

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

**For BAPPENAS and USAID**

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Each team member conducted individual and team interviews and heavily contributed to the research for this project. Daniel wrote the piece characterizing MSMEs and business services, Zahra, the piece on financing startups and MSMEs, and Patrick on the licensing process.

## Executive Summary

MSMEs account for over 99 percent of all firms in Indonesia, covering most economic sectors, and employing over 99 million people (over 97 percent of total employment). Although there are many more MSMEs than large companies (4,838 companies), they only account for approximately 57 percent of Indonesian GDP. This shows that there is significant room for MSME growth in develop in the coming years as Indonesia continues to develop.

Even though there is a large number of MSMEs, a majority of them micro enterprises, are dominated by self-employed companies without formally hired employees. Most of these businesses have low productivity, little or no technology usage, poor quality products, and operate only in local markets. Some of these companies can survive for long periods of time, but most face closure or have problems upgrading their business to compete within the greater market.

Surprisingly, even with the large number of MSMEs in Indonesia, entrepreneurship only accounts for .24 percent of the population, well below the 2.1 percent in Malaysia, 7.2 percent in Singapore and 4.1 percent in Thailand. Part of the reason for the low level of entrepreneurship is the challenging business environment. The 2012 World Bank Ease of Doing Business Economy Profile for Indonesia ranks the country's overall score at 129 out of 183 countries, while starting a business is ranked 155, getting electric at 161, accessing credit at 126, and sanctity of contracts at 156. Moreover, many Indonesians express that the Indonesian mindset is partly to blame, stating that local people have been trained by society and education to simply follow the traditional path, finding a good job where they are told what to do, not think outside of the box to start a business and succeed on their own. Therefore, in order to support and encourage the growth of entrepreneurs in Indonesia, the government of Indonesia has formulized several entrepreneurship enhancement programs to achieve the target of 4.8 million entrepreneurs by 2030.

This paper is a general study of entrepreneurship and MSMEs in Indonesia. In conducting research for this report, the SEBAR team interviewed multiple stakeholders including entrepreneurs, startups, MSMEs owners, government of Indonesia, business service providers, financing institutions, and entrepreneurship promotion groups to understand the business environment and the dynamics of being a businessperson in Indonesia. The study also tries to retrieve valuable information through forums, a writing competition, and literature reviews to gain insights into serious issues hampering entrepreneurial development in Indonesia. In making the study, the SEBAR team sent out questionnaires to various entrepreneur communities in order to understand companies' first hand experiences at the forefront of entrepreneurial activities in Indonesia. Upon completing the paper, the SEBAR team will work with respective business organizations to lobby the Indonesian government to implement reforms that will promote entrepreneurship and improve the overall business climate.

From those interviewed and surveyed, the SEBAR team found that each stakeholder basically has similar viewpoints regarding issues and problems holding back entrepreneurship and SME growth in Indonesia. Although similar, divergent groups have differing opinions on what should be done to ameliorate the challenging business environment. Some of the main problems include

the general mindset of Indonesians on becoming an entrepreneur, access to financing, access to quality human resources, and difficulties in registering a business to become a legal company. Moreover, it is conveyed that decentralization of the Indonesian government has had a significant impact on a company's registration the process.

Based on this analysis, as well as information gathered from discussion forums and interviews with Indonesian stakeholders, the SEBAR team recommends the Government of Indonesia consider ten policy actions:

1. Improve People Based Small Business Loans (KUR) socialization
2. Create a government supported incubator institution
3. Create an "Angel Bank" for financing alternatives
4. Standardize the business registration process throughout Indonesia
5. Promote the existence and relevant details of One Stop Shop (OSS)
6. Operate transparently during the business permitting process
7. Provide "Businesses in a Box," net books for small businesses and connectivity
8. Create an independent credit bureau
9. Ease the process for foreigners to take an equity stake in Indonesian companies and keep minimum capital requirements to a minimum.
10. Conduct a complete MSME survey to map out Indonesian MSMEs

If the government were to take such actions, the SEBAR team believes that entrepreneurship growth will accelerate, more companies will register their companies, corrupt practices will decrease, tax revenues will increase, overall efficiency will improve, more foreign investment will come in, and GDP growth rates will accelerate, helping Indonesia achieve advanced economy status.

It should be noted that this study is not exhaustive, meaning that the SEBAR team was only able to touch upon the dynamics of the entrepreneurship and the MSME community in Indonesia. Although the team was able to survey over 100 businesspeople and use data from a larger dataset from The Asia Foundation, it is not enough to accurately characterize Indonesian MSMEs. The SEBAR team would have liked to conduct more personal interviews with many more entrepreneurs and MSME owners in all industries across the country, but limited time and resources prevented the team from doing so. This study is best used as a basic snapshot of entrepreneurship and MSMEs in Indonesia, providing useful information that generally characterizes the MSME community, the outlets for financing, how companies obtain permits, and what professional business services are available to enhance business operations.

**DISCLAIMER:**

**The SEBAR's Team views expressed in this report do not necessarily reflect the views of the United States Agency for International Development or the United States Government.**

## Table of Contents

<b>Introduction</b> .....	1
<b>Chapter I: Characterization of Entrepreneurs and MSMEs in Indonesia – 2011</b> .....	3
I.1 Introduction to Entrepreneurs and MSMEs Characteristics.....	3
I.2 Definition of MSMEs in Indonesia.....	4
I.3 Types of Companies in Indonesia.....	4
I.4 General Characterization of Indonesian MSMEs.....	8
I.5 Issues for Indonesian Startups and MSMEs.....	13
I.6 Conclusion on the Characterization of Entrepreneurs and MSMEs in Indonesia .....	15
<b>Chapter II: Financing for Entrepreneurs and MSMEs</b> .....	16
II.1 Introduction on Financing for Entrepreneurs and MSMEs.....	16
II.2 The Trend of Financing from the Banking Sector.....	17
II.3 Commercial Bank Programs for Entrepreneurs and MSME Financing.....	18
II.3.1 MSME Financing with People Based Small Business Loans (Kredit Usaha Rakyat-KUR).....	19
II.4 Financing Alternatives for MSMEs.....	20
II.4.1 Venture Capital (VC) for Entrepreneur and MSMEs.....	22
II.4.2 Angel Investor and Business Incubators for Entrepreneurs and MSME Financing.....	25
II.5 Business Stage Development.....	28
II.6 Business Stage Development of Entrepreneurs and MSMEs in Indonesia....	30
II.7 Government Policies for Entrepreneurs and MSMEs in Indonesia.....	35
II.8 Conclusion on Financing for Entrepreneurs and MSMEs.....	37
<b>Chapter III: Registering a Business</b> .....	38
III.1 Background on Registering a Company.....	38
III.2 Benefits to Registering a Business.....	39
III.3 Problems with Registration .....	40
III.4 Business Registration Process.....	41
III.5 Business Registration Problem .....	46

III.5.1 Licensing Fees.....	46
III.5.2 Times Spent to Process License Applications .....	46
III.5.3 Documents Required.....	47
III.5.4 Illegal Charges.....	47
III.5.5 Lack of Information.....	47
III.6 Conclusion of Business Registration.....	48
<b>Chapter IV: Useful Business Services Available.....</b>	<b>49</b>
IV.1 Introduction to Business Services.....	49
IV.2 Business Plan.....	50
IV.3 Accounting.....	51
IV.4 Insurance.....	53
IV.5 Marketing.....	57
IV.6 Legal Services.....	59
IV.7 Information Technology and Websites.....	61
IV.8 Conclusion on Business Services.....	63
<b>Chapter V: Conclusion and Recommendations.....</b>	<b>65</b>
<b>Works Cited.....</b>	<b>72</b>
<b>Appendix.....</b>	<b>77</b>

## List of Table

Table 1 Type of Business Entities .....	8
Table 2 Number of Indonesian Companies by Size 2010.....	9
Table 3 MSMEs by Industry in 2010.....	9
Table 4 MSME Labor Force by Industry 2010.....	11
Table 5 MSME Contribution to GDP (in billions of rupiah).....	12
Table 6 MSME Contribution to GDP by Sector in 2010.....	12
Table 7 Challenges Faced by Entrepreneurs and MSMEs (SEBAR Survey) .....	15
Table 8 Business Stage Development of Entrepreneurs and MSMEs in Indonesia.....	34
Table 9 Fees for Company Registration Certificates (TDP) in Jakarta.....	45

## List of Figure

Figure 1 Micro, Small and Medium Enterprise Credit (MSME) loans and Total Bank Credit Loans.....	18
Figure 2 Financing Source for MSMEs using Bank Loans and Venture Capital.....	22
Figure 3 GEPI Financing Model.....	26
Figure 4 Vadim Kotelnikov’s Business Stage Development.....	28
Figure 5 MSMEs Financing Gap.....	33

## **List of Appendix**

Appendix 1 SEBAR Survey (English).....	76
Appendix 2 SEBAR Survey (Bahasa).....	81

## Introduction

Small and medium sized enterprises (MSMEs) and entrepreneurs play an important role in the Indonesian economy and to the country's goal of reaching "advanced economy" status. Not only do MSMEs provide a majority of employment opportunities, but they also supply countless services and products that contribute to the overall economy and growth in diverse industries. Moreover, entrepreneurs are a driving force to innovation and in bringing goods and services to a wider consumer base. Innovation and supplying goods and services to a majority of Indonesia is incredibly important to the archipelago because large corporations cannot efficiently meet the 240 million potential customers' demand and preference for goods across the 950 inhabited islands (approximation). As entrepreneurship and MSME development plays such a crucial part to the Indonesian economy, all tiers of the decentralized Indonesian government should support policies and programs that assist current MSMEs and foster entrepreneurialism.

MSMEs account for over 99 percent of all firms in all economic sectors and employ over 95 percent of the population.<sup>1</sup> Unfortunately, a majority of these companies, as well as the employees, are informal. This means that the company is not registered with the government while the employees are not protected by Indonesian labor laws. Furthermore, most informal companies do not pay taxes. This is foregone revenue the government could use to provide enhanced social services and infrastructure development.

There are many reasons why MSMEs and aspiring entrepreneurs do not formally register their companies, but the fact of the matter is that there are not enough benefits for an MSME to formalize when comparing to the costs and procedures required by the government. Stakeholders interviewed stated that they would prefer to conduct business informally underneath the government radar rather than alert the attention to the authorities where companies can more easily be regulated, taxed, or required to attain permits. Relaxed regulations, fair business registration procedures, and socializing government programs available to assist startups, would increase the number of formal businesses and employment while adding substantial tax revenues. As many MSMEs and startup companies are informal or not sufficiently developed, they lack a formal credit history. Because of this, many MSMEs cannot access proper financing from commercial banks that can provide larger loans at lower interest rates in comparison to other types of money lenders. Although there is a plethora of micro financing institutions, informal money lenders, and cooperative groups that provide basic seed and operational credit in Indonesia, there is a dearth of capital available for companies that are trying to expand, improve, or implement high-tech infrastructure to their businesses. Not only is loan financing hard to come by, but investment law and the lack of a market for equity shares in companies not listed on the Indonesian Stock Exchange impede the ability for both domestic and foreign investors to take and exit an equity stake in Indonesian companies. Without expansionary or startup financing, a majority of Indonesian MSMEs will remain stagnant, not growing, employing more people, or entering into more value added activities.

Although financing is a significant constraint to improving entrepreneurial activities and MSMEs, the lack of business education and a sufficiently qualified workforce hinders growth.

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<sup>1</sup> Ministry of Cooperative and Small Medium Enterprise. (2011). *Statistik Usaha Mikro, Kecil, dan Menengah (UMKM) tahun 2009-2010*. (Jakarta: Kementerian Koperasi dan Usaha Kecil dan Menengah, 2011).

Moreover, most public schools focus on rote memorization and do not teach business topics or applicable business skills. Because of this, many business owners lack the ability or the knowledge to undertake or purchase the services necessary to become a successful business (accounting, law, marketing, IT, etc.). This dearth in business knowledge is evidenced by diverse stakeholders from businesspeople themselves, to government officials, to students, to government officials who all state that the Indonesian mindset hinders entrepreneurial activities.

Aside from education, labor regulations hinder employment in business. For companies that do formally register, Indonesian labor regulations make it significantly expensive to hire and dismiss employees even though said employee may not be talented enough to excel at his/her position.

The World Bank's Ease of Doing Business Report<sup>2</sup> highlights many of the challenges MSMEs, entrepreneurs, and even large corporations face in Indonesia. In 2010, Indonesia ranked 129<sup>th</sup> out of 189 countries in ease of doing business. This shows that there are many areas of improvement that both the public and private sector can cooperate on to enhance the overall business environment in Indonesia. Although Indonesia ranks poorly in the World Bank report, it is not saying that legislators have not attempted to implement policies to help business. Actually, numerous initiatives such as the One-Stop-Shop program, the creation of the Ministry of Cooperatives and MSMEs, the People Based Small Business Loans (Kredit Usaha Rakyat-KUR), and many other programs have been implemented in Indonesia with varying levels of success. What is needed now is not a new bureaucracy or an unenthusiastically implemented program, but a cultural/governmental shift away from business as usual to business acceleration where localities compete for business interests by providing incentives or cutting red tape while enforcing and supporting policy and programming. Indonesia, with its large population, abundance of natural resources, and untapped potential is poised for an economic revolution where double digit GDP growth rates can be achieved if the system evolves in a business friendly manner.

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<sup>2</sup> It measures and tracks changes in regulations affecting 10 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

# Chapter I: Characterization of Entrepreneurs and MSMEs in Indonesia – 2011

## I.1 Introduction to Entrepreneurs and MSMEs Characteristics

MSMEs account for over 99 percent of all firms in Indonesia covering most economic sectors (Table 2) employing over 99 million people (over 97 percent of total employment).<sup>3</sup> Although there are many more MSMEs than large companies (4,838 large companies employing 2.84 million people) employing more people, they only account for approximately 57 percent of the Indonesian GDP. Based on the statistics above, the importance of Indonesian MSMEs should not be underestimated. Moreover, with the number of firms and workers accounting for only 57 percent of GDP, this data implicates there is a significantly large opportunity for SME improvement and gains in market share.

Although there is a large number of MSMEs, a majority of them, especially micro enterprises, are dominated by self-employed enterprises without formally hired paid employees. Most of these companies have low productivity, little or no technology usage, poor quality products, and operate only in local markets. Some of these companies can survive for long periods of time, but most face closure or have problems upgrading their business to compete within the greater market.<sup>4</sup> However, these types of enterprises characterize early entrepreneurs who typically attempt new businesses after previous failures.

Surprisingly, even with the large number of MSMEs in Indonesia, entrepreneurship only accounts for .24 percent of the population, well below the 2.1 percent in Malaysia, 7.2 percent in Singapore and 4.1 percent in Thailand.<sup>5</sup> Part of the reason for the low level of entrepreneurship is the challenging business environment. The 2012 World Bank Ease of Doing Business Economy Profile for Indonesia ranks the country's overall score at 129 out of 183 countries, while starting a business is ranked 155, getting electric at 161, accessing credit at 126, and sanctity of contracts at 156.<sup>6</sup> Moreover, many Indonesians express that the Indonesian mindset is partly to blame, stating that local people have been trained by society and education to simply follow along and find a good job where they are told what to do, not think outside of the box to start a business and succeed on their own. This was evidenced in a joint AmCham Indonesia – MEKAR writing competition where essayists cited “mindset” as being the number one hindrance to entrepreneurship.

Today, the Indonesian Government (GOI) sees MSMEs and entrepreneurship as a means to achieving “advanced economy” status. Although entrepreneurship is now looked at in a friendlier light, Indonesia has a long way to go to supply enough entrepreneurs to become an

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<sup>3</sup> Ministry of Cooperative and Small Medium Enterprise, *Statistik Usaha Mikro, Kecil, dan Menengah (UMKM) tahun 2009-2010*. (Jakarta: Kementerian Koperasi dan Usaha Kecil dan Menengah, 2011).

<sup>4</sup> Tambunan, T. (2008). MSME Development in Indonesia with Reference to Networking, Innovativeness, Market Expansion and Government Policy. *ERIA Research Project Report 2007 No. 5*, edited by Hank Lim. Web. <<http://www.eria.org/research/images/pdf/PDF%20No.5/No,5-4-Indonesia.pdf>>

<sup>5</sup> Pulungan, Ray Z. Parsioan. (2011, Oct 7). Indonesia's Elusive Two Percent. *Globe Asia*. Web. <<http://www.thejakartaglobe.com/columnists/indonesias-elusive-two-percent/470127>>

<sup>6</sup> World Bank. (2012). *Doing Business in a More Transparent World. Economy Profile: Indonesia*. Web. <<http://www.doingbusiness.org/data/exploreeconomies/indonesia>>

advanced economy. One minister states that in order to reach this advanced economy status, Indonesia must have 2 percent of its population working as entrepreneurs. This implies that the country needs to create 4 million entrepreneurs, 500,000 of which are forecasted to start business over the next four years. If Indonesians do start opening their own businesses, then at this rate, the country will achieve its goal by 2025, assuming that there are not any exogenous shocks affecting the business climate.<sup>7</sup>

Based on the information above, the importance of entrepreneurship should be quite obvious. Although GOI supports entrepreneurship and MSME growth, improvements must be made to business policy and the programs available supporting MSMEs. Education, minimum capital requirement thresholds, trainings, access to credit, contract law, intellectual property issues, etc. can all be improved in order to increase entrepreneurship and widen the tax base.

## **I.2. Definition of MSMEs in Indonesia**

Different countries and organizations define micro, small and medium sized enterprises differently. Below are the definitions GOI places on MSME categories given the local economy and companies working to support it.<sup>8</sup>

### **Micro Industry**

- a. Have net assets up to IDR 50,000,000 not including land and buildings used for the business; or
- b. Have annual revenue from sales up to IDR 300,000,000.

### **Small Industry**

- a. Have net assets over IDR 50,000,000 (50 million rupiah) to IDR 500,000,000 (500 million rupiah) not including land and buildings used for the business; or
- b. Have annual revenue from sales over IDR 300,000,000 (300 million) to IDR 2,500,000,000 (2.5 billion rupiah).

### **Medium Industry**

- a. Have net assets over IDR 500,000,000 (500 million) to IDR 10,000,000,000 (10 billion rupiah) not including land and building used for the business; or
- b. 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).

## **I.3 Types of Companies in Indonesia**

There are a number of ways a company can incorporate itself under Indonesian law, each with its own benefits and restrictions. Below is a description of each. Table 1 illustrates the types of MSME company incorporations per the Asia Foundation Survey conducted for the “Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011.”

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<sup>7</sup> Pulungan, Ray Z. Parsioan. (2011, Oct 7). Indonesia’s Elusive Two Percent. *Globe Asia*.

<sup>8</sup> Bank Indonesia. *Statistik Perbankan Indonesia, Volume 9. No 12*. (2011). Web.

[http://www.bi.go.id/web/id/Statistik/Statistik+Perbankan/Statistik+Perbankan+Indonesia/spi\\_1111.htm](http://www.bi.go.id/web/id/Statistik/Statistik+Perbankan/Statistik+Perbankan+Indonesia/spi_1111.htm)

1. State Owned Enterprise (*Badan Usaha Milik Negara* - BUMN): As the name implies, BUMN are companies that are 100 percent owned by the government. All activities and operations are directed by GOI. There are three types of BUMN<sup>9</sup>;

- *Perjan (Perusahaan Jawatan)*: *Perjan* is a state enterprise that focuses on public services. Typically, a *Perjan* does not generate sufficient revenue to cover its costs. *Perjan* are no longer used today as they were too inefficient and costly.
- *Perum (Perusahaan Umum)*: *Perum* is the enhanced version of *Perjan*. *Perums* still provide public services, but their goals are to generate enough income to at least cover their expenses. *Perums* are completely owned and controlled by the government while *Perum* employees are treated as state employees.
- *Persero (Perusahaan Perseroan)*: *Persero* is a state owned company that is open to public investment, although the government must maintain a majority stake (at least 51 percent). The Ministry of State Enterprises (BUMN) acts as the CEO of a *Persero* while investors have board members who are allowed to vote on company operations. *Perseros* look to make profits and attempt to provide quality goods and services.

There were zero BUMN MSMEs surveyed in The Asia Foundation study.

2. Foundation (*Yayasan*): The foundation is a business entity, but not an enterprise because it does not seek profits. Typically, foundations are established to promote social, religious or humanitarian ideals. Generally speaking, *yayasan* either donate profits to support other organizations, or use revenues for their own charitable purposes.

The Asia Foundation found that *yayasan* account for 17 percent of all companies surveyed.

3. Sole Proprietorship (*Usaha Dagang* - UD): A company owned and run by one person with no legal distinction. In a UD, the property of the company is also the property of the owner and vice versa.

The Asia Foundation found that 17 percent of firms surveyed were UD companies.

4. Personal Company (*Perusahaan Perorangan* - PO): A PO is basically the same as a UD, although POs may have multiple owners, albeit with no legal distinction.

POs were the most common business classification in the Asia Foundation survey, accounting for 38 percent of MSMEs interviewed.

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<sup>9</sup> Government of Indonesia. (2003). *Undang-Undang No. 19 Tahun 2003 Tentang Badan Usaha Milik Negara*. Web. <[www.bpkp.go.id/uu/filedownload/2/40/264.bpkp](http://www.bpkp.go.id/uu/filedownload/2/40/264.bpkp)>

5. Partnership for Dealing with Third Parties (*Firma - Fa*): Fa is a business entity that is established by two or more persons in which each member is responsible for the company. Share ownership depends on how much capital each partner puts in while profits are distributed to members with a ratio accordingly to the founding deed. Fa will automatically disband when one of the parties is retracted or their working capital deceases.<sup>10</sup>

The Asia Foundation found that Fa account for only .13 percent of all companies surveyed.

6. Cooperative (*Koperasi*): Cooperatives are business organizations owned and operated by a group of individuals for mutual benefit. A cooperative is defined as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly owned and democratically controlled enterprises. A cooperative may also be defined as a business owned and controlled equally by the people who use its services or by the people who work there.

The Asia Foundation found that cooperatives account for 6 percent of all companies surveyed.

7. Professional Partnership (*Persekutuan Perdata - PD*): A professional partnership is a business organization that is founded by two or more people with the same profession. In the formation of a *Persekutuan Perdata*, all members must contribute something, called “*inbreng*,” not necessarily money. Contributions may include labor, prestige, property, etc. Examples of PDs include law firms, medical groups, and accounting firms.

Only 4 percent of firms surveyed were considered PD companies.

8. Limited Partnership (*Persekutuan Komanditer – CV*): A limited partnership is an alliance founded by a group that pools assets together, allocating resources to be used by an outside party(s) to run the company. There are two types of CVs;

- Active Ally (Complement Ally): The alliance works together with the third party to run the company.
- Passive Ally (Comaditer Ally): The alliance simply invests their money, not taking any part in the company's operations. Passive allies are only responsible for the risks that occur to the extent of their invested capital, and similarly toward the profit accrued by the company.

The Asia Foundation found that CVs account for 11.2 percent of all companies surveyed.

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<sup>10</sup> Government of Indonesia. (2009). *Rancangan Undang-undang Tentang Usaha Perseorangan dan Badan Usaha Bukan Badan Hukum*. Web. <[www.djpp.depkumham.go.id/files/doc/782\\_ratnawati.pdf](http://www.djpp.depkumham.go.id/files/doc/782_ratnawati.pdf)>

9. Limited Liability Company or Joint-stock Company (*Perseroan Terbatas* - PT): A PT is a business organization that derives its capital from various share holders. Shares are allowed to be traded so ownership can easily pass from one person or party to another without disbanding the company. Company property is separated from share holders' personal property, protecting them from the debts of the company. The role each share holder has in a company varies while influence is determined by the percentage of shares owned. There are two types of PT<sup>11</sup>;

- Closed Limited Company (.ltd): The company share is owned by a limited number of people. Shares are not open to the public for sale.
- Open Limited Company (.tbk): A company that opens ownership to the public. PT tbk shares are traded on the Indonesian Stock Exchange.

