline business and export licensing requirements and procedures for SMEs to reduce the time and cost to obtain such licenses.
- Strengthen the decision-making capability of women SME owners for all aspects of their business and in other spheres of public life.

Recommendations for Business and Industry Associations

- Enhance the capacity of associations to become a source of information for SMEs about markets, especially export markets, production systems, and technologies.
- Improve association websites to include more practical information on market intelligence and how to export. Include more information specifically targeted at women-owned SMEs that are currently exporting or are thinking about exporting. Set up specific areas on these websites where women-owned SMEs can connect and learn from one another.
- Enhance SMEs' access to information about financial service providers other than banks and about banks that have served women-owned SMEs.
- Promote equal access for male and female workers to skills-enhancement training on a wide range of tasks in each industry, to mitigate gender-role stereotyping in both product manufacturing and business management. This will increase opportunities for women to work in higher-paying jobs, particularly in the footwear and apparel industries.
- Strengthen the decision-making capability of women SME owners for all aspects of their business and in other spheres of public life.

Recommendations for the Coffee Industry

In addition to the cross-cutting recommendations, the following recommendations specific to the coffee industry are presented:

Recommendations for Government

- Improve farm productivity in both Aceh and South Sulawesi through increased access to suitable coffee-farming technologies, efficient, affordable equipment, and facilities for drying, sorting, storage, and roasting, to reduce labour burden.
- Improve the coffee-farming knowledge of agricultural extension officers and ensure that the practical, hands-on training they provide reaches male and female smallholder farmers who have less means to obtain such information. The training provided to farmers should include organic production techniques (where farmers receive premium prices) and how to produce high-quality coffee.
- Increase the number of female agricultural extension workers available to work with female farmers, with whom the latter might feel more at ease, which would help them to better absorb and apply the new knowledge.
- Assist coffee farmers through cooperatives and SMEs to comply with the organic certification requirements of international certification bodies.





- Strengthen export assistance to women-owned SMEs and women-led cooperatives that are export-ready by facilitating links with buyers and securing export contracts.
- Decentralize the customs registration process (as is currently the case in Aceh) across all provinces in Indonesia to reduce the cost and time required for coffee SMEs and cooperatives to register.
- Improve farm-to-market infrastructure to reduce cost and increase profits for coffee SMEs and cooperatives. This improvement would also reduce the time burden for female farmers and women-led cooperatives.
- Strengthen the links between the private sector and academe to enhance and facilitate the transfer of environmentally sustainable and cost-beneficial coffee farming and processing techniques from agricultural schools to coffee farmers, SMEs, and cooperatives.

Recommendations for Industry Associations

- Strengthen export assistance to women-owned SMEs and women-led cooperatives that are export-ready by organizing practical training and seminars on how to export, including how to comply with export requirements.
- Assist coffee farmers through cooperatives and SMEs to comply with the organic certification requirements of international certification bodies.
- Promote and conduct peer-to-peer learning between exporting and export-ready coffee SMEs.
- Promote and enhance women's membership and leadership in associations.

Recommendations for Cooperatives

- Strengthen women's participation in cooperatives as members and as leaders.
- Consider coffee cultivation, rather than land ownership, as a requirement for membership in cooperatives. This would give membership opportunities to female farmers who rent farmland to cultivate coffee or do not possess the title of their farm because it is in their husband's or father's name.
- Ensure equitable access by male and female farmers to training on environmentally sustainable and efficient coffee cultivation and processing technologies.
- Promote and conduct peer-to-peer learning between exporting and export-ready cooperatives.

Recommendations for the Footwear Industry

In addition to the cross-cutting recommendations, the following recommendations specific to the footwear industry are presented:

Recommendations for Government

- Continue providing export assistance to women-owned SMEs as the survey suggests that they actively seek government assistance, especially with logistics and compliance with export regulations.
- Enhance access to digital marketing training for more SMEs, especially young women SME owners.
- Promote and support skills-training programs for young people to preserve the footwear manufacturing skills of previous generations.
- Provide practical training to women-owned SMEs: More women-owned than men-owned SMEs indicated that they want this training.
- Provide incentives to SMEs to improve working conditions in order to attract female workers.
- Improve trade facilitation by fast-tracking importation of raw materials such as leather and soles.
- Provide incentives to SMEs in the industry to raise workers' wages and increase the supply of skilled labour.

