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# A Snapshot of Indonesian Entrepreneurship and Micro, Small, and Medium Sized Enterprise Development

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# Introduction

- Small and medium sized enterprises (MSMEs) and entrepreneurs play an important role in the Indonesian economy.
- MSMEs account for over 99 percent of all firms in all economic sectors and employ over 95 percent of the population.
- SEBAR team assumed that the business registration process, access to capital, and an avoidance to professional business services stifled entrepreneurial growth.
- interviews suggested that the Indonesian mindset and lack of talented workers actually have more impact.



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# **CHARACTERIZATION OF ENTREPRENEURS AND MSMES IN INDONESIA**



## Introduction

- MSMEs in Indonesia
  - Account for over 99 percent of all firms in Indonesia
  - Employing over 99 million people (over 97 percent of total employment)
  - Account for approximately 57 percent of the Indonesian GDP
  - only accounts for .24 percent of the population
- Majority are self-employed enterprises without formally hired paid employees.
- Although GOI supports entrepreneurship and MSME growth, improvements must be made to business policy and the programs available supporting MSMEs.



## Definition of MSMEs in Indonesia

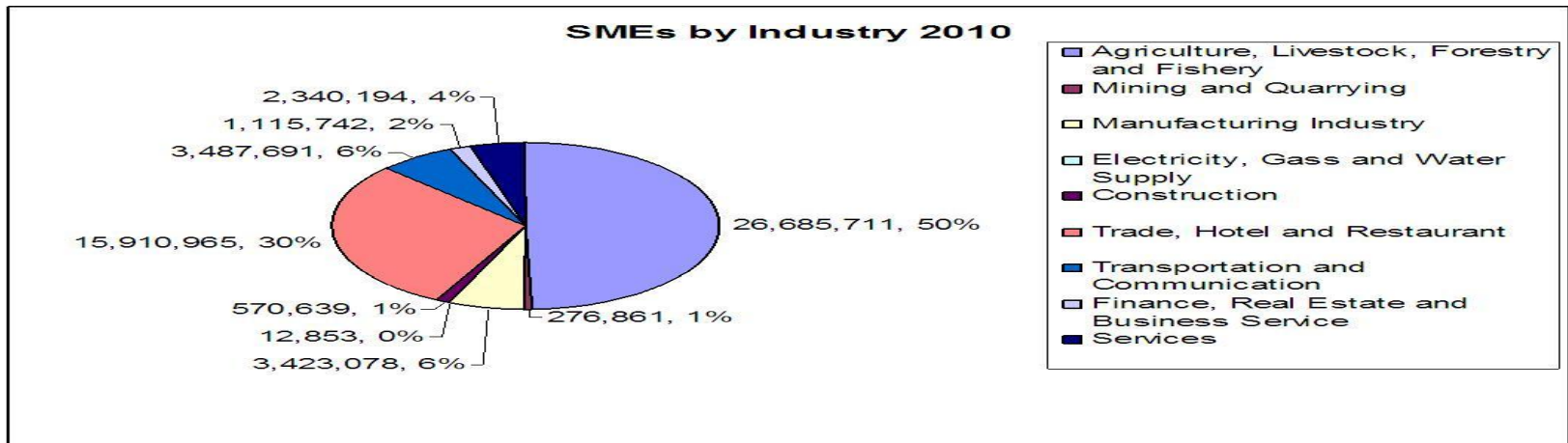
- MSME categories according to Government of Indonesia
- Micro Industry
  - Have net assets up to IDR 50,000,000; or
  - Have annual revenue from sales up to IDR 300,000,000.
- Small Industry
  - Have net assets over IDR 50,000,000 (50 million rupiah) to IDR 500,000,000 (500 million rupiah); or
  - Have annual revenue from sales over IDR 300,000,000 (300 million) to IDR 2,500,000,000 (2.5 billion rupiah).
- Medium Industry
  - Have net assets over IDR 500,000,000 (500 million) to IDR 10,000,000,000 (10 billion rupiah); or
  - Have annual revenue from sales more than IDR 2,500,000,000 (2.5 billion rupiah) to IDR 50,000,000,000 (50 billion rupiah).



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## General Characterization of Indonesian MSMEs

Business Scale	2009		2010		Growth	
	Total	Share (%)	Total	Share (%)	Total	(%)
<b>Micro, Small and Medium Scale Business</b>	<b>52.764.603</b>	<b>99,99</b>	<b>53.823.732</b>	<b>99,99</b>	<b>1.059.129</b>	<b>2,01</b>
a. Micro Scale	52.176.795	98,88	53.207.500	98,85	1.030.705	1,98
b. Small Scale	546.675	1,04	573.601	1,07	26.926	4,93
c. Medium Scale	41.133	0,08	42.631	0,08	1.498	3,64
<b>Big Scale Business</b>	<b>4.677</b>	<b>0,01</b>	<b>4.838</b>	<b>0,01</b>	<b>161</b>	<b>3,43</b>
<b>Total</b>	<b>52.769.280</b>		<b>53.828.569</b>		<b>1.059.289</b>	

