



2018 SURVEY OF ENTREPRENEURS AND MSMEs IN INDONESIA

Building the capacity of MSMEs
through human capital



ASIA PACIFIC
FOUNDATION
OF CANADA

FONDATION
ASIE PACIFIQUE
DU CANADA



Table of Contents

1	Executive Summary
2	About the Asia Pacific Foundation of Canada
3	The APEC-Canada Growing Business Partnership
3	About The Evidence Network
4	Methodology
5	Introduction
7	Section 1: COMPANY AND ENTREPRENEUR PROFILES
13	Section 2: GROWTH PLANS AND CHALLENGES TO GROWTH
25	Section 3: CHALLENGES AND OPPORTUNITIES IN HUMAN CAPITAL
35	Conclusion and Recommendations
37	References

Executive Summary

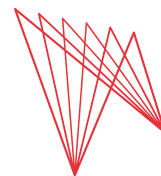
BASED ON THE SURVEY RESULTS OF 448 ENTREPRENEURS INVOLVED IN MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) IN INDONESIA, the Asia Pacific Foundation of Canada report on the 2018 Survey of Entrepreneurs and MSMES in Indonesia provides an analysis of business development in the country with a specific focus on human capital. The survey report is broken down into three major sections focusing on company and entrepreneur profiles in Indonesia, growth plans and barriers to growth, and challenges and opportunities related to human capital. Each section also identifies age, gender, and industry-specific data and trends.

Key findings from the 2018 Survey of Entrepreneurs and MSMES in Indonesia are:

- Personal networks of survey respondents play the largest role in acquiring new talent for their MSMES, but male respondents are more likely than women respondents to use other methods of recruiting outside of these networks.
- Investing in new employees or upskilling current employees are the preferred options of survey respondents when considering scaling up enterprises, but access to high- or appropriately-skilled labour is low – particularly for micro-enterprises.
- The environment is a concern, with 96% of survey respondents falling on a spectrum between finding environmental sustainability a concern and considering it a top priority.
- Survey respondents are unlikely to have extensive international experience, with only 2% of all respondents having some form of relevant international experience.
- Youth respondents have a slight edge on the adoption of social media, but all survey respondents lack access to online tools such as support services or a company website.

Key recommendations include:

- Develop strong co-ordination between the private sector, all levels of government, and MSMES to help MSMES find information on policies and programs already available to them through digital advertising and local information centers.
- Support in-school entrepreneurship training, particularly through the Ministry of Production and Ministry of Education in Indonesia.
- Invest in information and communications technology (ICT) infrastructure to support MSMES to reach online resources and tools, as well as potential employees outside of their personal networks.



About the Asia Pacific Foundation of Canada

THE ASIA PACIFIC FOUNDATION OF CANADA is dedicated to strengthening ties between Canada and Asia, with a focus on expanding economic relations through trade, investment, and innovation; promoting Canada's expertise in offering solutions to Asia's climate change, energy, food security, and natural resource management challenges; building Asia skills and competencies among Canadians, including young Canadians; and improving Canadians' general understanding of Asia and its growing global influence.

The Foundation is well known for its annual national opinion polls of Canadian attitudes regarding relations with Asia, including Asian foreign investment in Canada and Canada's trade with Asia. The Foundation places an emphasis on China, India, Japan, and South Korea while also developing expertise in emerging markets in the region, particularly economies within the Association of Southeast Asian Nations (ASEAN).

Visit APF Canada at <http://www.asiapacific.ca>.

The APEC-Canada Growing Business Partnership

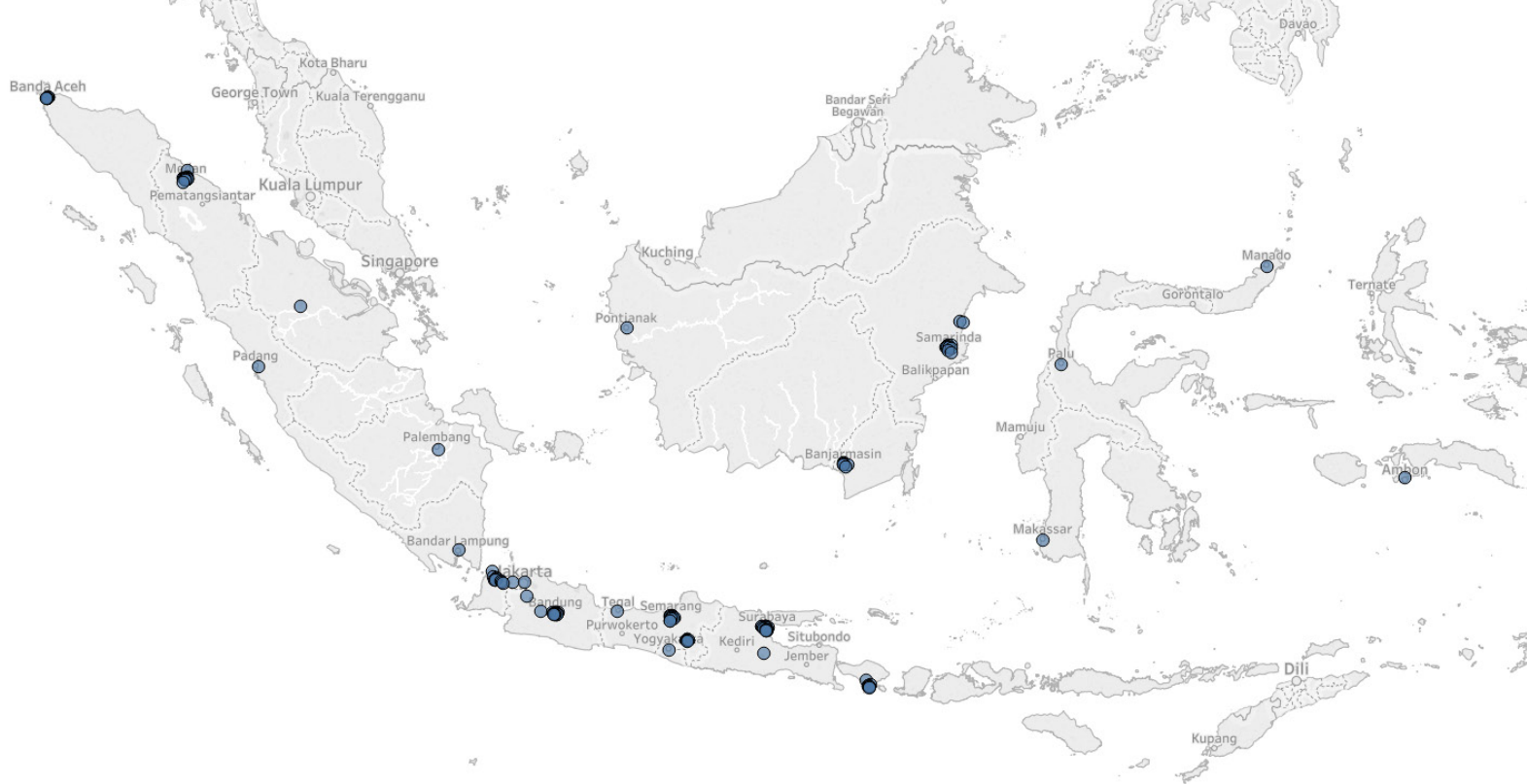
THE APEC-CANADA GROWING BUSINESS PARTNERSHIP is a four-year initiative jointly implemented by the Asia Pacific Foundation of Canada (APF Canada) and the Asia Pacific Economic Cooperation (APEC) Secretariat. Funded by Global Affairs Canada, this initiative helps build the potential of micro, small, and medium enterprises (MSMEs) to promote poverty reduction and sustainable economic growth in the APEC region.

The Partnership offers best practice tools, ideas, knowledge and critical connections derived from Canadian experience, tailored to local APEC markets. The current economies of focus are: Indonesia, Peru, the Philippines, and Vietnam. The focus areas of the Partnership aim to address key challenges faced by MSMEs and aspiring entrepreneurs from APEC developing economies in the areas of technology and innovation, market access, human capital, and social entrepreneurship, with an emphasis on the crosscutting themes of women, youth, governance and the environment.

For information on national survey results, research findings, toolkits, and events, visit: <https://apfcanada-msme.ca/home>.

About The Evidence Network

THE 2018 SURVEY OF ENTREPRENEURS AND MSMEs IN INDONESIA was developed by The Evidence Network (TEN), in collaboration with APF Canada. The Evidence Network (TEN) was founded in 2009 by Dr. Brian Barge and Dr. Margaret Dalziel, and focuses on conducting impact assessments for innovation enablers, both large and small, across North America, Europe, and Asia. TEN has provided assessments to innovation enabling organizations that range from business incubator programs, research and development organizations, to innovation funding programs, and economic development organizations.



Methodology

IN TOTAL, information was collected from 448 MSME entrepreneurs through face-to-face interviews in various areas of Indonesia. The survey population was randomly chosen through existing networks identified by TEN, included networks of MSME entrepreneurs identified in the Global Entrepreneurship Monitor's 2016 Survey of Indonesia.

The sample population covers diverse areas of Indonesia, with the highest concentrations of MSMEs in the capital of Jakarta. Gathering data from MSMEs throughout the country ensures a level of representation of the attitudes, barriers, and opportunities facing the sample populations of MSMEs in varied Indonesian contexts.

Survey data has been contextualized in this report with information from research conducted by various international and regional organizations and experts.

READ THE SURVEY REPORT
ON TECHNOLOGY AND
INNOVATION IN VIETNAM
AND THE PHILIPPINES [HERE](#).

Introduction

MSMES: THE BACKBONE OF APEC ECONOMIES

In APEC economies, MSMEs are the drivers of economic growth and innovation, making up over 97% of total enterprises and employing over 50% of the workforce across the region.¹

In Indonesia, MSMEs account for 99% of all business, provide 89% of private-sector employment in the country, and contribute 60% of the GDP.² Despite facing some potential economic headwinds with a fall in commodity prices, the forecasted GDP growth for 2018 to 2019 remains strong at a projected 5.3%, but below the target of 7%.³

Indonesia, under the MSME Act, defines MSMEs by annual revenue.⁴ Accordingly, an enterprise is micro in size if its annual revenue is less than IDR300M (~C\$28,000), small with an annual revenue of between IDR300M and IDR2.5B (~C\$234,000), and medium with an annual revenue of more than IDR2.5B.⁵

HUMAN CAPITAL: A DYNAMIC CONCEPT

Human capital is defined as the “knowledge and skills people possess that enable them to create value in the global economic system.”⁶ Skills are a dynamic asset people have and develop over time, and while formal education may enhance an individual’s capacity – applying and acquiring these skills through work is what develops human capital.

Countries like Indonesia can optimize their long-term human capital potential through building diverse talent pools and skills ecosystems that allow for inclusive participation in good quality, skilled jobs. Indonesia currently ranks low for ease and availability of

¹ Asia-Pacific Economic Cooperation, 2018, Small and Medium Enterprises Working Group, <https://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/Small-and-Medium-Enterprises>.

² Asian Development Bank. 2018. “Asian Development Outlook 2018: How Technology Affects Jobs.”

³ Ibid.

⁴ The MSME Act is the commonly used language to refer to the ‘Law of The Republic of Indonesia Number 20 Year 2008 Regarding Micro, Small, and Medium Enterprises.’

⁵ Ministry of Cooperatives and SMEs. 2018. Program Activity. <http://www.depkop.go.id/berita-informasi/program-kegiatan/>.

⁶ World Economic Forum. 2017a. “The Human Capital Report 2017.”