PTs account for almost 8 percent of the companies surveyed by the Asia Foundation.

10. Foreign Investment Company (*Panamanan Modal Asing* - PMA): A PMA company is one that receives foreign capital investments. Law requires that there are at least two shareholders in a PMA company. Shareholders can be individuals, companies, or a combination of the two. Although PMA companies are supposed to be treated equally to Indonesian owned companies, there are a number of conditions levied on PMAs. PMAs must file an application with the Indonesian Investment Coordinating Board (BKPM), file differing Articles of Association, obtain relevant licenses, etc. Moreover, the Indonesian Negative List outlines the levels of foreign investment allowed into specific industries where some sectors allow 100 percent foreign ownership while other industries disallow any foreign investment whatsoever.

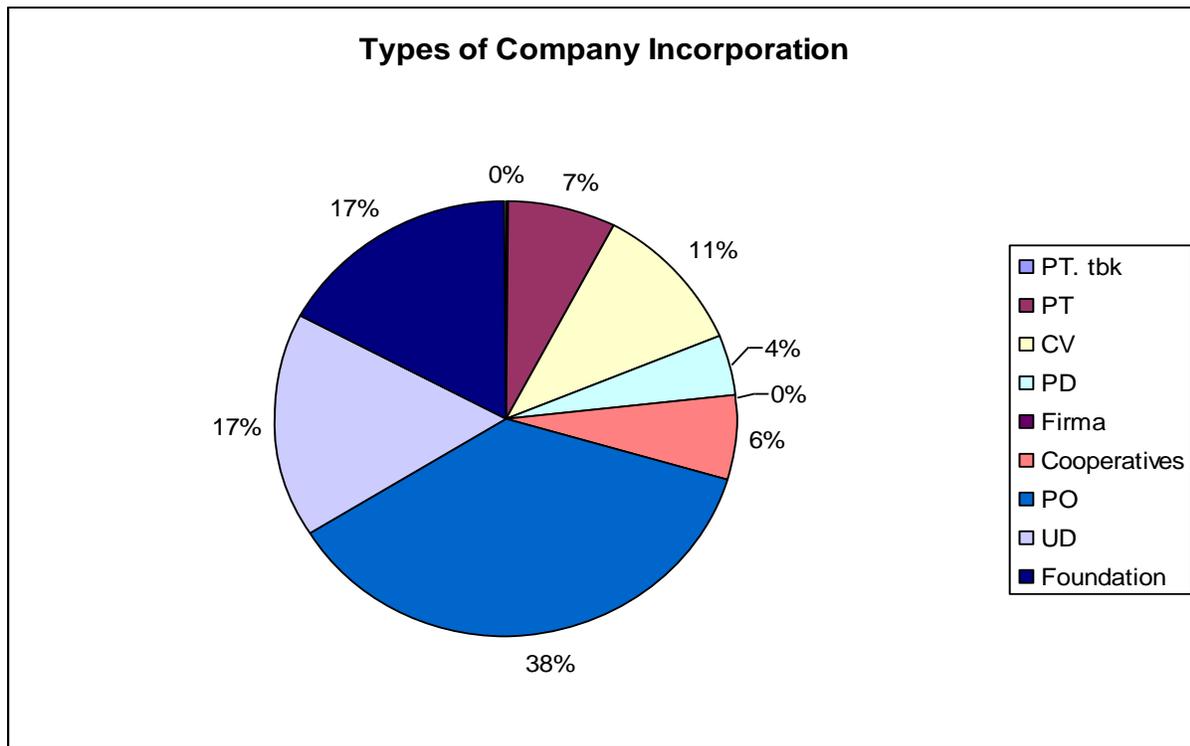
The amount of capital to be invested in a foreign-owned company is decided by the investing parties themselves, based on BKPM approval and BKPM minimum capital requirements (which may be up to \$1 million USD). For companies 100 percent owned by foreigners, they must sell at least 5 percent of their shares to an Indonesian company after 15 years. A company initially characterized by 95 percent or less foreign ownership is not subject to any divestment requirement holding the current law constant.

Aside from the stipulations above, by law, PMA companies should function similarly to a PT company.

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<sup>11</sup> Government of Indonesia. (2007). *Undang-Undang No. 40 Tahun 2007 tentang Persero Terbatas*. Web. <[www.depdagri.go.id/media/documents/2007/08/16/UU\\_No.40-2007.doc](http://www.depdagri.go.id/media/documents/2007/08/16/UU_No.40-2007.doc)>

**Table 1: Types of Business Entities**



*Data Source: Asia Foundation Survey for “Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011.”*

#### **I.4 General Characterization of Indonesian MSMEs**

As mentioned in the introduction, Indonesian MSMEs account for 99 percent of operating businesses, employing 97 percent of the population, while covering most industries. As there are millions of different MSMEs all across the archipelago, it is challenging to get an accurate characterization of MSMEs in Indonesia. Although not 100 percent accurate for the entirety of the Indonesian MSME community, the Asia Foundation and the SEBAR Team each conducted surveys on Indonesian entrepreneurs and MSMEs. The Asia Foundation surveyed over 13,000 MSME business owners, managers, or directors across Indonesia<sup>12</sup> while the SEBAR team was successful in surveying over 100 (less because of limited time and resources) in Jakarta region. Below is a GENERAL description of MSMEs based off of the surveys.

*Number of MSMEs:* There are over 53 million MSMEs, a majority micro scale, operating across Indonesia. Table 1 shows a breakdown of Indonesian MSME companies by size.

<sup>12</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*. Web.<<http://asiafoundation.org/publications/pdf/1027>>

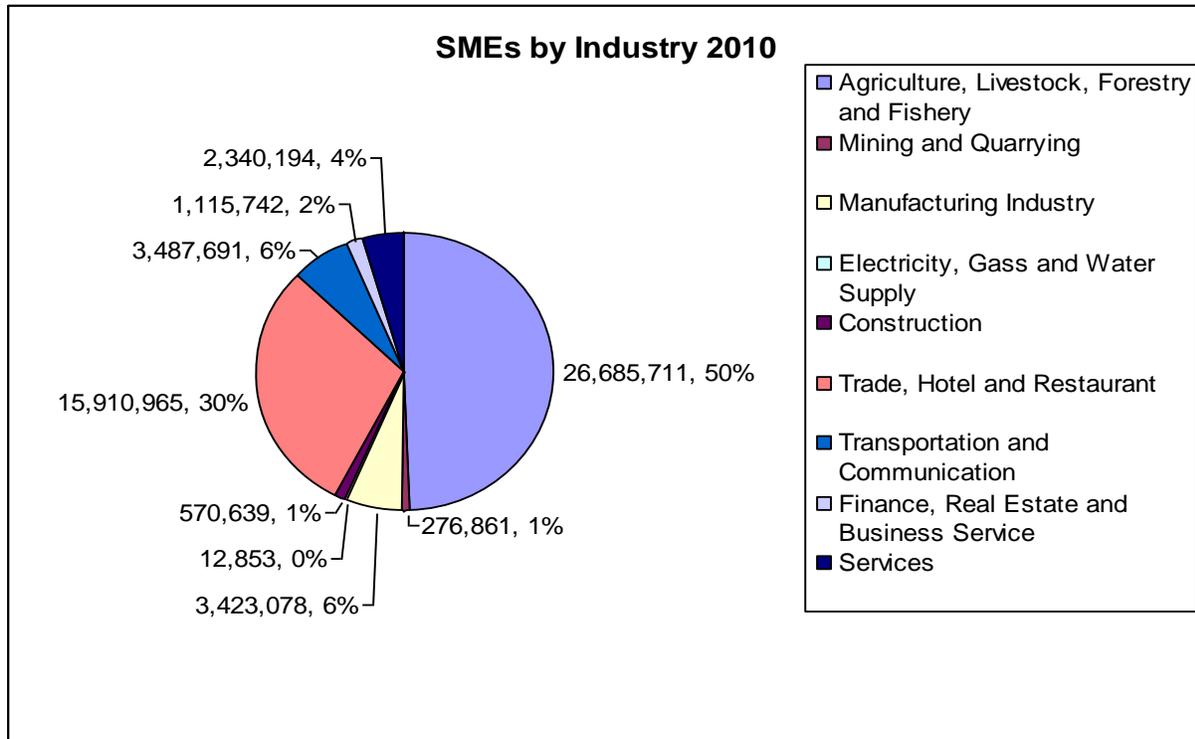
**Table 2: Number of Indonesian Companies by Size**

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>	

Source: Statistik Usaha Mikro, Kecil, dan Menengah (UMKM) tahun 2009-2010, Kementerian Koperasi dan UKM, 2010

*MSMEs by Sector:* MSMEs cover almost every type of industry in Indonesia. Agriculture accounts for approximately 50 percent of all MSME companies, followed by Trade, Hotels, and Restaurants with 30 percent. Electric, gas, and water supply is the sector with the fewest number of MSMEs as a majority of the companies that provide such services are state owned or demand exceptionally large investments into capital, infrastructure, and maintenance. Below is a breakdown of Indonesian MSMEs by industry.

**Table 3: MSMEs by Industry in 2010**



Source: Statistik Usaha Mikro, Kecil, dan Menengah (UMKM) tahun 2009-2010, Kementerian Koperasi dan UKM, 2010

*Head of MSME:* Of all MSMEs surveyed, 69 percent are owners, 11.5 percent supervisors, 8.5 percent managers, 5 percent directors, and 6 percent holding other positions.

*Sex:* 77 percent of business owners/managers/directors are male while 23 percent are female.

*Age:* The average age of the head of an MSME is 42.

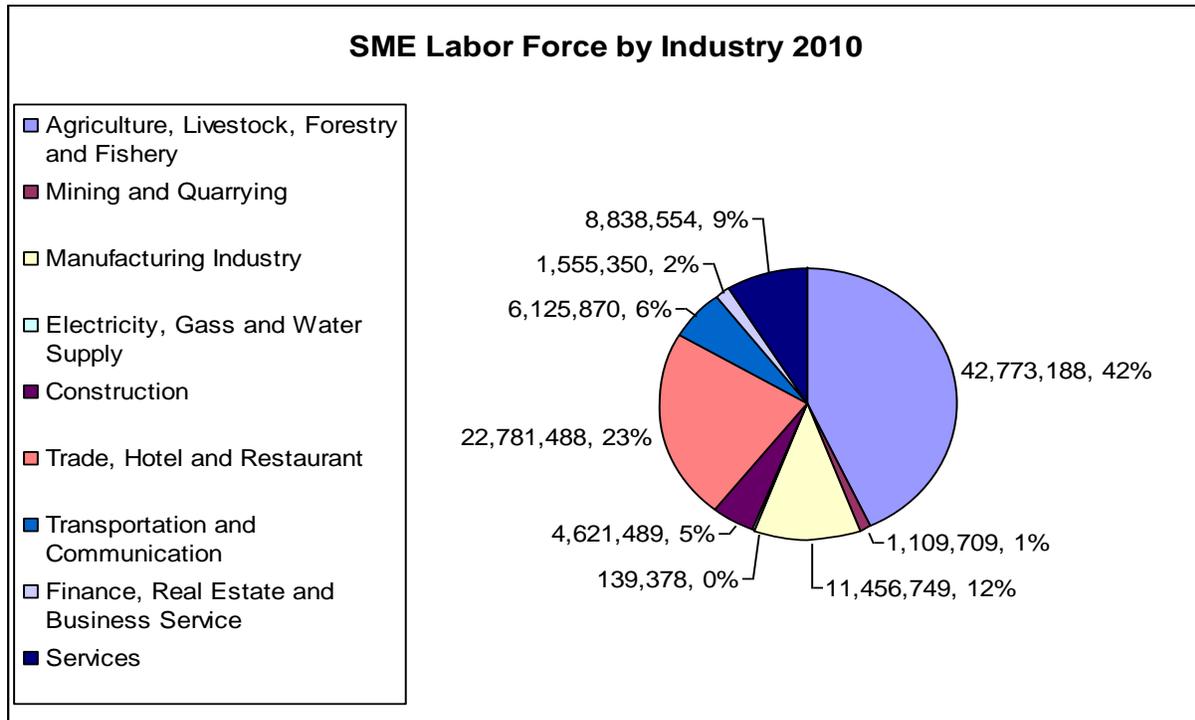
*Education:* Indonesian MSME business owners have varying levels of education. Below is a breakdown of educational attainment evidenced by The Asia Foundation survey.

1. No formal education: 4.4 percent
2. Primary school: 16.7 percent
3. Junior high school: 16.6 percent
4. Senior high school: 42 percent
5. Academy / d3 (associates degree): 5 percent
6. University / s1: 14 percent
7. Master degree / s2: 1 percent
8. Doctorate degree / s3: 0.3 percent

*MSMEs Employment of Labor:* In 2010, MSMEs employed over 99 million people. In 2009, The Asia Foundation survey showed that the mean number of employees per company was 27.6, with the mean number of formally employed companies approximating to 26 workers. Although the mean number is relatively high, 70 percent of companies employed fewer than 20 people while less than .5 percent employed over 400 workers. 23 companies employed over 1,000 employees with one company employing 9,000 workers.

In 2010, agriculture employed approximately 42.8 million people followed by trade, hotels, and restaurants which employed almost 22.8 million people. Electric, gas, and water MSMEs employed the fewest number of people, almost 140 thousand. Table 3 shows a breakdown of MSME labor per sector.

**Table 4: MSME Labor Force by Industry 2010**



*Source: Statistik Usaha Mikro, Kecil, dan Menengah (UMKM) tahun 2009-2010, Kementerian Koperasi dan UKM, 2010*

*SME Contribution to Indonesian GDP:* In 2010, MSMEs contributed 57.12 percent of GDP. Table 5 shows a breakdown of contributions to GDP by size of company while Table 6 highlights each MSME industry total contribution. Agriculture, even though it accounts for 50 percent of MSMEs and 40 percent of labor, it only contributes 29 percent of MSMEs' contribution to GDP. On the other hand, trade, hotels, and restaurants contribute 24 percent of MSME GDP, more inline with 30 percent share of total MSME companies and the 23 percent share of MSME employees. Similarly, electric, gas, and water companies contribute the least to MSME GDP – less than 1 percent.

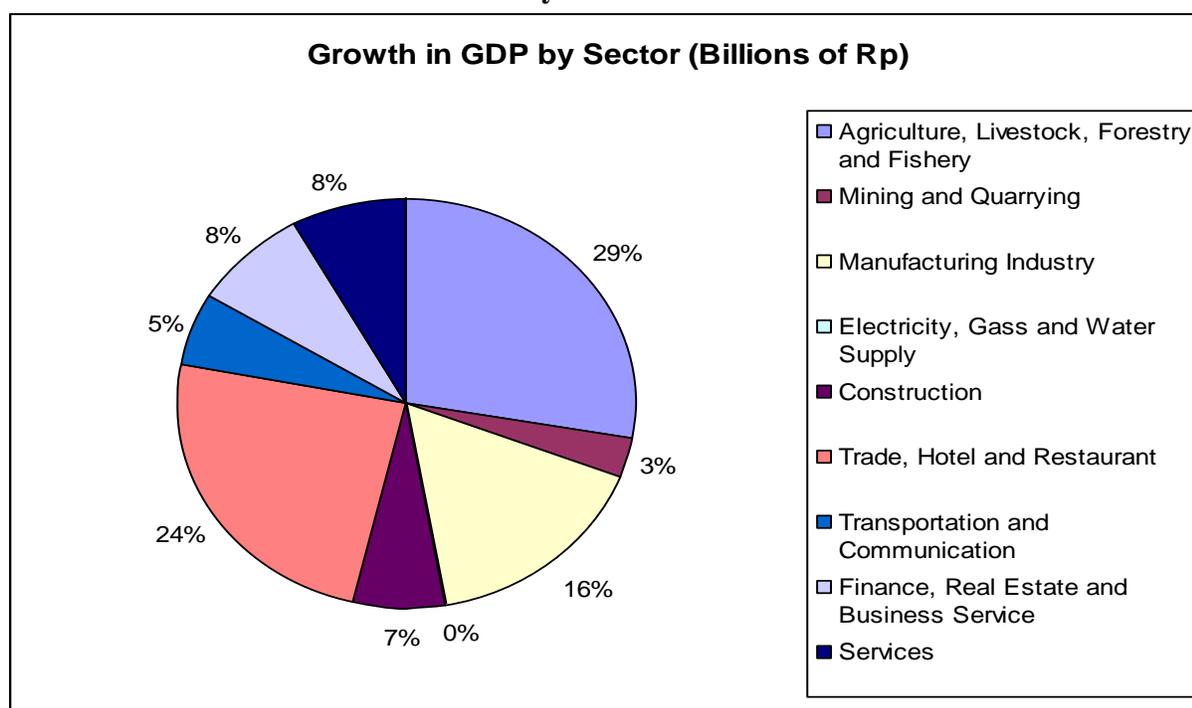
**Table 5: MSME Contribution to GDP (in billions of rupiah)**

**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>	

Source: Statistik Usaha Mikro, Kecil, dan Menengah (UMKM) tahun 2009-2010, Kementerian Koperasi dan UKM, 2010

**Table 6: MSME Contribution to GDP by Sector in 2010**



Source: Statistik Usaha Mikro, Kecil, dan Menengah (UMKM) tahun 2009-2010, Kementerian Koperasi dan UKM, 2010

*Trade:* As stated in the introduction, a majority of MSMEs trade locally. The Asia Foundation survey confirms this showing that 92 percent of companies focus on the province of origin, 7 percent sell goods to other provinces, while only 2.3 percent of MSME companies export any products abroad.

*Property ownership:* Surprisingly, the Asia Foundation survey shows that 83 percent of MSMEs own their land while only 13 percent rent.

*Company share holders:* The Asia Foundation Survey shows that 82 percent of MSMEs maintain full ownership of the company or own the company with their family. 98 percent of companies surveyed do not have any foreign investment while less than 5 percent of MSMEs receive any investment from Indonesian corporations.

## **I.5 Issues for Indonesian Startups and MSMEs**

The information above gives a reasonable representation/sample of Indonesian MSMEs. Aside from this “hard” data, interviews and meetings with various stakeholders, including government ministries, entrepreneurship promotion groups, business owners, and business organizations, highlighted significant concerns and issues with entrepreneurship and MSMEs in Indonesia. Groups such as MEKAR, New Ventures, HIPMI, Technopreneurs, and AmCham business people, APINDO entrepreneurs, and representatives from the Ministry of MSMEs were invaluable, as they provided direct information based on their experience working with startups and MSMEs in Indonesia. Below are a number of general characterizations of startups and typical micro and small enterprises (the groups interviewed did not typically work with medium sized enterprises).

### General Characterizations

- Most MSMEs are typically dependent on the founder, where he/she dictates almost every facet of the business.
- A majority of startups do not develop a business plan before starting a business (Reference Chapter II Section II.6)
- Most companies do not formally register their company until they need bank capital, foreign investment, a partnership, or government tenders.
- Most companies are traditional businesses, creating goods such as handicrafts or agricultural products. These companies do not utilize value chain products and typically do not diversify into more value added activities
- Surveys and interviews highlighted the lack of benefits coming from formally registering a company. Although registration is needed to gain outside financing, many companies stated that they would prefer to stay off the government radar, not pay taxes (57 percent of companies surveyed by the SEBAR team do not pay taxes), abide by the Manpower Act, and avoid other regulations.
- Many MSMEs do not have a company bank account, rather, the owner keeps revenues in his/her personal bank account

### Professional Business Services

- Companies are hesitant to consume professional business services and typically attempt to do the accounting, marketing, IT, law, etc. on their own (Reference Chapter # Section #)
- Many companies do not do their accounting aside for basic cash flows until there is a “problem” such as an audit or demand for bank financing
- Most companies employ the most basic types of marketing such as flyers and signs

- Insurance is rarely, if ever, purchased by a startup or smaller company
- Most smaller companies do not know how to accurately complete the annual report required by GOI
- Basic financial knowledge is lacking
- Companies rarely, if ever, use lawyers. Although companies do typically use a notary when registering a business
- A majority of companies rarely use any of the government provided business services aimed at enhancing human capital or educating employees on business practices. Grants are the primary facility companies compete to obtain.

### Financing Issues

- The SEBAR survey found that access to financing is the second most challenging issue for most startups and companies trying to expand
- Many companies that want to expand cannot because of the difficulties involved with getting financing from a bank. Startups face challenges as there is no credit bureau, nor a history of profitable business operations. Additionally, many startups do not own their land and banks demand physical capital as collateral
- There is a large gap between micro finance and commercial loans that prevent a company from growing (Reference Chapter II Section II.6).
- At the same time, many entrepreneurs are wary of using any type of financing and prefer to use personal money
- Most entrepreneurs' startup capital comes from friends and families
- Less than 50 percent of companies receiving micro loans have a business license

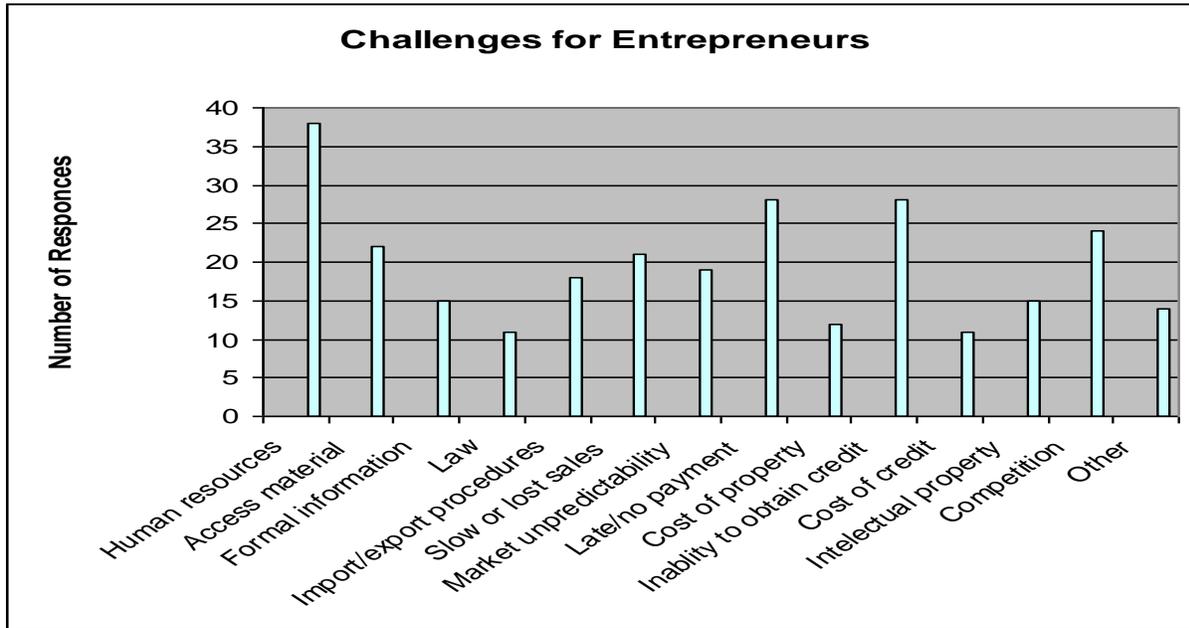
### Challenges

- Access to quality human resources was the number one challenge for startups and MSMEs surveyed by SEBAR
- The SEBAR survey found that late or no payment by customers is also a chronic problem for many MSMEs
- Getting a product to market is a general issue faced by all MSMEs
- The dearth in infrastructure hampers business activities, especially when selling products/services outside the district of origin
- Although 80 percent of MSMEs in the Asia Foundation Survey stated that they owned their land, 33 percent expressed significant difficulties accessing land, especially in urban areas<sup>13</sup>
- Local regulations put an extra burden on MSMEs in various regions
- Lack of clear information on businesses' legal requirements and prices for permits

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<sup>13</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*.

