5. National programmes for SMEs and entrepreneurship in Indonesia

This chapter describes and assesses national programmes in support of SMEs and entrepreneurship in Indonesia, covering the following thematic policy areas: access to finance, innovation, internationalisation, workforce training, entrepreneurship education, social entrepreneurship, target groups and public procurement. Indonesia's flagship programme for SMEs is the People's Business Credit Programme (Kredit Usaha Rakyat, KUR), a large-scale microcredit instrument that combines a loan guarantee with an interest rate subsidy. Incubators and e-commerce have also been prioritised through the development of two government roadmap strategies, while support to SME internationalisation remains relatively limited in scope and scale, in part because of the limited involvement of Indonesian SMEs in export activity. Both entrepreneurship and management training (outside the education system) and entrepreneurship education (within the education system) are relatively common, while existing initiatives targeting specific population groups such as youth and women are relatively small in scale.

Financing programmes

The Kredit Usaha Rakyat (KUR) Programme

Indonesia's main access to finance programme for SMEs is the *Kredit Usaha Rakyat* (KUR, i.e. People's Business Credit), which has been in place since 2007. The overarching objectives of the KUR Programme are to support the development of the SME sector, to reduce poverty and to reinforce social inclusion by boosting SME lending and improving the relationships between financial institutions and SMEs. KUR is effectively a large-scale microcredit programme providing cheaper credit than otherwise available at market conditions to micro and small enterprises.

The government supervises the KUR Programme through its Finance and Development Supervisory Agency (*Badan Pengawasan Keuangan dan Pembangunan*, BPKP), while Bank Indonesia oversees the banks that participate in the programme. Given its targeting of poverty alleviation, KUR also falls under the responsibility of the National Task Force for the Acceleration of Poverty Reduction (*Tim Nasional Percepatan Penanggualangan Kemiskinan*, TNP2K), which has the mandate to co-ordinate poverty alleviation policies in Indonesia.

Between 2007 and 2014, KUR was a standard government guarantee scheme offering bank loan guarantees to small businesses. The government injected capital into the two state-owned credit guarantee companies (CGCs), i.e. JAMKRINDO and ASKRINDO, and additionally covered the cost of the guarantee fee that participating banks had to pay into the two CGCs. The two CGCs covered between 70% and 80% of the losses incurred by commercial banks on their KUR-backed loans.

By 2014, KUR was already a large programme, backing loans worth IDR 49.5 trillion, i.e. about 14% of total outstanding SME loans (World Bank, 2017). The rate of KUR non-performing loans (NPLs) was only 3.3%, which is low by international standards. While there is no comprehensive information on the default rates of national credit guarantee programmes, Indonesia's KUR default rate was lower than that of similar programmes in Spain (6.1% before the global recession and 12.7% in its immediate aftermath) or Italy, where 50% of local mutual guarantee societies were registering net losses in the wake of the 2008 global recession (OECD, 2012).

The KUR Programme was significantly overhauled in 2015, when the loan guarantee was matched by an interest rate subsidy to allow banks to lend to SMEs at a capped interest rate. The interest rate subsidy also covers the guarantee fees which banks pay into to the two CGCs. In doing so, the main objective of KUR has moved from favouring access to finance for SMEs to promoting cheaper finance for SMEs.

In the revamped version of KUR, there are two main types of loans: micro loans (up to IDR 25 million) and retail loans (between IDR 25 million and IDR 500 million). The interest rate was capped at 12% for both types of loan in 2015 and 9% from 2016 onwards. The interest rate subsidy corresponds to 10% of the loan amount in the case of micro loans and 4.5% in the case of retail loans. Contrary to the previous version of the scheme where the guarantee coverage ratio was set by the government, this is now directly agreed by banks and CGCs, which should in principle lead to better market-based outcomes. As many as 34 banks are enrolled in the programme, although state-owned *Bank Rakyat Indonesia* (BRI, i.e. People's Bank of Indonesia) plays a major role in the scheme, and almost all economic sectors are eligible to apply. Table 5.1 provides a snapshot of the major features of KUR before and after the 2015 reform.

Table 5.1. Main features of old and new KUR Programme

Aspect	KUR 2007-2014	KUR 2015 onwards
Loan size	Micro: up to IDR 20 million Retail: between IDR 20 million and IDR 500 million Linkage*: up to IDR 2 billion	Micro: up to IDR 25 million Retail: between IDR 25 million and IDR 500 million
Maximum effective interest rate p.a.	Micro: 22% Retail: 14%	Micro and Retail: 12% (2015); 9% (2016 onwards)
Maximum tenor	Investment capital: 5 years Working capital: 3 years	Investment capital: 5 years Working capital: 4 years
Partial risk guarantee (Wholesale credit guarantee)	Pari-passu 70% (in general) and 80% (for priority sectors: agriculture, fishery and small industries) on the outstanding amount and accrued interest for banks with NPL below 5%.	Negotiated and agreed between banks and CGCs
CGCs fees	Stipulated by the government and paid to CGCs 2007-2009: 1.50% 2010-2014: 3.25% of guaranteed part of the loan	Negotiated and agreed between banks and CGCs, reportedly facilitated by KUR Committee, upfront 1.5% of loan amount
Interest rate subsidy	None	Micro: 10% of loan amount paid as subsidy Retail: 4.5% of loan amount paid as subsidy Interest rate subsidy calculated based on monthly outstanding amount and paid directly to the bank. Includes credit guarantee fee

Note: *Linkage loans are loans to rural banks and other microfinance institutions that implemented KUR micro loans. In the 2015 version, KUR investment loans can be up to seven years if the loan is prolonged, the nominal amount is increased or restructured.
Source: World Bank (2017), *Indonesia Economic Quarterly March 2017: Staying the Course*, World Bank, Indonesia Office, Jakarta.