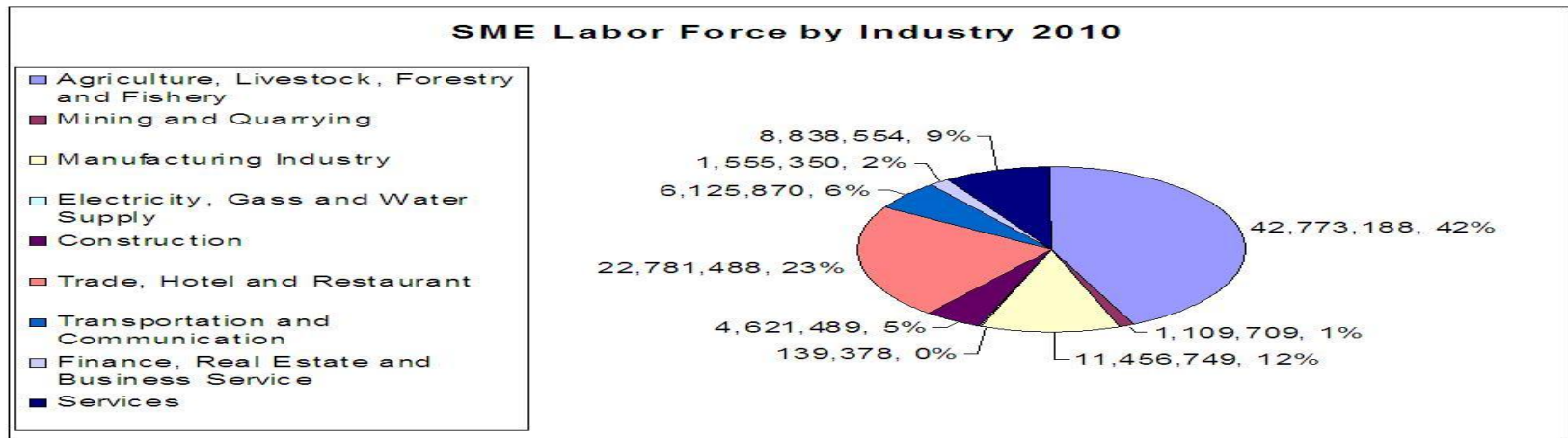




## General Characterization of Indonesian MSMEs

- **Head of MSME:** Of all MSMEs surveyed, 69% are owners, 11.5 % supervisors, 8.5 % managers, 5 % directors, and 6 % other positions.
- **Sex:** 77 % of business owners are male while 23 % are female.
- **Age:** The average age of the head of an MSME is 42.
- **Education:** Business owners have varying levels of education.
  - No formal education: 4.4%
  - Junior high school: 16.6%
  - Academy / d3 (associates degree): 5%
  - Master degree / s2: 1 percent
  - Primary school: 16.7%
  - Senior high school: 42%
  - University / s1: 14%
  - Doctorate degree / s3: 0.3%
- **MSMEs Employment of Labor:** In 2009, The Asia Foundation survey showed that the mean number of employees per company was 27.6, Although the mean number is relatively high, 70% employed fewer than 20 people while less than 5% employed over 400 workers. 23 companies employed over 1,000 employees with one company employing 9,000 workers.