**Table 7: Challenges Faced by Entrepreneurs and MSMEs (SEBAR Survey)**



*Data Source: SEBAR Survey*

## **I.6 Conclusions on the Characterization of Entrepreneurs and MSMEs in Indonesia Section**

Although MSMEs are considered a driving force and are accredited for supporting the Indonesian economy during the Global Financial Crisis, the information above highlights that there are still many challenges and constraints for entrepreneurs and MSMEs.

Firstly, entrepreneurs and business owners can take responsibility into their own hands by better utilizing a business plan, learning about professional business services, using government provided facilities, training employees, and continuously conducting market research. Moreover, companies must look to enter into more value added activities, producing goods or services that demand higher prices that are demanded by wider markets. Secondly, as evidenced by the Ease of Doing Business Indicator, the overall regulatory business environment is not as supportive of MSMEs as it should be. The government should continuously work to improve business regulations and the time required to issue relevant permits. If regulations are improved, it can be expected that more companies will formally register, expanding the tax base and increasing government revenues. Thirdly, business education and entrepreneurship skills need to be instilled into Indonesians at a young age. Almost everybody interviewed stated that the Indonesian mindset hampers entrepreneurial activities. Fourthly, credit facilities must be improved to improve profitable companies' access to financing. An Angel Bank or a credit bureau would certainly help in directing funding to Indonesia's future business leaders. Finally, infrastructure needs to be improved. Hopefully, by implementing the Master Plan for Accelerating Indonesian Economic Development (MP3EI), infrastructure across the country will improve and ease the burden MSMEs face when operating their business. Recommendations on how to improve the business environment can be referenced in the "Conclusion and Recommendations" section.

## Chapter II: Financing for Entrepreneurs and MSMEs

### II.1 Introduction on Financing for Entrepreneurs and MSMEs

Entrepreneurship and micro, small and medium sized enterprises (MSMEs) hold an important role in the Indonesian economy. Not only do MSMEs absorb over 95 percent of labor, but they also provide various types of products and services in multiple sectors that are necessary for the Indonesian economy. While most of the large industries are located in Java, they cannot sufficiently meet the demands of the entire Indonesian population spread out among thousands of islands, much less the supply for Indonesian exports. MSMEs provide goods to local economies, spur innovation, provide jobs, supply large companies, and contribute to Indonesia's overall GDP.

Recently, MSMEs have shown that they can survive and flourish in Indonesia's fluctuating business climate especially after the financial crisis in 1998. Although MSMEs have increased in number of the past decade and a half, many MSMEs still face challenges accessing financing, hindering their overall growth and development. World Bank data shows that 49 percent of Indonesians still do not consume any financial services. This percentage is higher than in Malaysia (35 percent) and Thailand (40 percent) of the population does not have access to financial services.<sup>14</sup> According to the Indonesia Deposit Insurance Corporation, by the end of 2011, only about 100 million bank accounts was recorded, which is less than 50 percents of Indonesia's 230 million population.<sup>15</sup> Moreover, many wealthier people hold multiple bank accounts, taking an even greater portion of bank utilization. Thus, as the percentage of people with bank accounts is still small, the amount of people who can actually receive financing from banks is also small.

Average interest rates on loans from commercial banks range from 12 percent to 14 percent, making it relatively hard for businesses with small profit margins to use bank financing.<sup>16</sup> Moreover, requirements for credit loans, 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 16.122 percent in January 2011 to 18.986 percent in November 2011, showing that banks have valid reasons for placing stringent requirements on MSMEs.<sup>17</sup>

Based on academic and professional studies, as well as anecdotal evidence from multiple stakeholders, financing is an essential element to growing MSMEs, but its practice faces many challenges and barriers in Indonesia. Bank Indonesia (BI) acknowledges this condition and plans to centrally augment the high commercial interest rates to improve general access to formal financial institutions.<sup>18</sup>

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<sup>14</sup> *Harian Rakyat Merdeka*. (2011, Nov 29). BI Ngebet Turunkan Suku Bunga Kredit. *Harian Rakyat Merdeka*. Web. <<http://ekbis.rakyatmerdekaonline.com/read/2011/11/29/47197/BI-Ngebet-Turunkan-Suku-Bunga-Kredit-.>>

<sup>15</sup> *Ibid*.

<sup>16</sup> Bank Indonesia. *Statistik Perbankan Indonesia, Volume 9. No 12*. (2011). p.86.

<sup>17</sup> Bank Indonesia. *Statistik Perbankan Indonesia, Volume 9. No 12*. (2011). p.63.

<sup>18</sup> *Harian Rakyat Merdeka*. (2011, Nov 29). BI Ngebet Turunkan Suku Bunga Kredit. *Harian Rakyat Merdeka*.

Although financing is an important issue to MSME development, there are several other factors hampering entrepreneurship and MSME growth in Indonesia. According to a BI study, between 2005 and 2009, it is estimated that approximately 6 million new businesses were established in Indonesia. Out of these companies, around 5.3 million units were formed naturally while 700,000 were established in sectors that compete in science and technology sectors.<sup>19</sup> Even though new businesses growth reached 6 million companies in four years, only a small portion of those MSMEs grew significantly, producing high quality products. Primarily, this condition is caused by lower levels of human capital development.

## II.2 Trends in Financing from the Banking Sector

Capital financing is not the only solution to support growth and the sustainability of micro, small and medium sized businesses. Unfortunately, without access to affordable financing, MSMEs will face difficulties running and growing their businesses. Figure 1 shows the MSME credit loans and the total credit loans from bank. From the information below, it can be seen that from Q4 2010 to Q3 2011, there has been an increasing trend of banks providing MMSMEs credit.<sup>20</sup> At the end of December 2010, MSMEs' total credit reached IDR 394.4 trillion, increasing to IDR 457.7 trillion by the end of September 2011. Overall, today, banks are loaning more to MMSMEs than previously.<sup>21</sup> This shows that MSMEs are increasingly using credit schemes offered by banks. However, compared to the total number of MSMEs in Indonesia, 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.<sup>22</sup>

From the Bank Indonesia data, the portion of MSME credit loans in Q3 2011 to the total banks credit loans of IDR 2,134.4 trillion is 21.5 percent (figure 1). From that portion, 23 percent or around IDR 105.1 trillion was loans to micro businesses, 31.7 percent or IDR 145.4 trillion loans to small industry, and 45.3 percent or IDR 207.3 trillion to medium industries.<sup>23</sup> Thus, micro credit had the lowest share of credit loans, which shows that the micro industry still demands other alternatives to financing other than commercial banks. This is where the Micro Finance Institutes can take part. According to economic sector, trade and industry still dominated the MMSMEs credit loans for 43.7 percent and 10.7 percent. While based on the type of used, most of the credit loans or 78.8 percent was used for working capital and 21.2 percent used for investment. Bank Indonesia report also shows that the biggest allocation for MSMEs credit loans is still for Jakarta with the share of 17.7 percent, followed by East Java with 14.1 percent and West Java with 12.9 percent.<sup>24</sup> This shows that MMSMEs that uses the bank credit facilities to improve their businesses is still centrally located in Java Island. Therefore, there is plenty rooms for improvement in the MSMEs credit loans in the future.

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<sup>19</sup> Bank Indonesia (2011). *Perkembangan Kredit UMKM Perbankan Indonesia 2011*.

<sup>20</sup> Bank Indonesia. *Laporan Perkembangan Kredit Mikro, Kecil dan Menengah, Triwulan III 2011* (2011). p.2

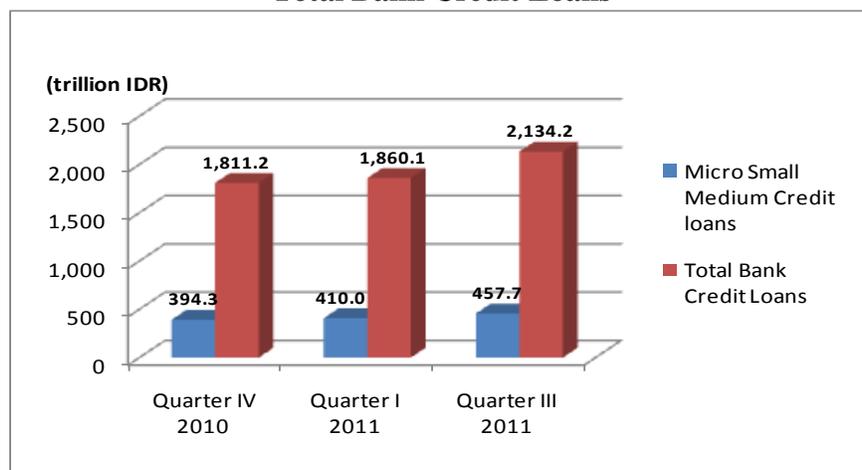
<sup>21</sup> Starting in January 2011, MMSMEs credit data are presented as stipulated on Law no.20 of 2008 concerning MMSME. Therefore, to avoid misrepresentation because of different methods of calculation resulting to different result, this study is not showing the data before 2010.

<sup>22</sup> Bank Indonesia (2011). *Perkembangan Kredit UMKM Perbankan Indonesia 2011*.

<sup>23</sup> Bank Indonesia. *Laporan Perkembangan Kredit Mikro, Kecil dan Menengah, Triwulan III 2011* (2011). p.2.

<sup>24</sup> Ibid

**Figure 1: Micro, Small and Medium Enterprise Credit (MSME) loans and Total Bank Credit Loans**



*Source: Laporan Perkembangan Kredit Mikro, Kecil dan Menengah (UMKM) Triwulan III 2011*  
*Notes: Starting form January 2011, Bank of Indonesia will not use the old definition MKM (Micro Small Medium Credit) data and will use the new definition Micro, Small, and medium Enterprise credit (MSMEs) data according to Law No.20 of 2008*

### II.3 Commercial Banks Programs for Entrepreneur and MSME Financing

Banks are important sources of credit for MSMEs’ development and growth. For MSMEs, banks are not only limited to providing additional funding. Banks can also be a source for information, provide diverse business services, and serve as a consultant to MSMEs. Although there are other services, credit is the most demanded bank product. Credit loans from banks are usually taken by entrepreneurs who have already succeeded in running their companies for at least 2 years and can afford to meet the banks credit loans requirements. Based on an MSME forum at APINDO, several entrepreneurs who shared their success stories about getting loans from banks stated that the interest rate from commercial banks is significantly more competitive in comparison to loans from informal money lenders or cash discounts from product suppliers. They also think that commercial banks provide consistent loan rates as they are governed by law and based on legal agreements.<sup>25</sup>

In practice, bank credit facilities in Indonesia can be divided into several groups based on a business’ scale. First, micro enterprises with earnings up to IDR 500 million can apply for credit up to IDR 1 billion. Secondly, MSMEs with earnings between IDR 500 million to IDR 5 billion, can apply for credit between IDR 1 billion to 10 billion. Medium sized and large companies corporate credit ceiling is adjusted per bank depending on respective credit loans policies.

For credit loans, banks define several conditions which debtors must comply with. The conditions are 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

<sup>25</sup> Compiled from Apindo UKEA discussion, January 19, 2011.

his/her responsibilities of paying debts; capital is the share proportion of the debtors in his/her company(s); and collateral is needed to ensure that a bank's money will not be compromised in the case where debtors cannot pay off their debts. Banks primarily focus on the collateral perspective of debtors in order to determine the size of a loan.<sup>26</sup>

Abdul Salam, the Director of Ganesha Bank, stated that credit worthiness of MSMEs is still low, so the bank is very reluctant in giving credit to MSMEs. Furthermore, banks faced asymmetric information, where banks do not have access to debtors' financial data for easy identification of their ability to pay. The banking sector sees the bankability of most MSMEs as the primary problem in providing loans. In 2011, there were 53.20 million micro industries, where 70% or about 37.24 million of them were considered not business worthy and not bankable. Meanwhile, about 30% or 15.96 million companies were considered business worthy but not *bankable*.<sup>27</sup>

From discussions with APINDO MSMEs, many entrepreneurs say that banks are reluctant to give credit loans over IDR 3 billion. They stated that banks only want to give loans if the collateral is worth at least 1.5 times more than the total credit given. Additionally, entrepreneurs interviewed inferred that it is difficult for them to ask for larger loans if the banks only provide credit based on their collateral and not considering other metrics such as future business potential or credit history.

### **II.3.1 MSME Financing with People Based Small Business Loans (Kredit Usaha Rakyat-KUR)**

Various credit/financing schemes for MSMEs were launched by the government aimed to support specific sectors, such as food sustainability, livestock, plantations, and many others. GOI also attempts to encourage business growth by supporting access to financing through the use of cooperatives and Society Credit Bank (*Bank Perkreditan Rakyat*). These two institutions, although not discussed in this study, have provided financing to MSMEs and entrepreneurs.

One of the most well known credit programs for MSMEs in Indonesia is the People Based Small Business Loans – *Kredit Usaha Rakyat* (KUR) that was established in October 2007. The GOI effort was implemented to reach MSMEs who demand external financing, but do not meet commercial bank requirements. Bank Indonesia set up KUR to develop small industries.<sup>28</sup> KUR is one of the credit loan programs carried by the GOI to support the Independent People Empowerment National Program (*Program Nasional Pemberdayaan Masyarakat Mandiri - PNPMM Mandiri*). The GOI's role in the MSMEs credit scheme was due in the part to a state budget subsidy on loans' interest, where the funding for loans is 100 percent sourced from banks appointed by GOI. Moreover, the GOI plays a role in preparing recipient MSMEs to qualify for these funding schemes by making policies and priorities for businesses that will receive the loans. KUR distributes funds through several state owned banks (SOB) such as: BRI, Mandiri,

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<sup>26</sup> Witjaksono. (2012, January). *Bisnis, Bank, dan Ukea*. Jakarta.

<sup>27</sup> Putra, D. (2011, Nov 19). 70% Usaha Mikro Belum Bankable. *Infobank News*. Web. <<http://www.infobanknews.com/2011/11/70-usaha-mikro-belum-bankable/>>

<sup>28</sup> Retnadi, Djoko. (2008). People Based Small-Business Loan KUR: Prospect and Challenges. *Economic Review*. 212 (1/2).

Bukopin, BTN, and local banks in provinces throughout Indonesia. KUR loans provide financing up to IDR 500 million.

One of the leading SOE Banks that manages the KUR scheme is BRI. For BRI, there are two types of credit applications. The first is BRI Unit which deals with applications up to IDR 5,000,000 while BRI branches service loans over that amount. KUR requirements are quite flexible in comparison to other type of commercial credit loans. To borrow IDR 5 million, the debtor only needs to have a copy of their identification card and a copy of their family registration card. The collateral for the KUR is the debtor's own business. This means that the debtor is not obliged to have physical collateral in order to apply for the credit, but at times, the bank will need a signed letter from the head of the village to match the data given to them. Meanwhile, the KUR requirements needed by traditional BRI branches are significantly higher than the KUR from BRI Unit. Due to the larger loans, they still require physical collateral, although not as big as private commercial banks. For example, if somebody wants to apply for IDR 100 million in loans, he/she may only provide collateral worth IDR 30-50 million. Despite collateral requirements, the amount of money given depends on how the bank sees the debtors' ability to repay loans.<sup>29</sup> BRI's secretary, Muhammad Ali, stated that in 2011, BRI disbursed IDR 16.7 trillion KUR to 5.2 million entrepreneurs in Indonesia. Mulya Effendi, the Director of Syariah Banking, also stated that in the future, more KUR loans will be distributed through syariah banks, providing capital to needy MSMEs.<sup>30</sup>

Although KUR is a national program, problems and challenges still emerge. One of the main problems is the lack of socialization of the program where proper information on how to access the KUR is not disbursed widely. Moreover, based on interviews with several entrepreneurs, most of them say that the 12-14 percent annual interest rate for KUR is still high, making it challenging for a business to make a profit at that rate. Therefore, the banking sector also faces difficulties in getting adequate debtors that fit bank requirements. Nevertheless, the banking sector claims that they have already lowered the requirements for KUR. Although banks have lowered the requirements, many entrepreneurs still choose to not use this scheme. Baedowi, an entrepreneur in the recycling industry, said that he does not know the purpose of KUR and until this moment, his business is still running well without using the KUR. His reasoning for avoiding KUR is that he is more comfortable by having partnership with investors even though the KUR interest rate is lower while the scheme is not so complicated compared to common commercial banks loans.<sup>31</sup>

#### **II.4 Financing Alternatives for MSMEs**

Although there are various banking programs to support entrepreneurship and MSMEs through bank financing schemes, there are also other alternatives of financing for MSMEs and entrepreneurs. These alternatives include angel investment, cooperatives, business foster parents, business incubators, venture capital, etc.

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<sup>29</sup> Simarmata, B. (2011, Oct 10). Kredit Usaha Rakyat (KUR) dan Industri Kreatif. *Indonesia Kreatif*. Web. <<http://www.indonesiakreatif.net/index.php/id/news/read/kredit-usaha-rakyat-kur-dan-industri-kreatif>>

<sup>30</sup> Ichsan, A. S., & Papilanda, D. (2012, January 21). Bank Dukung Industri Kreatif. *Republika*, p.1.

<sup>31</sup> Ibid.

*Angel investors:* Angel investors can be characterized as an external individual or group who provides startup funding without collateral or other formal bank requirements to entrepreneurs. In exchange for the angel investment, they provide interest revenues on the no-collateral loan, issues of shares in the company, and/or a percentage of profits. There is a commonly known term as 3 F (Family, Friends, and Fools) of angel investment. Usually, the angel investor already knows the prospective entrepreneur and their investments are based on instinct and trust. Family and friends base their investment as a type of goodwill, helping their relatives or friends in a time of need. Fools, on the other hand, are high risk investors that hope to gain a significant return from their capital injection.

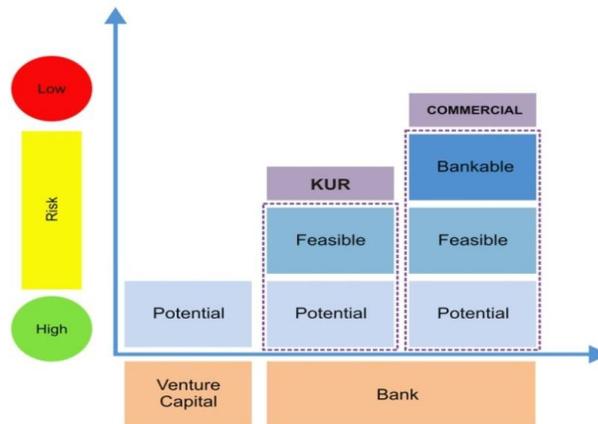
*Business incubator:* Incubators provide business development facilities through management, mentoring or technology. Business incubators also try to help entrepreneurs and MSMEs to develop their product, become more sustainable, reach new markets, utilize business services, and compete over the long run.

Today, there is another type of business incubator that serves two purposes, one as an angel investor, and two, to train and mentor the business receiving their investment. Typically, this hybrid gathers people with money who are interested in investing into new businesses, while also playing a business development role. .

*Venture capital (VC):* VC is another alternative of financing available to MSMEs and entrepreneurs. A venture capitalist (the provider of venture capital) will invest money into a prospective business for partial ownership of the company. Venture capital requirements are more flexible than commercial bank requirements, although VC risk is much higher. Typically, a venture capitalist invests in companies that realize high profit margins or significant future potential. This is required to offset the relatively high probability of failure. Usually, venture capital firms invest in a company for a limited time period, where upon expiry of the agreement, they will have the option to sell their shares to the market, back to the entrepreneur, or renegotiate a stake in the company.

Data from Integrated Business Survey (SUSI) by BPS in 2001 shows that from 14,660,645 MSMEs that are not legally established, there are 2,131,810 who used loans to develop their business. Financing sources available to MSMEs are categorized as the banking sector, cooperatives, non-bank financial institutions, venture capital, individual, friends and family, etc. Financing that comes from various other sources, that are not specifically defined in the survey, are still sitting in the top position in providing the needs of MSMEs or around 639,688 MSMEs or 30 percent; cooperatives provide financing to 84,037 MSMEs or 3.94 percent; individuals provide financing to 605,191 MSMEs or 28.39 percent; banking sector provides financing to 361,688 MSMEs or 16.97 percent; family or friends provide financing to 35,419 MSMEs or 16.44 percent; non-bank financial institutions provide financing to 74,785 MSMEs or 3.51 percent; and venture capital provides financing to 16,002 MSMEs or 0.75 percent. From the survey result, it shows that credit loans from bank do not have a big portion to the financing for entrepreneurs and MSMEs. This is related by the high credit requirements the banks needs to lower the risk of NPL. Figure 2 below shows the degree of risk faced by Commercial Bank, KUR, and venture capital in giving credit loans.

**Figure 2: Financing Source for MSMEs using Bank Loans and Venture Capital**



*Source: Indonesiacreative.net*

It shows that commercial bank loans will only give credit to businesses that have the potential to grow, are feasible, and also bankable - in compliance with all 5C categories. Therefore, commercial bank loans in Indonesia are relatively low risk. Meanwhile, KUR's slightly flexible characteristics face higher risk because of the reduced requirement for "insurance" in the form of collateral. Finally, venture capitalists face the highest risk because they base their investment on a company's potential rather than typical measurement metrics. Although risky, venture capital can have the highest rate of return when done correctly.

Based on forums and interviews with several MSMEs and entrepreneur communities, these two alternatives as source of financing are relatively less recognized. Therefore, this study is focusing more on venture capital and angel investor incubators as alternatives to financing both startups and running MSMEs.

#### **II.4.1 Venture Capital (VC) for Entrepreneur and MSME Financing**

Generally speaking, VC firms demand higher returns on investment to compensate for their comparatively high risk exposure. In some cases, some VC firms also act as business incubators in order to improve a company's probability of turning a reasonable profit. There is a high probability that a stand-alone startup will fail on its own, where if a venture capital firm takes a stake and the company fails, then the investment disappears as well. From interviews with venture capital companies, they illustrated this condition stating that 8 of 10 companies will fail, while only 2 startups deliver profitable returns. Therefore, the venture capitalist expects the profit gained from the two successful businesses to cover the loss from the other eight. The high risk of financing new business is the reason venture capital groups require high profit sharing in return for their investment.

There are three common types of financing from venture capital:

1. Equity participation  
To have this type of financing, a company needs to be a legal institution with equity shares divided among owners of the company. The VC firm will then buy a portion of the shares, taking an ownership stake.
2. Bond Conversion  
With bond conversions, the entrepreneur issues bonds to be bought by venture capitalists. These bonds have a repayment schedule, typically between two to seven years. To use this method of financing, MSMEs should be a PT and at least ready to roll out their product and begin making revenues.
3. Profit sharing  
With profit sharing, the entrepreneur agrees to share his/her profit (monthly or annually) with the venture capitalist in return for their investment in the business. This type of financing can be applied in all stages of a company's growth, from the start-up phase to maturity.

VCs in Indonesia tend to prefer profit sharing mechanisms when taking a stake in an MSME or startup. This type of financing is commonly used for business expansion because most of the MSMEs consider it to be simple, transparent, cheap, and based on the spirit of equality for both parties. Moreover, most of the small business owners prefer total ownership of their company and are not really interested in the idea of outsiders owning a share of their business.