Topping up the credit guarantee with an interest rate subsidy has had major budgetary implications for the KUR Programme. A report by the World Bank estimates that, once direct and indirect subsidies are calculated, the subsidy component of the KUR Programme amounted to IDR 12.3 trillion (USD 885.6 million) in 2016, ten times more than under the previous version of the programme and 14.8% of the KUR outstanding loan balance (World Bank, 2017). For 2017, the government allocated an additional IDR 9.5 trillion (about USD 684 million) to pay for the KUR interest rate subsidy.

As a result, the KUR Programme has taken a new prominence in the landscape of Indonesian SME policies. In 2016, the total loan amount disbursed through KUR was IDR 94.4 trillion, i.e. 22% of total outstanding micro and retail loans (IDR 423 million), with the 2017 target set even higher at IDR 110 trillion (World Bank, 2017). In addition, in 2016, of the total KUR loans of IDR 94.4 trillion, IDR 65.6 trillion (69%) was disbursed through micro loans, IDR 28.7 trillion via retail loans (30%), and IDR 177 billion (less than 1%) via migrant worker loans.

Table 5.2 points to a strong variation in the distribution of KUR loans among provinces: in 2016 Bali had the highest KUR loan value per person (IDR 941 000) and North Kalimantan had the lowest (IDR 99 000). The coefficient of variation across all provinces, a statistical measure of variance from the mean, is 37%. When Bali and North Kalimantan are not taken into consideration because they have opposed extreme values the coefficient of variation drops to 29%.

Table 5.2. Allocation of KUR loans by province, 2016

Million rupiahs (Total budget)

Province	Total Budget	Micro	Retail	Migrant Worker	Population	IDR/person
Central Java	16 927 926	12 609 506	4 256 736	61 684	32 382 657	522 747
East Java	14 580 166	10 248 000	4 301 202	30 964	37 476 757	389 046
West Java	11 958 824	8 887 475	3 037 134	34 216	43 053 732	277 765
South Sulawesi	5 118 398	3 868 119	1 249 936	342	8 034 776	637 031
North Sumatera	4 355 200	2 733 072	1 618 406	3 722	12 982 204	335 475
Bali	3 662 489	2 422 856	1 239 417	216	3 890 757	941 331
DKI Jakarta	3 595 885	1 734 667	1 843 945	17 274	9 607 787	374 268
Lampung	2 772 964	2 180 513	582 310	10 141	7 608 405	364 461
West Sumatera	2,385,905	1 699 794	685 777	334	5 133 989	464 727
DI Yogyakarta	2 323 578	1 543 793	779 573	212	3 457 491	672 042
Riau	2 141 982	1 402 828	738 965	188	5 538 367	386 753
West Nusa Tenggara	2 127 924	1 553 562	571 625	2 737	4 500 212	472 850
Banten	2 030 833	1 189 973	833 312	7 548	10 632 166	191 008
South Sumatera	1 943 729	1 163 377	774 278	6 074	7 450 394	260 889
South Kalimantan	1 764 441	1 256 895	507 476	70	3 626 616	486 525
East Kalimantan	1 696 418	1 171 636	524 641	141	3 026 060	560 603
Nangroe Aceh Darussalam	1 561 970	1 093 947	467 983	40	4 494 410	347 536
Jambi	1 445 172	768 651	676 486	35	3 092 265	467 351
East Nusa Tenggara	1 340 155	925 422	414 623	110	4 683 827	286 124
Southeast Sulawesi	1 207 911	810 722	397 148	41	2 232 586	541 037
Central Kalimantan	1 159 617	789 958	369 619	40	2 212 089	524 218
West Kalimantan	1 138 735	651 268	487 367	100	4 395 983	259 040
Central Sulawesi	1 089 539	745 537	343 920	82	2 635 009	413 486
Papua	1 025 548	574 874	450 623	50	2 833 381	361 952
North Sulawesi	893 456	615 249	278 163	43	2 270 596	393 490
Bengkulu	877 049	708 652	168 288	109	1 715 518	511 244
Kepulauan Bangka Belitung	644 688	318 808	325 880	-	1 223 296	527 009
Gorontalo	524 424	452 409	71 945	70	1 040 164	504 174
West Sulawesi	512 792	373 501	139 248	43	1 158 651	442 577
Maluku	451 126	338 121	112 991	14	1 533 506	294 179
West Papua	439 147	291 041	148 106	-	760 422	577 504
Kepulauan Riau	412 421	295 855	116 501	65	1 679 163	245 611
North Maluku	236 905	154 350	82 545	10	1 038 087	228 213
North Kalimantan	61 708	5 832	55 876	-	622 350	99 153
TOTAL	94 409 025	65 580 263	28 652 045	176 715		

Source: Ministry of Co-operatives and SMEs and Ministry of Home Affairs. Population is from the 2010 census.

StatLink https://doi.org/10.1787/888933824211

The new KUR Programme has some important features. First, together with other policies, such as the 20% SME loan target which banks operating in Indonesia must comply with (see chapter 3), KUR is succeeding in meeting its objective of increasing credit flows to micro and small enterprises. While micro and small business loans amounted to IDR 353.5 trillion in 2014 (14% of which backed by KUR), they totalled up to IDR 423 trillion in 2016 (22% of which backed by KUR), an increase of 16.5% over only two years. By fostering stronger credit flows to small businesses, KUR is favouring social inclusion through economic activity. Second, in situations where credit markets function imperfectly, interest rate subsidies can bring capital allocation closer to second-best efficiency to the extent that they can help divert capital from less productive to more productive activities (Morduch, 1999).[1] Third, it is often argued that interest rate subsidies can become a regressive form of policy support because the larger the size of the loan, the larger the government subsidy. In the case of KUR, this risk is mitigated by the presence of different interest rates and different loan ceilings applied to micro and retail loans.