⁷ World Economic Forum. 2017b. “The Global Competitiveness Report 2016-2017.”

skilled workers and labour market efficiency globally, ranking 108th of 138 countries.⁷

The 2018 Survey of Entrepreneurs and MSMEs in Indonesia uses data disaggregated by gender, age, and industry to understand the specific issues survey respondents in Indonesia experience regarding human capital. Major findings include:

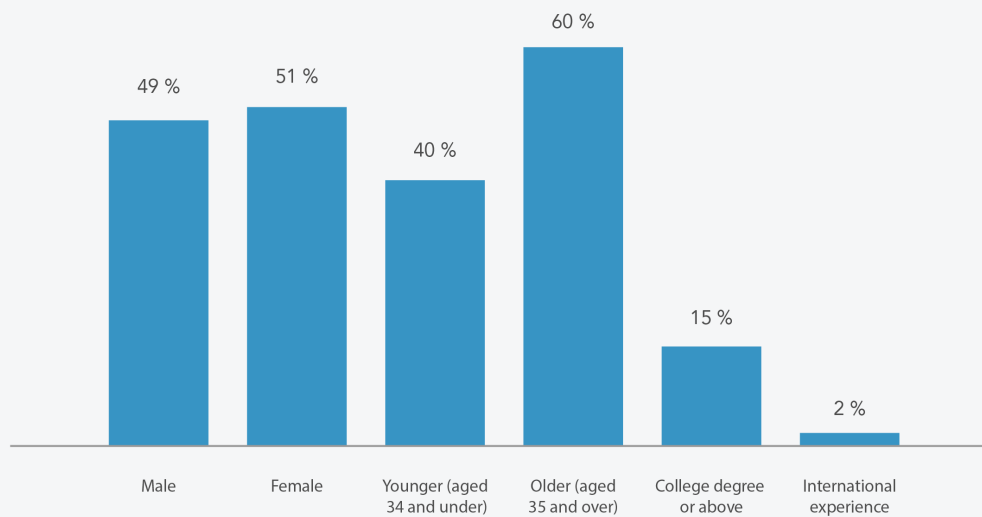
- Survey respondents are largely aware or underutilizing support policies for MSMEs available to them due to a lack of access, especially online
- Entrepreneurial experience and/or training is an area in need of improvement for up-skilling of survey respondents
- Most survey respondents rely heavily on personal networks when looking for new employees
- Younger respondents (under 35) are lacking education and/or training needed to enter the entrepreneurial space

Further, this report identifies policy recommendations such as:

- Developing strong co-ordination between the private sector and all levels of government to help MSME entrepreneurs utilize existing policy frameworks and support services, such as those offered by the Indonesian Ministry of Cooperative and SMEs
- Support in-school entrepreneurship training and international experience opportunities at the high-school and university levels, particularly through the Ministry of Education
- Invest in ICT infrastructure to support MSMEs to reach online resources and tools, as well as potential employees outside of their personal networks

Section 1: COMPANY AND ENTREPRENEUR PROFILES

Profiles of Founders



All respondents (n=448)

Q 1.1: Are you the founder of your company?

Q 1.3: What is your current age?

Q 1.4: What is your gender?

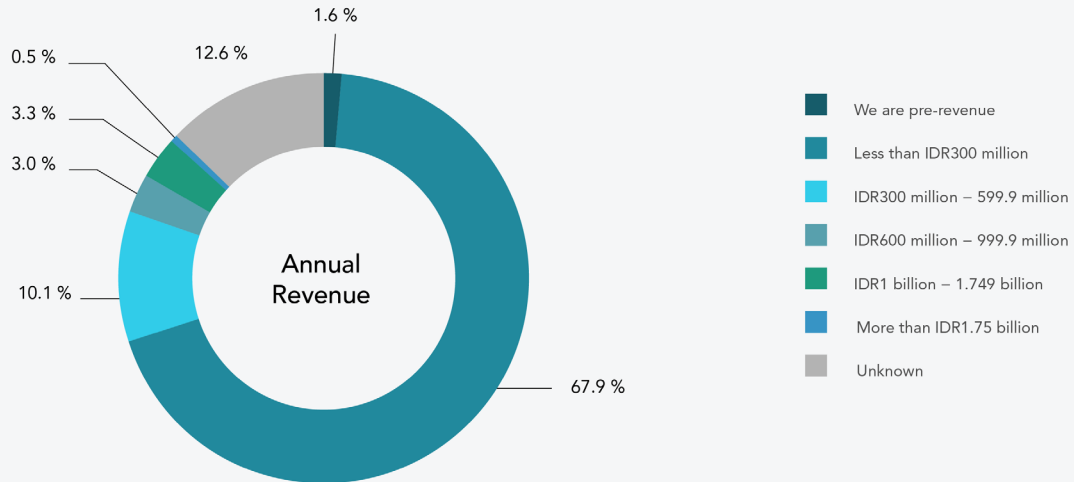
Q 1.5: What is your highest level of education?

Q 1.7: Have you studied, worked, or participated in skill-building training outside of Indonesia?

MOST MSMEs ARE MICRO AND LED BY OLDER ENTREPRENEURS

The 2018 Survey of Entrepreneurs and MSMEs in Indonesia primarily includes respondents (99%) indicating that they were the founders of their company. MSMEs in Indonesia

Annual Revenue



All respondents (n=427).

Q 2.13: What were your company's annual sales revenues for the past fiscal year?

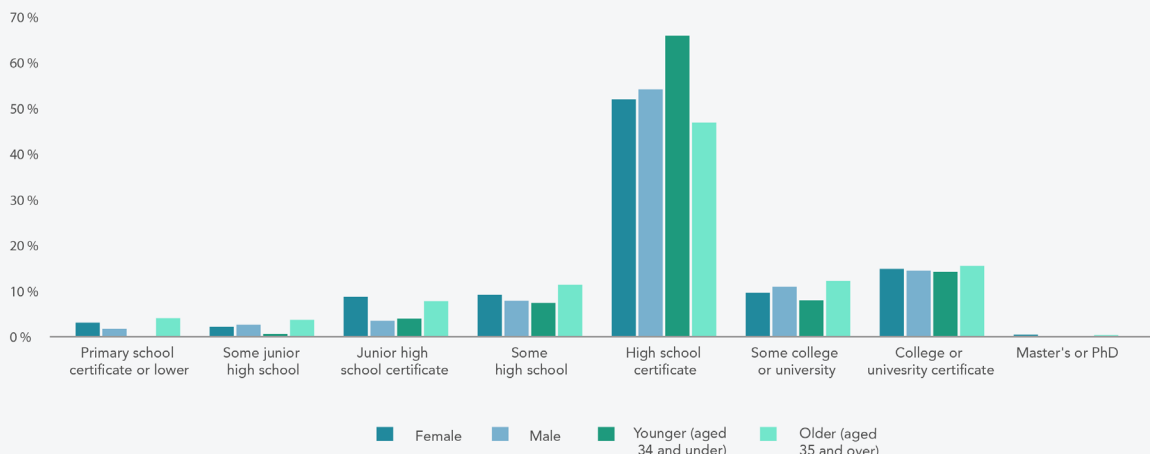
fall largely into the “micro” categorization, with 69% of respondents identifying their businesses as microenterprises and having annual revenues of less than IDR300M.

Of the total respondents, 49% interviewed were male MSME founders and 51% were women MSME founders. The 2018 Survey of Entrepreneurs and MSMEs in Indonesia shows a gap between younger (35 and below) at 40% compared to older founders (35 and above), at 60% of the sample. Despite half of Indonesia’s population being under 30 years of age, younger Indonesians face disproportionately high unemployment rates. Systemic conditions in Indonesia do not provide strong support for young people to enter the entrepreneurial space, with communities and families placing strong emphasis on entering stable careers such as civil service, medicine, law, and engineering.⁸ Further,

⁸ Hermanto, Dr. Bambang, and Dr. S.E. Suryanto. 2017. “Entrepreneurship Ecosystem Policy in Indonesia.” *Mediterranean Journal of Social Sciences* 8 (1): 110-115.

⁹ Global Entrepreneurship Monitor. 2016. “Indonesia: 2015/2016 Report.”

Gender, Age, and Education Levels of Founders



Age 34- (n=176); Age 35+ (n=271); Female (n=229); Male (n=218)

Q 1.5: What is your highest level of education?

Indonesia lacks enabling forces that support entrepreneurial activity and innovation from a young age, such as entrepreneurial courses in high school or innovation hubs.⁹ While innovation hubs are emerging, the majority of them are concentrated in Jakarta.

INTERNATIONAL WORK EXPERIENCE AND EDUCATION LEVELS

Regardless of age or gender, there is a general lack of international experience (2%) among survey respondents in Indonesia. International experience is broadly defined as studying, working, or participating in skill-building training outside of Indonesia. This indicates that survey respondents in Indonesia are not well connected to international knowledge networks that could be beneficial to their operations and future growth.

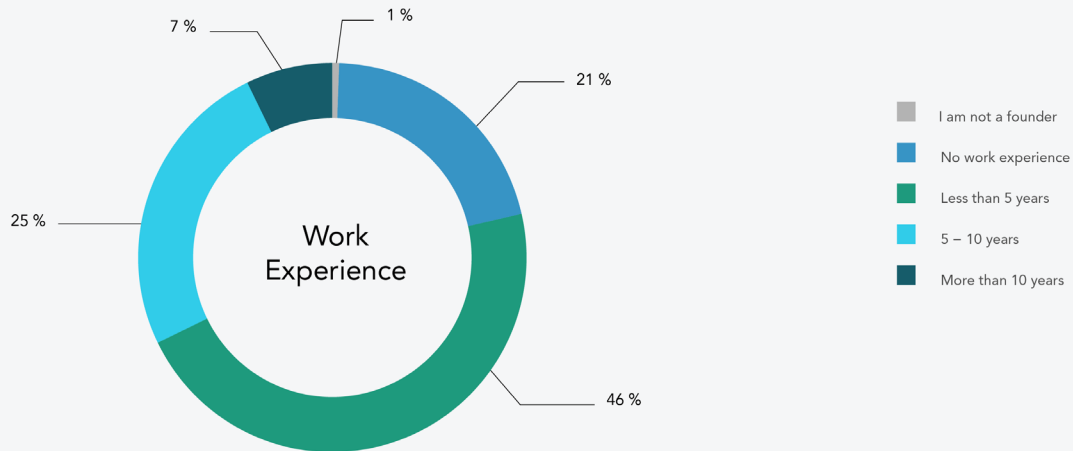
The 2018 Survey of Entrepreneurs and MSMEs in Indonesia found that few survey respondents possess a college degree or above (15%). The majority of survey respondents'

¹⁰ OECD. 2017. "Education at a Glance 2017."

¹¹ Global Entrepreneurship Monitor. 2016.

highest level of educational attainment is a high-school certificate, which is consistent with the increasing enrolment rate in high-school education in the country. Indonesia's high school completion rate has increased from 40% to 47% from 2010 to 2015 nationwide,¹⁰ however Indonesia ranks poorly for entrepreneurial training at all levels of schooling.¹¹

Transferable Work Experience Before Founding Business



All respondents (n=426)

Q 1.6: Before founding your company, how much transferable work experience did you have? Please include both part-time and full-time work experience.