Below are examples of three established VC companies in Indonesia:

- **Bahana Artha Ventura**

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* that focuses on the development of micro, small, and medium sized enterprises and cooperatives by way of disbursing financial facilities and assistance to conduct sound business practices.<sup>32</sup>

As an SOE, *Bahana Artha Ventura* receives government financial support. In 1996, BAV sourced its funding from a loan disbursement from the Japanese Exim Bank. Other government supports included investment fund account loan and initial capital equivalents. BAV has succeeded in developing and strengthening the venture capital network by forming 27 local VC enterprises (PMVD) in 25 provinces in Indonesia. In 2006, BAV, through their 27 PMVDs, have given financial support to 17,867 MSMEs. The reason why the BAV program is able to reach so many MSMEs all over Indonesia is because their funding scheme corresponds with the specific needs of each MSME.<sup>33</sup>

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<sup>32</sup> Compiled from various interviews

<sup>33</sup> Bahana Artha Ventura. (2008). *Funding Types*. Web. <[http://www.bahana.co.id/bav/?pages=bav\\_jenis\\_pemb](http://www.bahana.co.id/bav/?pages=bav_jenis_pemb)>

- **Sarana Jakarta Ventura**<sup>34</sup>

Sarana Jakarta Ventura (SJV) is a subsidiary of Bahana Artha Ventura (BAV) located in Jakarta. As a subsidiary of BAV the SJV also serves as a VC company to provide financing to entrepreneurs and MSMEs with more flexible requirements compared to credit loans from banks, albeit followed by higher profit sharing. SJV is most interested in businesses with high profit margins to offset the high risk of the business. Because the source of funds of SJV comes from commercial banks, the company needs to make sure the profit they get from their investment is higher than the banks interest rate.

SJV investments in micro businesses were driven by fast fund disbursements without complicated processes. Although SJV uses collateral as an important piece in their investment decision, most of their micro level investments use non-collateral investments. Currently, SJV is investing IDR 90 billion with approximately IDR 30 billion invested in micro industries without collateral. This type of investment is based on trust, instinct and an expectation of high profit sharing. Nevertheless, a loan over IDR 100 million usually requires collateral to back-up investments.

Profit sharing and credit loans are the most common financing schemes that SJV uses. Generally, SJV sets profit sharing from 18 percent to as high as possible, depending on the risk of the business. The higher the risk, the higher the profit sharing rates. For micro industries, the profit sharing scheme used is 1.7 percent per month. Although equity participation is also a feasible scheme, SJV thinks that there is moral hazard within the mentality of entrepreneurs along with inflexibility of Indonesia's limited company laws. The inflexible law hampers a venture capitalist's exit strategy when they want to manage their portfolio.

SJV finds VC to be relatively small considering the size of the Indonesian economy because of the challenging business environment. SJV thinks the main problem for VC in Indonesia is the mentality of the people and the lack of law enforcement. In practice, past experience shows that people who receive financing sometimes take it for granted and occasionally do not have the intention to repay the investment.

- **New Ventures Indonesia**

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. The strategic partnership between NVI and MSMEs enables MSMEs to access business incubator facilities, venture capital, expand their networks with various multinational companies, multi national organization, and also several business schools. Since 2005, NVI has organized 24 business seminars organized by 4 international investor forums to educate and train needy startups. NVI has cooperated with over 747 entrepreneurs, taking a stake in 27 business portfolios, and providing IT trainings.<sup>35</sup>

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<sup>34</sup> Compiled from interview with Sarana Jakarta Ventura on January 16, 2012.

<sup>35</sup> New Ventures Indonesia. (2012). *About Us*. Web. <<http://new-ventures.or.id/about.php>>

## II.4.2 Angel Investor and Business Incubators for Entrepreneurs and MSME Financing

Angel investors are typically affluent individuals who provide capital to business startups, in exchange for convertible debt, ownership equity, or profit sharing. Angel investors can help a new startup if the entrepreneur can provide a prospective business plan that shows potential for future growth. Angel investors can also organize themselves into angel groups or angel networks to share research and pool their investment capital. Moreover, many problems an entrepreneur faces while starting and running a business encourages concerned parties to formulize a proper model to assist in a company's success, hence the term "angel" investor. The incubator model is considered to teach the prospective entrepreneurs to understand and master various aspects of business, backed up by facilities and capital.

The basic concept of the business incubator in Indonesia is an institution/enterprise that provides 7S, which are: Space, Shared office facilities; Service (coaching and management consultation such as marketing, finance, production, and technology); Support (support in research and development and access to technology); Skill development (trainings, making business plan); Seed capital (providing start –up capital and channeling for access to MFIs); Synergy (the establishment of business networking for entrepreneurs).

In the past couple of years, several communities also established a business incubator to support their entrepreneur partners so that investors can also monitor progress and development of their investment. Meanwhile, entrepreneurs will have the benefit of getting the 7S, which is crucial for running their new business.<sup>36</sup>

Types of angel investing and business incubators in Indonesia:

- Business incubators by private companies or organizations
- University business incubators
- Incubators under government ministries' entrepreneur programs.

Several private companies and organizations that engage with angel investing and incubator activities in Indonesia are:

- GEPI (The Global Entrepreneurship Program Indonesia)  
The Global Entrepreneurship Program Indonesia was established in January of 2011 and was founded by 12 well known businessman in Indonesia. GEPI is part of the US State Department led effort to promote and spur entrepreneurship in Indonesia. The program was first initiated by US President Barack Obama in 2009.<sup>37</sup> GEPI aims to work with various institutions and organizations to support entrepreneurs in Indonesia. In doing so, GEPI hopes to give global entrepreneur perspectives to GEPI companies. GEPI is also actively involved in nourishing entrepreneurship in Indonesia in order to improve the entrepreneur ecosystem. To make it happen, GEPI organizes consultation programs, trainings, angel investor networks, and entrepreneurial incubation.

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<sup>36</sup> Syarif, T. (2009). *Pengembangan Wirausaha Baru Melalui Inkubator*. Jakarta: Bank Indonesia.

<sup>37</sup> Global Entrepreneurship Program Indonesia. (2012). *About GEPI*. Web.  
<<http://gеп-indonesia.org/index.php/main/content/132>>

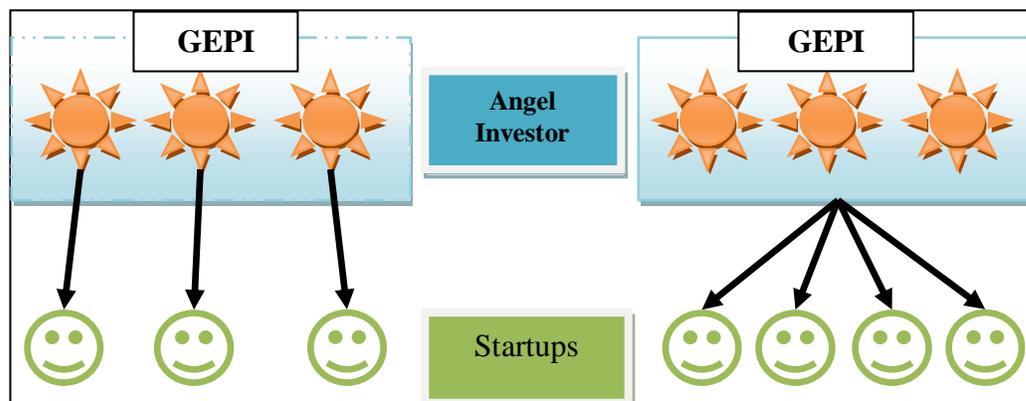
GEPI focuses on several issues:<sup>38</sup>

- Raising awareness of entrepreneurship and innovation in Indonesia
- Working with relevant stakeholders to provide an ecosystem for emerging entrepreneurs
- Working together with entrepreneurship groups and the GOI to improve the enabling environment for entrepreneurship
- Working together to ensure that emerging entrepreneurs can have access to finance and domestic and international angel investors
- Helping to facilitate entrepreneurs and innovators to go regional and global

Currently, GEPI is planning to organize an angel investor program for entrepreneurs in Indonesia. This new program is benchmarked off of a similar program of the Angel Capital Association in United States. Thus, GEPI is planning to make a type of Angel Capital Association (ACA) as a vessel for professionals and experts in the business world to share their experience for new startups under GEPI. This is one way to provide the new startups with valuable skills needed to run a new business, giving them lessons from real life professionals who have been successful in dealing with similar issues that a startup may encounter.

For the financing side, GEPI will also try to prepare Angel Investor Funds (AIF) to accommodate a group of angel investors who want to invest their money. Prospective startups can submit their business plan to GEPI and GEPI will vet the applicants and later choose to invest in premiere companies (Figure 2). Respective investors will receive their return on investment based on their percentage of shares of their initial investment. As a business incubator, GEPI will also provide monitoring to their startups, improving the potential of the company's success. Unlike some incubators that focus on certain types of businesses, GEPI is interested in investing in all types of businesses with high growth potential. Nevertheless, technology driven businesses which likely have higher growth potential compared to traditional businesses will be more focused by GEPI.<sup>39</sup>

**Figure 3: GEPI Financing Model**



*Source: compiled from interview with GEPI*

<sup>38</sup> Ibid.

<sup>39</sup> Compiled from interviews with GEPI. January 2012

- MEKAR Entrepreneur Network

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. MEKAR focuses on growing Indonesian entrepreneurship, employment and angel networks by providing both physical and online facilities allowing entrepreneurs and angel investors to connect, network and grow business ideas and enterprises.<sup>40</sup>

MEKAR provides training programs, business consultations, and helps startups in developing a well written business plan that can attract investors. Moreover, MEKAR regularly invites entrepreneurs to present their business ideas directly to angel investors. MEKAR has a similar program as GEPI, but MEKAR focuses on matchmaking or channeling funds between angel investors and entrepreneurs. So far, MEKAR has managed to gather 182 angel investors who have invested IDR 9,071,911,051. Additionally, there are 48 potential business plans currently ready to be funded. Angel investors and business plans organized by MEKAR include various sectors, such as IT, internet, e-commerce, food, etc.

- Kinara Indonesia

Kinara is a newly established business incubator that aims to partner with entrepreneurs, startups and functioning businesses. In doing so, Kinara provides business services such as startup financing, coaching, cash flow and financial statement planning, channeling investors with prospective entrepreneurs and MSMEs, and also monitoring the business as a whole. The people behind Kinara are professionals from the banking sector, which gives them in-depth knowledge about financing from the a bank perspective. Therefore, in order to achieve their goals to encourage the growth of entrepreneurship and successful MSMEs in Indonesia, Kinara tries to offer startup financing that the banking sector does not offer.<sup>41</sup>

By the end of 2011, Kinara has succeeded in creating partnerships with many new startups and ongoing businesses. Kinara offers variable forms of financing such as equity ownership and profit sharing. In choosing the business they want to invest in, Kinara bases their decision on the prospect of the business and the character of the entrepreneur. At this moment, Kinara is focusing on investing in non-IT businesses such as fashion, media, logistics, agribusiness, food and beverages, and other business with respectable profit margins over the short run. Kinara focuses on the short run because of the riskiness involved with investing in startups, though Kinara also calculates the sustainability of the business in the long run. Finally, in the future, Kinara is planning to create a partnership with accountants and tax consultants to provide entrepreneurs with more affordable professional business services, one of the issues that hamper MSME growth.<sup>42</sup>

- University Incubator

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. If this potential is optimized with the appropriate method and

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<sup>40</sup> Mekar Entrepreneur Network. (2012). *Mekar*. Web. <<http://www.mekar.biz/home>>

<sup>41</sup> Kinara Indonesia. (2012). *Kinara Indonesia*. Web. <<http://kinaraindonesia.com/kinara-indonesia/>>

<sup>42</sup> Compiled from interviews with Kinara founder.

financing, the university incubators can quicken the process from innovation to implementation. Moreover, new technologies can be transferred easily and be commercialized to the market.<sup>43</sup>

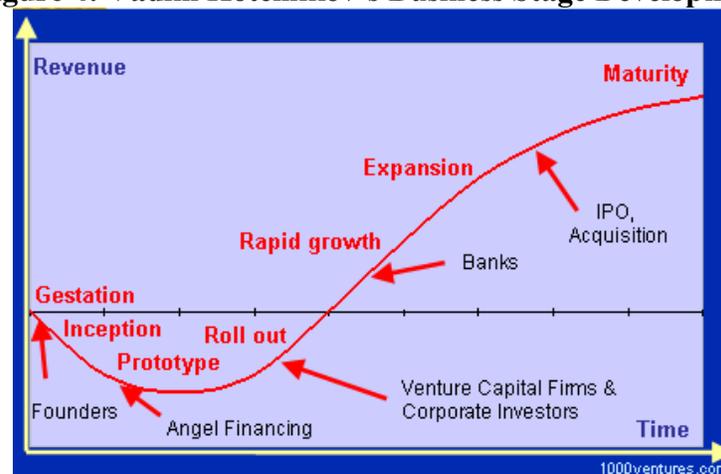
University incubators also have the important role of encouraging entrepreneurship opportunities. Opportunities are available because of the easy access to information about financing, networking, and business theory is. The existence of these factors will support the graduation rate from the incubator, enabling companies to grow independently.<sup>44</sup>

Every university incubator has their own specialty depending on their core fields of study. Bogor Farming Institute (*Institut Pertanian Bogor*) incubator is oriented on agribusiness. Their entrepreneurs were linked with supermarkets that will purchase their products and sell in respective outlets. Meanwhile Bandung Institute of Technology (*Institut Teknologi Bandung*) focuses on helping their entrepreneurs in green energy, information technology, biotechnology, manufacturing, and creative industries.

## II.5 Business Stage Development

No matter whether a company is an MSME or a large industry, each has their own specific business characteristics and demand for financing. Lenders, investors, and MSMEs should have a proper understanding of business growth stages. This will help differing stakeholders to decide the appropriate investment plan for respective companies. Vadim Kotelnikov identified several stages in the growth and development of a business, including the finance and risk specific for each stages.<sup>45</sup>

**Figure 4: Vadim Kotelnikov's Business Stage Development**



Source: *Stage by Stage Business Development*. Vadim Kotelnikov

<sup>43</sup> Syarif, T. (2009). *Pengembangan Wirausaha Baru Melalui Inkubator*. Jakarta: Bank Indonesia.

<sup>44</sup> Program Pengembangan Bisnis Berbasis ICT. (2012). *Forum Diskusi Inkubator Bisnis "Peranan Pemerintah dalam Pengembangan Inkubator Bisnis"*.

<sup>45</sup> Kotelnikov, V. (n.d.). *Stage by Stage Business Development*. Web.  
[http://www.1000ventures.com/business\\_guide/bg\\_index\\_graph.html](http://www.1000ventures.com/business_guide/bg_index_graph.html)

- **Startup Stage**

- **Gestation Stage**

The risk of failure in this stage is very high because many fledgling entrepreneurs' ideas are not feasible in competitive markets. Moreover, lack of skills and resources inhibit the idea of coming to fruition. This dearth of skills and resources can be evidenced by the absence of business plans for many startups.

The most probable type of financing at this stage comes from their own funds (bootstrapping) as well as the 3 F (Family, Friends, and Fools).

- **Inception Stage**

The second stage is the inception phase. In this stage, a company has a structured concept and a business plan. Only a small amount of financing is needed at this stage, with limited human resources required. There are still no sales revenues during this part of startup. Bootstrapping, 3 F, and angel investors are the forms of financing available at this stage. This stage is still prone to failure because the concept and idea are still intangible.

- **Prototype Stage**

In this stage, the concept of the product is made into a prototype, ready to be tested before entering the market. In this stage, there is a significant amount of financing needed to produce the prototype while there are still no revenues gained since no sales have occurred.

Usually, an angel investor will be interested in investing in a business when they have already seen the product prototype. By that time, they are able to compare the idea and the business concept with the prototype to consider whether to make an investment or not.

- **Launch/Roll Out Stage**

The prototype that has been passed rigorous market tests is then launched to the market. The cost for mass production and other operational costs tend to increase rapidly. It's at this stage that a company can seek venture capitalists and more sophisticated/diversified investors.

- **Growth Stage**

In this stage, the company has expanded their line of production. They can do this by varying the core product or by changing the size and type of packaging. This stage is also marked by the company's effort to have formal documentation and financial statements and reports for the company's programs. The managerial patterns will vary from informal to formal, while the financing pattern will also improve from informal to formal as the company demands more funding. Loans from the banking sector are easier to obtain during the growth phase as the company has assets and most likely property that they can use for collateral.

- **Expansion Stage**

In this phase, the company generates consistent profits and is planning to increase production capacity to increase profits. Credit alternatives for this stage are financing from banks, venture capital firms, and bond issues. Banks can evaluate a company's credit history from Bank of Indonesia credit department as a benchmark for their loan disbursement.

- **Maturity Stage**

In this stage, a company consistently makes profits and has settled down into its respective market. Besides for making profits from business activities, the company can diversify their business portfolio by acquiring or merging with other companies. On the other hand, a company looking to increase its capital may issue an initial public offering (IPO) by selling shares to the public. At this stage, a company has the obligation to report their operational activities and financial statements to the public annually.

## **II.6 The Stages of Business Development for Entrepreneurs and MSMEs in Indonesia**

The Indonesian micro, small, and medium sized enterprises growth phase has its own characteristics in comparison to Vadim Katelnikov's model. The overall phase of the business growth process is somehow not divided clearly, especially during the start-up and growth phases because operational and financing patterns are basically the same.

- **Startup Stage**

During the startup stage, businesses have trouble finding financing from the commercial banking sector because of collateral requirements and their legal status. Winarto classified entrepreneurship in Indonesia into two categories; the first is entrepreneurial activities by opportunity; and the second as entrepreneurial businesses because there are no other alternatives. Based on this characterization, many entrepreneurs or MSMEs in Indonesia began because there were few other choices. Having a business is the only way these entrepreneurs are able to make a living because they were unable to find a formal job. With this condition, the new entrepreneurs do not have the same passion, fresh ideas, knowledge, or sophistication to become a legal business which will increase the potential to grow.<sup>46</sup>

If in this stage the 3 Fs financing are not available for respective entrepreneurs, the new entrepreneurs will typically use a loan shark or a micro finance institution, which typically have interest rates starting at 2 percent a month.<sup>47</sup> Although micro finance usually charges less than a loan shark, they are both rates are relatively high, placing the fledgling entrepreneur into a vicious repayment cycle where all their profits go to repaying loans instead of growing their business.

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<sup>46</sup> Ginesky, B. *Money for Everyone*. (Jakarta: Microfinance Innovation Center for Resources and Alternatives (Micra) Indonesia, 2011).

<sup>47</sup> Microfinance Innovation Center for Resources and Alternatives (Micra) Indonesia. (2009). *2009 Annual Report*. Jakarta: Micra Indonesia.

During the startup stage, new entrepreneurs will need enough startup capital to finance their business until they can produce a good/service that can be sold. Although each industry demands varying amounts of startup capital, the amount of working capital needed will increase gradually, as production increases. Unfortunately in Indonesia, it is almost impossible for a startup company to get financing from banks because of the 5C criteria. Banks require 6 months to 2 years of financial statements to even be considered for a loan, disallowing startups to even apply.

Bank Indonesia defines a micro loan as a loan with an upper limit of IDR 50 million, and small business loans ranging from IDR 50 million to IDR 500 million.<sup>48</sup> When new small companies cannot get money from a bank, cooperatives, MFIs, and pawnshops work to fill the void. Cooperatives and pawnshops are typically located in the local community and have a history of giving loans to other needy borrowers. Factors such as location, trust, and kinship encourage an entrepreneur to borrow from cooperative or pawn their possessions off in a pawnshop.

Cooperatives, MFIs, and pawnshops all focus on funding to micro and small businesses. For cooperatives, most of them run a joint program with the local government that focuses on providing new entrepreneurs with startup capital (will be discussed in government program sub section). For pawnshops, they have different interest rates for different type of loans. For instance, the interest rate charged for credit loans of IDR 1 million to IDR 20 million is 1.2 percent for every 15 days. Some lower loans of IDR 20 thousands to IDR 150 thousand have lower interest rates of 0.75 percent every 15 days.<sup>49</sup>

MFIs are another alternative for small scale financing. MFIs typically provide loans to individuals or groups ranging from IDR 100,000 to IDR 50,000,000, with a repayment period from 3 months to 1 year. Payments can be made daily, weekly, or monthly. Unfortunately, many startups do not have proper knowledge about various types of MFIs and how they can assist them. MFIs can provide basic financing with fewer requirements than commercial banks, albeit at a higher interest rate.

- **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. In Indonesia, MSMEs can attempt to find funding from commercial banks or venture capitalists. If they go to banks, they need to fulfill all requirements needed by the bank. Financing alternatives such cooperatives and angel investment can also be an option, although with their own, unique requirements.

From our interviews and forums, one issue raised by entrepreneurs is that the cooperatives usually only give loans up to IDR 500 million.<sup>50</sup> If MSMEs want to apply for loans above that amount, venture capital and commercial banks are the only options

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<sup>48</sup> Ibid

<sup>49</sup> Pegadaian Babel. (2011). *Suku Bunga Pegadaian Turun 0.1%*. Web. <<http://www.pegadaian-babel.com/2011/06/suku-bunga-pegadaian-turun-01.html>>

<sup>50</sup> Apindo UKEA MSME Financing Discussion Forum, 19 January 2012.

available. But usually a good credit record from lending in cooperatives can become a reference for getting credit from the bank. Several banks have joint programs with cooperatives where they give loans to MSMEs or individual referred to by their cooperative partners.

In the case of using venture capital, VC firms can provide financing from as little as IDR 5 million to billions, but usually, VCs are only interested in businesses that has high profit margin aside having high rates of profit sharing, which make it difficult for typical businesses to find this type of financing. Thus, if a traditional business needs additional financing over IDR 500 million, the only option for them is only to apply at commercial banks.

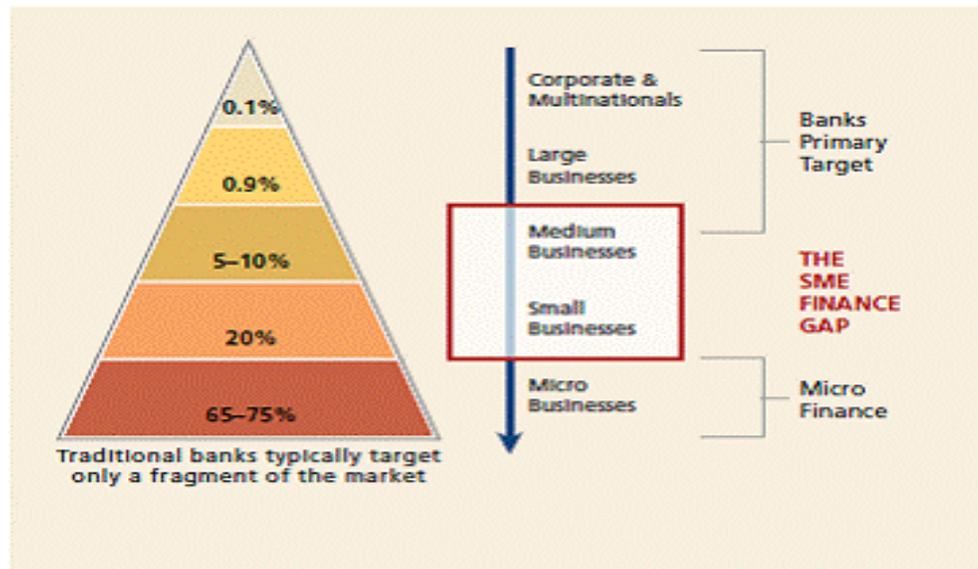
Entrepreneurs have also experienced problems in getting credit loans from banks. Based on the experience of entrepreneurs from the APINDO *Ukea* Financing Discussion, the entrepreneurs stated that most banks usually only give credit to as much as 70 to 80 percent of the collateral valued. If the credit history of the debtor is good, the bank may give loans equal to the collateral's worth. Therefore, for MSMEs who do not have sufficient collateral, it is challenging to get ample financing to grow their business. In the end, they will only receive what the bank finds that they can pay back, leaving the company to figure out the best and most economical way to expand their business. The other problem is also the interest rate issue which is still considered high to some entrepreneurs. For businesses that only have small profit margins or seasonal, it is very hard for them to ask for credit loans, because their ability in paying the debts is very small or depends on the season.