However, the KUR Programme is also faced with some challenges. The tenfold increase in its costs casts doubts on its long-term sustainability and large opportunity cost, to the extent that some of the resources committed to this single programme mostly favouring social inclusion could be spent on other policy initiatives that support business innovation, global market integration and, more broadly, productivity growth. A smaller version of KUR could become more tailored, targeting certain groups that the government would consider worthier of support than others, for example first-time borrowers, firms in lagging regions, or firms in sectors where there are greater constraints in access to finance. Policy targeting, however, is likely to require better mapping of the features and performance of SMEs across Indonesia.

A World Bank analysis of KUR raises three additional concerns. First, KUR may crowd out commercial micro-lenders, whose market rates hover between 20% and 26%. Second, in economic literature, sustainable access to finance has often been considered more important for small businesses than cheap finance through lower interest rates. Third, the current KUR interest rates are not financially self-sustainable, to the extent that they only cover a fraction of the costs incurred by lending institutions in the microfinance market (World Bank, 2017). Research from Indonesia additionally suggests that there might be cases of misuse in the new KUR Programme, with as much as 10% of total credit being disbursed to borrowers holding invalid data, and that the rate of KUR-backed NPLs is on the rise, albeit still below 10% (Mardanugraha and Yappi, 2017).

The Revolving Fund Management Agency (LPDB)

The Revolving Fund Management Agency (*Lembaga Pengelola Dana Bergulir*, LPDB) was established in 2006 at the Ministry of Co-operatives and SMEs to support the financing of co-operatives and SMEs. The LPDB Agency offers three types of credit: credit to co-operatives (both savings and credit co-operatives and industry co-operatives), direct loans to SMEs and credit to financial intermediaries. The LPDB loans to savings and credit co-operatives have a maturity of 3-5 years and a sliding annual interest rate of 7%. Savings and credit co-operatives are subsequently allowed to lend LPDB resources to micro and small businesses at a capped interest rate of 18%. Direct loans to SMEs have, on the other hand, longer maturities (5-10 years) and a lower fixed interest rate of 4.5%. The minimum amount that co-operatives and SMEs can borrow is respectively IDR 150 million and IDR 250 million.

The LPDB Agency has a central office in Jakarta and five local branch offices. The central office deals with the evaluation and approval of the loans, whereas the branch offices monitor the performance of loans at the local level. This is slightly counterintuitive, since small business loans are more likely to be approved and loan prices are more likely to reflect the actual risk when lenders and borrowers are located close to each other (Agarwal and Hauswald, 2010; Degryse and Ongena, 2005; Petersen and Rajan, 2002). Geographical distance makes it difficult for lenders to collect soft information on borrowers (e.g. on the current performance of the business and its future growth prospect), thus negatively impacting on the allocative efficiency of loans.

Unsurprisingly, as of 2017, over 65% of the LPDP loans had been disbursed to firms on the central island of Java (which includes Jakarta), whereas in the case of KUR Java had only absorbed 50% of the overall loans.

Table 5.3. Annual distribution of LDPB funds

Number of businesses and Million rupiahs

	2012		2013		2014		2015		2016	
Type of business	Number of businesses	Approved credit	Number of businesses	Approved credit	Number of businesses	Approved credit	Number of businesses	Approved credit	Number of businesses	Approved credit
Co-operative	583	984 654	742	1 374 997	314	855 686	150	271 103	100	245 225
SMEs										
Direct	5	17 400	26	43 005	252	109 430	33	54 789	29	64 265
Indirect	30	358 750	26	263 500	166	976 300	103	1 554 890	18	695 964
Total	618	1 360 804	794	1 681 502	732	1 941 416	286	1 880 782	147	1 005 454

Note: Credit in million rupiahs. For SMEs, direct indicates a loan directly from LPDB and indirect indicates a loan via a bank or non-bank financial institution.
Source: LPDP Agency.

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Moving forward, a decentralised loan approval process could help address the two issues of whether loans are effectively given to the most creditworthy firms and whether they are priced correctly. Nonetheless, the national government would still have to closely monitor the approval and disbursal process to ensure that this is not captured by local vested interests.

The Beginner Entrepreneur Programme

The Beginner Entrepreneur Programme (BEP) (*Program Bantuan Dana Bagi Pengembangan Wirausaha Pemula*) of the Ministry of Co-operatives and SMEs, offers small-sized soft loans (up to IDR 25 million) to new entrepreneurs who are less than 45 years old and who hold an entrepreneurship training certificate from the Ministry of Co-operatives and SMEs dated within two years. Successful applicants report on the use of the funds within three months of the disbursement, and then twice a year for the following two years. This programme complements other (larger) youth entrepreneurship programmes, such as the Young Entrepreneur Programme (*Wirausaha Muda Pemula*, WMP) and the Youth Entrepreneurship Centres (*Sentra Kewirausahaan Pemuda*, SKP), which are operated by the Ministry of Youth and Sports and target entrepreneurs under the age of 30 (see section on programmes for specific target groups).