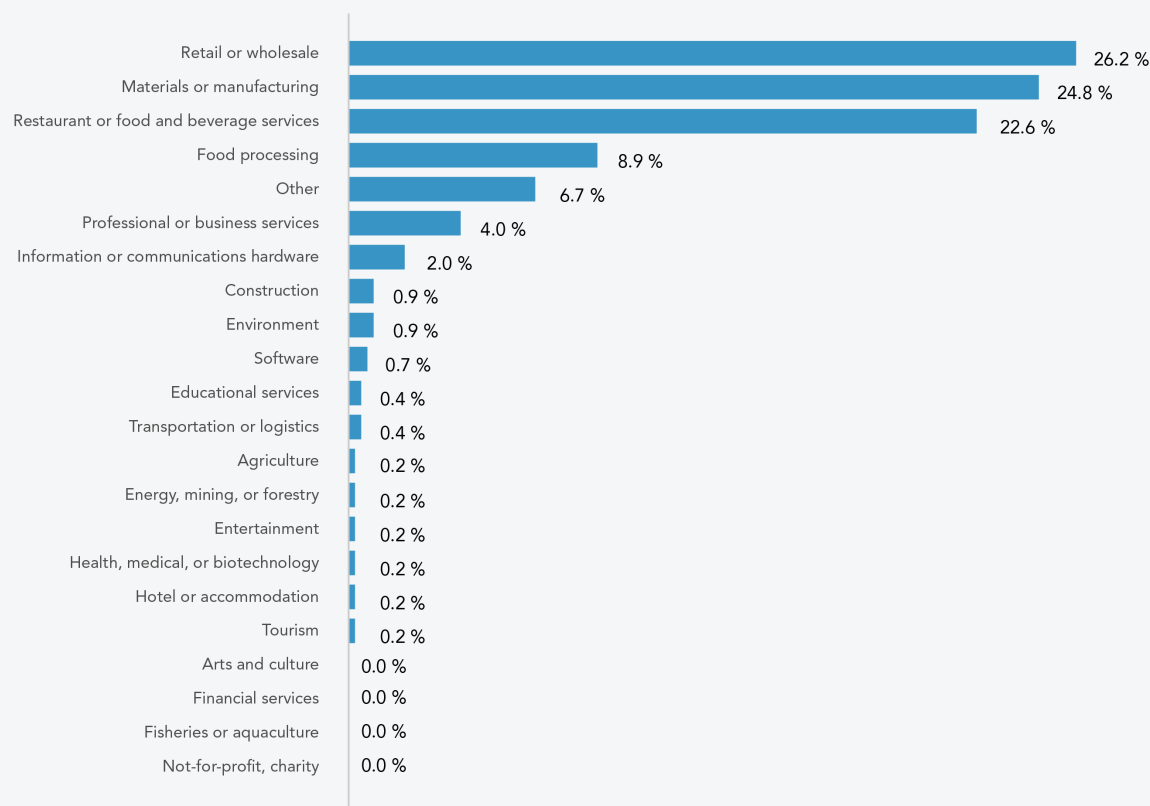
While Indonesia has some areas to improve entrepreneurial education in schools, its educational support for entrepreneurs after high school (such as vocational training) is one of the enabling factors for entrepreneurship in the country.¹² Given that high school is the most common level of educational attainment, the potential exists for more entrepreneurial learning and adding more programming and training at this level.

Across all survey respondents, only 32% have five or more years of experience. Overall, 46% of respondents have less than five years of transferable experience. Further, 21% have no transferable work experience at all. Notably, female respondents (27%) are more likely when compared to male respondents (14%) to found a company with no transferable work experience.

¹² Global Entrepreneurship Monitor. 2016.

TOP MSMEs INDUSTRIES DOMINATED BY OLDER GENERATION

Industry of MSMEs



All respondents (n=427)

Q 2.8: Which of the following categories best describes the industry in which your business primarily operates?

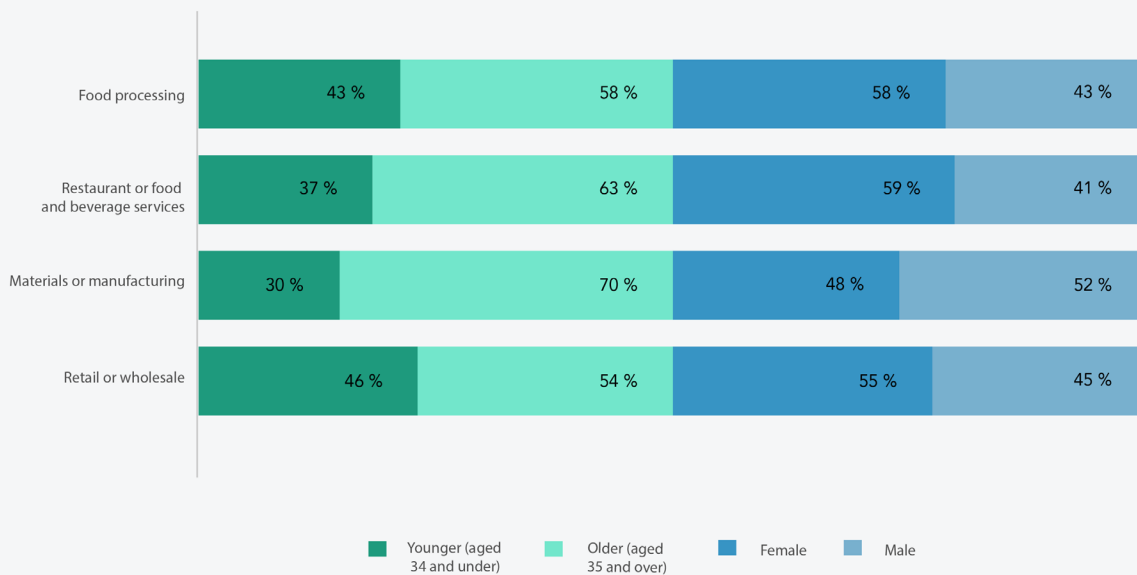
Nearly three-quarters (73.6%) of survey respondents in Indonesia are in one of three industries: retail or wholesale (26.2%); materials or manufacturing (24.8%); and, restaurant or food and beverage services (22.6%). Less than 1% of respondents indicated they belong in the agriculture space. However, national statistics indicate 42% of MSMEs in Indonesia are in “agriculture, livestock, forestry, and fishery.”¹³ This difference may be

¹³ USAID. 2012. “A Snapshot of Indonesian Entrepreneurship and Micro, Small, and Medium Sized Enterprise Development.” <https://crawford.anu.edu.au/acde/ip/pdf/lpem/2012/20120507-SMERU-Dan-Thomson-Bellefleur.pdf>

due to two variables. First, some of the survey respondents in the agricultural, livestock, forestry, and fishery category may be captured in the fourth-most-dominant industry, food processing (8.9%). Second, the survey sampled predominantly urban respondents in various areas of the country and therefore may have not be fully representative of rural, agriculturally-dominant areas.

Survey respondents that are women entrepreneurs make up the majority of the founders of MSMEs within the top four industries, with the exception of materials or manufactur-

Demographics of Top Four Industries



Retail or wholesale (n=117); Materials or manufacturing (n=111); Restaurant or food and beverage services (n=101); Food processing (n=40)

ing. Within these industries there is a clear gap between the younger (under 35) and older generations (over 35), with younger respondents making up a minority of the MSMEs in all of these industries. This is part of a larger trend across all industries represented in the survey. Indonesia is a young country with a median age of 27.9 years.¹⁴ Providing an enabling environment for younger Indonesians to enter and succeed in the MSME space must be a policy imperative for the country moving forward. This will include addressing social and economic factors to support young entrepreneurs (under 35), and being aware of the skills needed for the top industries in Indonesia.

¹⁴ Central Intelligence Agency. 2018. The World Factbook. <https://www.cia.gov/library/publications/the-world-factbook/fields/2177.html>.

Section 2: GROWTH PLANS AND CHALLENGES TO GROWTH

INDONESIA'S AMBITIOUS MSME SECTOR

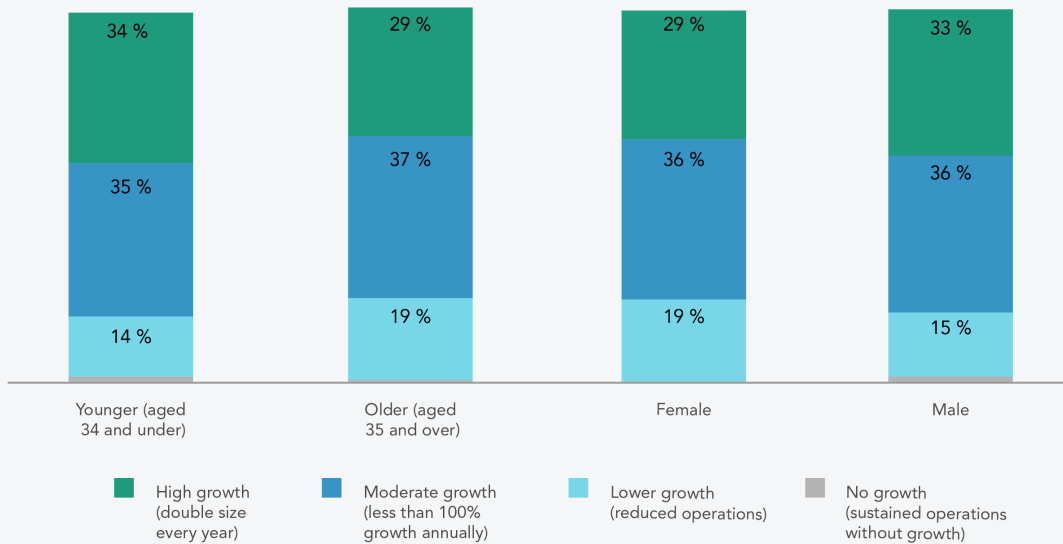
The majority of survey respondents have either modest or high growth plans. This is consistent along gender and age lines with male respondents (33%) and younger respondents (under 35) (34%) being marginally more ambitious with high growth plans compared to female respondents (29%) and older founders (over 35) (29%).

National fiscal policy may be driving the ambitious growth plans of Indonesian survey respondents. In recent years, the government has been implementing fiscal and tax reforms to boost entrepreneurial activity in the country.¹⁵ Further, there has been steady gross domestic product (GDP) growth over the past five years at approximately 5%, despite weakening investment and exports in the face of lower commodity prices.¹⁶ There is potential downside risk if these conditions continue to worsen, however at the time of the survey the economic conditions were stable.

¹⁵ International Monetary Fund. 2018. "Indonesia: Selected Issues"; World Economic Forum. 2017. "The Global Human Capital Report 2017."

¹⁶ Asian Development Bank. 2018.

Growth Plan



Age 34- (n=175); Age 35+ (n=263); Female (n=225); Male (n=213)

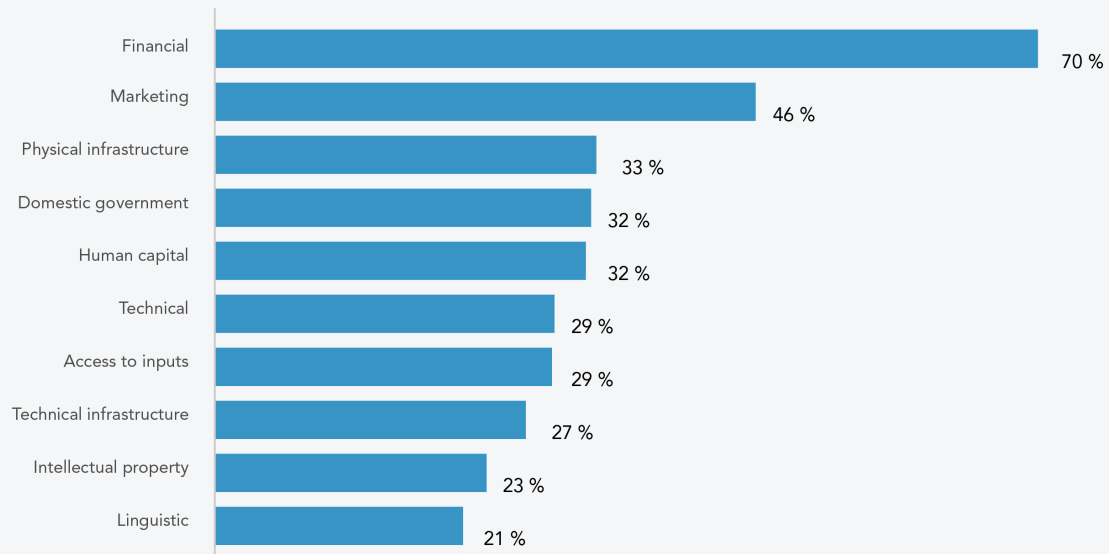
Q 2.14: What are your company's growth plans for revenue growth?

FINANCES, HUMAN CAPITAL, AND BARRIERS TO GROWTH AND SCALE

The most commonly cited barrier to achieving revenue growth by survey respondents is a lack of access to financing (70%). However, 77% of survey respondents were not seeking financing – debt or equity – at the time of the survey. One potential explanation is that many MSMEs, especially micro and small enterprises, rely heavily on family for financing,

¹⁷ International Finance Corporation. 2016. "Women-Owned SMEs in Indonesia: A Golden Opportunity for Local Financial Institutions."