From the APINDO SME FGD, the participants expressed concerns about the financial gap for MSME financing. Although there are several success stories in companies receiving commercial loans, generally speaking, most entrepreneurs still face difficulties in getting credit loans from banks. The SME diagram from an IFC report below shows that banks primarily target large businesses and corporate/multinational companies (Figure 4). The small and medium sized businesses, which account for approximately 30 percent of total business, have few financing institutions interested in funding them.<sup>51</sup> Meanwhile, MFIs only serve micro businesses, which consist of around 65 to 75 percent of the total businesses. Thus, it makes it difficult for small and medium scale businesses to get financing for their expansion. From the discussion, MSMEs and entrepreneurs were asking for an institution that can give a relatively large amount of loans with more flexible requirements from banks to expand their businesses without harming their operations. An entrepreneur in the garment industry gives an example that the interest rate that was offered to them ranging around 12 to 14 percent, while their profit margin is only around 18 percent. Considering the operation expenditures and other costs, it is highly unlikely for them to be able to pay back a loan at such high interest.

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<sup>51</sup> International Finance Corporation Advisory Service. (2010). *Global MSME Banking Program Brochure*. International Finance Corporation.

**Figure 5: MSMEs Financing Gap**



*Source: IFC Global SME Banking Program Brochure*

- **Expansion Phase and Maturity Phase**

The expansion phase in Indonesia is characterized with large companies that grew from medium businesses. Although it is feasible to reach large company status from a micro level, it is a challenging path to follow. Considering the financing gap for small and medium sized businesses, it is even harder for micro businesses to climb the ladder and become a medium, not to mention large business.

The exit strategy, such as an IPO and merger, are also not very commonly used by small or medium sized businesses in Indonesia. Therefore, getting financing for expansion to the Maturity Phase most commonly occurs to businesses that started from the medium level who already have facilities and resources to expand on their own. Below is the summary of Entrepreneur and MSMEs development stages in Indonesia:

**Table 8: Business Stage Development of Entrepreneurs and MSMEs in Indonesia**

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 as 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/Acquisition</li> </ul>

*Source: compiled from several focus group discussion and interviews*

## II.7 Government Policies for Entrepreneurs and MSMEs in Indonesia

The importance of MSMEs to the Indonesian economy prompts GOI to support entrepreneurs and MSMEs. Similar to other developing countries, there are at least three reasons pushing GOI to assist MSMEs. First, MSMEs create productive workers. Secondly, MSMEs can improve their productivity and efficiency through small (or large) scale investment in technology. Thirdly, MSMEs can be more flexible compared to big industry because their smaller size enables them to adjust to the ever changing economic conditions.<sup>52</sup>

Based on these benefits, GOI has made entrepreneurship a priority to the country's development plan. In February of 2012, the President of Indonesia, Susilo Bambang Yudhoyono started that the National Entrepreneurship Movement (NEM), aims to bring the number of entrepreneurs in Indonesia to 1 percent of the working population by 2014 and the long-term goal of 4.8 million entrepreneurs by 2030.

In order to achieve that goal, 13 ministries under the Coordinating Ministry of Economy are working together through various entrepreneurship programs in respective ministries. Some of the ministries including Ministry of Cooperatives and SME, Ministry of Education, Ministry of Industry, Ministry of Trade, Ministry of Oceanography and Fisheries, Ministry of Labor and Transmigration, Ministry of State Owned Enterprises, Ministry of Culture and Tourism, Ministry of Forestry, and Ministry of Agriculture have their own entrepreneurship programs embedded into their annual budget.

According to Agus Muharram, deputy of human resource development at the Ministry of Cooperatives and MSMEs, the ministry will try to optimize society's potential to become a creative, innovative, and productive entrepreneur under the NEM. The NEM is to become the long term strategy in integrating entrepreneurship education among the government, academics, private sector, and greater society.<sup>53</sup> Below are several other GOI entrepreneurship programs under several Ministries:

- **Entrepreneur Program – Ministry of Cooperative and MSME**

The Ministry of Cooperatives and Small Medium Enterprises (MOCSME) stated that there are only 0.24 percent entrepreneurs, or around 475 thousand people from a total of 230 million Indonesians, who work as entrepreneurs. As previously mentioned, GOI wants to create 4 million entrepreneurs. GOI aims to achieve 2 percent entrepreneur population because David McClelland stated that 2 percent of entrepreneur population is the minimum requirement for a developed country. In reaching that goal, the MOCSME is planning several programs to stimulate MSME growth. The first program is a 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,

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<sup>52</sup> Berry, A., Rodriquez, E., & Sandeem, H. (2001). Small and Medium Enterprises Dynamics in Indonesia. *Bulletin of Indonesian Economic Studies* 37 (3), p. 363-384.

<sup>53</sup> Burhani, Ruslan. (2011, Jan 28). 13 Kementerian Canangkan Gerakan Kewirausahaan Nasional. *Antara News*. Web. <<http://www.antaraneews.com/berita/243775/13-kementerian-canangkan-gerakan-kewirausahaan-nasional>>

Another program is the business incubator. Since 2001, the MOCSME has worked with partners from 13 state and private universities to establish business incubators at each university. Since 2005, there are 32 business incubators in 13 provinces in Indonesia. From that number, 24 of them are managed by universities and the rest are managed by other government institutions as one of the joint programs under the NEM.

- **Growing New Entrepreneurs - Ministry of Industry**

The Ministry of Industry administered “Growing New Entrepreneurs” program as one of their entrepreneurship supporting programs. The difference with this program is that it only focuses on entrepreneurs who produce tangible goods, not entrepreneurs in services industries.

This 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.

Ministry of Industry data shows that MSMEs in Indonesia are still not distributed evenly across the country, where most MSMEs are located in Java Island. Therefore, the MOI is focusing this New Entrepreneur Program in other districts outside Java. Moreover, the MOI’s goal is to change the ratio of entrepreneurs in Indonesia to 60/40 in Java and other islands by 2014. In 2011 the MOI allocated IDR 35 billion to run this program outside Java.<sup>54</sup>

- **College Students Entrepreneur Program – Ministry of Education**

In a different tone from other government institutions, the Directorate of Higher Education (Dikti) and Ministry of Education (MOE), stated that the number of entrepreneurs in Indonesia is estimated to reach approximately 60 million people or more than 25 percent of the population. This estimate comes from the 70 percent of Indonesian people who work in the informal sector, which is not recorded in the data represented by the census.

The Ministry of Education administered the College Students Entrepreneur Program (PMW) to give basic knowledge, information, skills, and an entrepreneurship mindset based on the college curriculum. Since 2009, this program has poured state budget funds of approximately IDR 104 million, annually, to support this program. Dikti – MOE recorded 89 universities, consisting of 20 polytechnique schools, and 70 state and private universities which benefit from this program. In this program, each college student with a prospective business plan can get IDR 8 million as an individual or submit a maximum 5 person group business plan totaling IDR 40 million in startup capital.

Considering this program’s sustainability, it also aims to develop institutions inside the universities that can support entrepreneurship programs in the future. As a result, the GOI expects a decrease in the unemployment rate of college graduates. To implement this

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<sup>54</sup> Ministry of Industry. *Statistik Industri Kecil Menengah tahun 2008-2010*. (Jakarta: Kementerian Perindustrian, 2011).

program, MOE synergized the PMW program with other existing programs, such as internships and co-op programs to enhance the overall effectiveness

Dikti considers the PMW program as a good institution to manage and alter college students' perspectives on entrepreneurship, making it a viable alternative to pursue after graduation. However, due to state budget concerns, Dikti will have to reduce the budget for PMW programs in 2012. Furthermore, Dikti hopes that in the future, universities will have their own awareness and independently create their own programs of entrepreneurship in their education framework. Dikti realizes the complexity of MSMEs in Indonesia and suggests that an institution conduct a household survey to map out MSMEs across the country in order to get a detailed perspective of what MSMEs in Indonesia really needs to further development.

## **II.8 Conclusion on Financing for Entrepreneurs and MSMEs**

There are several factors that hamper the growth and development of entrepreneurs and MSMEs in Indonesia. Although factors such as low quality human resources, less skilled workers, and a general mindset averse to becoming an entrepreneur, limited access to financing sources from the banking sector is still considered to be one of the main issues preventing companies from expanding their business. Different types of business stages will demand differing types and amounts of financing and also diverse requirements to obtain it. Businesses in the early stage of development cannot rely on the banking sector while business in the growth stages can usually get financing from commercial banks, but most of the time they cannot get the amount needed because of collateral issues.

Although access to bank financing is challenging, there are other types of financing sources other than bank from both the government and the private sector. These non-bank financial sources such as cooperatives, micro finance institutions, and the less known angel investor clubs and VC firms, can also be considered as an alternative for business owners when trying to expand and grow. Some of the things that cannot be given by the bank may be offered by these alternative sources depending on the characteristics of the business that matches these sources of lending and investment

Moreover, the role of local government in the era of decentralization is supporting entrepreneurship and MSME growth by making policies which support MSMEs and also planning an integrated program for MSME development. An integrated and well managed program through several ministries which deals with entrepreneur issues should be formed to lead into a successful and sustainable program. Furthermore, expanding MSME growth is believed to encourage an even economic distribution. Therefore, to support Indonesia's goal of reaching 4.8 million entrepreneurs by 2030, joint cooperation between the government, private sector, and the society's is needed. Recommendations on how to improve financing can be referenced in the "Conclusion and Recommendation" section.

## Chapter III: Registering a Business

### III.1 Background on Registering a Company

In order to set a business plan or idea into motion, an entrepreneur must form a company or organization, legally or informally. This entity will serve as the foundation for their business operations, creating a basis for the company to make transactions and interactions with customers. In Indonesia, a majority of companies are unregistered at the Ministry of Law and Human Rights and are considered informal. 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.

Why should an MSME in Indonesia register? Formal business registration has some benefits for the business owners and employees, but for the entrepreneur and MSME owner, this benefit is not significant enough to help their business grow when compared with to the cost and legal obligations required upon registering a company. For example, a company that registers their company will have to abide by Manpower Law 13/2003 which significantly increases the cost of labor.<sup>55</sup> Moreover, a company will have to start paying taxes and writing annual reports once formally registered. In the long term though, business registration will be necessary for companies that want to expand their business and gain additional financial support.

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. An additional benefit is the limited liability status, where, registering a company as a PT limits the financial liability of company owners to their investments, so personal assets are not at risk in the base of bankruptcy. As long as there seem to be clear benefits to registering and the process to formalize is relatively easy, more entrepreneurs will start businesses in the formal sector, creating legally protected jobs, while simultaneously generating more tax revenue for the government.<sup>56</sup> Suggestions on how the government could improve the business registration process are included in the recommendations section.

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. This situation worsened after Indonesia's radical decentralization in 2001 with significant changes to the administration of taxation and charges changed. Rules and procedures that govern licensing, registration, some taxes and user charges have largely been devolved to local governments. Local governments have used this freedom to create new sources of revenues. Locally generated revenues have grown substantially in the post decentralization period. About 20 percent of the absolute increase in these revenues is derived from business licenses of various kinds, many of which were newly created by local

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<sup>55</sup> SEBAR team report for USAID and BAPPENAS. 2011. "A Cross Country Analysis of Indonesian-Cambodian-Vietnamese Manpower Laws and Their Effects on Respective Garment and Textiles Industries."

<sup>56</sup> World Bank. (2012). *Doing Business in a More Transparent World. Economy Profile: Indonesia*. Web.

governments under decentralization. The number of local licenses and their associated procedures has created significant barriers for the local economy.<sup>57</sup>

Research by Liesbeet Steer from Asia Foundation shows that local governments may have established as many as 6,000 new taxes and charges during the period 2000 through mid- 2005. The vast majority of the new revenue instruments would seem to be licenses and user charges.<sup>58</sup> The difficulty to comply with all this licensing requirements is a major obstacle for businesses and as a result only a small share of enterprises has formalized their activities, which in turn has limited their access to financial resources and markets, and potential for growth.<sup>59</sup>

It is because of this situation that the national government and a number of local governments, with support from international donors, introduced One Stop Shop (OSS) service centers for business registration and licensing. In principle, an OSS can be established at any level of government (and is common in many countries at the national level). In Indonesia, because of decentralization, OSS has been set up at the district level. Most licenses, even those regulated by national decrees, are processed at the local level.

### **III.2 Benefits to Registering a Business**

Business registration is designed to limit or prevent market excesses and protect the public interest. 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:  
By registering, a company can receive better legal protections in the case of law suit or a situation where there is a claim against property or goods by a third party. This benefit is especially important in land registration because there are many overlapping claims on land and opaque settlement procedures, where little coordination among divergent government agencies such as forestry and mining create problems. By registering land and obtaining a building permit, the company will be legitimizing their presence and be protected by the law in the circumstances when such a situation arises. Additionally, this means that local police or tax collectors cannot come and extort money from a company that was previously unregistered.

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<sup>57</sup> Steer, Liesbet. (2006). *Business Licensing and One Stop Shops in Indonesia*. The Asia Foundation. Web. <[www.businessenvironment.org/dyn/be/docs/121/Session2.1Paper2.1.2Steer.pdf](http://www.businessenvironment.org/dyn/be/docs/121/Session2.1Paper2.1.2Steer.pdf)>

<sup>58</sup> Ibid.

<sup>59</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*.

- Gain trust from customers and government:  
Registered companies will be more trusted by customers because the company and said products will be perceived as abiding by the law with standards set by the government. Moreover, a formal company is less likely to renege on their commitments as they have gone through the trouble of registering and may have other concerned stakeholders that have a claim and responsibility for the company. Aside from garnering greater trust, registered companies can also apply for government tenders while unregistered companies cannot. This is quite beneficial as the government provides numerous projects throughout the country and often provides repeat business to preferred contractors.
- Better access to financing  
When a company wants to expand its business, typically, it will need funding and financial assistance from external money lenders such as a commercial banks or private investors. Although unregistered companies can find credit from informal money lenders (loan sharks) or micro finance institutions, the amount of funds available is typically less than formal credit institutions while the interest rates are higher. One of the primary requirements necessary to receive credit from formal money lenders are company registration. Without registration, an MSME will be unable to access formal financing, making it exceptionally difficult to significantly increase business operations.

### III.3 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 permit illustrates this. In most countries, business registration is used simply to collect information on companies and locate tax payers. In other countries, business registration typically precedes licensing processes which generally have control purposes. In Indonesia however, general and technical licenses must be obtained before a business registers. 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. As a result, the registration system is much more complicated and largely ineffective in achieving its objective of collection and provision of up-to-date company information.<sup>60</sup>

As already mentioned, once an entrepreneur has registered their company, they will have some obligations to obey. These obligations are;

- Pay Taxes  
Once a company registers, it will have the obligation to start paying taxes. For startups, paying taxes reduces a company's profit, constraining business operations. This is a constraint to registering a new company, where most startups wait to be profitable before formally registering and paying taxes. Although it seems to be a burden for a company to pay taxes, in actuality, GOI has passed a tax exemption for new companies that are in the

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<sup>60</sup> Steer, Liesbet. (2006). *Business Licensing and One Stop Shops in Indonesia*. The Asia Foundation.

startup phase and still incurring a loss. The law stipulates that such a startup does not have to pay their taxes up to five years since the time of registration.<sup>61</sup>

- **Manpower**  
Similar to taxes, once a company registers at the Ministry of Law and Human Rights, they must start following the Manpower Act Regulation UU No.13/2003. This regulation obligates the employer to follow regulation minimum wage standards, limitations on working hours, and severance payments, all of which create additional costs to startups and MSMEs alike.

### **III.4 Business Registration Process**

Business licensing still creates burdens for entrepreneurs in Indonesia. According to the World Bank Ease of Doing Business Report 2012, to start a new business in Jakarta, an entrepreneur has to go through eight procedures, which takes 45 working days and can cost up to 18 percent of total per capita income.<sup>62</sup> These problems can stifle business activity, hamper the development of small businesses, discourage the establishment of new businesses, and dissuade entrepreneurs from formalizing their businesses.

According to Asia Foundation Survey, 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. A nuisance permit (hinder ordonantie or HO) for a company that generates a disturbance for its surroundings such as noise and/or pollution, or a business location permit (Surat Izin Tempat Usaha, SITU) if there is no disturbance created. After these “physical permits” (IMB and HO/SITU) are obtained, the business needs to apply for operational licenses. A trading license (Surat Izin Usaha Perdagangan, SIUP) for a company that engages in any kind of trade activities or industrial registration certificates (Tanda Daftar Industri, TDI) for companies operating in the industrial or manufacturing sector. Within three months after a company has obtained SIUP and/or TDI or started operating, it needs to register itself to obtain a company registration certificate (Tanda Daftar Perusahaan, TDP). This enables the local government to have information on all the businesses under its jurisdiction.<sup>63</sup>

If all the business registration is done by the business owner, he/she will have to follow each of the following steps; all of the procedure below was taken from World Bank Report in Doing Business in Indonesia 2012.<sup>64</sup>

- **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. The uniqueness of the company name must be checked to ensure that it has not been used by

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<sup>61</sup> Undang-Undang No. 36 tahun 2008 Article 6, Paragraph 2. Web. <[www.pajak.go.id/dmdocuments/UU-36-2008.pdf](http://www.pajak.go.id/dmdocuments/UU-36-2008.pdf)>

<sup>62</sup> World Bank. (2012). *Doing Business in a More Transparent World. Economy Profile: Indonesia*. Web.

<sup>63</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*.

<sup>64</sup> World Bank. (2012). *Doing Business in a More Transparent World. Economy Profile: Indonesia*. Web.

another Indonesian company, to avoid a rejection by the Ministry of Justice and Human Rights of the company's deed of establishment and articles of association. Because the process must be done through a computerized processing system, the reservation and clearance must be done by a notary public (because the new computerized system for non-tax state revenue payments may be accessed only by a notary public). The reserved name will be blocked for 60 days. If the founding shareholders are confident that the same name has not been used by another Indonesian company, this procedure is not necessary. 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 takes up to 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. Because the new computerized system PNBP, which has been implemented by the Ministry of Justice and Human Rights, may be accessed only by a notary public, payment for registering or establishing a company is normally easier through the notary. The requirement to pay the PNBP fee for legal services in relation to the establishment of a PT is obtained from the information stated in the website of the Legal Entity Administration System known as SABH (*Sistem Administrasi Badan Hukum*), where it is informed that there is a PBNP fee to be paid for the purpose of company establishment in the amount of IDR 200,000 and to be paid through the notary. This procedure usually takes 1 day and it cost IDR 200,000 for name check and IDR 1,580,000 for PNBP fees for legal services.

- **Procedure 4**

Apply to the Ministry of Law and Human Rights for approval of the deed of establishment. Based on Article 9, 10, 29 and 30 of the Indonesian Company Law No. 40/2007, the application for approval of Ministry of Law and Human Rights (the "Ministry of Law") on establishment of company states that companies should be able to file electronically by attaching a certificate of bank account, copy of relevant bank transmittal advice, NPWP (Tax Registration Number), and Certificate of Company Domicile. 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 the permanent business trading license (SIUP), the company registration certificate (TDP), building permit (IMB) if the company will construct a building, a nuisance permit (HO) if the business generates a disturbance for its surroundings, such as noise and/or pollution, and a business location permit (SITU) if the business not create such disturbance. The SIUP constitutes the business license for a non-facility company engaging in a trading business. The SIUP contains details about the company activities and the person in charge of the company (normally the President Director). The Ministry of Industry and Trade, which issues the SIUP for a non-facility company, may require a letter of good conduct from the Indonesian police in support of the person in charge of the company.

Normally, the following copy of documents should be attached for the application for a SIUP:

- The articles of association (copy).
- An attestation of location and address of the company's offices.
- Identity card of the company President Director.
- Notary deeds.

After reviewing the application, the Municipality passes it to the technical agency at the regional office for cooperatives for further review, it takes 2 days to get the signature of the head of that office as the authority is not delegated. Once the application is back, the SIUP is provided. Although there is no official charge, there is usually an unofficial administrative fee depending on the region and also the size of the company. SIUP and TDP can also be obtained at the One Stop Shop Service, through the Standard Operating Procedure. 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.<sup>65</sup>

- **Procedure 6**

According to government regulation, companies with more than 10 workers or a monthly payroll of Rp. 1 million must register with the Ministry of Manpower. This procedure can be completed concurrently with other post-registration procedures by filing the manpower compulsory report and company regulations with the 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 depends on negotiation.

- **Procedure 7**

Apply for the Workers Social Security Program (Jamsostek Program), because based on legal provisions on workers' social security (Law No. 3/1992), it is mandatory for every company or individual employing 10 workers or more or generating a monthly payroll of at least Rp. 1 million a month to apply for the Workers Social Security Program (Jamsostek), operated by the executing agency. This social security program covers occupational accident security, death security, old age security, and health maintenance. A company or an individual is not obligated to enroll its employees in the social security program if it offers an independent employee social security program with benefits comparable or better than those offered by the Package of Basic Health Maintenance Security (according to Government Regulation No. 14/1993, as amended by Government Regulation No. 28 /2002).

- **Procedure 8**

Obtain a taxpayer registration number (NPWP) and a VAT collector number (NPPKP). Regulation of Directorate General of Taxation No. 44/PJ/2008 which came into effect on 20 October 2008, concerning Procedures of Application of Taxpayer Registration and/or Taxable Entrepreneur Number, Amendment of Data and Transfer of Taxpayer and/or Taxable Entrepreneur aimed to increase the service to the taxpayer. The regulation states that within 1 year as of the issuance of NPWP, the relevant Tax Office will conduct field

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<sup>65</sup> World Bank. (2012). *Doing Business in a More Transparent World. Economy Profile: Indonesia*. Web.

confirmation regarding the correct data/identity of the taxpayer. The person/entity can apply for NPWP in the relevant tax office where the company is located or can apply it online through <http://www.pajak.go.id>, choose e-registration to make account as a taxpayer and then follow the procedures therein, by filling the form and attaching copies of deed of establishment and its amendment if any, identity card/KTP of one of active Director, statement letter regarding confirmation on place of business from one of the active Director (form is provided), POA and identity card/KTP of the author. The NPWP 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.

Completing all of the procedures listed above is time consuming and confusing because of the lack of information regarding the processes and costs required to formally register. According to Asia Foundation survey, from five basic types of permits, overall, the SITU/HO is the type most often held by businesses, while the TDI is the least often held. No less than 63 percent of company has at least one of SITU and/or HO. The SIUP, which is required for all businesses that trade in their products, is held by 58 percent of firms. IMB and TDP are held by 48 percent and 49 percent of firms, respectively, though a TDP is actually mandatory for all businesses.<sup>66</sup>

From Asia Foundation Survey, generally, the level of ownership of business permits positively correlates with the scale of business. For all types of business licenses, the tendency is that the larger the scale of the business, the higher the level of ownership of basic permits. Among large businesses, 82 percent hold TDP, compared with only 20 percent of micro entrepreneurs. A similar tendency is seen for HO/SITU, SIUP, IMB and TDI. This low level of ownership of basic permits by micro and small companies constrains them from applying for credit from formal financial institutions to expand their businesses, as well as from participating in government programs<sup>67</sup>

In order to solve this problem, a company owner may use the services from OSS that was created by the Ministry of Home Affairs Regulation (*Permendag*) No 24/2006., such as Pelayanan Terpadu Satu Pintu (PTSP) that also takes care of the issues for investment in certain business or Kantor Pelayanan Perijinan Terpadu (KPPT). With OSS, government tries to simplify the process for business registration so company no longer needed to visit several different local agencies to obtain permits. It operates by integrating the authority to issue licenses, which used to locate in various disparate government offices, into one government department. OSS also simplifies the local process of business registration in addition to rationalizing locally created licenses.<sup>68</sup> However, according to our interview with BKPM, from 500 districts in Indonesia, roughly less than 160 districts already have their OSS operate smoothly. Nevertheless registering company and obtain permits through OSS is still more simple rather than do it personally.

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<sup>66</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*.

<sup>67</sup> Ibid.