## General Characterization of Indonesian MSMEs



### Growth of GDP according to their scale (In Billion Rupiah)

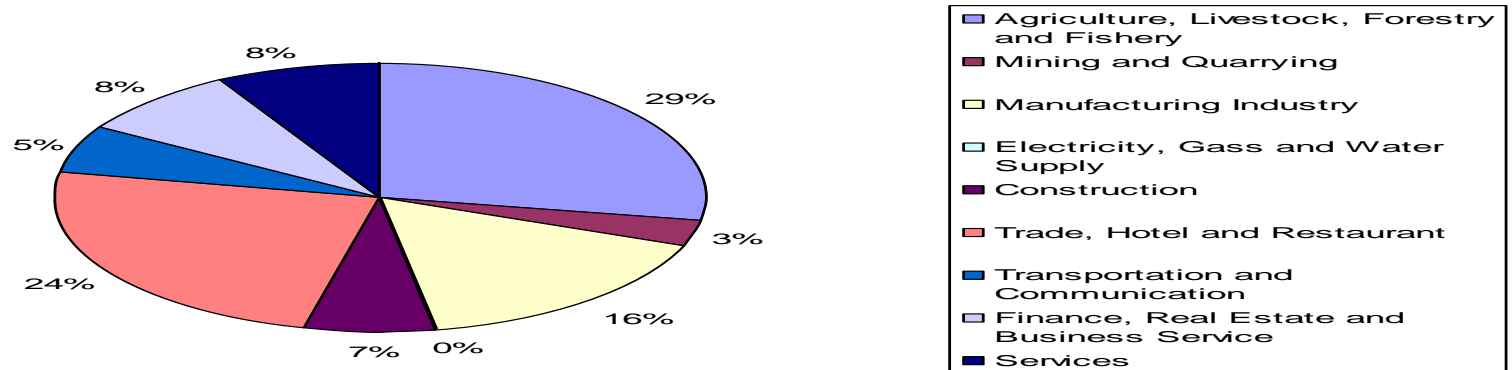
No.	Business Scale	2009		2010		Growth	
		Total	Share (%)	Total	Share (%)	Total	(%)
1	<b>Total MSME</b>	<b>2,993,151.7</b>	<b>56.53</b>	<b>3,466,393.3</b>	<b>57.12</b>	<b>473,241.5</b>	<b>15.81</b>
	a. Micro Scale	1,751,644.6	33.08	2,051,878.0	33.81	300,233.3	17.14
	b. Small Scale	528,244.2	9.98	597,770.2	9.85	69,526.0	13.16
	c. Medium Scale	713,262.9	13.47	816,745.1	13.46	103,482.2	14.51
2	<b>Big Scale Business</b>	<b>2,301,709.2</b>	<b>43.47</b>	<b>2,602,369.5</b>	<b>42.88</b>	<b>300,660.4</b>	<b>13.06</b>
	<b>Total</b>	<b>5,294,860.9</b>		<b>6,068,762.8</b>		<b>773,901.9</b>	



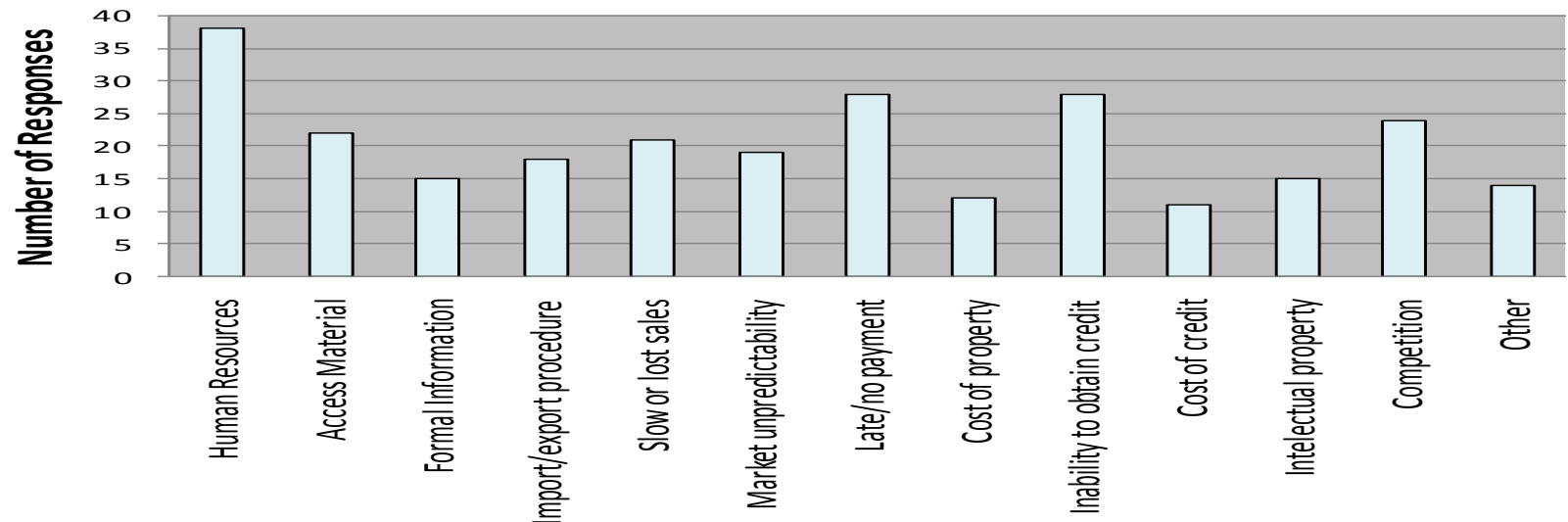


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**Growth in GDP by Sector (Billions of Rp)**



**Challenges for Entrepreneurs**





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# **FINANCING FOR ENTREPRENEURS AND MSMES**



