Scaling up Food Safety for Small and Medium Enterprises in ASEAN

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Agenda

• Introduction
  • Challenges for Micro, Small and Medium Food Enterprises (MSMFEs)
  • Indonesia’s experience
  • Closing remarks

MSME Density Across the World

The number of microenterprises for Indonesia and Nigeria are not included, as they did not clearly differentiate between formal and informal microenterprises.

Gonzales et al (2014)
Variables in Micro, Small, and Medium Enterprise (MSME) Definitions

N= 267 definitions in 155 economies

Definitions of MSMEs (manufacturing) in AMS

<table>
<thead>
<tr>
<th>Group/criteria</th>
<th>Brunei</th>
<th>Cambodia</th>
<th>Indonesia</th>
<th>Lao PDR</th>
<th>Malaysia</th>
<th>Myanmar</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Viet Nam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Workers</td>
<td>&lt; 4</td>
<td>&lt; 10</td>
<td>n/a</td>
<td>&lt; 5</td>
<td>n/a</td>
<td>&lt; 10</td>
<td>n/a</td>
<td>n/a</td>
<td>&lt; 10</td>
<td>n/a</td>
</tr>
<tr>
<td>Other</td>
<td>Sales</td>
<td>Asset</td>
<td>Asset, sales</td>
<td>Sales</td>
<td>n/a</td>
<td>Asset</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Small Workers</td>
<td>&lt; 19</td>
<td>&lt; 50</td>
<td>&lt; 20</td>
<td>&lt; 19</td>
<td>&lt; 75</td>
<td>&lt; 100</td>
<td>&lt; 200</td>
<td>≤ 50</td>
<td>&lt; 200</td>
<td>≤ 300</td>
</tr>
<tr>
<td>Other</td>
<td>Sales</td>
<td>Asset</td>
<td>Asset, sales</td>
<td>Sales</td>
<td>Capital</td>
<td>Asset</td>
<td>Sales</td>
<td>Fix asset</td>
<td>Capital</td>
<td></td>
</tr>
<tr>
<td>Medium Workers</td>
<td>&lt; 99</td>
<td>&lt; 100</td>
<td>&lt; 100</td>
<td>&lt; 99</td>
<td>&lt; 200</td>
<td>&lt; 300</td>
<td>&lt; 200</td>
<td>≤ 200</td>
<td>&lt; 300</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>Sales</td>
<td>Asset</td>
<td>Asset, sales</td>
<td>Sales</td>
<td>Capital</td>
<td>Asset</td>
<td>Sales</td>
<td>Fix asset</td>
<td>Capital</td>
<td></td>
</tr>
</tbody>
</table>


Key Importance of SMEs

“SMEs are a source of employment, competition, economic dynamism and innovation; they stimulate the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, including in rural areas, SMEs also contribute to better income distribution. However, small enterprises cannot afford to develop new technologies individually, find new markets, train workers and raise capital all at the same time.”

Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development (UNCTAD). 2006

Key Importance of SMEs in ASEAN

- 89-99% enterprises in AMS are SME
  - 63.6% of the total SMEs in Myanmar are Small Medium Food Enterprises (SMFEs) (Hlaing, 2014)
  - >80% of total processed food establishment in Malaysia are SMFEs (DE International, 2012)
  - 47% of total manufacturing sector in the Philippines are Micro, Small, and Medium Food Enterprises (MSMFEs) (Digal, 2014)
  - 98% of total food processing enterprises in Thailand are SME (TDRI, 2014)
- SMEs create 52-97% employment
- Contribute to 23-58% GDP
- Only 10-30% of total export

Source: Economic Research Institute for ASEAN and East Asia (ERIA) (2014)
Key characteristics of AEC Blueprint 2015* vs 2025**

1. single market & production base
2. competitive
3. equitable economic development
   - 1. SME development
4. fully integrated into the global economy