Barriers to Growth



All respondents (n=448)

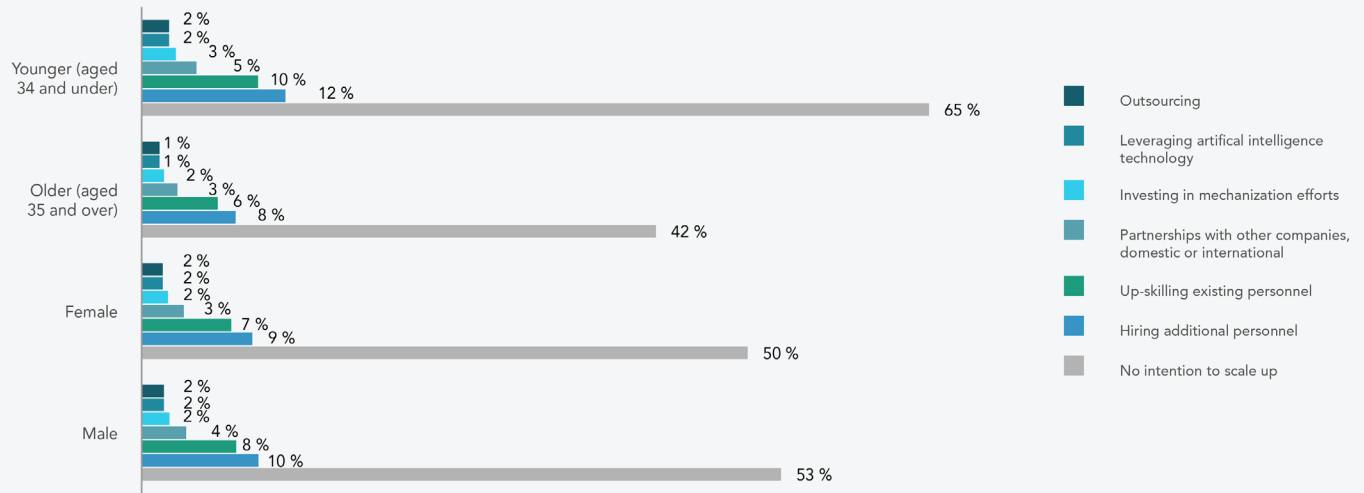
Q 8.1: What are the barriers to your company's overall growth?

and the pursuit of formal financing is viewed as a secondary option with high barriers.¹⁷

Human capital, at 32%, is a significant barrier to growth noted by survey respondents for their MSME in Indonesia. Contextually, Indonesia ranks 65th out of 130 countries assessed in the Global Human Capital Index, which ranks countries based on how well they develop human capital determined by formal education¹⁸ and how skills are devel-

¹⁸ The Capacity subindex features four common measures of formal educational attainment: percentage of the population that has completed at least primary, (lower) secondary or tertiary education, respectively, and the proportion of the population which has a basic level of literacy and numeracy (World Economic Forum. 2017.)

Scale Up



Age 34- (n=176); Age 35+ (n=271); Female (n=229); Male (n=218)

Q 4.12: Through which methods does your company intend to scale up operations? Please select all that apply.

oped and applied in the workplace. In Indonesia, the ability to attract and retain talent remains the biggest challenge for human capital development in the country.

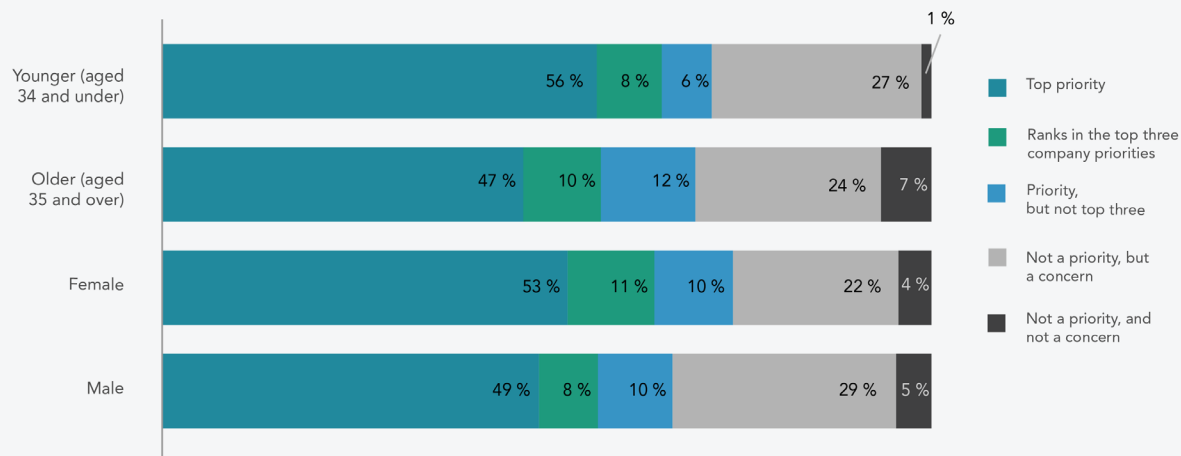
Most survey respondents are not intending to scale up their operations. The survey results indicate a preference for increasing revenue growth without investing in increasing physical or human capital. Notably, while male and female survey respondents' plans for scaling up their MSMEs look identical, there is a clear difference between age groups with younger respondents (under 35) (65%) having less intention to scale up their MSME

compared to their older respondents (over 35) (42%). For the respondents that intend to scale up their operations, hiring additional personnel or upskilling existing personnel are the preferred methods of scaling.

GROWTH AND THE ENVIRONMENT: ENVIRONMENTAL SUSTAINABILITY IS A CONCERN AND A PRIORITY

Indonesia, as the world’s largest archipelago and consisting of 17,000 islands and hosting 40% of APEC’s biodiversity, is at high risk environmentally from both human activity and natural phenomena associated with being located on the “ring of fire.”¹⁹ This context has led Indonesian survey respondents to view environmental sustainability as a concern, if not a priority, with an average of 4% of survey respondents indicating it is neither a

Percentage of Entrepreneurs Seeing Environmental Sustainability as a Top Priority

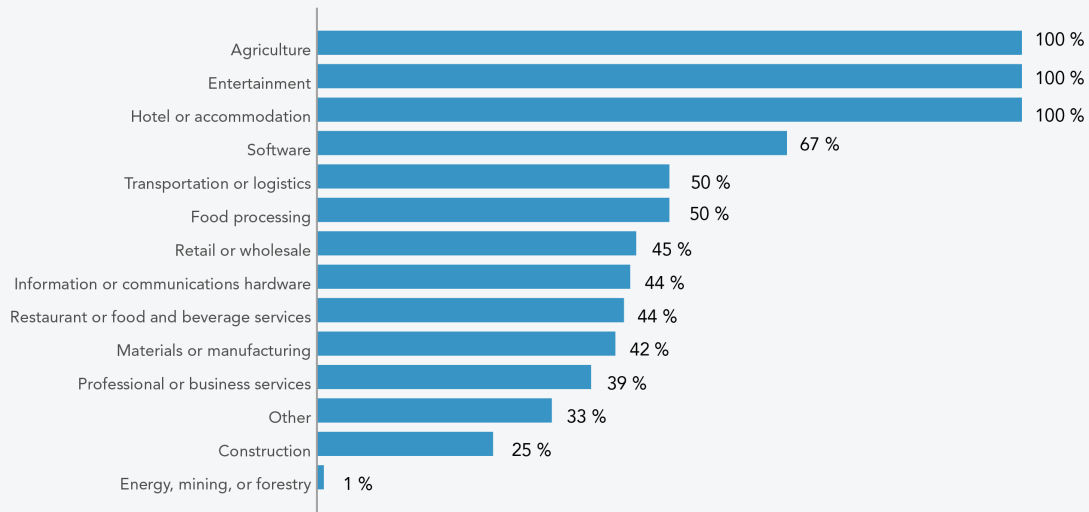


Age 34- (n=154); Age 35+ (n=228); Female (n=186); Male (n=196)

Q 6.1: To what extent is environmental sustainability a concern for your company?

¹⁹ Climate Asia. 2012. “Indonesia: How the People of Indonesia Live with Climate Change and What Communication Can Do.”; World Bank Indonesia. 2011. “Climate Change, Environment and Forestry Activities.”

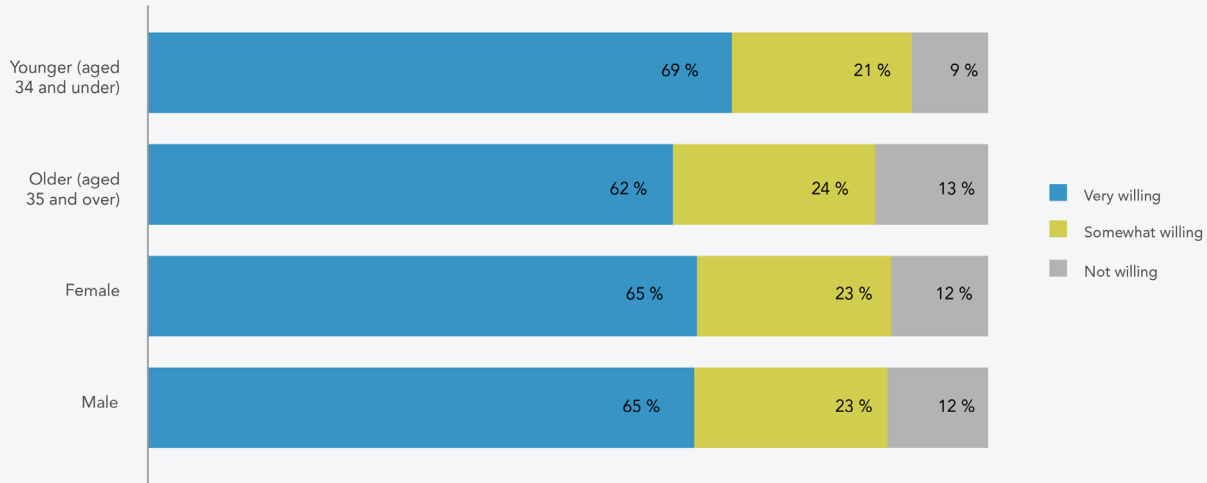
Percentage of Companies Seeing Environmental Sustainability as a Top Priority by Industry



concern nor a priority. Only 1% of younger respondents (under 35) do not see the environment as a priority or a concern, compared to 7% of older respondents (over 35). The majority of survey respondents see environmental sustainability as a top priority, with female respondents (53%) and younger respondents (56%) more likely to view it as such. Among the top industries represented in this survey, a near majority of respondents see environmental sustainability as a top priority, with 50% of those in food processing viewing environmental sustainability as a top priority. The high level of emphasis on environmental sustainability for food processing may be linked to the reliance that food products have on the climate.²⁰

²⁰ Climate Asia. 2012.

Willingness to Incorporate Environmental Sustainability



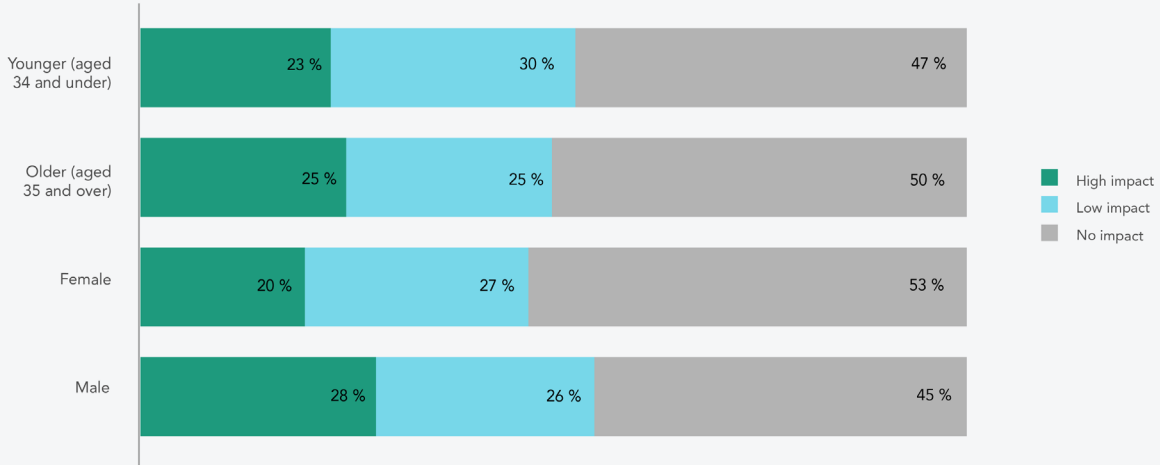
Age 34- (n=154); Age 35+ (n=245); Female (n=199); Male (n=200)

Q 6.2: Given the opportunity and the education necessary, to what extent is your company willing to incorporate environmental sustainability into your business strategy?