<sup>68</sup> Steer, Liesbet. (2006). *Business Licensing and One Stop Shops in Indonesia*. The Asia Foundation.

Below is the example from OSS in Jakarta area and the program they offering;<sup>69</sup>

- **10 Work Day Package (for company without land)**  
This package takes care of permits such as SIUP or TDI, TDP and HO. This package also covers permits allowing foreign and/or local investments (PMA/PMDN) as well as the importation of machinery and materials, (Angka Pengenal Importir Produsen) API-P.
- **25 Work Day Package (for company with land less than 5,000 m<sup>2</sup>)**  
Other than the permits received from 10 Work Day Package, this package also covers construction permits and the IMB. Moreover, this package includes the processes needed to gain access of electricity and water supply.
- **38 Work Day Package (for company with land more than 5,000 m<sup>2</sup>)**  
The 38 day work package is the same as the previous package, but takes a longer time because of the area needed to be inspected.

All of the fees and costs are defined by the local government regulation, in the sample below - Perda DKI Jakarta No.1/2006.<sup>70</sup> For example, according to this regulation fee for SIUP, it differs depending on the company size; free for small companies, IDR 100,000 for medium companies and IDR 250,000 for large companies. On the other hand, fees for TDP differ depending on the type of company;

**Table 9: Fees for Company Registration Certificates (TDP) in Jakarta**

Personal Company	Rp. 100,000
Coperation (Koperasi)	Rp. 100,000
Kommanditgesellschaft (KG or CV)	Rp. 250,000
Firm	Rp. 250,000
Limited Company (PT)	Rp. 500,000
Other forms	Rp. 250,000
Foreign Company	Rp. 1,000,000

*Source: Perda DKI Jakarta No.1/2006*

The OSS should make the entire business registration process simpler and affordable entrepreneurs and unregistered businesses that wish to formalize. Unfortunately, misinformation regarding the OSS makes entrepreneurs think that the only way to register their business is do it personally or by using a notary, both of which are more expensive and time consuming than the OSS. For example, the average time required to arrange a TDP is 11 days, whereas the standard set by the Ministry of Trade or through OSS is only three days. The costs for company to obtain TDP are also relatively high, at nearly IDR 500,000. Yet the fee set by the central government is only IDR 100,000 for a sole proprietorship or personal company.<sup>71</sup>

<sup>69</sup> BPMP Provinsi DKI Jakarta. (2011). *Perijinan Paralel*. Web. <<http://www.bmpjakarta.info/index.php/ptspaje/ptspaje5>>

<sup>70</sup> Provincial Government of Special Capital Territory of Jakarta. (2006). *Perda DKI Jakarta No.1/2006 Tentang Retribusi Daerah*. Web. <[www.bphn.go.id/data/documents/06pddik001.pdf](http://www.bphn.go.id/data/documents/06pddik001.pdf)>

<sup>71</sup> Ibid.

According to the Asia Foundation's research, more than 70 percent of firms feel that business licensing services are free from collusion, free from illegal levies, and efficient.<sup>72</sup> However, this positive perception of these services is not reflected in the level of permit ownership. From the SEBAR survey, TDP, which are mandatory for all business, are held by only around half of the companies (47.8 percent). Similarly, SIUPs, which are required by most banks to arrange loans, are held by only 39.8 percent of companies. This indicates that although businesses perceive business licensing process as quite clean, many of them still do not register their business. According to SEBAR interviews, companies do not register because they do not realize any apparent benefits to business registration.

### **III.5 Business Registration Problems**

As previously mentioned, licensing fees, time spent to process license applications and obtains required documentation, illegal charges, and lack of information need to be addressed in order to increase business formalization. Each of these aspects creates significant burdens to MSME and entrepreneurial business activities.

#### **III.5.1 Licensing Fees**

The problem with licensing fees is that business charges will put a constraint and add extra costs to startups. Thus, many entrepreneurs and MSMEs choose not to register their business during their startup period. Another problem with fees comes from the fact that many local regulations choose to disregard national regulations. For example, regarding regulations on TDP and SIUP, *Permendag* No. 36/2007 and 37/2007 regarding issuance of SIUP and TDP has stated that creation of new TDP and SIUP is free of charges. But according to a survey by The Asian Foundation, over 70 percent of *perda* do not refer to the provisions of these *Permendag*. So in practice, fees are still often collected from applicants for new SIUP and TDP, which there should be no charges for.<sup>73</sup>

#### **III.5.2 Times Spent to Process License Applications**

The time an entrepreneur or MSME owner needs to spend to obtain licenses is also an obstacle for companies. In the case of new startup businesses, the owner, who typically runs most business operations, must spend additional time that could be used increasing his or her business traveling to and waiting for permits. According to a survey by The Asia Foundation, the time required to secure the multitude of permits and licenses is a bigger constraint to business operations than the actual monetary amount of local taxes, charges, and fees that they have to pay.<sup>74</sup>

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<sup>72</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*.

<sup>73</sup> Ibid.

<sup>74</sup> Steer, Liesbet. (2006). *Business Licensing and One Stop Shops in Indonesia*. The Asia Foundation.

### III.5.3 Document requirements

In order to obtain licenses a company must acquire a substantial number of supporting documents, including personal and family identification, recommendation letter from community head, approval letter from neighbors, tax ID and even proof of other licenses. These requirements are not limited to formal documentation only. For example, the trading permit requires companies to submit a business activities report every six months, apparently to control for fraudulent companies smuggling goods out of the country or taking advantage of double VAT rebates on exports.<sup>75</sup> The process to acquire these supporting documents itself can place a burden on the company while adding costs. Moreover, some of the procedures to obtain appropriate documentation are complex or exceptionally time consuming. For example, to obtain a land registration permit, signed witness statements from neighbors is required.<sup>76</sup>

### III.5.4 Illegal charges

Another problem regarding business licensing in Indonesia is bribes that usually related to waiting time. Bribes usually paid so government officials do not hold up the process and the license will be granted earlier of same with what the governments has mandated in their regulation. The Asia Foundation report provides evidence that the level of bribes paid by firms is about 40 percent of taxes firms' pay. Bribes are positively correlated to the number of business licenses a particular firm must obtain in order to operate legally. Bribery also creates further time costs as firms have to spend time negotiating bribe payments.<sup>77</sup>

### III.5.5 Lack of Information

One of the factors that cause the rise of bribes is the lack of information on licensing processes.<sup>78</sup> From the SEBAR survey and interviews with entrepreneurs, most of them stated that there was no detailed information available on licensing in their regions. The lack of information regarding the documents required, licensing fees and time needed to process certainly leads to an increased number of bribery cases and illegal charges. The basic lack of information regarding formal processes deters entrepreneurs and MSMEs from formalizing their companies. Moreover, GOI has not sufficiently advertised OSS. According to The Asia Foundation, in the 19 provinces surveyed, only 22 percent of firms were aware of the existence of OSS for business licensing.<sup>79</sup> Although the basic infrastructure is in place and steps have been taken to improve, GOI needs to continue improving the business registration process to encourage MSME formalization which will increase the tax base and better protect workers.

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<sup>75</sup> Steer, Liesbet. (2006). *Business Licensing and One Stop Shops in Indonesia*. The Asia Foundation.

<sup>76</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*.

<sup>77</sup> Steer, Liesbet. (2006). *Business Licensing and One Stop Shops in Indonesia*. The Asia Foundation.

<sup>78</sup> Ibid.

<sup>79</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*.

### III.6 Conclusion of Business Registration

Challenges in the business registration process can be traced back to the decentralization of Indonesia government.<sup>80</sup> Below are the primary issues that led to such challenges.

1. There is difference between local regulations regarding the business registration with the regulations implement and created by the local government. This difference happens because even though most licenses are regulated by national decrees, local governments have significant freedoms to determine licensing procedures and requirements in terms of its processing time, cost and requirements.
2. As already mentioned, local governments have the freedom to create additional licenses and charges. Research by Liesbeet Steer from Asia Foundation shows that in 2000 a typical local government issued approximately two or three new local regulations per year. In 2002, that number had increased to an average of more than 16 regulations per local government per year, and 90 percent of these created new taxes, licenses or fees.<sup>81</sup> Usually these licenses created as a source of revenue for the local government, but in practice it creates disinformation regarding business registration.
3. This process of decentralization is not accompanied by local government capacity and coordination. Because there is lack of coordination, the process of business registration will take longer than already mentioned by the regulation, and these will create an opportunity for bribes and illegal charges.

Also, because of decentralization, there has been little clarification regarding the documents, fees and time needed to process this business registration, even though the government has encouraged the creation of OSS to solve this problem. Although the technical procedures could be different because of the differences in each local government capacity, the time and fees needed should be clearly stated in the local government itself. This lack of information and clarification can easily give rise to bribes and illegal charges. All these complexities and disinformation regarding the process of business regulations can discourage entrepreneurs from complying with the obligation to obtain business licenses for their activities.

As the government cannot revoke the decentralization law in order to standardize the business registration process, the GOI can only implement the OSS with standardized procedures in each district. With OSS, the long and complex procedure of business registration can be simplified while ensuring that the time required and fees charged will comply with the national government standards and local government needs. Even though OSS would greatly help entrepreneurs and companies to register their businesses, according to our SEBAR team interviews, entrepreneurs' knowledge about these OSS is still lacking. Although the OSS has not been sufficiently socialized, the creation of OSS is a good start for the GOI to encourage entrepreneurs and MSMEs to register and formalize their businesses. In the future, it is hoped that GOI will better promote OSS and the required procedures.

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<sup>80</sup> Steer, Liesbet. (2006). *Business Licensing and One Stop Shops in Indonesia*. The Asia Foundation.

<sup>81</sup> Ibid.

## Chapter IV: Useful Business Services Available

### IV.1 Introduction to Business Services

As mentioned previously, MSMEs account for a majority of businesses in Indonesia as well as employment. Because the livelihoods of so many Indonesians depend on these small and medium sized companies, there should be a concerted effort by the government, NGOs, and other businesses to support their growth, diversification into more value added activities, and expansion into new markets. 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. Creating a business plan, using accurate accounting, protecting with insurance, implementing marketing schemes, utilizing legal services, and operating with modern information technology can all help a company become more efficient and profitable if used effectively. Moreover, many of these services such as accounting (annual report) and legal services (permitting) are required by law. This does not mean that every entrepreneur or small company needs to outsource these services, but the business owner should certainly have an understanding of each of these services, and if he/she or other capable staff is not available to complete each service, then they should consider hiring professional help if it is within their budget.

One 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. This is evidenced in the IFC report "Serving the Needs of Indonesian MSMEs: Main Findings." The IFC's survey shows that only 15 percent of business owners/managers said they need external business support or financial advice. Even those interested in utilizing external business services, 80 percent stated that they were not willing to pay more than IDR 250,000, a price well below what most service providers charge.<sup>82</sup> This is a general mindset that should be changed in order to enhance business services.

By socializing the multitude of benefits accrued from understanding and using professional business services, Indonesian entrepreneurs and MSMEs will be better prepared to compete on a global scale. Without basic professional services, it is highly unlikely that a local MSME can export nationally, much less internationally where standards, reporting requirements, and various laws must be considered. Below is a list of business services readily available in Indonesia that should be considered before opening a business, but also for a business already in operation and looking to expand.

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<sup>82</sup> International Finance Corporation. (2011). *Serving the Needs of Indonesian MMMSMEs: Main Findings*. Web. <[http://www1.ifc.org/wps/wcm/connect/region\\_ext\\_content/regions/east+asia+and+the+pacific/publications/servin+g+the+needs+of+indonesian+MMMSMEs](http://www1.ifc.org/wps/wcm/connect/region_ext_content/regions/east+asia+and+the+pacific/publications/servin+g+the+needs+of+indonesian+MMMSMEs)>

## IV.2 Business Plan

Business plans are incredibly important for a new entrepreneur or an MSME that is trying to grow. Business plans serve two main objectives. First, a business plan 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. Entrepreneurs and business startups should create a business plan before actually opening a company as it will help individuals determine whether their product or service is demanded and if it can make a profit amongst the competition. MSMEs can use the business plan as a reference point for expanding over the next two or three years.<sup>83</sup>

A good business plan should have seven distinct pieces:

1. Executive Summary – summarizes the entire business plan in one page, highlighting the most important pieces.
2. Vision Statement – a short statement that accurately describes the direction a company wants to go.
3. Mission Statement – another short statement that details the company's intent and reason for operating.
4. Corporate Values – describes the company's ideology, how it thrives in the business environment, the types of products sold, and the management structure.
5. Business Goals and Objectives – the goal characterizes what the company wants to achieve while the objectives note the pieces needed to accomplish said goal.
6. Business Strategy – illustrates how a company will be profitable and continue to gain market share through specific competitive advantages, innovation strategies, and strategic initiatives.
7. Timeline – depicts where the company will be at various times in the future if all things go according to plan. The timeline can also be used for a company to monitor its progress

By considering each of the steps above, a company critically analyzes itself looking at its place in the market, manpower and material demands, potential for profitability and growth, exposure to competition, etc. In referencing the business plan, company owners can gauge how well the business is operating in practice versus what they expected upon completing their business plan. Moreover, investors and banks can look at the business plan combined with financial reports to

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<sup>83</sup> International Federation of Accountants. (2006). *Business Planning Guide: Practical Application for MMMSMEs*. Web.

<<http://www.cpaireland.ie/UserFiles/File/Technical%20Resources/MSME%20Resource/Business%20Planning%20Guide%20-%20Practical%20Application%20for%20MMMSMEs.pdf>>

see how well a company is functioning and living up to its own expectations, determining factors for the provision of capital investments.

Although the business plan is an incredibly important tool for businesses to create a mission, strategy, and action plan, as well as obtain financing, interviews with entrepreneurs, MSMEs, business service providers, and MSME support groups report that many micro, small, and medium size enterprises in Indonesia do not have quality business plans if they have one at all. This is not so surprising considering the informal nature of MSMEs in Indonesia where only 49 percent of surveyed companies (20 percent of micro enterprises) have a business registration certificate (*Tanda Daftar Perusahaan*) with the government.<sup>84</sup> Without the business plan, companies may have difficulties finding external financing while they may lose track of their initial goals and reasons for operating.

Based on the benefits from having a business plan, the government, non-governmental organizations, banks, and other business organizations should all promote and socialize the idea of using a business plan. Creating a business plan does not need to be costly. There are many free services available that a company can reference to assist in creating a business plan. For example, the IFC operates the [smetoolkit.org](http://smetoolkit.org) website in both English and Indonesian that can guide a business owner through the business plan process. Additionally, business consultants and business organizations such as New Ventures run programs that mentor companies to create individualized business plans. By encouraging and socializing the usage of business plans across Indonesia, companies will be better prepared to operate in a competitive business environment.

### **IV.3 Accounting**

Accounting has been referred to as the “language of business” because it communicates the financial position and performance of a business to various stakeholders. 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. Banks require financial statements to assess the credit standing of the business before granting loans. Potential investors will demand financial statements to assess the viability of the investments they will make. The tax authorities will inspect books and accounting records during a tax examination.

Proper accounting enables companies to make timely collection of receivables and payment of any loan obtained, as well as payables to suppliers for the purchase of goods, and for services such as rent, salaries and wages, taxes and other obligations. The extent, type and sophistication of the accounting system required for the business depend upon the nature and volume of the transactions undertaken, and the settlement basis for such transactions. For example, if the products are sold on cash basis, that is, the customers pay at the time of delivery, the entrepreneur will not need an accounts receivable tracking system. However, if the products are sold on credit which will be paid by the customers at a later date, maintenance of accounts receivable records is necessary to help keep track of what is owed to the business by the

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<sup>84</sup> The Asia Foundation. (2011). *Local Economic Governance; A Survey of Business Operators in 245 Districts/Municipalities in Indonesia, 2011*. Web.

customers. Similarly, when the business buys goods from the suppliers on credit, accounts payable records have to be maintained to monitor what the business owes and when such payables are due. Accounts payable records will enable entrepreneurs to establish good credit with the suppliers and other creditors, and hold the cash until the liability falls due. Proper accounting also helps the entrepreneur account for the existence of the assets the business owns such as property and equipment and inventories. For example, if the business sells goods, it is able to determine the quantity of stocks available in the storeroom at any given time, and keep track of the unit cost of the goods by maintaining inventory records.

An integral and basic part of running a successful business is cash flow management. Effective cash flow management will not be possible without proper accounting and no business can survive without effective cash flow management. Proper accounting will help companies determine and identify the sources and uses of funds, and the timing of the cash flows. Without accounting, the entrepreneurs run the risk of having cash flow shortfall resulting in liquidity problems, waste of money, and missing out on opportunities.

Accounting will assist companies plan ahead for their business and prepare well for future growth and expansion. As business develops and grows, transactions become more voluminous and diversified with greater complexity, demanding a more advanced accounting system, financial reporting policies and taxation compliance. To cope with such requirements, it would be advisable for an entrepreneur or MSME to seek assistance from professional service providers such as accountants, tax advisors and management consultants.<sup>85</sup>

Aside from normal business practices, Indonesian law requires both public and private companies to comply with accounting standards issued by the DSAK-IAI (*Dewan Standar Akuntansi Keuangan- Ikatan Akuntan Indonesia*), that mandate registered companies to submit an annual report including financial statements.<sup>86</sup> A financial statement is a written report of the financial condition of a firm. Financial statements include the balance sheet,<sup>87</sup> income statement,<sup>88</sup> statement of changes in net worth (profit and loss),<sup>89</sup> and statement of cash flow<sup>90, 91</sup>. The government demands the annual report to determine a company's tax liability as well as collect information on the Indonesian business environment.

Unfortunately, as stated above, less than 50 percent of Indonesian MSMEs are formally registered, exempting these informal companies from having to complete annual reports, keep track of their accounts, or pay taxes. Aside from many companies not sending in financial reports, numerous business support units stated in interviews that many MSMEs put their reports together rather sloppily, with the result of not accurately characterizing a company's actual

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<sup>85</sup> The above piece is written by an accountant from Ernst & Young which is featured in the AmCham Indonesia "The Entrepreneur's Primer: An Introduction to the Professional Services You Need to Help Grow Your Business."

<sup>86</sup> Deloitte. (2009). *Accounting Standards Updates by Jurisdiction*. Web.

<<http://www.iasplus.com/country/indonesi.htm>>

<sup>87</sup> Balance sheets list the tangible and intangible assets a company owns or owes.

<sup>88</sup> Income statements measure a company's sales and expenses over a specific time.

<sup>89</sup> Statement of changes in net worth summarizes incomes and expenses of a company for a given time period.

<sup>90</sup> Cash flow statements show how money is expected to move around in the near future. The cash flow statement is useful to see a company's ability to pay bills for a short period of time.

<sup>91</sup> Entrepreneur. (2012). *Financial Statement*. Web. <<http://www.entrepreneur.com/encyclopedia/term/82130.html>>

financial standing. Interviewees stated that often times, the misrepresentation is unintentional, but there have been cases of business owners falsifying their records to avoid tax thresholds. In the cases where companies unintentionally misrepresent their accounts, this indicates that the company does not know the actual extent in which they are making a profit or a loss. Additionally, if the company was to be audited by the government and found to have misrepresented their financial standing, then the owner/manager could face a fine, jail time, or both.

For the reasons listed above, all companies should be as accurate as possible with their accounting. Unfortunately, some companies do not have the skill, time, staff, resources, or basic knowledge on how to do accounting, especially in more rural areas. Moreover, accounting professionals interviewed stated that most MSMEs only consider accounting seriously when there is an issue, such as a government audit, requirement for annual report, or potential for outside investment. Indonesian government agencies (national and sub-national), high schools, universities, and many NGOs attempt to educate an increasing number of people on how to do accounting, but many are left behind because there are too many businesses spread out over thousands of miles and only a small number of service providers and funds available to supply the demand. Moreover, as stated at the beginning of this section, many business owners do not think they need external business support, including accounting assistance. Thus, they will not actively seek out training or hire an external accountant. Regardless, concerned stakeholders should continue to express the importance of accounting and socialize the practice to as many business minded individuals as possible.

#### **IV.4 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.

Traditionally in Indonesia, individuals would rely on the whole family for support and protection. Sadly, this is no longer a reliable option for many because society has significantly changed: different demographics, increasing urbanization, time constraints, limited financial resources, new life styles, and reduced birth rates have all depleted the size and stability of the extended family. The support of the extended family is also subjective and vulnerable to limited resources and internal feuding. There is no longer a guaranteed source of protection from the family in the case of unforeseen problems.

The insurance system substitutes filial piety with agreed contributions, collected up front. All members of this client “family” are guaranteed equality and are assured the availability of required funds should financial misfortune arise. Insurance contracts are legally binding, commit to predetermined terms and conditions, and leave no room for preferential or discriminatory treatment.

### What are the benefits from insurance?

#### *Insurance helps protect against unexpected financial shocks*

Insurance ensures a personal standard of living and ongoing business operations even in the event of a catastrophe. When disaster strikes a family or business, the insurance company can provide the affected with a financial safety net to help recover.

#### *Insurance promotes entrepreneurial activities*

Sharing risks by paying fair, actuarially-developed premiums, and the knowledge that an insured event will not take away the standard of living to which one has become accustomed, allows individuals to pursue the entrepreneurial spirit and take more calculated risks.

#### *Insurance supports Indonesian social and economic development*

Students able to finish their education, entrepreneurs positioned to expand and hire, and conglomerates securing their financial standing, are doing more than just individually benefiting from insurance; they maintain a level progress and prosperity as Indonesia strives to reach Advanced Economy status.

#### *Insurance is affordable for everyone*

Insurance rates are expressed in percent or per mille. This means that for every one hundred or one thousand dollars of risk, a policy holder only pays an actuarially-established fraction of the value. It is affordable for every small business.

#### *Insurance provides certainty to business*

Insurance policies are legally binding contracts, clearly stipulating all parties' rights and obligations. The absence of affinity, moods, or vested interests allows individuals or businesses to plan, build, and strategize with full confidence.

### How to find insurance? (Agents, Brokers, and Alternative Distribution)

Historically, insurance sales relied on well-trained Agents to introduce the concept of insurance to friends, family, neighbors, colleagues, and other members of their communities. Agents represent the insurance company and are traditionally focused on consumer and smaller commercial business. More complex risks tend to be handled by insurance brokers, representing the insured and dealing with more than one insurer. They are challenged to find the best possible deal available for customers' needs. Insurers also reach out to the public by cooperating with banks to sell their products to the bank's customer base or through other direct means. Even though insurance can provide protection, like any product, it is only as good as its provider. The lowest premium and the best looking advertisement do not guarantee security. Best practices, professionalism, and transparency need to complement a solid regulatory framework.<sup>92</sup>

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<sup>92</sup> The above piece is written by Peter Meyer from Chartis Insurance. The article is featured in the AmCham Indonesia "The Entrepreneur's Primer: An Introduction to the Professional Services You Need to Help Grow Your Business."

## Products Available in Indonesia

### *Property insurance*

Property insurance covers brick and mortar assets as well as stock. Protection is available either on a named peril basis or through an "all risk" policy. The difference is that named perils are specifically showing what is being insured against, while all risk means everything is insured, as long as it is not specifically excluded.

For this type of insurance, MSMEs could benefit from fire, flood, water damage, burglary, windstorm, and consequences of civil unrest. With property insurance, a business owner could insure to a level that is affordable, but would provide some sort of monetary return in the case of disaster.

### *Auto insurance*

Although *Jasaraharya* provides a minimum level of auto liability insurance, auto insurance can cover the expense needed to repair damage to a car. Depending on the age of the vehicle, it may be enough to look for "total loss only" coverage, which responds to fire, car theft and flooding, but normal auto insurance would cover accidents and unforeseen damages if the owner found the vehicle valuable enough.