1. integrated and cohesive economy
2. competitive, innovative, and dynamic
3. connectivity and sectoral cooperation
4. resilient, inclusive, people-oriented, and people-centred
   - 1. Strengthening the role of Micro, Small, and Medium Enterprises
5. Global ASEAN

*ASEAN Secretariat (2008)  **ASEAN Secretariat (2015a)

ASEAN SME Policy Index

![Policy Index Graph]

The most significant gaps in five policy dimensions, namely Technology and Technology Transfer; Access to finance; Promotion of entrepreneurial education; Cheaper, faster start-up and better regulations; and Access to support services

Source: Economic Research Institute for ASEAN and East Asia (ERIA) (2014)

ASEAN Strategic Action Plan for SME Development (SAP SMED) 2016-2025*

**Vision**
- Globally competitive and innovative MSMEs

**Missions**
- ASEAN shall create (1) globally competitive, (2) resilient and innovative MSMEs; (3) Seamlessly integrated to ASEAN community and, (4) Inclusive development in the region

**Strategic goal 1**
- Promote productivity, technology, innovation

**Strategic goal 2**
- Increase access to finance

**Strategic goal 3**
- Enhance market access and internalization

**Strategic goal 4**
- Enhance policy and regulatory environment

**Strategic goal 5**
- Promote entrepreneurship and human capital development

*ASEAN Secretariat (2015b)

Are ASEAN SMEs Prepared for the AEC?

Review of available surveys in AMS and in-house survey by ASEAN Food and Beverage Alliance (AFBA):
- most ASEAN SMEs has low or little awareness of the AEC 2015
- rather low receptiveness of the ASEAN SMEs on embracing the potentials of AEC
- ASEAN SMEs are not prepared for the AEC
- ASEAN SMEs faces TBTs which hinders trade in intra ASEAN

Malek (2015)
Empowering Digital Indonesia

Source: Kemp (2016)

Indonesia is the highest confidence/positive response (July 2016)

Source: blog.worldbank.org (2016)

BUSINESS CONFIDENCE INDICATOR: SMEs

22 Countries surveyed, 13 high income and 9 middle income countries

Looking 6 months ahead

FUTURE OF BUSINESS SURVEY

Indonesia's experience

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Global Competitiveness Index 2015-2016 rankings* and Food quality and safety 2015 rankings**

**The Economist Intelligence Unit (2015)
ASEAN Food Safety Policy*

**10 core principles**

**Principle 4.** Food business operators have the primary role and responsibility for ensuring the safety of their food products. AMS shall ensure that continuous and appropriate support and assistance are provided to SMEs so that they meet food safety requirements.

*ASEAN Secretariat (2016)

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Characteristics of MSMFEs

- Important contribution of MSMFEs:
  - Food security
  - Employment
  - Poverty reduction

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Traditional MSMFEs</th>
<th>Modern MSMFEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target and market</td>
<td>Large production to meet food security needs</td>
<td>Market driven</td>
</tr>
<tr>
<td>Technology and innovation</td>
<td>Limited capacity to invest in upgrading processing operations</td>
<td>Invest in product, process and packaging innovation</td>
</tr>
<tr>
<td>Ability to conform to food safety requirements</td>
<td>Often do not conform to food safety standards</td>
<td>Conformance to food safety and quality standards</td>
</tr>
</tbody>
</table>

Ref: Rolle (2014)

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Strengths and Weaknesses of MSMFEs

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Rapid decision-making ability</td>
<td>- Policy and infrastructure support</td>
</tr>
<tr>
<td>- Flexibility in production and planning</td>
<td>- Quantity, price, supply of raw material</td>
</tr>
<tr>
<td>- Limited investment and capital requirements</td>
<td>- Efficiency and productivity, limited access to technology support</td>
</tr>
<tr>
<td>- Local labor, raw materials and indigenous technologies</td>
<td>- Knowledge and skills</td>
</tr>
<tr>
<td>- Ability to minimize post-harvest and production losses</td>
<td>- Financial support and finance access.</td>
</tr>
<tr>
<td>- Capacity to create jobs, enhance livelihoods and business in rural areas</td>
<td>- Inefficient market/limited access to market and marketing support</td>
</tr>
<tr>
<td>- Sustain the economy in times of crisis</td>
<td>- No division of labour</td>
</tr>
<tr>
<td>- Produce a wide-range of products that are locally accepted</td>
<td>- Not much experience-sharing among MSMFEs</td>
</tr>
</tbody>
</table>