The prioritization of environmental sustainability means more survey respondents are willing to incorporate environmental sustainability into their business strategies. Younger respondents (under 35) are more likely to be very willing to incorporate environmental sustainability into their business strategy (69%), compared to older respondents (over 35) (62%).

While many survey respondents see the environment as a priority, there is a low number that perceive the impact of climate change on their company or industry.

Impact of Climate Change on Operations

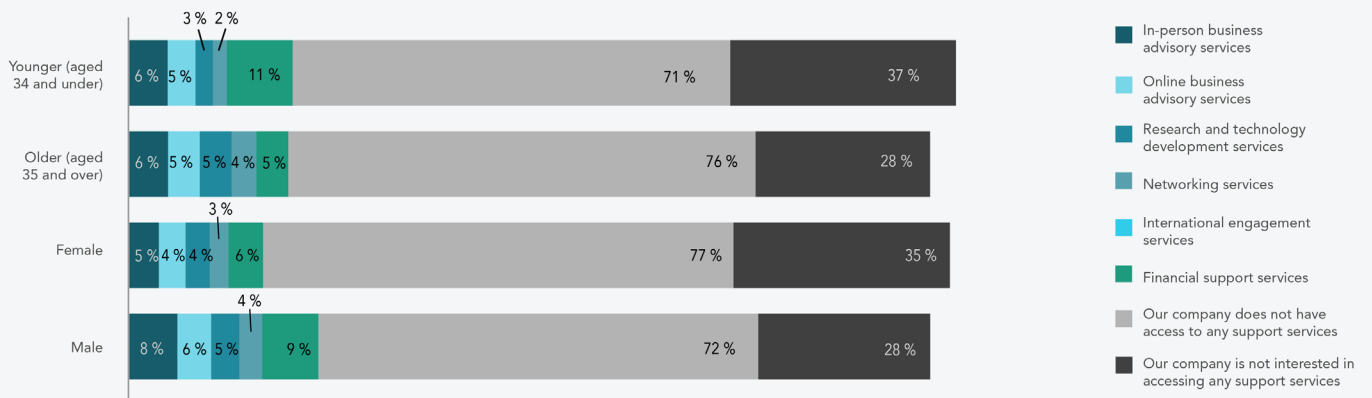


Age 34- (n=152); Age 35+ (n=237); Female (n=196); Male (n=193)

Q 6.3: To what extent do you expect climate change to impact your company or industry?

Overall, 49% of survey respondents report that climate change will have no impact on

Access to Support Services



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

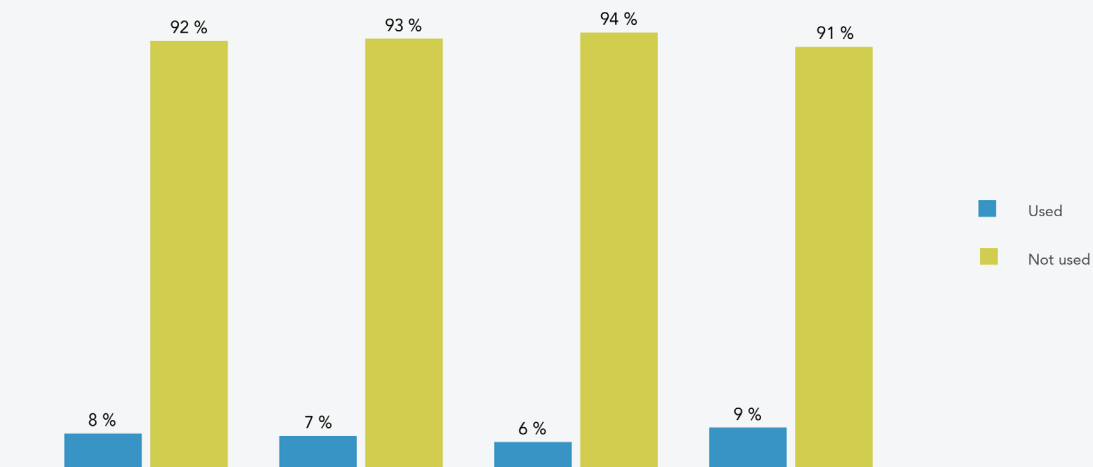
Q 7.1: To which of the following support services does your company have access? Please select all that apply.

their operations. Among the top industries represented in this survey, 53% of retail or wholesale MSMEs are most likely to perceive climate change as having no impact. The findings open an interesting avenue for future research into risk perception and public support for adaptation or mitigation strategies to combat climate change and improve environmental sustainability.

INDONESIAN MSMEs: A SECTOR DISCONNECTED

Overall, female respondents (35%) and younger respondents (under 35) (37%) are less likely to be interested in accessing any support services such as in-person or online business advisory services. In general, survey respondents in Indonesia reported they did not have access to any support services. Of the few respondents accessing support services, financial support services are the most utilized, especially among younger respondents

Use Online Learning



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

Q 5.3: In the past year, have you used online applications to learn any of the following topics? Please select all that apply.

Respondents chose from the following list:

Software development, language, human resource management, marketing, financial literacy, market access, and other.

(under 35) (11%). In-person business advisory services are marginally more utilized by respondents than online business advisory services. The lack of online access and/or utilization is a trend found in the survey responses from the Indonesian MSME sector.

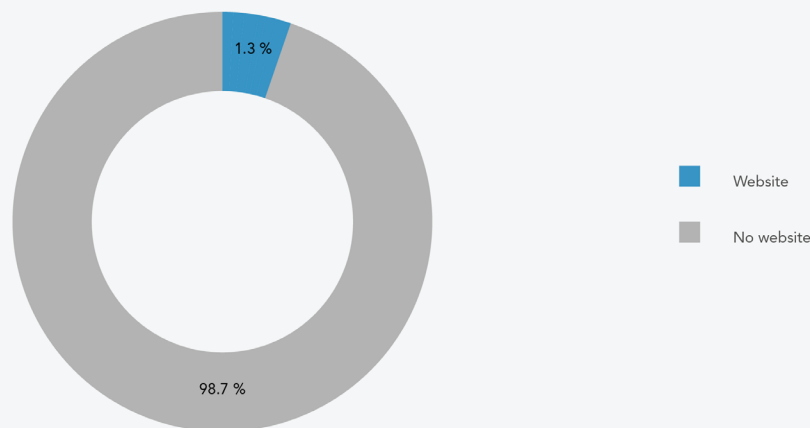
²¹ Freedom House. 2016. "Freedom on the Net 2016: Indonesia."

²² Ibid.

The majority of survey respondents have not used online learning applications in the past year. Overall, 94% of respondents have not accessed online learning applications. However, among those who have accessed online learning, male respondents (9%) are more likely to use these applications compared to female respondents (6%).

Survey respondents are highly unlikely to have an online presence, with 99% reporting not having a website. Much of this is due to a lack of digital infrastructure, as only 22% of Indonesia’s population has access to the Internet.²¹ Comparatively, the populations of the Philippines and Vietnam access the Internet at rates of 41% and 53%, respectively.²² Of those who do use the Internet in Indonesia, 95% rely on mobile devices compared to 13% utilizing desktops.²³ Internet access and infrastructure are both uneven throughout the country, as infrastructure and governance is managed through a decentralized process.²⁴ However, Jakarta has the highest rate of Internet access in the country.²⁵ In spite of this, many of the survey respondents whose headquarters are based in Jakarta reported a low online presence. This may indicate a gap in the way the Internet is being accessed, and for

Online Presence



All respondents (n=448)

Q 3.2: What is the purpose of your company's website? Please select all that apply.

Respondents chose from the following list:

E-commerce, provide contact information, provide general information about the industry, describe company expertise, build company identity, display an online catalogue, menu or brochure.

²³ Ibid.

²⁴ McKinsey Indonesia Office. 2016. "Unlocking Indonesia's Digital Opportunity."

²⁵ Freedom House. 2016.

Demographic Breakdown of Social Media Use



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

Q 3.3: Please identify which of the following social media applications your company uses, and for what purposes.

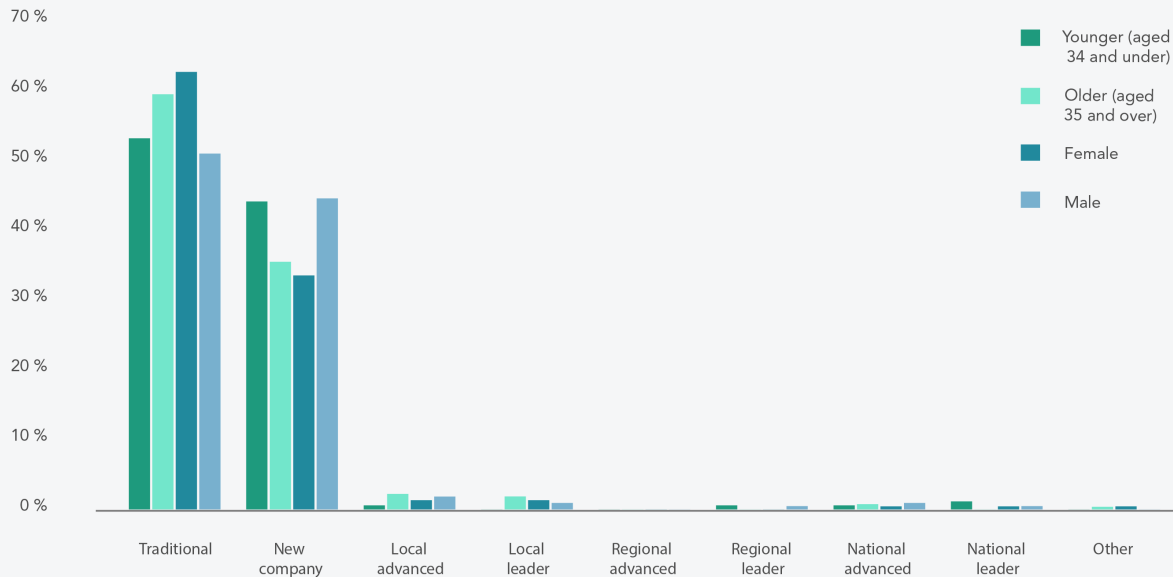
what purposes it is being used.

Social media platforms were not used by a majority of survey respondents. WhatsApp is the most used by 30% of respondents. However, younger respondents (under 35) use each platform more than older respondents (over 35). Male respondents are also more likely to be using each platform than female respondents. For example, 32% of younger respondents (under 35) reported using Facebook for company purposes compared to 18% for older respondent (over 35), whereas 26% of male respondent use Facebook for company purposes compared to 22% of female respondents.

Overwhelmingly, respondents report using these social media platforms for marketing. For instance, of the 30% of respondents who use WhatsApp, 19% report using it for marketing purposes, with only 3% using it for networking. Strikingly, among the small percentage of respondents using LinkedIn, the more common use for the platform is marketing, compared to sourcing new employees or networking. On average, 1% of social media use by respondents is for networking and 0.2% is for sourcing new employees.