### *Accident insurance*

Accidental insurance is the most logical protection of individuals who want best coverage possible for the price they pay. Accidental insurance only responds to unexpected accidents, such as getting hit by a bus, but not to illness. Accidental insurance is activated when somebody is disabled or dies. The return goes to the person who can not properly work any longer or to the surviving family. There are individual and group plans. Accidental insurance is the most basic type of insurance that can provide at least a level of comfort and ability to survive in the case an individual is critically injured

### *Life insurance*

These products, in their original form, respond to the death of the policy holder, virtually by any cause. The insurance payout goes to the beneficiary, named in the policy. Coverage is broader than accident insurance, but more costly. Lately, life insurance companies are combining the original concept with investment linked products. Depending on the level of wealth of the customer, this may or may not make sense, but options are available for any type of consumer to protect against unforeseen death.

### *Health insurance*

Currently, health insurance is a costly undertaking, especially if it is supposed to cover all expenses for ambulant and hospital patients. Today, there are not enough health insurance policy holders to make the practice affordable for most in Indonesia. Insurance companies need a critical mass of policy holders to effectively supply protection. Although health insurance is relatively expensive, there is hospital income insurance, which provides extra money in case of hospitalization and operations. It is more affordable than normal health insurance and it responds to significant issues, such as a surgery, not to the common cold or flu.

### *Liability insurance*

Increasingly, Indonesians are becoming more litigious and issues which used to be sorted out between concerned parties may end up in court or with the threat to be taken to court. The most basic cover is premises liability, covering the insured, in case somebody suffers an injury, because there was some negligence involved, and thus claims against the owner. There is also product liability which, as the name implies, responds when a product of the insured is faulty and causes a claim.

### *Marine insurance*

Marine is the standard insurance that covers transportation insurance and might be of interest to a company owner if the MSME is shipping its products to purchasers.

### *Travel insurance*

If the Individual under discussion tends to travel, there is "per trip" and annual travel insurance. The meaningful part of such protection addresses accidents and medical expense while on a trip as well as evacuation, if necessary.

If a bank is involved with financing, then there will be a demand for collateral protection (property or life), meaning that the bank wants evidence of insurance. From that angle, there is a trend towards increasing insurance purchases but, more often than not, the person who gets the loan does not even realize that there is an important transaction, leading to his / her personal protection.

### *Takaful Insurance*

Religious persuasion may influence the selection of an insurance company. Individuals who prefer to observe the rules and regulations based on Islamic law have the option to turn for protection to insurers, licensed and approved, to conduct business based on the Islamic concept of Takaful, which is grounded in *Muamalat*.

## Significant Issues

Insurance is still a concept that has not fully taken hold in Indonesia. Many insurance products that are affordable and heavily used in other countries are prohibitively expensive because Indonesia does not yet have a critical mass of insurance consumers to allow providers to offer as many affordable products. Although Indonesia is the most populated nation in Southeast Asia, it is ranked one of the lowest for per capita expenditure on insurance. In a report on the Indonesian insurance market, ResearchAndMarkets states that one of the reasons is the low insurance penetration among different ethnic groups.<sup>93</sup> Josh Franken, an insurance consultant states that the lack of a large enough sales force to reach thousands of islands impedes insurance growth.<sup>94</sup>

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<sup>93</sup> ResearchAndMarkets. (2010). *Indonesia Insurance Market Intelligence*. Web. <[http://www.researchandmarkets.com/reports/1213314/indonesia\\_insurance\\_market\\_intelligence](http://www.researchandmarkets.com/reports/1213314/indonesia_insurance_market_intelligence)>

<sup>94</sup> Franken, Josh. (2010, Mar 22). Analysis: Indonesia: An Expanding Market for Insurance Companies. *Jakarta Post*. Web. <<http://www.thejakartapost.com/news/2010/03/22/analysis-indonesia-an-expanding-market-insurance-companies.html>>

Aside for the low penetration, mandatory business sharing, cost inflating protection of (four) “national” reinsurance companies and a pool of locally incorporated earthquake reinsurance capacity, hinder the development and competitive pricing of private insurance companies. Additionally, pieces of current regulations on insurance are vague, impractical, or leave room for multiple interpretations by different stakeholders. Capitalization and tax rules also hinder a competitive market where the capitalization requirements protect a number of financially weak market players, while tax rules discourage mergers between companies that are only moderately competitive at their current size.<sup>95</sup>

Although there are many challenges, there is incredible opportunity for insurance companies to provide insurance to customers. With momentum, premiums will decrease in price and less wealthy individuals, families and businesses can purchase insurance to protect against unforeseen problems. Recommendations on insurance are included in the “Recommendations” section of this paper.

#### **IV.5 Marketing**

Marketing is defined by the American Marketing Association as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. Marketing is used by companies to identify, attract and appease customers while creating brand awareness. Moreover, marketing covers a company’s competition – what, where, when, why, how, and at what price are all important marketing questions a firm should know about the competition in order to effectively compete. 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.

Even though marketing can be quite a powerful tool, MSMEs often do not use it appropriately if they use it at all. Although the business environment and the usage of marketing strategies differ across countries, the academic literature on MSMEs’ employment of marketing seems generally correct across boarders. Gilmore et al. characterize small firm marketing as haphazard, informal, unstructured, and spontaneous.<sup>96</sup> Additionally, McCartan-Quinn and Carson find that smaller companies do not sufficiently structure their pricing, planning, training, and forecasting.<sup>97</sup> It should not be surprising that MSMEs are less skilled in this realm as they typically have less cash flows, marketing experience, talented staff, and narrower customer base than larger firms. Furthermore, owners or managers of smaller firms tend to micro manage most company operations, including marketing, which they often times no little about.<sup>98</sup> From general discussions in Indonesia with multiple business stakeholders, the trends listed above seems to hold true today.

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<sup>95</sup> Meyer, Peter. (2011). *IBC Position Paper on Insurance*. Jakarta: International Business Council.

<sup>96</sup> Gilmore, A., Carson, D. & Grant, K. (2001). MSME Marketing in Practice. *Marketing Intelligence & Planning*, 19(1). p.6-11. Web. <<http://www.sie.ed.ac.uk/resources/SIE%20Gilmore%20et%20al.pdf>>

<sup>97</sup> McCartan-Quinn, D. & Carson, D. (2003). Issues which Impact upon Marketing in the Small Firm. *Small Business Economics*, 21(2). p. 201-231.

<sup>98</sup> Ibid.

Just because MSMEs face many marketing challenges, does not mean that they do not have any competitive advantages. O'Dwyer argues that MSMEs can be incredibly innovative in creating their marketing strategies, finding new avenues to reach customers and ways to create brand awareness.<sup>99</sup> Moreover, most MSMEs work close to their customers and have a better understanding of their needs. In this regard, the smaller company can tailor products or provide appropriate customer service to their constituency.

Considering the benefits of a solid marketing strategy and the challenges of MSMEs, businesses should consider the most appropriate and effective means to promote their company, reach more customers, and compete in a competitive market place. There are numerous steps or strategies a company can take, but the basics include having a company name and logo, expanding business networks, researching the competition, training staff to consider marketing and the company image, and small scale advertising.

### Brand Image

By building the company image and positively promoting it, customers will remember the company and the services provided. Simply starting the "brand" is free, and every company should have one. To start an image, a company should come up with a short, simple, memorable business name with an appropriate logo. Once name and logo is decided upon, a company should put up a sign at the place of business and include the name and logo on should all company materials including brochures, stationery, business cards, website, shipping containers, documents, etc. Although just starting the brand is free, companies may want to consult a marketing professional to help develop the brand further if there are sufficient resources and the necessity for upgrades.

### Market Research

Market research informs a company manager and its employees on what is going on in the business community, whether local, national, or international, concerning a specific product or service. Market research is incredibly important because it sets the stage for how a company can compete given that other companies are producing and selling a similar good. By conducting enough market research, a firm should be able to designate an appropriate price for the product and additional services required. Moreover, a company can find out how they can be different from the competition by differentiating their product or providing more value added services such as exceptional customer service or technical support. Market research should be completed before starting a business, and should continue throughout the company's existence.

### Networking

Networking gets a company's name and competencies out to a wider audience. By liaising with friends, family, other business people, government officials, and society in general, a business owner or the company's employees can attract more customers. Moreover, personal relationships are typically much stronger than non face-to-face contact, meaning that by networking, a company has a direct means to sell a product. Considering this relatively cheap and easy way to sell more products, business owners or employees should determine who the relevant stakeholders are that would be interested in their product and then find a way to interact with

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<sup>99</sup> O'Dwyer, M., Gilmore, A. & Carson, D. (2009). Innovative marketing in MMMSMEs. *European Journal of Marketing*, 43(1/2). p. 46-61.

them. Additionally, just by passing on the company's information to others, those informed may know somebody in need of the company product. Finally, networking can open up avenues to find new suppliers who may either offer cheaper, improved, or new products that a business could put to use.

Some easy ways in which an entrepreneur or MSME can start networking is by making a business card and passing it out, going to trade shows, attending lectures or discussions on subjects related to a given product, join a business organization, enroll in training classes, or join trade affiliations.

### Advertising

Advertising is used to attract businesses or customers to a company or product. The more effective advertising is, the more customers will flock to the product. As some types of advertising, such as television and internet video ads, can be relatively expensive and require significant design and outside labor, an entrepreneur or MSME should consider what options are available for a given budget. Signs, flyers, advertising in a newspaper, direct mail, and websites are all reasonably priced options available that allows a company to draw more attention to it. Oftentimes, a company can create its own advertisements (written or computer flyers), but outsourcing advertising may be advisable depending on the need and the audience.

### Sales and Training

Sales are the means and methods any company make a profit. Without sales, there would be no customers. As sales is the primary means to generate revenues, a company should train its sales staff and sales support units (customer service, technical service, etc.) to fully understand the product they are trying to sell/support, the customer they are trying to sell or get follow-up business from, and to be generally friendly and approachable to leave the customer with a positive opinion. Company's can conduct in-house trainings where they inform the staff on specific products and customers, they can send employees to seminars or professional sales trainings, have employees enroll in sales classes, implement a probationary sales position, etc. With a strong sales staff and quality product, it is almost guaranteed that a company will generate revenues.

## **IV.6 Legal Services**

A valid form of business 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. A lawyer will help determine the best available legal form for your business, ranging from *Usaha Perseorangan* (Sole Proprietorship), *Firma* (General Partnership), *Persekutuan Komanditer* (Limited Partnership or *Perseroan Terbatas* (Limited Liability Company).

Aside from helping decide which legal form is best suited for the new business, a lawyer also helps a company with the legal challenges of running a business. Engaging in business involves many issues, from hiring employees to tax compliance, from registration of trademarks to the negotiation of business transactions, complicated contracts that may demand a lawyer. A lawyer can identify and obtain required licenses and establish compliance with the country's laws and

regulations. He/she can also provide regular legal advice, as laws and policies change and evolve, to prevent violations and help you make positive and profitable business decisions. Legal advice helps manage your legal and financial risks, protects assets and guarantees compliance with the law, while it also assists with review of documents, negotiation of agreements and, if required, representation in court.

As a startup or small business owner, below are a number of legal challenges an MSME may be encountering everyday:

### *Human Resources*

Employing people requires attention to employment and labor laws. While employment agreements can be verbal or written, fixed term employment relationships need to be in written form. Regarding termination, an employer needs to obtain a permit from the Industrial Relations Court, except if the employee resigns voluntarily or where a probationary period is set out in writing. A severance payment is required if termination takes place and is governed by the length of service, the reason for termination and compensation for rights and entitlements which have not been used by the employee during his/her service.

### *Tax Requirements*

As an employer, you need to withhold, deposit and report tax on the remuneration earned by employees. You must also pay other taxes, like corporate income tax value added tax, luxury sales tax, land and building tax, local government tax and stamp duty. Your lawyer is a resource who can assist with basic knowledge in these areas.

### *Intellectual Property*

Indonesia is party to various conventions relating to intellectual property. To fulfill its obligations under these conventions, it has enacted laws on patents, trademarks, industrial designs, trade secrets, integrated circuits layout designs, plant varieties and copyrights. Lawyers can help with registration and protection of intellectual property, an issue especially interesting for entrepreneurs and business startups.

### *Environmental Legal Requirements*

Indonesia's new environmental law requires an environmental impact assessment, an environmental management effort or an environmental monitoring effort, as well as an environmental permit, which is a prerequisite for your business to obtain a basic business license from the relevant ministry. These requirements, and the absence of proper implementation regulations, require close attention and advice by your attorney.

### *Legal Services supporting the Access to Financing*

Having qualified legal support to review legal documentation for presentation can make a difference to your creditworthiness when you apply for a loan. Banks and lenders tend to see your legal advisor as a sign that a business proposition is serious and therefore bankable. Your lawyer also can explain the terms and conditions of financing, help complete relevant forms, and possibly help you negotiate better rates or terms.

Small businesses are involved in legal transactions every single day. The majority proceeds without incident, but a minority, left unchecked, can pose an unnecessary risk to the health and future of your business. A legal advisor can provide you with the critical assistance you require to avoid common pitfalls and help your business to grow and thrive in an often uncertain environment.<sup>100</sup>

#### **IV.7 Information Technology and Websites**

The evolution of information technology (IT) has had an incredible impact on society and the way companies conduct business. As global economies and firms advance, IT becomes increasingly important as international transactions, complex logistics, data security, web management, advertising, etc. all place increasing demands and conveniences on companies. Moreover, IT facilitates increased interactivity, flexibility, enhanced efficiency, cheap business transactions as well as improved interconnection with business partners and costumers.<sup>101</sup> Based on these benefits, IT is helping MSMEs compete in a world economy largely dominated by multinationals or large firms with significantly more capital to reach new customers and conduct research and development.

Although IT can be an incredibly effective tool for MSMEs to use, there may be challenges in adopting it. Whether a company's mindset is ready for IT, if the IT products are affordable and/or accessible, whether the company's staff is qualified enough to use said IT products, if technical support is available, if the company can protect its data/information/product, etc. can all hamper a business' usage of IT.

Each company should consider the costs and benefits to implementing IT into their business. Sarosa and Zowghi came up with step-by-step criteria on how companies can implement IT systems.<sup>102</sup> First a business must evaluate the need for IT. What is future impact of using IT? How will customers, suppliers, and competitors be affected by adopting IT? What kind of external assistance is available to implement new IT projects? Is the cost of the system worth the business impact? Secondly, a company must consider how its employees can implement the business enhancement. Is the owner/manager supportive of using IT? Are the employees educated enough or is training available on specific IT initiatives? Is somebody capable of maintaining the IT systems? Thirdly, the company must match the IT program to various business activities. Can the system be utilized to improve inter office efficiency, increase capital productivity, link the business to additional customers and suppliers, give the company an edge

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<sup>100</sup> The above piece is written by a lawyer from SSEK. The article is featured in the AmCham Indonesia "The Entrepreneur's Primer: An Introduction to the Professional Services You Need to Help Grow Your Business."

<sup>101</sup> Berisha-Namani, Dr. Mihane. (2009). *The Role of Information Technology in Small and Medium Enterprises in Kosovo*. Web. <[http://www.fulbrightacademy.org/file\\_depot/0-10000000/20000-30000/21647/folder/82430/Berisha+Paper+IT+in+MMMSMEs+in+Kosovo.pdf](http://www.fulbrightacademy.org/file_depot/0-10000000/20000-30000/21647/folder/82430/Berisha+Paper+IT+in+MMMSMEs+in+Kosovo.pdf)>

<sup>102</sup> Sarosa, Samiaji and Didar Zowghi. (2003). *Strategy for Adopting Information Technology for MMMSMEs: Experience in Adopting Email within an Indonesian Furniture Company*. University of Technology, Sydney, Australia.

<<http://www.google.co.id/url?sa=t&rct=j&q=what%20type%20of%20information%20technology%20should%20MMMSMEs%20use&source=web&cd=3&ved=0CDsQFjAC&url=http%3A%2F%2Fciteseerx.ist.psu.edu%2Fviewdoc%2Fdownload%3Fdoi%3D10.1.1.68.7342%26rep%3Drep1%26type%3Dpdf&ei=AqQjT43BJYHJrAf0k7CpCA&usg=AFOjCNELA-3d0p0uoeJADYvAYXXsewZsPQ&cad=rja>>

on the competition, a combination of all these issues? An implementing company must have an action plan when matching the IT system. Finally, after the IT program is implemented, a company must evaluate the program and see how it has evolved. Is the company using the system how it was intended to be used? Have employees found new ways to use the IT? Have sales increased or costs decreased? Is the system in need of an update? The evaluation stage can be one of the most important as it allows a company to gauge how well it is using the system.

### Types of IT services available

There is a plethora of IT services available for MSMEs to adopt. The MSME must determine what can be most effective given the cost. The biggest requirement for implementing any IT service is to be willing to use computers or increasingly smart phone technology. Below are just a few IT services available for MSMEs.

*Email:* Email allows a business to communicate with business stakeholders more efficiently, effectively, and cheaply. With an email system, businesses can send messages to customers, suppliers, and between employees for free (aside from the cost of a computer and internet connection). This minimizes the number of items that needs to be sent by post and lowers the demand for paper products.

*Website:* A website is a simple tool a company can use to establish an e-presence; explaining its mission, goal, and product, reach more customers, put up relevant news, and advertise various products. With a website, a company opens itself to the world of internet users where internet consumption has increased significantly over the past decade. Creating a website does not need to be expensive or challenging. If an owner/manager/employee has basic computer literacy, there are free services available that let individuals open their own websites. If the talent is lacking, a company can outsource its website development, albeit at a cost that is related to how complicated the design is.

*Social media:* Social networks are starting to become more used than search engines as well as email. Although social networks have similar benefits to email and websites, social networks allow companies or individuals to reach an even larger audience. Social networks allow a type of clustering where groups of people “follow” others and institutions throughout the network platform. Through following and others posting information about a company or event, the MSME could advertise quite cheaply.

*Cloud computing:* Cloud computing offers multiple types of software on a large network, where the user only pays for the extent of usage. This allows a company to avoid purchasing potentially expensive software packages that may be used for a limited amount of time. Moreover, there are numerous open source products available that companies can use for free. Now, there are free spreadsheet managers, word processing programs, and presentation programs available online. Also, cloud computing provides similar security to traditional IT protection software.

*E-commerce:* E-commerce transcends the limitation of geographical boundaries, allowing companies to conduct transactions incredibly quickly, around the world, with diverse

customers and suppliers. By effectively harnessing the internet, MSMEs are able to search the international business community for potential partners and suppliers without the need for expensive and time-consuming travel. Moreover, companies can search and locate more high value-added services that can be delivered via e-commerce at relatively low costs. Online banking, trading platforms, commercial websites, etc. is all examples of e-commerce that can make business cheaper, more efficient, and exposed to greater diversity in products.

Indonesia has embraced IT relatively well and is even leapfrogging (skipping over) less useful technologies and utilizing the most cutting edge resources to enhance business. For example, Indonesia is one of the world's largest users of Facebook, a social media website that allows individuals to connect with others, including entrepreneurs and small businesses. Moreover, there are a number of successful internet startups such as SITTI, an online advertiser, and kaskus.com, the Indonesian e-Bay. Additionally, mobile devices and smart phones are becoming more widespread, allowing MSMEs to more easily connect with suppliers, customers, and gain market information on prices and quality. Indonesia is also working on implementing mobile phone banking and issuance of government services, where less wealthy or distant individuals could receive benefits via their hand phone.

Although the usage of IT in Indonesia has grown exceptionally over the past decade, many entrepreneurs and MSMEs, especially in more rural areas, could benefit exceptionally from using IT if trained properly with reliable access to the internet. Indonesia's internet infrastructure is not yet capable of servicing all communities while it can be prohibitively expensive for some in different areas. Additionally, many in rural areas do not know how to effectively use computers. Aside from access and training, even though Indonesia's intellectual property law is reasonable, there are problems in its enforcement where digital piracy is widespread. This undermines individuals desire to create and implement new products that could be profitable. Considering the costs and benefits to using IT, Indonesia should actively promote IT trainings, support intellectual property, and continue developing the IT sector.

#### **IV.8 Conclusion on Business Services**

Professional business services can provide growth opportunities, protection, and enhanced efficiency. Moreover, all of these services are currently available in Indonesia. All MSMEs should develop a business plan, addressing their budget and needs and their plans to increase business over time. Of course core business operations are the first to be considered, but after establishing the core business, company owners should utilize the other services out there that increase a company's potential. As accounting tracks a company's cash flow and balance, it should be continuously updated, keeping current accounts organized. Insurance can be used to protect individuals and property, protecting against unforeseen disaster and acting as collateral. Marketing can help reach new customers and find better suppliers, while IT can be employed to do the same while also increasing a company's potential to innovate and improve efficiency. Finally, legal services can help with contracts, permitting, lawsuits, human resources, etc. providing legal certainty to a business entity.

As previously mentioned, most Indonesian MSME owners/managers are averse to using professional business services. By promoting and socializing professional business services, more Indonesian MSMEs will utilize them, enhancing their formal status, becoming more efficient, and more capable of competing domestically and internationally. Moreover, as professional business services are more heavily consumed, the price can be expected to decrease as service providers compete for business and utilize economies of scale, using models, templates and a larger work force to reach larger audiences. This will have the added effect of increasing demand for professional labor, diversifying the workforce and pushing universities to offer more professional education.

By encouraging the usage of professional services, MSMEs benefit from enhanced operations, service providers get more business, costs will decrease, the education system will improve, and the economy will further diversify out of extractive industries and agriculture to more service provisions. Everybody wins if there is sufficient demand for the multitude of products already supplied.

## **Chapter V: Conclusions and Recommendations**

A majority of MSMEs in Indonesia are dominated by micro enterprises. These companies have low productivity, little or no technology usage, poor quality products, and operate only in local markets. These companies can only survive for certain periods of time, but most face closure or have problems upgrading their business to compete within the greater market. Some of the main problems include access to financing, access to quality human resources, and difficulties in registering a business to become a legal company. Indonesian mindset of simply follow along and only wants to become regular worker with fixed income also partly to blame.

In order to support and encourage the growth of entrepreneurs in Indonesia as part of the government's program in achieving the target of 2 percent entrepreneurs of the total population by 2030, the SEBAR team provides ten recommendations based on the information gathered from discussion forums and interviews with respective stakeholders as well as a thorough literature review.

### **V.1 Provide “Businesses in a Box,” Netbooks for Small Businesses and Connectivity**

The Indonesian central government 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.

The netbook will come preprogrammed with links to a government sponsored SME Cloud and drop down help menus for general business questions such as; How do I register a company? What documents are necessary to get a bank account? How do I write a business plan? Etc. On the government operated SME Cloud, there should be links to free Google Docs which include a word processing program, presentation software, a spreadsheet application, a form creator, and a drawing tool. The cloud should be accompanied with tutorials in Bahasa Indonesia that explains how to use each program and what they can be used for. By utilizing the SME Cloud, users can access services and software which was previously too expensive or inaccessible for a micro or small business, but now provided virtually for free, allowing businesses to enhance their operations.

Moreover, the SME Cloud should have standardized templates for permitting applications through the local one-stop-shop, basic profit and loss and balance sheet templates, a template for the annual report, and bank loan forms with prompts on how to complete a loan application. Not only will these templates teach a business owner how to accurately complete the forms, but they can also be submitted online directly to the institution responsible for servicing respective needs. This will save an incredible amount of time as the SME owner will be unable to submit an incorrect application and the tutorial will show where the errors are, the government worker would not have to review an incorrect application, and travel time is reduced from fewer trips to various institutions. Also, the government could provide evaluation services (at a cost) online, where an employee analyzes a company's online materials and the analyst could use his/her

specific expertise to give useful suggestions. This process will greatly improve both business people and governmental efficiency.

Additionally, the computer could come with a camera or the recipient should be encouraged to buy one his/herself. With the camera, the government could provide specific web-seminars on how to do certain businesses or processes, employees and owners could link with others in similar businesses to discuss best practicing and input pricing, distant managers could conduct meetings online, while businesses could ask service providers directed questions on the benefits of using said service. This will create linkages through the ever expanding network, where companies can find new suppliers and customers. Also, larger companies can be given limited access (for a price) to the network to find either the cheapest or the closest MSME suppliers. The connectivity itself could substantially increase basic business activities.