In its first two years of existence, the BEP was implemented through the intermediation of co-operatives, while since 2013 its loans have been disbursed directly to the entrepreneurs. The BEP has seen strong fluctuations between 2011 and 2017 with respect to the overall budget allocation, maximum loan size and number of recipients (see Table 5.4). However, the programme has never been particularly large, reaching a maximum of 3 560 entrepreneurs across the whole of Indonesia in 2015. In 2017, for example, the BEP targeted 1 200 new entrepreneurs divided into three groups: underdeveloped and border areas (200), special economic zones (300), and entrepreneurs from low-income groups (700).

Table 5.4. Beginner Entrepreneur Programme's budget and loans, 2011-2017

Million rupiahs

Year	Budget allocation	Loan maximum	Target number of recipients	Final number of recipients
2011	7 000	25	280 (co-operatives)	280
2012	6 400	25	256 (co-operatives)	277
2013	54 000	25	2 160	3 860
2014	51 500	25	2 060	4 326
2015	89 000	25	3 560	8 362
2016	8 000	20	400	N/A
2017	15 600	13	1 200	602

Note: Budget allocation and loan maximum in million rupiahs. Target numbers were set for co-operatives who then distributed the allocated capital to their members during 2011-2012 and for individual recipients during 2013-2017.
Source: Ministry of Co-operatives and SMEs.

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Similarly to other Indonesian SME finance programmes, the main objective of PBE is social inclusion rather than business growth, with 75% of participants in 2017 coming from low-income groups or underdeveloped regions. The programme, however, lacks the scale to make a significant impact on its final objective, with an annual average of less than 2 000 entrepreneurs reached nationwide between 2013 and 2017. Budget allocations have also fluctuated significantly during the lifespan of the programme, whereas larger and more regular budget allocations could help lift the profile and visibility of this policy initiative. The way the programme is implemented could also be streamlined, for example reducing the number of times entrepreneurs need to report annually on the use of programme resources. Finally, consideration could be given to better integrating, if not merging, the activities of the PBE with those of other youth entrepreneurship programmes at the Ministry of Youth and Sport.

On the whole, Indonesian enterprise debt-finance programmes are quite traditional, consisting of grants, credit guarantees and interest rate subsidies. In the future, Indonesia could also experiment with small-scale new approaches such as so-called commercial credit circuits (CCCs) where participating businesses exchange services and goods for credits to be spent within the network. The spread of CCCs is still relatively limited, but participating companies have access to complementary payment and credit mechanisms that can help overcome credit constraints. This instrument also has other positive externalities such as enhancing local business linkages and supporting the formalisation of economic transactions. An example of a similar initiative is Sardex, a business-to-business CCC launched in 2010 in the Italian region of Sardinia (see Box 5.1).

Box 5.1. Commercial credit circuits: The example of Sardex, Italy

Within the business-to-business Commercial Credit Circuit *Sardex*, businesses can exchange goods and services without using an official currency. When a firm provides a service or a product it receives a credit, calculated with a rating-based system, and such credit can be spent on goods and services from other companies in the system. At the end of every year, companies pay the debit that they did not cover in EUR, based on the fixed conversion rate of one *Sardex* to one euro. To sum up, companies guarantee each other's credit, without a central authority and through multilateral trust relationships. Credits traded on *Sardex* exceeded EUR 65 million in 2016, and the innovative company behind it reported an annual turnover of EUR 2.8 million in the same year.

Capital market programmes

The Indonesian equity market is still at an early stage of development. Indonesia's market capitalisation was 48.8% of national GDP in 2016, compared with 106.5% in Thailand, 153% in Malaysia and 269% in Singapore (Rowter, 2016). State-owned enterprises (SOEs) account for 26% of the Indonesian stock market capitalisation.

The Indonesia Stock Exchange (IDX) currently has a main board and a development board. The main board's listing requirements include at least three years of operations and audited financial statements and net tangible assets of at least IDR 100 billion. Listing requirements for the development board are less strict: one year of operations, one year of audited financial statements and net tangible assets of at least IDR 5 billion. While the formal listing requirements for the development board are similar to other small and mid-cap markets in Southeast Asia (e.g. Malaysia's ACE and Thailand's MAI), Indonesia's development board has not been able to attract many SMEs, i.e. only seven between 2003 and 2015, making liquidity and trading on this stock exchange very thin.

More recently, it has been proposed that IDX establishes a third board, the acceleration board, to offer an opportunity for more SMEs to attract equity finance. Listing requirements on the acceleration board would be lower than for the development board; for example, an annual fixed listing fee would replace listing fees proportional to market capitalisation. The proposed acceleration board is a step in the right direction to develop alternative sources of finance for SMEs although, given the limited success of the development board, a reasonable alternative would be to simplify the listing requirements of this second board rather than creating a third board.

On the whole, thin trading and high market concentration suggests that the Indonesian capital market is not yet fully developed, pointing to the importance of strengthening the equity market infrastructure through research, brokering, ratings and the creation of specialised SME banks (OECD, 2015). Furthermore, the government should consider scaling up existing investment readiness programmes, such as the IDX Incubator Programme, where companies learn management skills, reporting requirements and corporate governance standards to become ready for an initial public offering (IPO).

Venture Capital initiatives

In 2017, there were 61 licensed venture capital (VC) firms in Indonesia, broadly divided into four groups: conglomerate/family-backed, foreign/regional, local/joint ventures, and corporate-backed (OJK, 2017). Aggregate investments by Indonesian VC firms are still modest. Out of USD 90 billion of VC investments in Asia in 2016, only USD 6.8 billion (7.5%) were made in Southeast Asia, with Indonesia accounting for 19% of this last figure (USD 1.29 billion) (Google/AT Kearney, 2017). The two sectors receiving most VC investment are e-commerce (58% of the total between 2012 and 2017) and transport (38%). A more recent trend has also been the growing influence of investments from China in the Indonesian VC market (Google/AT Kearney, 2017).