When reporting on the degree their MSME incorporates innovation, few survey respondents identified their business model as being innovative. Most companies identified as traditional or newly formed. Female respondents (63%) and older respondents (over 35) (59%) were more likely to identify as running a traditional MSME compared to male respondents (51%) and younger respondents (under 35) (53%). Several barriers, such

Degree of Innovation



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

Q 3.1: How innovative do you consider your company to be?

as a lack of investment in ICT infrastructure exist in the Indonesian context that hinder innovation, especially digital innovation.²⁶ Indonesia ranks 87th out of 127 countries overall on the Global Innovation Index.²⁷ It ranks 120th for the category of the ability of the government and private sector to innovate.²⁸ It is well below the regional average for innovation rates. Some of the major barriers identified in the survey include a lack of investment in research and development, low availability of a highly skilled workforce, and lack of awareness for utilizing patents. For comparison, Indonesia spends approximately 0.2% of GDP on research and development compared to Vietnam and Singapore’s 2.5%.²⁹ The need to invest in and support ICT and digital infrastructure is clear, in conjunction with efforts to provide entrepreneurs an opportunity to build Indonesia’s digital economy.

²⁶ McKinsey Indonesia Office. 2016.

²⁷ Cornell SC Johnson College of Business. 2017. “The Global Innovation Index 2017: Innovation Feeding the World.”

²⁸ Ibid.

²⁹ Cornell SC Johnson College of Business. 2017.

Section 3: CHALLENGES AND OPPORTUNITIES IN HUMAN CAPITAL

One of the areas in need of improvement for Indonesia is building a knowledge economy by enhancing human capital. Indonesia ranks low in comparison to similar countries for levels of education, ranking 67th out of 72 countries reviewed by the OECD.³⁰ Indonesia's youth aged 18-to-24 are facing an unemployment rate of 15.6%, well above the overall country average of 6.2%.³¹ Overall, the education level, skills, and readiness of the workforce are the significant limiting factors for entrepreneurial activity in the country, and an enabling policy environment tailored to entrepreneurial education would help Indonesia's MSME sector.

POLICIES AND PROGRAMS SEEKING RELEVANCE

The current policy framework in Indonesia is being underutilized by a large section of the MSME sector. The highest levels of use by survey respondents are for the Ministry of Cooperative and MSME's Entrepreneur Program and Smallholder Credit (KUR) Scheme, at 3% each. This program also faces the highest levels of reported non-relevance to MSME business growth for survey respondents at 75%. With financing being a high barrier, the lack of use (3%) of the KUR Scheme could be indicative of several factors.

The KUR Scheme has delivered guaranteed finance to millions of enterprises.³² However, given its focus on lending to micro-enterprises, it is likely that the high interest rates associated with these types of loans are a significant barrier to access for survey respondents. The program began with 22% interest on loans, which was subsequently cut to 12% to spur growth in lending.³³ Regardless, given the size of the program, some reflection on its strategic targeting for MSMEs in Indonesia should be undertaken.

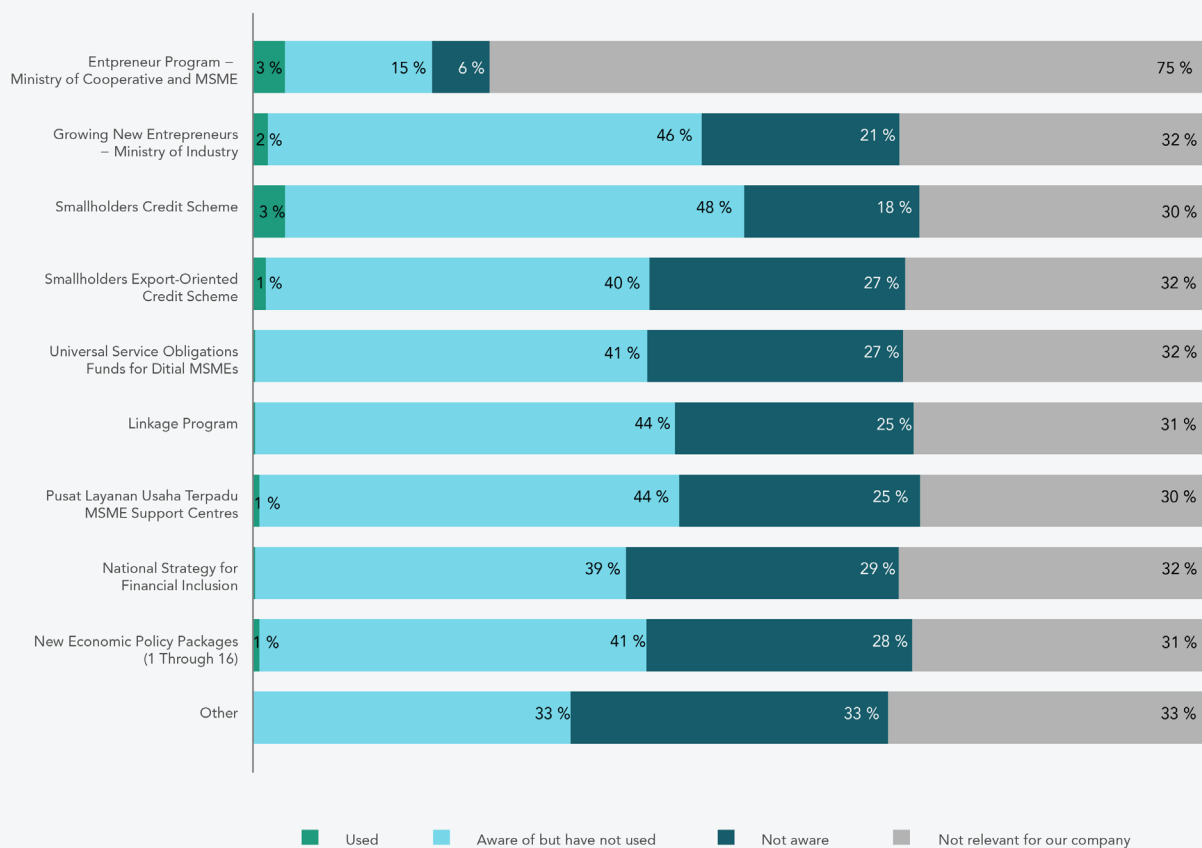
³⁰ OECD. 2017 Programme for International Student Assessment. <http://www.oecd.org/pisa/>

³¹ The World Bank. 2017. Unemployment, youth total (% of total labor force ages 15-24). November. <https://data.world-bank.org/indicator/SL.UEM.1524.ZS?contextual=default&locations=ID>

³² Irjayanti, Maya, and Anton Mulyono-Azis. 2012. "Barrier Factors and Potential Solutions for Indonesian SMEs." *Procedia Economics and Finance* 4 (1): 3-12.

³³ Indonesia Investments. 2016. Low Credit Growth in Indonesia, but Micro Credit Program (KUR) on Course. <https://www.indonesia-investments.com/finance/financial-columns/low-credit-growth-in-indonesia-but-micro-credit-program-kur-on-course/item7197?>

Awareness of Export Policies and Trade Agreements

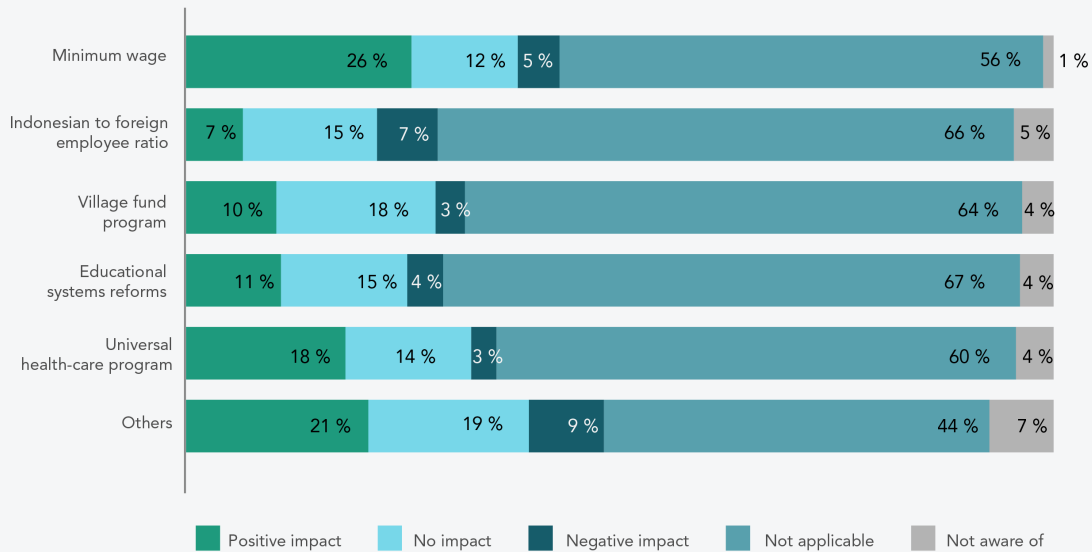


All respondents (n=448)

Q 2.17: Which of the following MSME policies or government support programs does your company leverage?

Further, the lack of use (just 1%) of MSME support centres that provide marketing, human resource, and other non-financial support is an area requiring attention. Having an effective knowledge-sharing infrastructure is vital to help MSMEs better manage their enterprises.

Social Policies



All respondents (n=448)

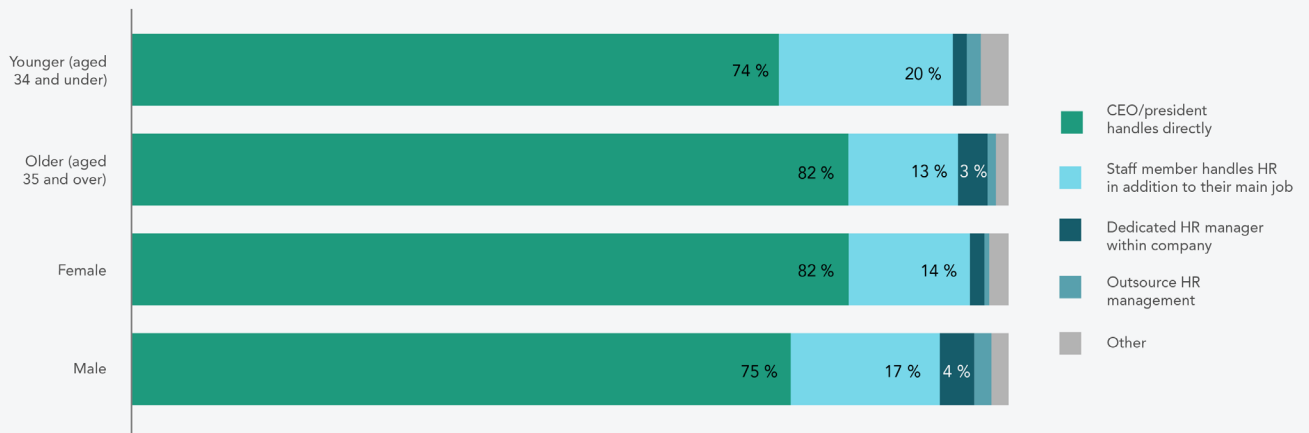
Q 4.13: Please identify the impact of each of the following social policies on your company.

Social policies in Indonesia appear to lack applicability to survey respondents. While survey respondents are more aware of Indonesia's existing social policies than they are of support programs and policies for MSMEs, the percentages of reported impact of social programs is small. An explanation for the lack of impact could be that some of these policies are new, and have not yet had an impact on respondents. Among those respondents that reported a positive impact, they specifically found the minimum wage policy (26%) to be useful. Educational system reforms are also seen as positive among respondents (11%), but appear to be slow to make an impact on respondents with 15% reporting no impact and 4% reporting a negative impact. Social and educational programs do not appear to be having as large an impact as hoped on survey respondents.