Finally, an award point system should be implemented that would encourage usage of the system and allow the businesses to purchase online services with the points accrued. Points could be awarded for logging into the system, using cloud services such as the accounting template, or attending the webinar. Online services that could be purchased online should be accounting service software, a consultation with a professional business service provider, special web seminars, etc.

Although the program seems complicated and expensive, it should be able to be done at a reasonable cost, where funding comes from various sources. Initially, the government would need to purchase servers and hire programmers to create the SME Cloud. Next, netbooks and flash modems would need to be purchased and delivered to the pilot area and program beneficiaries. Finally, all services would need to be updated and maintained. To help fund the program, government banks that offer micro financing services can advertise on the cloud, and pay for this service. By advertising and posting their information on the cloud, the banks could expect more business. Additionally, by the banks linking with the cloud and finding more customers, borrowers can start accumulating a credit history where the bank easily monitors repayment rates and size of loans. Finally, as the program grows, it could attract other service providers who want to advertise on the network and provide online services. Once the program shows success and is making revenues, the government can turn the operation into a state owned enterprise where the company leases out the netbooks together with the flash modems at an affordable price. Even though the computers will be subsidized, advertising revenues and partnerships with businesses will make the institution profitable while simultaneously enhancing domestic businesses.

## **V.2 Create an Independent Credit Bureau**

Currently, Indonesia does not have a comprehensive independent credit rating agency that sufficiently reviews companies and individuals aptitude to receive and repay loans. Even though the Bank of Indonesia tracks commercial loans, it does not check and rate credit card debt, micro finance transactions, cooperatives' lending services and other forms of consumer financing. By creating a stand-alone credit rating agency, independent from the government, this company could more accurately gauge credit worthiness and adjust interest payments to fit risk exposure. Moreover, the credit bureau can supply services such as fraud prevention, risk management,

credit and mortgage reports, tenant and employment screening services, and collection services.<sup>103</sup>

The credit bureau could be self funded where it sells the information about customer creditworthiness 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. Credit rating agencies increase the range of investment alternatives and provide independent, easy-to-use measurements of relative credit risk, increasing market efficiency, and lowering costs to borrowers and lenders. This increases the total supply of risk capital in the economy, leading to stronger growth.<sup>104</sup> By creating a credit rating agency, more consumers will gain access to capital, allowing them to increase business activities which will support the Indonesian economy and help the country reach advanced economy status.

### **V.3 Ease the Process for Foreigners to Take an Equity Stake in Indonesian Companies and Keep Minimum Capital Requirements to a Minimum.**

The Indonesian investment regime is continuously trying to enhance the means and methods to direct capital into growth industries to strengthen Indonesian business competitiveness and viability. Although Indonesia has experienced a recent influx of domestic and foreign investment, more is needed to achieve the ambitions listed in the Economic Master Plan and the ultimate goal of becoming an advanced, top-performing economy. One way the 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. In doing so, BKPM should keep the minimum capital requirement for foreign investment into MSMEs to a minimum level to encourage profuse small investment to needy companies.

MSMEs account for 99 percent of Indonesian enterprises and employ over 99 million Indonesians. Moreover, 98 percent of MSMEs have zero foreign investment in their companies while many could certainly benefit from improved access to foreign capital. Currently, the way in which Indonesian investment law is structured under the Investment Law 25/2007, Company Law 40/2007, and SME Law 20/2008, foreign investors are limited in their ability to maintain equity stakes in Indonesian companies. Moreover, even though improvements have been made, the processes to channel investment can take too long for savvy investors who want to take advantage of opportune moments in time. Additionally, while BKPM purports that domestic and foreign investment will be treated equally practice shows otherwise as minimum capital requirements may require an exorbitant amount of money for a fledgling company. Recently, it has been stated that any PMA will require \$1 million USD minimum capital, pushing an MSME entirely out of the MSME category, eliminating any benefits given to the MSME classification while simultaneously shrinking the number of investors into smaller Indonesian companies.

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<sup>103</sup> Reference for Business. (2012). *Credit Bureaus*. Web. <<http://www.referenceforbusiness.com/small/Co-Di/Credit-Bureaus.html#b>>

<sup>104</sup> Securities Exchange Commission. (2011). *The Investors Advocate; How the SEC Protects Investors, Maintains Market Integrity, and Facilitates Capital Formation*. Web. <<http://sec.gov/about/whatwedo.shtml>>

Aside for restricting Indonesian MSMEs access to financing, enforcing such a high minimum capital requirement will shut down a number of the entrepreneurship promotion groups functioning in Indonesia today. Both GEPI and MEKAR use foreign capital to channel money into promising, needy Indonesian startups and MSMEs. Not only do these groups channel money, but they also train business owners how to make business plans, run a business, create networks, etc. By enforcing a \$1 million capital requirement, such organizations will find it difficult to fund the program and support these companies.

#### **V.4 Improve People Based Small Business Loans (KUR) socialization**

The Indonesian government has succeeded in implementing the People Based Small Business Loans (Refer to chapter II) program which provides more flexible loans to previously unbankable individuals. Unfortunately, based on our interviews and forums, there are still many entrepreneurs and MSMEs that do not know how to apply the KUR nor the benefit of having it. Some small business owners still have the stigma that they should not take any type of loan, whether it be from a bank or a government grant which functions as a loan, albeit at a lower interest rate or without a collateral requirement.

Therefore, the 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. The socialization should give detailed information about the lending process of KUR, information about 5C (character, capacity, capital, collateral, and condition) characteristics, and the benefits and future prospects to companies receiving KURs or the People Based Small Business Loans implemented in their business.

#### **V.5 Create a Government Supported Entrepreneur Incubator Institution**

Under the National Entrepreneur Movement (*Gerakan Wirausaha Nasional*), thirteen government ministries, coordinated by the Coordinating Ministry of Economy supports the long term plan to create 4.8 million entrepreneurs by 2030. Currently, each ministry independently operates their own entrepreneurship development activities. To save on resources, avoid overlapping work, and reach more entrepreneurs, the government should synergize the programs of the thirteen ministries into one centralized entrepreneurship program with satellites in different districts.

This government incubator institution can help new startups by providing 7S, which are: Space, Shared office facilities; Service (coaching and management consultation such as marketing, finance, production, and technology); Support (support in research and development and access to technology); Skill development (trainings, making business plan); Seed capital (providing start-up capital and channeling for access to MFIs); Synergy (the establishment of business networking for entrepreneur). By having this centralized incubator institution, the government can take the best proven projects from the thirteen ministries and establish a pilot project with promising entrepreneurs. If the pilot proves successful in its implementation and the selected entrepreneurs are able to survive on their own after the training, then in the future, the government could extend branches into other districts providing services to spark Indonesian entrepreneurship based on local competitive advantages.

The 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. Monitoring and evaluation has not occurred because many ministries were mandated to start entrepreneurship programs, and they did not choose to, while some ministries do not have the necessary and sufficient manpower to adequately evaluate programs implemented. Thus, ministries are only obligated to implement a program that fits into their budget without really caring about the actual impacts. With a specific institution made specifically for dealing with business incubators, the monitoring and evaluation process can more efficiently analyze programs, where the government can better calculate how many new entrepreneurs were made, and to what extent the incubator program created lasting impacts.

## **V.6 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. This “Angel Bank” can serve as pool of funds where people can deposit investment capital while the bank can use interbank lending rates, and then provide financing to entrepreneurs more cheaply, with the risk falling on the shoulders of the investor.

The angel investors who invest their money in this “Angel Bank” will get their return on investment in the form of profit sharing or interest on provided loans. The amount of the return will be based on the amount of money invested and the measured level of risk per company (this could be combined with the credit bureau recommendation).

This “Angel Bank” can also have a joint program with the government incubator institution (Recommendation 5) where the incubator will provide businesses that have already passed through the incubator, are showing potential to grow, and are open to receiving external financing. Moreover, “business in a box” companies can be monitored online to see which companies could use outside financing and generate profits through expansion.

This type of “Angel Investment” can fill the space needed in the financing gap between startup and growth stage. With this Angel Bank, MSMEs will have access to an institution that can provide lower interest rates, require less collateral, and allow for profits and growth. Upon reaching sustainable business operations and creating a credit history, the companies can then go to a commercial bank for their future financing needs.

## **V.7 Standardize the Business Registration Process throughout Indonesia**

As previously mentioned, decentralization allows local districts to create their own regulations whether or not they are in line with national regulations. These differences make it confusing for entrepreneurs to appropriately register their business in different regions. Moreover, differences

allow local governments to implement additional user charges and open additional outlets for corruption, which creates an additional cost and time to entrepreneurs.

To avoid this, 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. Although the one-stop-shops are attempting to standardize the business registration process, more effort is needed to implement the same programs across the country.

### **V.8 Promote the Procedure of Business Registration and the Existence of One-Stop-Shop (OSS)**

As decentralization allows each local government to create their own local regulations that may differ from national regulations, many entrepreneurs do not have the necessary information on which permits should be obtained for their respective business. This lack of information will make those entrepreneurs reluctant and afraid to register their companies as they are exposed to corrupt officials that prey on their ignorance of proper business licensing procedures. On the other hand, the existence of OSS likes *Pelayanan Terpadu Satu Pintu* (PTSP) or *Kantor Pelayanan Perizinan Terpadu* (KPPT), helps entrepreneurs register their business by simplifying the process and reducing their time and costs needed. Unfortunately, many entrepreneurs do not yet know of the OSS.

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. Their way to promote this information could be done through seminars or by collaborating with business incubators such as GEPI or MEKAR, or at the university level so they can help and encourage their students to become entrepreneurs. Additionally, GOI could simply post flyers up in public places that describe the benefits to using the OSS. By simply informing stakeholders about the OSS, the business permitting process will improve naturally.

### **V.9 Implement Online Business Registration**

Entrepreneurs will be reluctant to deal with the OSS or any other government department if there is no standard or transparent fee schedule for license applications. Not to mention, the long and expensive business registration process that deters many entrepreneurs from formalizing their respective business. To encourage trust in the local government and expand the tax base, the GOI should distribute relevant information through public information boards in the OSS office as well as leaflets distributed to the public and websites. The availability of transparent standard information is important to reduce the role of intermediaries, as well as to reduce the extraction of unofficial rents. OSS also could introduce electronic payment systems so applicants no longer need to use cash. Government also could try to implement online company registration which could drastically reduce the cost and time needed to register their company.

There are many benefits that could be gain from online registration, firstly it removed the need to come directly to the OSS or other government's body to get the form and to submit the filled form or other document related to the company registration. On the other hand, online registration also includes guidance and information regarding how to register the company. Moreover, registration procedures could be completed in one day without having to deal with the complicated manual or paper filling forms. With online business registration, each government's department also can easily coordinate with each other when the need to change or revise the database is needed. Business online registration is benefited both the company owner to register and also government to keep track of the company and business that operate in Indonesia.

#### **V.10 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. The purpose of this survey is to get a detailed perspective of what kind of financing and supporting programs that MSMEs in Indonesia really need for further development.

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## Appendix 1: SEBAR Survey English

### Profile

1. What industry do you work in?

\_\_\_\_\_

2. Is your company a family business or did you start it yourself?

- A. Family
- B. Personal
- C. Other \_\_\_\_\_ (please explain)

3. Which permits does your company hold (circle all that apply)?

- A. Trading
- B. Industrial
- C. Registration (formal business registration)
- D. Building
- E. Nuisance
- F. Other (please list) \_\_\_\_\_
- G. None

4. What are the benefits to registering your company?

- A. Increased access to financing
- B. Increased access to governmental business development services
- C. Protections from the government
- D. Increased opportunity to import or export
- E. Tax breaks
- F. Reduced “facilitation” payments from government officials / police
- G. Other (please list) \_\_\_\_\_

5. How many years has your company been operating?

- A. 0 – 1
- B. 1 – 3
- C. 3 – 5
- D. 5 – 7
- E. 7 – 10
- G. 10 ++

6. How many employees do you have?

- A. 1-5
- B. 6-10
- C. 11-15
- D. 16-20
- E. 21-25
- F. 26-30
- G. 31-35
- H. 36-40
- I. 41-45
- J. 45++

7. Are a majority of your employees formally employed (on a contract)?

- A. Yes
- B. No
- C. Other \_\_\_\_\_(please explain)

8. Do you pay taxes?

- A. Yes
- B. No

9. How much in revenues does your company receive a year?

- A. Rp. 0 – 50 million
- B. Rp. 51 – 100 million
- C. Rp. 101 – 150 million
- D. Rp. 151 – 200 million
- E. Rp. 201 – 250 million
- F. Rp. 251 – 300 million
- G. Rp. 301 – 350 million
- H. Rp. 351 – 400 million
- I. Rp. 401 – 450 million
- J. Rp. 451 – 500 million
- K. Rp. 551 – 600 million
- L. Rp. 600 million ++

10. What are the top 3 challenges for your Business?

- A. Access to quality employees
- B. Availability of materials/inputs
- C. Information regarding procedure establish Company
- D. Indonesian Law (permits, regulation)
- E. Import/export procedures
- F. Slow or lost sales
- G. The unpredictability of business conditions
- H. Customers not making payments/paying late
- I. Cost of real estate
- J. An inability to obtain credit
- K. The cost and/or terms of credit
- L. Intellectual property protection
- M. Competition from globalization
- N. Other \_\_\_\_\_(please explain)

11. Have you applied for a formal loan?

- A. Yes
- B. No

12. Have you tried to find equity investors?

- A. Yes
- B. No

13. If yes, have you looked for international investment?

- A. Yes
- B. No

14. Where do you get your company's financing?

- A. Personal savings
- B. Family and friend investments
- C. Informal money lender
- D. Bank loan
- E. NGO financing
- F. International organization financing
- G. Government grant
- H. Microfinance institution
- I. Other\_\_\_\_\_ (please explain)

15. What was the outcome of your loan application?

- A. Always approved
- B. Sometimes approved and sometimes denied
- C. Always denied

16. Why was your loan application denied?

- A. Insufficient collateral
- B. Loan too large
- C. Inadequate documentation
- D. Business credit history
- E. Personal credit history
- F. Business too new
- G. Restrictions on lending
- H. Other\_\_\_\_\_ (please explain)
- I. Did not apply for credit when needed for fear of denial
- J. Did not seek external equity financing for fear of denial

17. What type of collateral do loans typically require?

- A. Accounts receivable
- B. Company assets
- C. Vehicle/Equipment
- D. Security deposit
- E. Business real estate
- F. Personal real estate
- G. Other personal assets
- H. Other \_\_\_\_\_(please explain)

18. What are you doing to increase business activities?

- A. Nothing
- B. Opening new outlets
- C. Creating new products
- D. Marketing and advertising
- E. Implementing new technology
- F. Finding business partners to add services/products

19. Where are you getting funding to increase business activities?

- A. Personal savings
- B. Family and friend investments
- C. Informal money lender
- D. Bank loan
- E. NGO financing
- F. International organization financing
- G. Government grant
- H. Microfinance institution
- I. From profits of company operations

20. What government agencies/programs or NGO small business facilities do you use to help improve your business?

- A. Ministry of Cooperatives and Small Scale Industries
- B. Small scale industrial estates
- C. Small business consultancy clinics
- D. Ministry of Industry
- E. Ministry of Trade
- F. Foster Father Scheme (since 1992)
- G. Government extension officers
- H. Government technical service units
- I. AKHKI (Intellectual Property Assistance Group)
- J. DGIP (Direktorat Jenderal Hak Kekayaan Intelektual)

K. Other \_\_\_\_\_(please explain)

21. If you could have any business service for free what would it be?

A. Accounting

B. Marketing

C. Lawyer

D. IT training and support

E. Website design and management

F. Insurance

G. Logistics management

H. Lawyer

I. Financial planner

J. Human resources management

K. Recruiter

L. Other \_\_\_\_\_(please list service)

## Appendix 2: SEBAR Survey Bahasa Indonesia

Nama :  
Nama Perusahaan :  
Alamat Email :

1. Perusahaan anda bergerak dalam bidang apa?  
\_\_\_\_\_

2. Apa perusahaan anda merupakan perusahaan keluarga atau anda rintis sendiri?

- A. Keluarga
- B. Sendiri
- C. Lainnya \_\_\_\_\_ (tolong sebutkan)

3. Apa saja ijin yang perusahaan anda miliki (beri tanda pada yang sudah anda miliki)?

- A. Registrasi Perusahaan
- B. Usaha Perdagangan
- C. Usaha Industri
- D. Mendirikan Bangunan
- E. Gangguan Tempat Usaha
- F. Lainnya (tolong sebutkan) \_\_\_\_\_
- G. Belum Punya

4. Apa keuntungan yang anda rasakan setelah mendaftarkan perusahaan anda?

- A. Mempermudah akses mendapat pendanaan dan pinjaman dari bank dan investor
- B. Mempermudah akses program pengembangan bisnis yang dilakukan pemerintah
- C. Perlindungan dari Pemerintah dan Hukum
- D. Mempermudah akses dan prosedur ekspor dan import
- E. Kompensasi Pajak
- F. Melindungi perusahaan dari pungutan liar yang muncul
- G. Lainnya (tolong sebutkan) \_\_\_\_\_

5. Sudah berapa tahun perusahaan anda beroperasi?

- A. 0 – 1
- B. 1 – 3
- C. 3 – 5
- D. 5 – 7
- E. 7 – 10
- G. 10 ++

6. Berapa jumlah karyawan yang anda miliki?

- A. 1-5
- B. 6-10
- C. 11-15
- D. 16-20
- F. 26-30
- G. 31-35
- H. 36-40
- I. 41-45

E. 21-25      J. 45++

7. Apakah sebagian besar karyawan anda terikat oleh kontrak secara resmi?

- A. Ya
- B. Tidak
- C. Lainnya \_\_\_\_\_(tolong sebutkan)

8. Apakah perusahaan anda membayar pajak?

- A. Ya
- B. Tidak

9. Berapa besar laba yang perusahaan anda hasilkan setiap tahunnya?

- A. Rp. 0 – 50 Juta
- B. Rp. 51 – 100 Juta
- C. Rp. 101 – 150 Juta
- D. Rp. 151 – 200 Juta
- E. Rp. 201 – 250 Juta
- F. Rp. 251 – 300 Juta
- G. Rp. 301 – 350 Juta
- H. Rp. 351 – 400 Juta
- I. Rp. 401 – 450 Juta
- J. Rp. 451 – 500 Juta
- K. Rp. 551 – 600 Juta
- L. Lebih dari Rp. 600 Juta

10. Beri tanda silang kepada 3 hal yang menurut anda menjadi tantangan utama bagi perusahaan anda dalam beroperasi?

- A. Akses kepada tenaga kerja berkualitas
- B. Kemudahan memperoleh bahan baku atau *input*
- C. Informasi tentang prosedur pendirian perusahaan
- D. Undang-undang yang berlaku tentang pendirian perusahaan
- E. Prosedur untuk ekspor dan import
- F. Pendapatan yang menurun atau merugi
- G. Ketidakpastian situasi industri
- H. Pembayaran yang tertunda dari konsumen
- I. Biaya pembangunan dan pembelian tanah
- J. Sulitnya memperoleh pinjaman dan utang dari bank
- K. Beban dan bunga dari pinjaman yang berhasil didapatkan
- L. Perlindungan bagi properti intelektual
- M. Persaingan akibat dari globalisasi
- N. Lainnya \_\_\_\_\_(tolong sebutkan)

11. Apakah anda pernah mengajukan pinjaman terhadap bank?

- A. Ya
- B. Tidak

12. Apakah anda pernah mencoba mendapatkan modal dari investor?

- A. Ya
- B. Tidak

13. Bila jawaban anda ya, apakah anda pernah mencoba mendapatkan modal dari investor asing?

- A. Ya
- B. Tidak

14. Darimana anda mendapatkan modal untuk mendanai perusahaan anda?

- A. Uang Pribadi
- B. Modal dari anggota keluarga dan teman-teman
- C. Pinjaman dari pihak tidak resmi
- D. Pinjaman dari bank
- E. Bantuan dana dari NGO
- F. Pendanaan dari organisasi internasional
- G. Bantuan dana dari Pemerintah
- H. Institusi pendanaan skala kecil
- I. Lainnya \_\_\_\_\_ (tolong sebutkan)

15. Bagaimana hasil dari proses pengajuan pinjaman perusahaan anda?

- A. Selalu disetujui
- B. Kadang disetujui, kadang tidak disetujui
- C. Selalu tidak disetujui

16. Apa alasan dari penolakan pengajuan pinjaman anda?

- A. Jaminan yang tidak mencukupi
- B. Jumlah pinjaman yang terlalu besar
- C. Dokumen yang kurang lengkap
- D. Catatan tentang pinjaman perusahaan di masa lalu
- E. Catatan tentang pinjaman pribadi di masa lalu
- F. Perusahaan dan bisnis terlalu baru
- G. Adanya larangan untuk pengajuan pinjaman
- H. Lainnya \_\_\_\_\_ (tolong sebutkan)
- I. Tidak mengajukan pinjaman karena ragu akan disetujui
- J. Tidak mencari pendanaan dari luar karena ragu akan disetujui

17. Apa jaminan yang biasanya diminta dalam pengajuan pinjaman?

- A. Surat Piutang
- B. Aset perusahaan
- C. Kendaraan atau peralatan
- D. Uang jaminan
- E. Tanah dan bangunan yang dimiliki perusahaan
- F. Tanah dan bangunan yang dimiliki pribadi
- G. Aset pribadi lainnya
- H. Lainnya \_\_\_\_\_ (tolong sebutkan)

18. Apa yang anda lakukan untuk mengembangkan perusahaan anda?

- A. Tidak ada
- B. Membuka kantor baru
- C. Menciptakan produk baru
- D. Melakukan promosi dan pemasaran
- E. Memanfaatkan teknologi baru
- F. Mencari rekan usaha untuk meningkatkan produksi atau layanan

19. Darimana anda mendapatkan modal untuk mengembangkan perusahaan anda?

- A. Uang Pribadi
- B. Modal dari anggota keluarga dan teman-teman
- C. Pinjaman dari pihak tidak resmi
- D. Pinjaman dari bank
- E. Bantuan dana dari NGO
- F. Pendanaan dari organisasi internasional
- G. Bantuan dana dari Pemerintah
- H. Institusi pendanaan skala kecil
- I. Keuntungan yang diperoleh perusahaan

20. Apakah ada departemen pemerintah atau LSM yang membantu anda dalam mengembangkan perusahaan anda?

- L. Departemen Koperasi dan Usaha Kecil dan Menengah
- M. Kawasan Industri Kecil
- N. Konsultan bisnis usaha kecil dan menengah
- O. Departemen Perindustrian
- P. Departemen Perdagangan
- Q. Bapak Angkat Mitra Usaha
- R. Government extension officers
- S. Government technical service units
- T. Asosiasi Konsultan Hak Kekayaan Intelektual
- U. Direktorat Jenderal Hak Kekayaan Intelektual
- V. Lainnya \_\_\_\_\_ (tolong sebutkan)

21. Bila anda bisa mendapatkan bantuan dan asistensi secara cuma-cuma untuk perusahaan anda, bidang apa yang anda inginkan?

- M. Pembukuan
- N. Pemasaran
- O. Advokasi
- P. Pelatihan dan Bantuan TI
- Q. Desain dan manajemen situs perusahaan
- R. Asuransi
- S. Manajemen Logistik
- T. Manajemen Operasional
- U. Perencanaan Keuangan
- V. Manajemen Sumber Daya Manusia
- W. Penerimaan dan Pencarian Karyawan Baru
- X. Manajemen Strategi Perusahaan
- Y. Lainnya \_\_\_\_\_ (tolong sebutkan)