Indonesia does not have a large programme to nurture the development of the domestic VC industry, whereas governments have often played a proactive role in the early development of this industry. For example, in the 1990s the Israeli government established the YOZMA Fund, based on the principle of co-investment by the government and the private sector. The fund was successful in kick-starting the Israeli VC industry and was later privatised (see Box 5.2). The Indonesian government could follow a similar approach, playing a more active role in the promotion of the national VC industry.

Finally, as noted earlier, there is no well-functioning stock-exchange that provides a suitable exit for VC investors in high-growth firms. The proposed acceleration board, or a reform of the existing development board, could help attract more SMEs onto the stock market and encourage more private-equity investors to invest in unlisted SMEs.

Box 5.2. International inspiring practice: YOZMA Venture Capital Funds, Israel

Description of the approach

Israel's venture capital (VC) industry started in the early 1980s with the creation of Athena Venture Partners. A few other VC companies were established in the following years, but it was not until 1993 that the industry took off thanks to the YOZMA government initiative. YOZMA's main principle was to attract venture capital and the related investment skills from abroad by matching private investments with government funding. Foreign investors primarily came from the United States. A second YOZMA initiative was launched in 1995 with support from well-established American, European and Israeli VC funds. In 2000, the private sector accounted for most VC investments, and the government decided to drastically reduce its presence in this industry.

The YOZMA Fund's investments were primarily in life science, biotechnology and ICT and were typically in the range of USD 1-6 million. The YOZMA Fund developed a close relationship with national leading academic institutions and incubators, which led to some of the most successful start-ups in the programme. A YOZMA CEO club was also created to involve senior executives and founders in the initiative's activities.

The YOZMA Programme has played a key role in kick-starting Israel's VC industry. VC-backed companies rose from 100 to 8 000 between 1991 and 2000, and by 1999 Israel ranked second worldwide in terms of private-equity investments as a share of GDP.

Success factors

The Israeli VC industry has been successfully built on the combination of public and private funding. However, over time, when private investment started to gather steam, the government progressively moved out of the industry. As a result, over the course of the 1990s, the government position in the industry passed from 50% of total investments to nearly zero.

The success of the YOZMA Programme also depended on its ability to attract foreign capital and know-how. The presence of an initial government investment and the option to buy out the government share after five years offered sufficient incentive for leading international VC firms to invest in Israeli start-ups.

Finally, the presence of equity guarantees for foreign investors, the nurturing of linkages between domestic start-ups and foreign business angels, and the preparation of Israeli VC-backed firms for IPOs in foreign stock exchanges were additional contributing factors to the success of the initiative.

Obstacles and responses

The main difficulty for the YOZMA Fund was to find investors ready to invest in a relatively small and isolated market such as Israel. Israeli residents could not meet the financing needs of the country's growing high-tech industry on their own, so the government looked abroad, mostly to the United States, to attract qualified investors. As mentioned above, the option to buy out government shares five years after the original investment together with the prospect of launching IPOs of successful start-ups on foreign stock exchanges, notably NASDAQ, proved pivotal to drawing foreign investors into the nascent Israeli VC market.

Relevance to Indonesia

The Indonesian VC industry is still underdeveloped. An approach similar to that of the YOZMA Fund could allow the government to grow its domestic VC industry, for example by attracting back Indonesian capital investments from Singapore.

Sources for further information

Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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Innovation programmes

Business incubation activity

Based on information from the Association of Indonesian Business Incubators (AiBI), there were about 100 active business incubators in Indonesia in 2017. About three-quarters were in universities; 14 were directly operated by government ministries, state-owned enterprises, or regional governments; and ten were private-sector initiatives. Ten incubators focused on ICT, eight on agriculture and food, and two on creative industries. The others adopted a mixed approach where different industries were represented at the same time.

As noted in Chapter 4, the density of incubators in Indonesia is low, i.e. one incubator per 2.61 million people, compared with one per 290 000 people in the United States and one per 402 000 people in the United Kingdom. Indonesia also does not rate very favourably compared to other ASEAN countries, with only one technology-based incubator per 4.17 million people, compared with one per 42 333 people in Singapore, one per 250 545 people in Malaysia and one per 774 157 people in Thailand.[2]

Business incubation activity in Indonesia has not, therefore, yet reached its full development potential. Most incubators are small in scale (with 3-5 tenant enterprises) and do not offer a full range of services in the form of consulting, technical support, mentoring/coaching, and linkages to sources of finance for tenant enterprises. Outcomes are also less than optimal, with only 10-20% of incubated enterprises estimated to graduate and move on to become sustainable companies. AiBI estimates that only about 1 300 companies have graduated from Indonesian incubators in total.

On the whole, Indonesian incubators suffer from limitations in operational facilities, lack of seed capital, and an insufficient number of experts to advise and mentor entrepreneurs. Other issues, as reported by the Working Group on Business Incubator Development formed in 2015 following a Decree of the Co-ordinating Minister for Economic Affairs (184/2015), include the lack of homogenous national standard procedures governing the establishment and operations of incubators and the lack of an integrated online national database collecting information on the performance of incubator tenants.