HUMAN RESOURCES BEING MANAGED FROM THE TOP

Survey respondents, particularly those from micro enterprises, are unlikely to have a dedicated human resources (HR) manager within or outside the enterprise to deal with internal disputes, harassment claims, staff complaints, leaves of absence, and contract negotiations. The majority of survey respondents have their CEO or president handling HR issues directly, with female respondents (82%) and older respondents (over 35) (82%) being more hands-on than male respondents (75 %) and younger respondents (under 35)

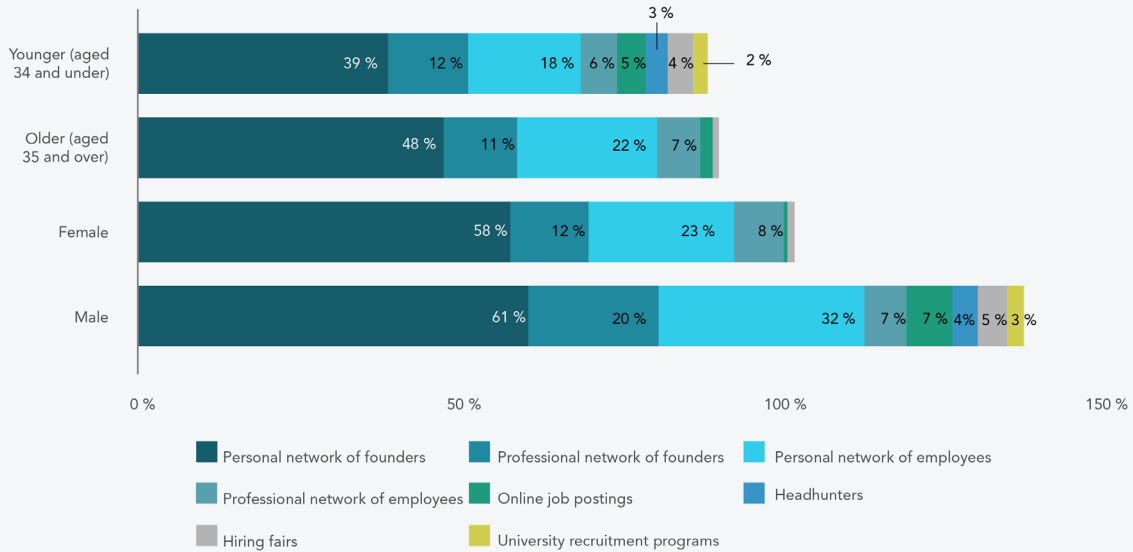
Human Resource Management



Age 34- (n=126); Age 35+ (n=208); Female (n=181); Male (n=153)

Q 4.1: Through which methods does your company manage human resources? (Human resources management may include addressing internal disputes, harassment claims, staff complaints, leaves of absence, contract negotiations, etc.)

Sources of New Talent



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

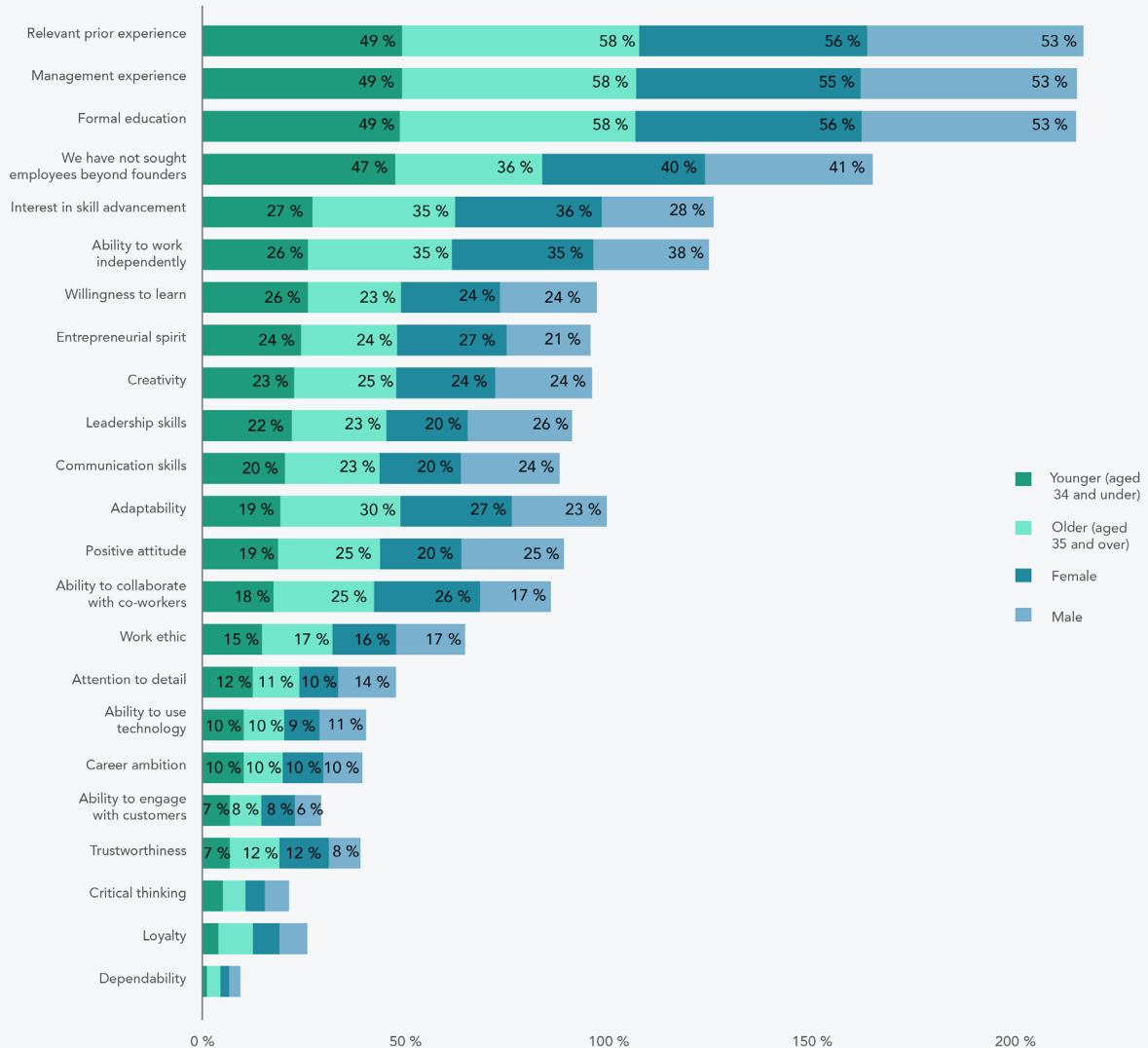
Q 4.2: Which methods does your company use to source employees? Please select all that apply.

(74%).

When survey respondents are looking to grow their staff, personal networks play a vital role. This is especially true of older respondents (over 35), with 48% seeking new talent through their personal networks compared to 39% of younger respondents (under 35). Male respondents are also more likely to rely on their professional networks than female respondents, with 20% of male respondents seeking new talent through their networks compared to 12% of female respondents.

When survey respondents are not relying on their own personal networks, they tend to rely on their employees' personal networks, especially male respondents (32%). Further, male respondents use more sources and tools compared to female respondents when looking for new talent. Here, again, the lack of online use is apparent with few respondents posting available positions online. With many survey respondents, familial networks and relatives play an important role in filling employee gaps in workload, but as enterprises scale up and/or grow, the need to reach beyond these networks to find the

Main Traits Sought in Employees



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

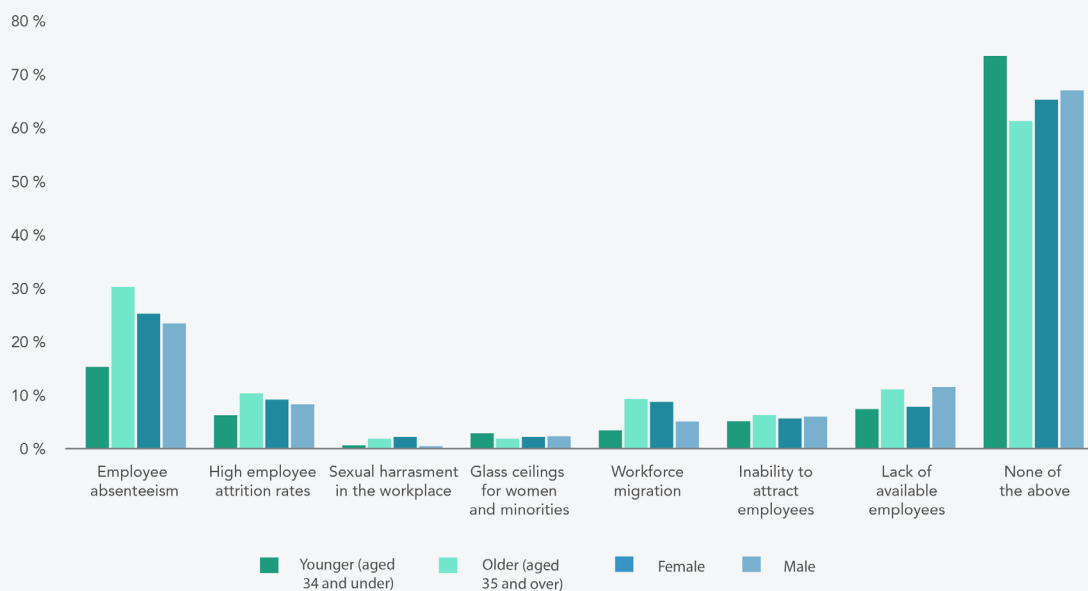
Q 4.3: What are the main traits that your company seeks in employees? Please select the top three.

employees with the right traits and skills is important to staffing the enterprise with the most efficient, productive labour possible.

Notably, younger respondents (under 35) are the least likely to add capacity to their enterprise by adding new employees as compared to older respondents (over 35).

However, among those who have sought new employees, professional attributes like relevant prior experiences, management experiences, and formal education are the most sought after. Female and older respondents (over 35) tend to be more open to recruiting candidates interested in skills advancement, who are adaptable, and who have the ability to work independently and on a team as compared to male and younger respondents

Human Resource Issues



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

Q 4.6: Which of the following issues does your company face? Please select all that apply.

(under 35). Further, dependability as a quality for a new employee ranked low among all respondents, even in the face of employee absenteeism being the most reported HR issue.

WOMEN AND YOUTH ENTREPRENEURS IN DEMAND

Sexual harassment and a glass ceiling in the workplace for women and minorities are the least reported HR-related issues facing survey respondents. However, it is important to keep in mind that the survey relies on respondents to self-report on internal issues.

³⁴ Better Work Indonesia. 2013. "3rd Compliance Synthesis Report."

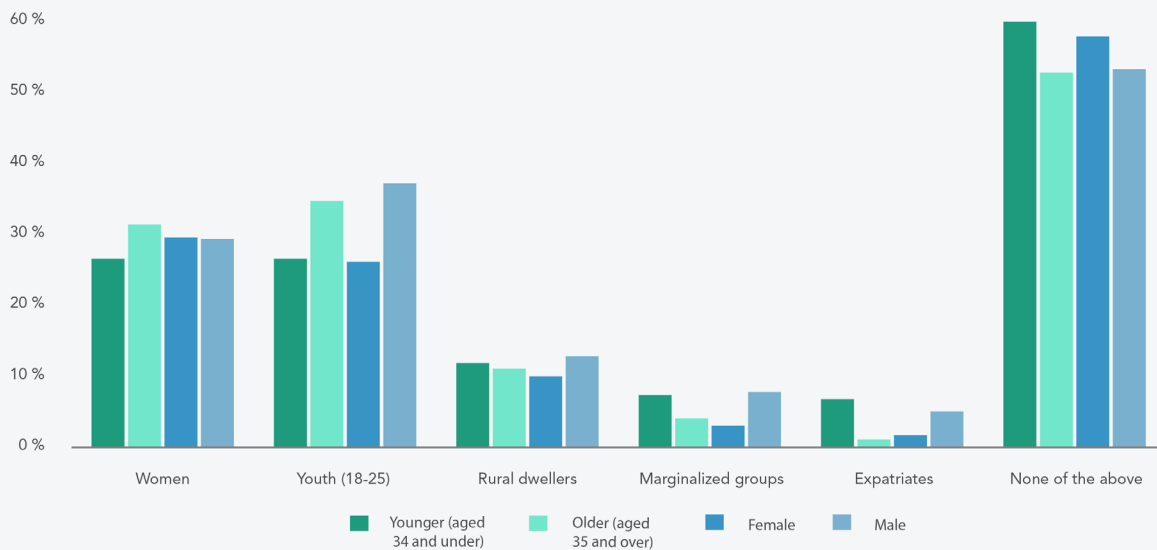
Due to the sensitivity of these topics, cultural settings, a lack of victim reporting, and the nature of the survey, the scope and scale of workplace harassment can be difficult to assess. And while reporting of actual incidents of sexual harassment or discrimination can be difficult to determine, Better Work Indonesia has found that 85% of workers in Indonesia are concerned about sexual harassment.³⁴

When asked about strategies to increase gender equity, the most frequently cited strategies by survey respondents include:

- Providing equal opportunities to all employees;
- Being accepting and fair of both men and women; and,
- Not distinguishing between men and women.