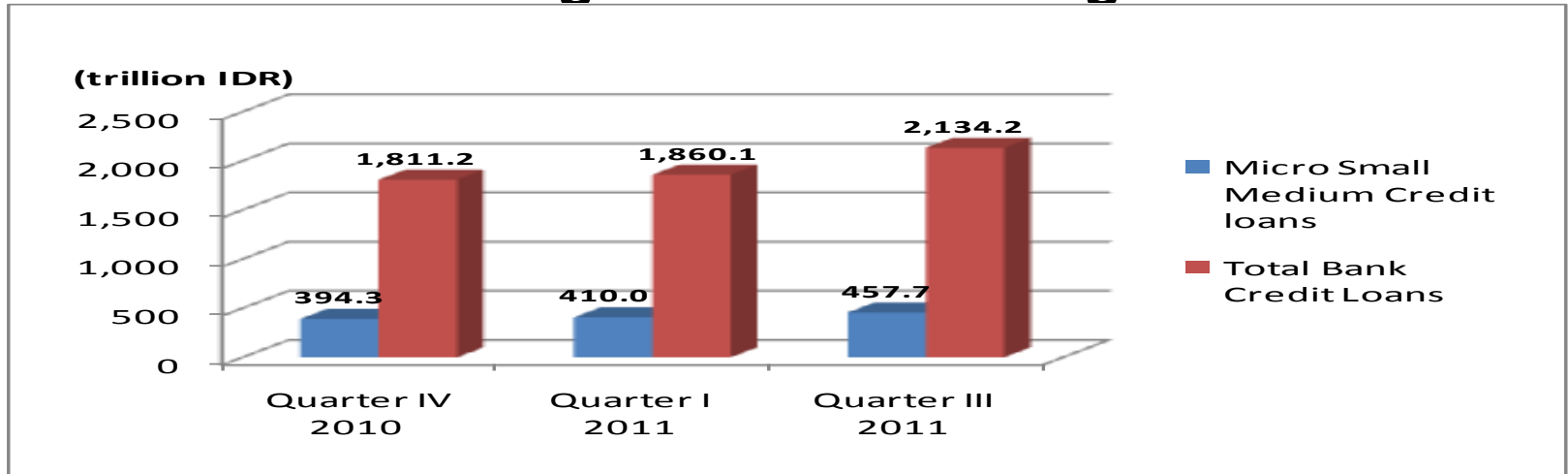
## Introduction

- Although MSMEs have increased in number many MSMEs still face challenges accessing financing, hinder their growth and development.
- Loans from bank typically carry interest rates of 12% to 14% annually on commercial loans.
- Other requirements such as 2 years of business operations and reported cash flows and collateral requirements limit startups and MSMEs ability to even be considered for a loan.
- Nevertheless, the number of non-performing loans (NPL) from MSMEs has increased from 16.12% in January 2011 to 18.98% in November 2011, showing that banks have valid reasons for placing stringent requirements on MSMEs.



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## Trends in Financing from the Banking Sector



- Overall, today, banks are loaning more to MSMEs than previously. However, the proportion of MSMEs who actually get loans from commercial banks is still small. According to Bank Indonesia's statistics, only around 439,850 MSMEs from 53.823 million MSMEs have received credit loans.
- Bank Indonesia data shows that the portion of MSME credit loans in Q3 2011 to the total banks credit loans of IDR 2,134.4 trillion is 21.5%.
  - 23% or around IDR 105.1 trillion was loans to micro businesses
  - 31.7% or IDR 145.4 trillion loans to small industry
  - 45.3% or IDR 207.3 trillion to medium industries.



## Commercial Banks Programs for Entrepreneur and MSME Financing

- Bank credit facilities in Indonesia can be divided into several groups based on a business' scale.
  - Micro enterprises can apply for credit up to IDR 1 billion.
  - MSMEs can apply for credit between IDR 1 billion to 10 billion.
  - Medium sized and large companies corporate credit ceiling is adjusted per bank.
- Debtors must comply with characterized by character, capacity, capital, collateral, and condition, otherwise known as “5C”.
  - Character is the background of the debtors
  - Capacity is the debtors' ability to fulfill his/her responsibilities of paying debts
  - Capital is the share proportion of the debtors in his/her company(s)
  - Collateral is needed to ensure that a bank's money will not be compromised in the case where debtors cannot pay off their debts.
- Indonesian banks primarily focus on the collateral perspective of debtors in order to determine the size of a loan.



## **MSME Financing with People Based Small Business Loans (Kredit Usaha Rakyat- KUR)**

- One of the most well known credit programs for MSMEs in Indonesia is the People Based Small Business Loans – Kredit Usaha Rakyat (KUR).
- One of the leading Banks that manages the KUR scheme is BRI. There are two types of credit applications. First is BRI Unit which deals with applications up to IDR 5,000,000 while BRI Branches service larger amounts.
- With applications up to IDR 5,000,000, debtor only needs to have a copy of their identification card and a copy of their family registration card. The collateral is the debtor's own business.
- For traditional BRI branches, the requirement are significantly higher than from BRI Unit. Due to the larger loans, they require physical collateral, although not as much as private commercial banks.
- Although KUR is a national program. It's still lack of socialization where proper information on how to access the KUR is not disbursed widely.