The national business incubation policy: The Roadmap for Incubator Development 2014–2029

The main national policy to remedy these problems has been the "Roadmap for Incubator Development 2014–2029", which was prepared by the Co-ordinating Ministry for Economic Affairs and the Ministry of Co-operatives and SMEs in collaboration with a large number of other ministries. Through this Roadmap, the Co-ordinating Ministry for Economic Affairs assigns responsibility for incubator development to as many as 17 different ministries and agencies, including the Ministry of Research, Technology and Higher Education, the Ministry of Communication and Informatics, the Creative Economy Agency and the Ministry of Manpower and Transmigration.

The Roadmap responds to Presidential Regulation 27/2013 on the Development of Business Incubators, which mandates every sector (including universities and the private sector) to increase the number of business incubators in order to support technology transfer and improve innovation in SMEs. This regulation additionally provides that every province and special region shall have at least five incubators and each regency/municipality shall have at least one. Business incubators are also a policy mechanism advocated by the ASEAN Strategic Action Plan for SME Development, especially technology incubators.

The overarching aim of the Roadmap is to improve the quantity and quality of business incubators in Indonesia by mapping and benchmarking existing incubators; establishing criteria for the activity of the incubators and for building the capacity of their managers, staff and tenant enterprises; and clarifying funding arrangements and policy co-ordination mechanisms. The Roadmap for Business Incubator Development, for example, stipulates the services to be provided by incubators, which include: i) training, seminars and workshops on entrepreneurship and business planning during a pre-incubation phase; ii) training on business management, one-to-one counselling, and business development assistance during the incubation phase; iii) networking opportunities with business partners outside the incubator during the incubation and post-incubation phases.

The Roadmap for Incubator Development sets ambitious plans for increasing the number of business incubators in Indonesia, from a base of about 75 in 2014 to 732 by the end of 2029 (Table 5.5). These growth projections are based on the assumption that the concurrent government strategy to develop 100 Science and Technology parks unfolds as planned (see next subsection). The experience of Brazil's national business incubation system can offer useful insights for Indonesia on how to succeed in increasing the number and improving the standards of business incubators nationwide (Box 5.3).

Table 5.5. Cumulative targets for expansion of business incubators

	2015–2019	2020–2024	2025–2029
Number of incubators (cumulative and new)	391 (316 new)	586 (195 new)	732 (146 new)
Number of tenants (e.g. start-ups) (cumulative)	43 792	65 520	81 800
Number of graduated SMEs (cumulative from the incubators)	4 379	9 828	16 366
Jobs created by graduated SMEs	65 585	196 560	337 320
Estimated turnover of graduated SMEs (cumulative)	IDR 16.41 trillion	IDR 61.425 trillion	IDR 122.746 trillion

Source: Report of the Working Group on the Business Incubator Development Roadmap.

Box 5.3. International inspiring practice: National business incubation system, Brazil

Description of the approach

Brazil had 369 business incubators in 2016 (40% of which were technology-based), i.e. one incubator per 560 000 inhabitants compared with one incubator per 2.61 million inhabitants in Indonesia. The development of a relatively dense incubator system has been enabled in Brazil by federal government funding from the National Programme for Supporting Business Incubators and Technology Parks. The programme is implemented by the Brazilian Innovation Agency (ANPROTEC) in collaboration with a wide coalition of government partners. The work is guided by an Advisory Council co-ordinated by the Ministry of Science, Technology, Innovation, and Communication.

The programme offers competitive grants worth up to 80% of the project cost (in the range of BRL 4-8 million) to public administrations, universities and non-profit bodies responding to calls for proposals. While the services offered include physical space and hard infrastructure, there is greater emphasis on soft services, including counselling, advice, financial and legal consulting, networking, and access to finance. Selection criteria vary by incubator, but product and/or service innovativeness is always one of the main requirements for start-ups to join the programme. The average incubation period is three years, but tenant companies can continue to receive advisory and follow-on support for up to one year after leaving the incubator.

Success factors

Several factors are associated with the success of the Brazilian incubator system:

- Government support. Incubators are funded by the government's national incubator programme and a multitude of other federal, state and local government organisations.
- Private-sector involvement. Private-sector business associations are often active partners in the consortia that establish the incubators. In some cases, business associations assist incubators by offering mentoring and in-kind support to the incubated enterprises. In other cases, large corporations have invested in incubators.
- University involvement. Universities play a pivotal role. They typically support incubators by providing buildings, staff and the use of laboratories. Technical universities and technological research institutes also constitute the knowledge base for many incubators, supplying technical skills and innovations and offering access to professional networks.
- Innovative models. The business incubation landscape in Brazil is now varied and complex with a plethora of incubation models, some of which have evolved in response to specific local needs. For example, the social model of incubation has developed in response to the need for job creation in poor areas.

Obstacles and responses

One challenge was the initial lack of visibility of business incubator services among potential entrepreneurs and newly-established enterprises. The government responded by increasing efforts to provide more information on such services and to improve the co-ordination of support services available for SMEs and entrepreneurs at national and local levels.

An additional obstacle was the lack of a national monitoring and evaluation system to assess the performance of incubators. A Tracking System for Business Incubators and Technological Parks (SAPI) was developed in response, which includes indicators on the performance of graduated companies, the financial sustainability of incubators, and the volume and quality of services provided.

Finally, ANPROTEC soon realised that the skills of the incubator managers and staff members needed to be strengthened and made more homogenous across the country. This led to an initiative to reinforce the training and professional development of incubator managers and staff, i.e. the Reference Centre for Support of New Ventures (CERNE), which is detailed in the following case study (see Box 5.4).