Recommendations for Industry Associations

- Improve assistance to SME members, rather than focusing mainly on the needs of large member companies.





- Assist exporting and export-ready women-owned SMEs with practical skills such as drafting and negotiating export contracts with buyers.
- Promote and conduct peer-to-peer learning between exporting and export-ready footwear SMEs.
- Promote and enhance women's membership and leadership in associations.

Recommendations for the Apparel Industry

In addition to the cross-cutting recommendations, the following recommendations specific to the apparel industry are presented:

Recommendations for Government

- Promote and support skills-training programs for young people to preserve batik skills.
- Provide incentives to SMEs to improve working conditions.
- Improve trade facilitation by fast-tracking importation of raw materials such as cotton, silk fabric, and thread.
- Provide incentives for business expansion, especially in batik, through innovation in designs that would appeal to international markets.
- Create and enforce copyright protection of batik designs to counteract cheap, mass-produced, machine-printed imitations imported from neighbouring countries.

Recommendations for Industry Associations

- Strengthen the industry by consolidating existing associations.
- Promote and conduct peer-to-peer learning between exporting and export-ready apparel SMEs.
- Promote and enhance women's membership and leadership in associations.

Recommendations to Address Gender-Based Challenges

According to the study results, the challenges women face in running their businesses and exporting are compounded due to their double burden (dual responsibility for home and business) and the prevalent societal norm for women to seek spousal permission to undertake activities outside of the home, including those related to the running and expansion of their businesses. These conditions limit women's access to economic resources and opportunities, as they have less time to find and establish links with business networks through which they can access market information, business service providers, sources of input supplies, buyers, and business training. While decision-making in various aspects of the business is usually made by the SME owner, regardless of gender, it is more common for men to make decisions about some aspects of women-owned businesses than women do for men-owned businesses.

The challenges women face in running their businesses and exporting are compounded due to their double burden and the prevalent societal norm for women to seek spousal permission to undertake activities outside of the home.

Although these prevailing cultural attitudes towards women's roles in society are deeply ingrained, they are not impossible to change. Thus, it is important for all stakeholders (government, business associations, academe, and civil society) to actively promote awareness of the gender-based challenges faced by women,

Although these prevailing cultural attitudes towards women's roles in society are deeply ingrained, they are not impossible to change.

particularly the double burden and the need for spousal permission to engage in activities outside the home, as well as the innovative and effective ways that women handled these challenges, as an initial step toward increasing gender equality

and gender equity. As a result, the report recommends that all stakeholders promote the benefits of women's effective participation in business and their resulting contribution to the economic development of the country.



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About the TPSA Project

The Canada–Indonesia Trade and Private Sector Assistance (TPSA) project is a five-year, \$12-million project funded by the Government of Canada through Global Affairs Canada. The project is executed by The Conference Board of Canada, and the primary implementation partner is the Directorate General for National Export Development, Indonesian Ministry of Trade.

TPSA is designed to provide training, research, and technical assistance to Indonesian government agencies, the private sector (particularly small- and medium-sized enterprises, or SMEs), academics, and civil-society organizations on trade-related information, trade policy analysis, regulatory reforms, and trade and investment promotion by Canadian, Indonesian, and other experts from public and private organizations.

The overall objective of TPSA is to support greater sustainable economic growth and reduce poverty in Indonesia through increased trade and trade-enabling investment between Indonesia and Canada. TPSA is intended to increase sustainable and gender-responsive trade and investment opportunities, particularly for Indonesian SMEs, and to increase the use of trade and investment analysis by Indonesian stakeholders for expanded trade and investment partnerships between Indonesia and Canada.

About AKATIGA Center for Social Analysis

AKATIGA is a non-profit research institute established in 1991 by a group of social scientists from the Bandung Institute of Technology and Bogor Agricultural University, when both universities were conducting a collaborative study on rural development with scholars from the Institute for Social Studies, The Hague. AKATIGA focuses on increasing the access of marginalized communities to resources and civic engagement, as well as providing input and recommendations to policy-makers.

About the Centre for Trade Policy and Law

The Centre for Trade Policy and Law (CTPL) is Canada's premier trade policy capacity-building institution. CTPL helps governments around the world with the design, negotiation, and implementation of their respective international trade strategies. It specializes in policy-relevant analysis, expertise, and support and has worked in more than 50 countries since it was established in 1989.





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