## Financing Alternatives for MSMEs

- **Angel investors:** Angel investors can be characterized as external individuals or groups who provide startup funding without collateral or other formal bank requirements to entrepreneurs.
- **Business incubator:** Incubators provide business development facilities through management, mentoring or technology.
- **Venture capital (VC):** VC is another alternative of financing available to MSMEs and entrepreneurs. A venture capitalist will invest money into a prospective business for partial ownership of the company.



## **The Stages of Business Development for Entrepreneurs and MSMEs in Indonesia**

- **Startup Stage**
  - During the startup stage, Indonesian businesses have trouble finding financing from the commercial banking sector because of collateral requirements and their legal status.
- **Growth Stage**
  - In the Growth Stage, where businesses are earning profits and usually legally established, the entrepreneur/SME can seek outside financing to increase their production/services capacity.
- **Expansion Phase and Maturity Phase**
  - The expansion phase in Indonesia is characterized with large companies that grew from medium sized businesses.





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Sub Phase	Phase	Financing Risks	Financing needed	Source of Financing
<b>Gestation</b>	Idea	High, hard to measure because only has business plan and the company has not been build.	Rp.5 million – Rp.50 million	<ul style="list-style-type: none"> <li>• “3F” and Angel investor</li> <li>• Business Incubator</li> </ul>
<b>Inception</b>				
<b>Prototype</b>	Start-up	High, hard to measure because there are still no proper financial report and cash flow	Rp.50 million – Rp.500 million	<ul style="list-style-type: none"> <li>• “3F” and Angel investor</li> <li>• KUR</li> <li>• Cooperatives</li> <li>• Business Incubator</li> <li>• Grant Programs</li> </ul>
<b>Roll out</b>				
<b>Growth</b>	Scale-up	High, limited asset to serve as collateral, but the company already has a proper financial report and cash flow.	Rp.500 million – Rp. 2 billion	<ul style="list-style-type: none"> <li>• Venture Capital</li> <li>• Loans from Banks</li> <li>• Business Incubator</li> </ul>
<b>Expansion</b>	Scale-up	Moderate, Company’s asset can be using das collateral and the company’s financial statement can be used as a benchmark for company’s ability and prospect.	Rp. 2 billion – Rp. 10 billion	<ul style="list-style-type: none"> <li>• Venture Capital</li> <li>• Loans from Banks</li> <li>• Corporate investor</li> </ul>
<b>Mature</b>	Mature	The company’s has a sufficient asset for collateral usage; the financial statement has been audited by third party to ensure the company’s financial performance and ability.	> Rp. 10 billion	<ul style="list-style-type: none"> <li>• Corporate Investor</li> <li>• Issue bonds</li> <li>• IPO</li> <li>• Merger/Acquisiti on</li> </ul>



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## **Government Policies for Entrepreneurs and MSMEs in Indonesia**

- Three reasons GOI must assist MSMEs.
  - MSMEs create productive workers.
  - MSMEs can improve their productivity and efficiency through small (or large) scale investment in technology.
  - MSMEs can be more flexible compared to big industry because their smaller size enables them to adjust to the ever changing economic conditions.



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# REGISTERING A BUSINESS



# Introduction

- A survey completed by the SEBAR team showed that 36.9 percent of MSMEs do not have any permit at all, while only 47.8 percent of those surveyed have already registered their company.
- Formally registered companies have access to a wider range of services and institutions including the courts, commercial banks, and business partners. These are the main benefits to registering a company.
- As the benefits to registration are not significantly clear to a fledgling entrepreneur in comparison to the obligations and costs incurred, many entrepreneurs choose to avoid it, preferring to operate informally.



## Benefits to Registering a Business

- Business licensing has three primary functions:
  - To provide protection for customers, workers, owners, investors, creditors and the environment;
  - To control the functioning of certain markets or industries;
  - To collect information
- According to interviews with government officials, some benefits that can be achieved by registering and formalizing a company are:
  - The law can protect formal companies
  - Gain trust from customers and government
  - Better access to financing



## Problems with Registration

- In Indonesia, the procedures necessary to obtain licenses are often confusing and overlapping, while most licenses fail to achieve their stated objectives.
- The business registration system is characterized by a high number of pre-registration requirements which aim to control economic activity rather than simply record it.
- once an entrepreneur has registered their company, they will have some obligations to obey.
  - Pay Taxes
  - Manpower Law



## Business Registration Process

- Must go through eight procedures, which takes 45 working days and can cost up to 18 percent of total per capita income.
- There are five basic types of licenses that must be held by most businesses.
  - Building permit (Izin Mendirikan Bangunan, IMB) for a company that plans to construct a building.
  - Nuisance permit (hinder ordonantie or HO) for a company that generates a disturbance around its surroundings such as noise and/or pollution.
  - Business location permit (Surat Izin Tempat Usaha, SITU) if there is no disturbance created.
  - Trading license (Surat Izin Usaha Perdagangan, SIUP) for a company that engages in any kind of trade activities.
  - Industrial registration certificates (Tanda Daftar Industri, TDI) for companies operating in the industrial or manufacturing sector.
  - Three months after a company receives their SIUP and/or TDI, it must apply for a company registration certificate (Tanda Daftar Perusahaan, TDP).