Many of the survey respondents were implementing diversity programs to hire women and youth (aged 18-to-25). Overall, respondents were looking to hire women in roughly

Diversity Programs



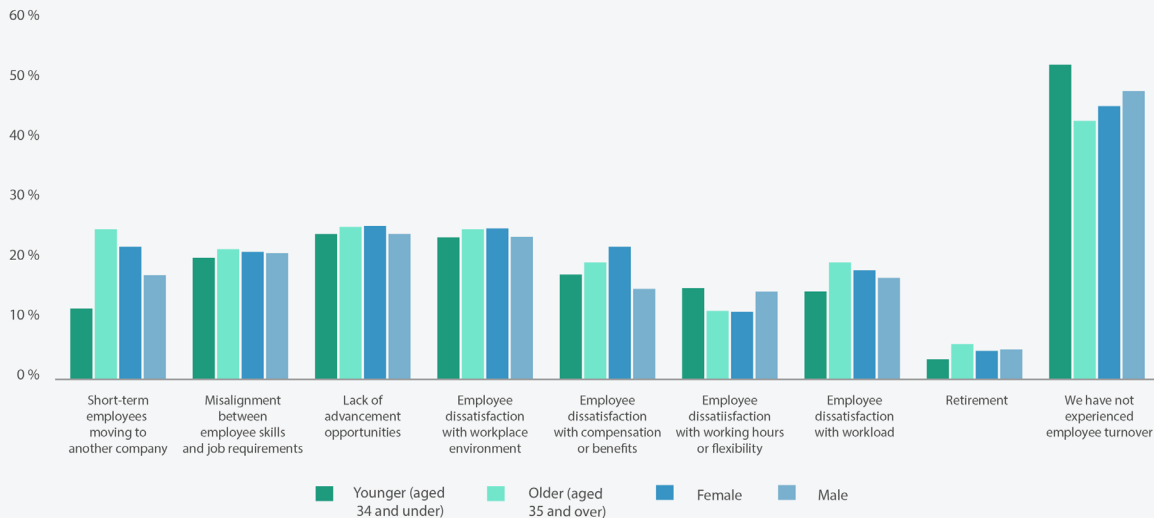
Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

Q 4.9: Does your company have any programs or initiatives intended to promote diversity or inclusion of the following groups in your hiring practices? Please select all that apply.

³⁵ Marginalized groups were defined in the survey as: "...ethnic or religious minorities, members of the LGBTQ community, disabled persons, low-income earners, etc."

equal percentages (30% of total respondents). Older (over 35) and male respondents

Diversity Programs



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

Q 4.4: What have you observed as the main reasons for employee turnover at your company? Please select the top three.

were more likely to be implementing youth-focused diversity programs, at 35% and 37%, respectively, whereas 26% of female respondents and 26% of younger respondents (under 35) were implementing youth-focused diversity programs. Far less common, were programs aimed at hiring marginalized groups, although younger (7%) and male (8%) respondents were more likely to be implementing these.³⁵

CREATING SPACE FOR ADVANCEMENT IS A STRUGGLE

While most survey respondents have not yet experienced employee turnover, the more commonly cited reasons for employee turnover are a lack of advancement opportunities (25% of total respondents) and dissatisfaction with the workplace environment (25% of total respondents). Further, 21% of respondents report a misalignment between employee skills and job requirements as a reason for turnover. Given the high importance respondents placed on professional skills when hiring, coupled with their reliance on personal and professional networks, this finding would support the need to help MSMEs develop a strategic approach to finding talent beyond these networks and to assist jobseekers in acquiring the required skills.

In general, 57% of respondents do not have retention programs in place. However, male and older (over 35) respondents are more likely to have programs in place designed to retain employees compared to female and younger (under 35) respondents. Of those respondents that do have programs in place, mentorship and vocational job-related training were the most common. In total, 21% of respondents reported offering mentorship programs designed for employee retention. In contrast, 97% of respondents reported not participating in a mentorship program themselves over the past year. Of the 3% of respondents that had participated, all of them reported that the mentorship program had a positive impact on their business practices. Mentorship is a key support program not only for employees, but also for company founders who can use mentorship to develop best practices and strategies for success.

Employee Retention



Age 34- (n=177); Age 35+ (n=271); Female (n=230); Male (n=218)

Q 4.5: Which of the following does your company provide, or enable access to, in the interest of employee retention? Please select all that apply.

Conclusion and Recommendations

Moving forward, Indonesia will benefit from enhancing human capital within the country. The findings from the 2018 Survey of Entrepreneurs and MSMEs in Indonesia highlight the need to help current and future entrepreneurs develop their ability to find, develop, and maintain a strong, effective, and productive labour force. Further, strategic and targeted education and training of current and aspiring entrepreneurs is needed to feed into a strong MSME ecosystem. This will help to ensure MSMEs are able to continue contributing to the Indonesian economy and enhance their regional and global competitiveness. Improvement in these areas will require a whole-of-government approach in several areas of the country. Highlighted here are three major recommendations for Indonesia to adopt.

NETWORKING BETWEEN GOVERNMENT AND MSMEs

Across all demographics there is a lack of awareness and/or use of current government policies and support programs – financial or otherwise. Given the resources that are needed to develop these programs and policies, efforts need to be made to ensure that MSMEs are aware of the resources and support services that are available to them. Since women entrepreneurs are likely to use their personal and professional networks for recruiting, developing resources specific for women entrepreneurs to widen their networks is key.

Given that Indonesia's government is largely decentralized, this will require all levels of government in collaboration with civil society and MSME practitioners to ensure widespread communication of resources and support programs. The support of the private and banking sectors is needed to help share information on financial resources available to MSMEs.

SUPPORT IN-SCHOOL ENTREPRENEURSHIP TRAINING

One of the greatest challenges facing Indonesia is finding space for younger workers to enter the formal economy. While entrepreneurship offers an avenue toward formal economy employment, often the motivation for “entrepreneurial” self-employment occurs as a result of a lack of job opportunities in the formal economy. Creating programs that provide formal training and encourage developing entrepreneurial skills at the high-school and university level has the opportunity to equip aspiring entrepreneurs (and existing MSME owners) with skills to succeed and scale once they enter the labour market.

The development of entrepreneurial skills, especially at the high-school level, will help young Indonesians thrive. This will not only benefit the youth of Indonesia, but also allow for the development of an increased capacity to innovate and enter the MSME sector straight out of high school. This will need to continue alongside strong out-of-school entrepreneurial skills training in Indonesia.

Within this training, the importance of environmental sustainability training is vital in the Indonesian context. Given the high levels of concern around environmental sustainability among respondents, education on how to develop and implement business plans that include environmental sustainability are needed to turn this concern into remedial action.

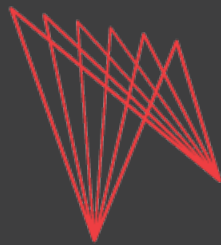
INVEST IN ONLINE ACCESS AND INFRASTRUCTURE

Indonesians’ access to online services has increased in recent years with the help of mobile technology, but the level of accessibility still has plenty of room to improve. Improving the ability of Indonesians, including MSMEs, to access online resources will increase their ability to find talent beyond their personal networks, reach non-financial support services without having to travel, and connect to tools beyond social media platforms for marketing.

References

- Asian Development Bank. 2017. "Asian Development Outlook 2017 Update: Sustaining Development Through Public-Private Partnership."
- Asian Development Bank. 2018. "Asian Development Outlook 2018: How Technology Affects Jobs."
- Asian Development Bank Institute. 2016. "SMEs in Developing Asia: New Approaches to Overcoming Market Failures."
- Asia-Pacific Economic Cooperation. 2018. Small and Medium Enterprises Working Group. <https://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/Small-and-Medium-Enterprises>.
- Better Work Indonesia. 2013. "3rd Compliance Synthesis Report."
- Central Intelligence Agency. 2018. The World Factbook. <https://www.cia.gov/library/publications/the-world-factbook/fields/2177.html>.
- Climate Asia. 2012. "Indonesia: How the People of Indonesia Live With Climate Change and What Communication Can Do."
- Cornell SC Johnson College of Business. 2017. "The Global Innovation Index 2017: Innovation Feeding the World."
- Deloitte. 2015. "SMEs Powering Indonesia's Success."
- Freedom House. 2016. "Freedom on the Net 2016: Indonesia."
- Global Entrepreneurship Monitor. 2018. Country Profiles: Indonesia. <https://www.gemconsortium.org/country-profile/70>.
- Global Entrepreneurship Monitor. 2016. "Indonesia: 2015/2016 Report."
- Hermanto, Dr. Bambang, and Dr. S.E. Suryanto. 2017. "Entrepreneurship Ecosystem Policy in Indonesia." *Mediterranean Journal of Social Sciences* 8 (1): 110-115.
- Indonesia Investments. 2016. Low Credit Growth in Indonesia, but Micro Credit Program (KUR) on Course. <https://www.indonesia-investments.com/finance/financial-columns/low-credit-growth-in-indonesia-but-micro-credit-program-kur-on-course/item7197?>

- International Finance Corporation. 2016. "Women-Owned SMEs in Indonesia: A Golden Opportunity for Local Financial Institutions."
- International Labour Organization. 2012. "Indonesia: An Enabling Environment for Sustainable Enterprises (EASE) Assessment and a Survey on Workers' Perceptions."
- International Monetary Fund. 2018. "Indonesia: Selected Issues."
- Irijayanti, Maya, and Anton Mulyono-Azis. 2012. "Barrier Factors and Potential Solutions for Indonesian SMEs." *Procedia Economics and Finance* 4 (1): 3-12.
- McKinsey Indonesia Office. 2016. "Unlocking Indonesia's Digital Opportunity."
- Ministry of Cooperatives and SMEs. 2018. Program Activity. <http://www.depkop.go.id/berita-informasi/program-kegiatan/>.
- OECD. 2017. "Education at a Glance 2017."
- OECD. 2017. "Enhancing the Contributions of SMEs in a Global and Digitalised Economy."
- OECD. 2017. "Financial Education for Micro, Small and Medium-Sized Enterprises in Asia."
- OECD. 2016. "OECD Economic Surveys: Indonesia."
- USAID. 2012. "A Snapshot of Indonesian Entrepreneurship and Micro, Small, and Medium Sized Enterprise Development." <https://crawford.anu.edu.au/acde/ip/pdf/lpem/2012/20120507-SMERU-Dan-Thomson-Bellefleur.pdf>.
- World Bank, The. 2017. Unemployment, youth total (% of total labor force ages 15-24). November. <https://data.worldbank.org/indicator/SL.UEM.1524.ZS?contextual=default&locations=ID>.
- World Bank Indonesia. 2011. "Climate Change, Environment and Forestry Activities."
- World Economic Forum. 2017a. "The Global Competitiveness Report 2016-2017."
- World Economic Forum. 2017b. "The Global Human Capital Report 2017."



ASIA PACIFIC
FOUNDATION
OF CANADA

FONDATION
ASIE PACIFIQUE
DU CANADA