Ref: Rolle (2014)

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Opportunities and Threats of MSMFEs

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Expanding domestic and export markets</td>
<td>- Climate change</td>
</tr>
<tr>
<td>- Increasing availability of ICT, product and technological innovations</td>
<td>- Unreliable supply of raw materials</td>
</tr>
<tr>
<td>- Increasing middle income class</td>
<td>- Limited availability for credit loan schemes</td>
</tr>
<tr>
<td>- Change in lifestyle—more market opportunity</td>
<td>- Frequent changes in politics resulting in changes in priorities in development policy</td>
</tr>
<tr>
<td>- Greater export opportunities</td>
<td>- Technical barriers to trade</td>
</tr>
<tr>
<td>- Growing consumer demand for culturally accepted food</td>
<td>- Open market</td>
</tr>
<tr>
<td>- Agro-food parks and business incubator development</td>
<td>- Unsustainable consumption patterns</td>
</tr>
<tr>
<td>- Increasing PPP arrangements</td>
<td>- Compliance to food safety regulations</td>
</tr>
<tr>
<td>- Exchange of resources</td>
<td></td>
</tr>
</tbody>
</table>

Ref: Rolle (2014)
Food products of priority in ASEAN Economic Community

• Agro-based products (including prepared foodstuff) is one of 12 priority integration sectors → harmonization standards and technical requirements.
• Food commodities priorities for Mutual Recognition Agreement (MRA):

<table>
<thead>
<tr>
<th>1st priority</th>
<th>2nd priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jams, jellies, marmalades, except nut puree, nut pastes, and sweetening matters</td>
<td>Dried fruit, except nut and sweetening matters</td>
</tr>
<tr>
<td>Hard candy</td>
<td>Fruit in vinegar, oil, or brine</td>
</tr>
<tr>
<td>Soft candy</td>
<td>Fruit-based spread, except nuts</td>
</tr>
<tr>
<td>Nougat and marzipans</td>
<td>Fruit preserved by sugar</td>
</tr>
<tr>
<td>Decorations (e.g., for fine bakery wares), toppings (non-fruit), and sweet sauces</td>
<td>Fruit fillings for pastries</td>
</tr>
<tr>
<td>Rice cake</td>
<td>Vegetables and seaweeds in vinegar, oil, brine, or soy sauce</td>
</tr>
<tr>
<td>Cocoa powder and cocoa mass/cake</td>
<td>Coffee, coffee substitutes, tea, herbal infusions, and other hot cereal and grain beverages</td>
</tr>
</tbody>
</table>

These are produced by MSMFEs and some of them are also produced by large industries.

Specific area in MRA of Prepared Foodstuff

• Food safety
• Labelling
• Registration: establishment and food product
• Halal certification
• Other specific requirements e.g. fortification, irradiation, organic

Are SMFEs ready to compete in a global market?
1. Most of them do not have legal identity
2. Limited sources, area → do not have an industrial scale
3. Lack of knowledge and skill in food processes and innovation
4. Lack of food safety knowledge

Provision of legal identity
Mentoring by large industry, CSR program is based on business approach, not as a "charity"
Assistance technology & innovation
Facilitation to get market access

Ref: Lukman (2015)
Agenda

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Policy in Indonesia

- Food industry is one of 6 mainstay industries in National Industry Development Masterplan (RIPIN) 2015-2035
- National Medium Term Development Plan 2015-2019