- **Procedure 1**
  - Obtain the form for company deed, arrange for a notary electronically and obtain clearance for the Indonesian company's name at the Ministry of Law and Human Rights. This procedure usually takes 3-4 days to finish and the cost will be included in the procedure 3.
- **Procedure 2**
  - Notarize company documents before a notary public. It usually take 4 days to finish it and the cost will depend on the negotiation and the notary fee.
- **Procedure 3**
  - Pay the State Treasury for non-tax state revenue (PNBP) fees for legal services at a bank. This procedure usually takes 1 day and it cost IDR 200,000 for name check and IDR 1,580,00 for PNBP fees for legal services.
- **Procedure 4**
  - Apply to the Ministry of Law and Human Rights for approval of the deed of establishment. The cost for this procedure is already covered in procedure 3 and if there is no objection from the ministry of law, this procedure will normally take 7 days to complete.





- **Procedure 5**

- Apply for SIUP, TDP, IMB if the company will construct a building, a HO if the business generates a disturbance for its surroundings, such as noise and/or pollution, and SITU if the business not create such disturbance. Based on government regulation, the SIUP will be issued in 3 days since the receiving of completed documents but in practice it takes 3-7 days.

- **Procedure 6**

- Register with ministry of manpower. Usually it will take 14 days to finish, and although there is no official fee, there may an unofficial administrative fee that depend on negotiation.

- **Procedure 7**

- Apply for the Workers Social Security Program (Jamsostek Program).

- **Procedure 8**

- Obtain a taxpayer registration number (NPWP) and a VAT collector number (NPPKP). The BPWP card and Registered Statement Letter is obtained within 1 calendar day upon the completeness of the required document and it's without fee, charge and/or retribution.



## One Stop Shops (OSS)

- Company owners may use the One Stop Shops (OSS) that help a company obtain most necessary permits in one place.
- GOI attempts to simplify the process for business registration so companies no longer need to visit several different local agencies to obtain permits.
- According to our interview with BKPM, from 500 districts in Indonesia, roughly less than 160 districts already have their OSS operate smoothly.
- Moreover, lack of information and promotion make OSS remain unknown to most people.
- It also known in Indonesia as Pusat Pelayanan Terpadu Satu Pintu (PTSP) or Kantor Pelayanan Perijinan Terpadu (KPPT).



## Business Registration Problems

- Licensing fees add extra costs to startups, thus, many entrepreneurs and MSMEs choose not to register their business during their startup period. Another issue is that many local regulations differ from national regulations.
- Time an entrepreneur or MSME owner needs to spend on obtaining licenses also presents an obstacle.
- Company must acquire a substantial number of supporting documents, including personal and family identification, a recommendation letter from the community head, approval letters from neighbors, a tax ID number, and even proof of other licenses.
- Bribes and time spent waiting for permits are positively correlated. Bribes are usually paid so government officials expedite permitting procedures.
- Lack of information on licensing processes.



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# **USEFUL BUSINESS SERVICES AVAILABLE**



## Introduction

- Although MSMEs could certainly benefit from external support, business is capitalist, and Indonesian companies should also look inwards and at the various business services already available that can help improve a company's operations.
- Business services are incredibly important and can provide significant value to any sized company.
- An important issue in Indonesia is that many entrepreneurs and MSME business owners are hesitant to consume professional business services. If there is no direct or obvious monetary benefit from the expenditure, most MSMEs prefer not to utilize outside help.



## Business Plan

- Business plans serve two main objectives.
  - First, a business plans helps a company organize and internalize its' purpose, challenges, strategy, and forecasts.
  - Secondly, the business plan is the primary document used to solicit external financing. Any commercial bank or venture capitalist will request to see a business plan when considering investing.

## Accounting

- By using accounting, companies can monitor the status and progress of business operations. Accounting helps the business have a well-organized and structured financial reporting system to meet the financial information needs of various parties such as potential investors, creditors, suppliers, tax authorities, and the owners themselves.



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## Insurance

- Insurance is a legal instrument which offers security and cushions individuals or businesses from the impacts of unexpected financial shocks. Good insurance products can create peace of mind, support progress, protect diverse stakeholders, and sustain contractual law.

## Marketing

- Marketing is used by companies to identify, attract and appease customers while creating brand awareness.
- By using a solid marketing plan, a company will be better able to sell their products to a larger customer base as long as the product is of acceptable quality, appropriately priced, and demanded by the public.



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## Legal Service

- A valid business entity determines eligibility for credit, collaboration with other businesses, participation in government tenders, etc. Choosing the right legal form is one of the most important decisions for an entrepreneur or aspiring business person.

## Information Technology and Websites

- As global economies and firms advance, IT becomes increasingly important as international transactions, complex logistics, data security, web management, advertising, etc.
- IT facilitates increased interactivity, flexibility, enhanced efficiency, cheap business transactions as well as improved interconnection with business partners and costumers.