Relevance to Indonesia

The experience of Brazil points out the importance of the involvement of the private sector and university for the successful implementation of a national business incubation strategy. It also shows that successful incubators will mostly support technology-based entrepreneurship, but that variants focussing on social entrepreneurship can also perform well. Finally, a systematic evaluation of business incubation activity is pivotal to identifying problems and improving the performance of business incubators.

Sources for further information

Technology Development and Innovation Secretariat, Ministry of Science, Technology, Innovation, and Communications, Brasilia (www.mctic.gov.br)
National Association of Entities Promoting Innovative Enterprises (ANPROTEC), Brasilia (http://anprotec.org.br/)
Tracking System for Business Incubators and Technological Parks (SAPI), www.portalinovacao.mct.gov.br/sapi

The budget required to implement the Roadmap for the first five years (2015–2019) was set at IDR 8.9 trillion, 33% of which for the establishment and growth of business incubators; 15% for capacity building of managers and coaching staff; 49% for seed funding, product development and advanced growth of the incubating start-ups; and the remaining 3% for the co-ordination of the overall strategy. However, as of end 2017, the financing of the Roadmap had not yet been approved by BAPPENAS.

As part of the Roadmap, the Ministry of Co-operatives and SMEs has also worked with AiBI to develop operating standards for business incubators and a certification programme for business incubator managers, both of which are expected to be launched by end-2018. The experience of Brazil in this area – developing competency standards for business incubators and their managers – can again offer some useful insights for Indonesia as the national government seeks to develop a national incubator certification programme (see Box 5.4).

Box 5.4. Competency improvement programme for business incubators in Brazil

A key mechanism of the Brazilian government to reinforce the training and professional development of incubator managers and staff was the creation, by the Brazilian Micro and Small Business Support Service (SEBRAE) and the National Association of Entities Promoting Innovative Enterprises (ANPROTEC), of the Reference Centre for Support of New Ventures (CERNE). CERNE is a platform intended to enhance the ability of incubators to generate successful innovative ventures and thereby reduce the level of variability in the performance of incubators.

CERNE offers training for incubator managers and consultants on generating innovative companies, managing and organising an incubator, and building and managing professional networks. SEBRAE invested about USD 28 million in the support of the CERNE project.

The CERNE training allows incubators to be certified at four levels of maturity:

- CERNE 1 – concerns the processes and practices related to the creation of an incubator and the selection of incubating enterprises.
- CERNE 2 – focuses on how to effectively manage an incubator organisation, including strategic management, service provision and the monitoring of results and impacts.
- CERNE 3 – deals with building a strategic network of partners to expand the incubator's operations and strengthening its role in the local entrepreneurial ecosystem.
- CERNE 4 – concentrates on building the capability of the incubator to support the further growth and internationalisation of the incubated enterprises.

Source: Garcia et al. (2015), "Reference Center for Business Incubation: A proposal for a New Model of Operation"; CERNE website at: http://anprotec.org.br/cerne/menu/english/

Moving forward, as suggested by AiBI, it would be useful to categorise business incubators by their level of development and capacity. For example, AiBI currently estimates that over 60% of the incubators are at a very early stage of development, while only 10% are mature. Such categorisation would allow targeted capacity building to strengthen the performance of early-stage incubators, for example through appropriate training for their managers and mentors, assistance with the implementation of operational standards, and the expansion of the services offering.

The creation of a monitoring and evaluation framework to follow the activity of the incubators and the performance of tenant enterprises would also help maximise the impact of existing and future business incubators. An evaluation of business incubation activity should consider inputs (e.g. financing, management resources, project proposals), processes (e.g. provision of incubator space and other services), and outputs (e.g. performance of tenant enterprises in terms of survival rate, growth and profits) (European Commission, 2002; OECD, 2010).

Finally, incubators need to be better integrated into the wider national and local entrepreneurial ecosystem. Possible ways to do this are through a credit programme aimed at start-ups that graduate from national incubators or next-step support in the form of an accelerator and/or access to sources of equity investment.

Selected examples of business incubator programmes

As noted earlier, 17 different ministries and government entities are involved in the support of business incubators in Indonesia. This section outlines some of the most relevant incubator programmes.

The Ministry of Research, Technology and Higher Education's Technology and Business Incubator Programme

The Ministry of Research, Technology and Higher Education operates a Technology and Business Incubator Programme (*Inkubasi Bisnis Teknologi*, IBT) that offers funding, training and mentoring assistance to technology-based ventures. Incubators propose potential tenants to the Ministry, which carries out a first screening of the proposals. Shortlisted candidates are subsequently invited to Jakarta, together with the sponsor incubator, to defend their business idea before a panel of industry and government representatives. Selected candidates are finally invited to join the programme which lasts one year. Thanks to the careful selection process, IBT is one of the most prestigious incubator programmes in Indonesia.

The basic participation requirement is that the start-up belongs to a technology-based sector. Potential industries include ICT, food, defence, transportation, health medicine, raw materials, and maritime. Start-ups must have been operational for no more than three years and their products must have passed the development stage and be ready for commercialisation. In 2017, there were about 37 incubators enrolled in the programme, each with about 3-5 tenant companies. For each accepted start-up, 75% of the funding goes to the tenant company and the remaining 25% to the incubator to cover its operational costs.

The Ministry of Research, Technology and Higher Education's University Incubator Programme

The Ministry of Research, Technology and Higher Education also operates a programme which specifically encourages university-based start-ups (*Perusahaan Pemula Berbasis Teknologi – Perguran Tinggi*, PPBT-PT). The selection process, operational rules, funding arrangements and time spent in the incubator are similar to those of the IBT Programme. However, in the case of PPBT-PT, applicant start-ups should be run by students, alumni or lecturers who intend to commercialise the outcome of the research they have conducted at the university hosting the incubator. In 2017, 32 incubators and about 115 tenant companies were enrolled in the PPBT-PT Programme.