<table>
<thead>
<tr>
<th>Development Agenda</th>
<th>Sub agenda</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To renew the state’s obligation to protect all people and provide security to all citizens</td>
<td>7. To minimize the impact of globalization</td>
<td>5. To strengthen ASEAN cooperation, including in the development of MSMEs</td>
</tr>
<tr>
<td>6. To improve people’s productivity and competitiveness in the international market</td>
<td>8. Acceleration of national economic growth</td>
<td>5. Improving MSMEs and cooperatives competitiveness</td>
</tr>
</tbody>
</table>

Food Manufacturing Industries in Indonesia

<table>
<thead>
<tr>
<th>Variables</th>
<th>Category</th>
<th>Large&amp;medium</th>
<th>Small</th>
<th>Micro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Σ establishments of food and beverage industries</td>
<td></td>
<td>5.748</td>
<td>95.022</td>
<td>1.519.127</td>
</tr>
<tr>
<td>Share to total food manufacturing industries</td>
<td></td>
<td>0,35%</td>
<td>6%</td>
<td>94%</td>
</tr>
<tr>
<td>Share to total manufacturing industries in its category</td>
<td></td>
<td>23%</td>
<td>34%</td>
<td>45%</td>
</tr>
<tr>
<td>Share to total manufacturing industries in all categories</td>
<td></td>
<td>0,16%</td>
<td>3%</td>
<td>41%</td>
</tr>
<tr>
<td>Workers engaged compared to workers in all manufacturing industries</td>
<td></td>
<td>6%</td>
<td>5%</td>
<td>22%</td>
</tr>
<tr>
<td>Value added (market price) (billion IDR)</td>
<td></td>
<td>444.630</td>
<td>30.443</td>
<td>49.737</td>
</tr>
</tbody>
</table>

Ref: BPS-Statistics Indonesia (2016)

Strengthening Competitiveness of MSMFEs

1. Survey of MSMFEs readiness towards AEC
2. Survey of compliance of home food industries to official regulations
3. Intervention to Strengthen MSMFEs Competitiveness

**What**
- Survey to 1,000 MSMFEs in 12 provinces
- 38% micro, 47% small, 15% middle

**Objective**
To know the capacity and readiness of MSMFEs towards ASEAN harmonization/ AEC

**How**
Interview with MSMFEs owner and observation

**Findings**
- Poor condition in:
  - Hygiene and sanitation: worker, production facility
  - Process control/ good manufacturing practices
  - Labelling
- 61% MSMFEs are ready to join the AEC

BPOM (2013)


**What**
- Survey to 500 home food industries in 100 districts in 10 provinces
- Home food industry: food industry operates at home/ residence and uses manual or semi-automatic processing equipments

**Objective**
To know the implementation of Head of BPOM regulations for home food industries regarding certification, good manufacturing practices, and inspection

**How**
- Interview with owner and employee of home industries
- Observation of facility

**Findings**
Less than 50% of home food industries comply with the following indicators: documentation and recording, process control, hygiene and sanitation, labelling, employee training

BPOM (2015)

Mapping the challenges based on survey result

- **Human resources**
  - Knowledge and technical skill
  - Spirit of entrepreneurship

- **Capital**
  - Access to capital
  - Financial management
  - Access to raw material and ingredients, including food additive

- **Market Access**
  - Market coverage
  - Product promotion

- **Product quality**
  - Comply with ASEAN & intern’l standards (including labelling)
  - Hygiene & sanitation
  - Innovation & technology
  - Access to and transfer of technology

- **Weak Respondents’ knowledge**
  - Regulation
  - Design and layout
  - Documentation
  - Label & advertisement
  - Food additives
  - Pest control

BPOM (2015)
3. Intervention to Strengthen MSMFEs Competitiveness

- MSMFEs still need improvement in assuring food safety and quality to create strong competitiveness
- Appropriate intervention is required
- Contribution of all stakeholders: government, private sector, academia, consumer/community

### Food Safety
- Mandatory, can’t be compromised

### Food Quality
- Preference, sensory properties, availability, nourishment, healthiness, convenience, packaging, price, etc