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# **CONCLUSIONS AND RECOMMENDATIONS**



## Recommendations

- **Improve People Based Small Business Loans (KUR) socialization**
  - Government should continue to socialize KUR to greater proportions of society. The central government should partner with local governments, advertising the program to local MSMEs.
- **Create a Government Supported Entrepreneur Incubator Institution**
  - Government incubator institution can also reduce the risk of program inefficiency. Based on our interviews, the government has succeeded in implementing numerous entrepreneur programs of differing types. Nevertheless, each ministry's entrepreneurship programs were lacking in monitoring and evaluation processes.



## Recommendations

- **Create an “Angel Bank” for Financing Alternatives**
  - The government can support and coordinate the establishment of an “Angel Bank” which collects angel investments into a centralized fund, where the bank then vets potential companies and distributes financing to the entrepreneurs and MSMEs at lower interest rates and collateral requirements.
- **Standardize the Business Registration Process throughout Indonesia**
  - GOI should implement a national permitting scheme with the same pricing mechanism and time frame required to obtain permits. This procedure should also specify standard operating procedures and minimum service standards to create a simple and easily understood business registration process that must be followed by each local governing body.



## Recommendations

- **Promote the Procedure of Business Registration and the Existence of One-Stop-Shop while Implementing an Online Business Registration**
  - To increase business people's knowledge about proper business registration procedures and OSS, the government should actively promote the institution, informing as many business people as possible what, where, and how OSS operate.
- **Provide “Businesses in a Box” Netbooks for Small Businesses and Connectivity**
  - The GOI should consider piloting a “business in a box” program that would initially give netbooks with internet flash drives to smaller companies with motivated founders/managers. The program should start in a district that has a reasonable one-stop-shop and reliable internet to allow companies that come onto the program to easily register their business (a requirement) and utilize the services on the netbook.



## Recommendations

- **Create an Independent Credit Bureau**
  - The credit bureau could be self funded where it sells the information about customer credit worthiness or their ability to meet debt obligations. Credit bureaus maintain and track the data while investors, issuers, investment banks, broker-dealers, commercial banks and governments can all purchase the information to help make decisions on credit worthiness.
- **Ease the Process for Foreigners to Take an Equity Stake in Indonesian Companies and Keep Minimum Capital Requirements to a Minimum.**
  - Indonesian government could facilitate investment is by simplifying the processes involved for foreign equity ownership in accordance with the Negative Investment List while maintaining Indonesian control over management and operations into small and medium enterprises.
- **Complete an MSME Survey to Map out Indonesian MSMEs**
  - Considering the complexity of MSMEs in Indonesia, the SEBAR team suggests GOI to conduct a specific household survey to map out MSMEs across the country.



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# **Are there any Questions?**



## Types of Business Incorporations

- State Owned Enterprise (*Badan Usaha Milik Negara* - BUMN)
- Foundation (*Yayasan*)
- Sole Proprietorship (*Usaha Dagang* - UD)
- Personal Company (*Perusahaan Perorangan* - PO)
- Partnership for Dealing with Third Parties (*Firma* - Fa)
- Cooperative (*Koperasi*)
- Professional Partnership (*Persekutuan Perdata* - PD)
- Limited Partnership (*Persekutuan Komanditer* – CV)
- Limited Liability Company or Joint-stock Company (*Perseroan Terbatas* - PT)
- Foreign Investment Company (*Panamanan Modal Asing* - PMA)



## Examples of Venture Capital Firms in Indonesia

- PT. *Bahana Artha Ventura* (BAV), a state owned enterprise, is the biggest VC company in Indonesia. It is known that BAV is a subsidiary of PT. *Bahana Pembinaan Usaha Indonesia*
- Sarana Jakarta Ventura (SJV) is a subsidiary of Bahana Artha Ventura (BAV) located in Jakarta.
- New Ventures Indonesia (NVI) was established in 2005 with the goal of supporting the growth of potential MSMEs, enabling them to operate their business activities while still having innovative solutions for the environment.





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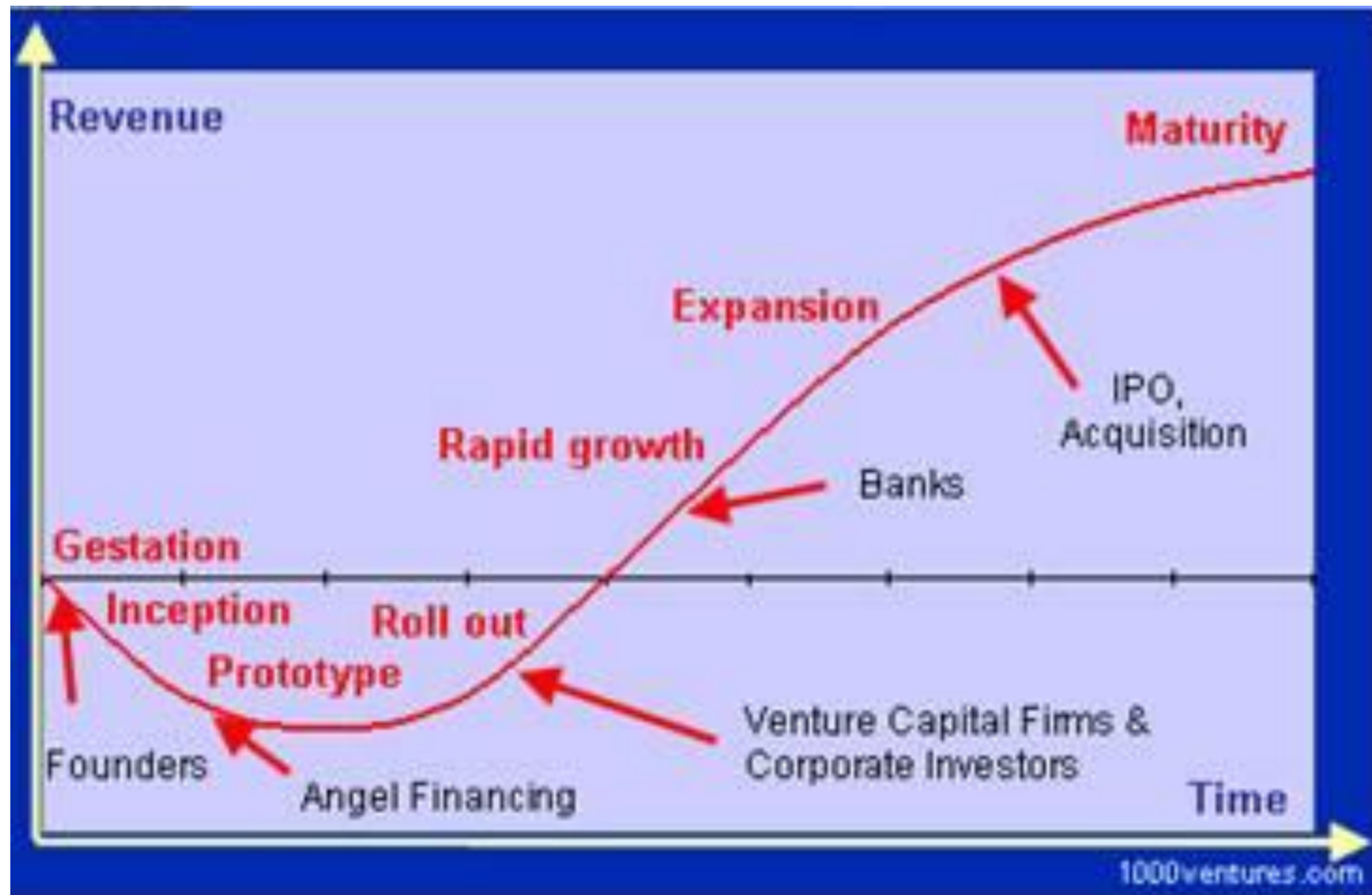
## **Examples of Angel Investor and Business Incubator Groups**

- The Global Entrepreneurship Program Indonesia (GEPI) was established in January of 2011 and was founded by 12 well known businessman in Indonesia.
- MEKAR is an entrepreneur network that aims to help entrepreneurs and MSMEs in Indonesia by connecting the entrepreneurs with prospective investors in order to build new and sustainable businesses.
- Kinara is a newly established business incubator that aims to partner with entrepreneurs, startups and functioning businesses.
- Universities have the resources available to cultivate and develop entrepreneurship. By utilizing creative, smart, and technologically savvy students, universities can foster the creation of new companies.



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## Business Stage Development





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## **Vadim Kotelnikov's Business Stage Development**

- **Startup Stage**
  - **Gestation Stage**
  - **Inception Stage**
  - **Prototype Stage**
  - **Launch/Roll Out Stage**
- **Growth Stage**
- **Expansion Stage**
- **Maturity Stage**



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## **Government Sponsored Programs for MSMEs in Indonesia**

- **Entrepreneur Program – Ministry of Cooperative and MSME**
  - seedling program that will encourage Indonesians to become entrepreneurs. This program was built to change the mindset of individuals giving them alternatives to become a job creator instead of just salary man.
- **Growing New Entrepreneurs - Ministry of Industry**
  - program consists of a series of activities, such as prospective entrepreneurs' recruitment, trainings, internships, and giving startup equipment to needy production facilities. This program is conducted in partnership with universities, training institutions, and local/municipal industrial institutions to train entrepreneurs.
- **College Students Entrepreneur Program – Ministry of Education**
  - College Students Entrepreneur Program (PMW) to give basic knowledge, information, skills, and an entrepreneurship mindset based on the college curriculum.