**= Safe, nutritious & quality food: high value, competitive**

### Pilot program: Intervention to MSMFEs

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Topic</th>
<th>Output 2013-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical assistance in food safety and quality regulation</td>
<td>Food additives, labelling, good practices, packaging, product registration, export</td>
<td>2360 MSMFEs</td>
</tr>
<tr>
<td>Supervision and facilitation to comply with requirements</td>
<td>GMP, HACCP</td>
<td>Certificate: GMP for 17 MSMFEs and HACCP for 3 MSMFEs</td>
</tr>
<tr>
<td>Facilitation for product registration</td>
<td>Pre-market approval (product registration)</td>
<td>2645 MD numbers (2013-2014)</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>Halal assurance system</td>
<td>366 MSMFEs</td>
</tr>
<tr>
<td>Facilitation for certification</td>
<td>Halal</td>
<td>991 MSMFEs are recommended to obtain halal certificate</td>
</tr>
</tbody>
</table>

### Food Safety Clearing House (FSCH)
(http://clearinghouse.pom.go.id/)

FSCH as an integrated source of information for MSMFEs:
- Compliance
- Technology
- Finance
- Market
- Business management

### Intervention to Human Resources

- Competency-based training for officers
  - Food safety e-learning (http://pkpdfi.pom.go.id/pkpdfi/)
  - Participants: local officers who are responsible to conduct inspection (District Food Inspector, DFI) and extension (Food Safety Extension Officer, FSEO) to MSMFEs

- Certification for food safety profession
  - Independent verification by Professional Certification Body towards a set of competencies or work skills required for a food safety profession
  - Certification for government officer (certified by Professional Certification Body / LSP, 1<sup>st</sup> and 2<sup>nd</sup> parties)
  - Certification for food industry staff / independent employee (certified by LSP – 3<sup>rd</sup> party).

**SUPPORTED BY GOVERNMENT, INDUSTRIAL / PROFESSIONAL ASSOCIATIONS**
Intervention by Involving Community

National Movement on Food Safety for Rural Community

- Basic principles:
  - community empowerment
  - improving access to food safety
  - based on local wisdom
  - developing local food products
- Target group in food safety education:
  - housewives
  - youth group
  - local MSMFEs
  - local food retail
- Cadres of food safety:
  - those who are voluntarily assigned to educate their local community with food safety
  - Cadres: youth people, boy scout, teacher, DFI/FSEO, community leader

19 September 2016
BPOM (Indonesia FDA) denied being a predator to MSME

“No compromise on food safety”

- MSMFE is susceptible to violate the law
- Social media: “Prosecuting MSME means kill the MSME”
- How to encourage, empower, educate, give incentive, and supervise MSME?

http://www.bantennews.co.id/bpom-bantah-jadi-predator-umkm

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Closing remarks

- MSMFEs are facing great challenges of internal and external constraints to comply with food safety and quality requirements
- MSMFE is vulnerable group, susceptible to abuse / violate the regulation, the government should give incentive, facilitate, encourage, empower, educate, and supervise MSMFE to be more self-resilient / less dependent to meet the food safety and quality standard.
- Improving MSMFEs competitiveness does not only require technical support to produce safe and quality product, but also need the key factors, such as easy start up and business-friendly regulatory framework; institutional framework; access to finance, market, infrastructure, technology, innovation, support services; and entrepreneuriel education.
- Synergy among government, producer (private sector), academia / professional association, consumer (community) at national and regional levels is of importance to create strong competitiveness of national and ASEAN food products of MSME.
Acknowledgement

- Deputy of Food Safety and Hazardous Substance Control, National Agency for Drug and Food Control (BPOM).
- Directorate of Food Safety Surveillance and Extension, BPOM
- Directorate of Food Product Standardization, BPOM
- Directorate of Food Safety Evaluation, BPOM
- Directorate of Food Safety Inspection and Certification, BPOM
- Regional Offices of BPOM in Indonesia

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