University-linked incubators exist in many OECD countries. However, empirical evidence suggests that restricting university-based incubators to students, alumni and lecturers from the same university has often proven an unnecessary restraint that has undermined the performance of these incubators (Åstebro and Bazzazian, 2011). Thus, it has been suggested that university-based incubators should instead be open to applicants from outside the university and be run in partnership with other professional business support organisations for the local entrepreneurial ecosystem.

The Indonesia Stock Exchange's Incubator Programme

The Indonesia Stock Exchange (IDX) has recently established an incubator programme (March 2017) in collaboration with selected state-owned enterprises, such as *Bank Mandiri* which leases the office space and *Telekomunikasi Indonesia* which provides the internet infrastructure. Twenty-five companies were accepted in the first round of the programme, mostly from digital and technology-related fields. One of the main selection criteria is that the company has already reached the stage of prototype development. Business ideas with a strong social impact, such as new approaches to microfinance, are also sought after. One of the goals of the programme is that at least one of the supported companies reaches the IPO stage on the national stock exchange. The programme provides office space, mentorship, training in accounting and corporate law, as well as opportunities to meet with investors. It runs over six months, after which participants are introduced to potential investors. If the current programme in Jakarta proves successful, IDX aims to launch similar incubators in other major cities such as Bandung, Medan, and Surabaya.

One unique aspect of the IDX incubator is its organisational proximity to the stock exchange. As a consequence, IDX could consider moving this programme towards an accelerator format that targets established growth-oriented SMEs, for these are typically closer to the IPO stage than newly-created companies.

Science and technology parks

The Indonesian government announced in 2015 the creation of 100 national science and technology parks by 2019, an objective which is included in the National Medium-Term Development Plan, 2015-2019. Out of the 100 science and technology parks, 4 will be national science and technology parks, 19 will be science parks and 77 will be technology parks. Five ministries and agencies have been assigned the responsibility of working towards this target: the Ministry of Agriculture, the Ministry of Ocean and Fisheries, the Agency for the Assessment and Application of Technology (*Badan Pengkajian Penerapan Teknologi*, BPPT), the Indonesian Institute of Sciences (*Lembaga Ilmu Pengetahuan Indonesia*, LIPI), and the National Nuclear Energy Agency (*Badan Tenaga Nuklir Nasional*, BATAN).

The establishment of 100 science and technology parks over a short period of time is ambitious, but also comes with some challenges. First, the parks need to be set up correctly and qualified managers need to be recruited, calling for the development of operational standards for the parks and certification programmes for managers and staff similar to those being rolled out for incubators and business development services (BDS) organisations (see chapter 7). Second, there are some regional conditions that have to be met for science and technology parks to succeed, such as a good base of innovative firms and knowledge-based workers, relatively strong local and domestic markets, and the possibility for hosted companies to tap into domestic or global supply chains through the presence of large companies (European Commission, 2013). As a result, the location of the park is key for its success and needs to be driven by economic rather than political considerations. Third, leadership also affects a science/technology park's chances of success, notably the ability of the park's manager to set out a clear development strategy and to nourish strong relationships with the public sector and the local community. Finally, tax incentives (e.g. free use of land) can bolster the growth of science and technology parks especially at an early stage of development.

Business digitalisation programmes

The involvement of Indonesian SMEs in digitalisation is still relatively limited. According to a report by Deloitte (2015), only around 18% of Indonesian SMEs are currently engaged in e-commerce through the use of a website or social media, while only 9% adopt more sophisticated e-commerce strategies. The same study argues that greater use of digital technologies (including social media, broadband, and e-commerce) could help SMEs increase their revenues by up to 80%, become 17 times more likely to introduce innovations, and become one-and-a-half times more likely to create jobs. Considering that Indonesia had 105 million internet users in 2017, projected to increase to 140 million by 2022, digitalisation strategies can help domestic SMEs to scale up and become more productive.

Indonesia's main business digitalisation policy is the E-Commerce Roadmap. This strategy is led by the Ministry of Communication and Informatics and is implemented in collaboration with 19 other ministries and government institutions. The Roadmap includes financial and non-financial support for e-commerce adoption and digital start-ups, as well as tax incentives and simplification of tax requirements for technology-based companies. The Roadmap also intends to strengthen consumer protection through improved cyber-security and information campaigns on the opportunities and risks linked to e-commerce.

As part of the E-Commerce Roadmap, the Ministry of Communication and Informatics implements three main programmes: the SME Go Online Programme, the One Million id. Domain Programme, and the 1 000 Digital Start-up Programme. The SME Go Online Programme is tailored to small companies with no or very limited experience of selling online. The objective is to help 1 million small companies to take their business online via one of the established online platforms available in the country (e.g. www.blanja.com). In doing so, the Indonesian government also supports the development of so-called "marketplaces", i.e. online platforms typically managed by large national or multinational companies where small businesses can offer their products and services against the payment of a fee (usually a percentage of the revenues raised through the marketplace).

The One Million id. Domain Programme, where id. refers to Indonesia's internet country code, can be considered a follow-up intervention to the SME Go Online Programme: the next step once small businesses have learned the basics of doing business online. In this case, the goal is to provide, by 2019, 1 million SMEs with a domain, website content and a fully-functioning website that can support online sales. Government support lasts for one year, after which participants are expected to cover the costs of keeping their presence online.

Finally, the 1 000 Digital Start-up Programme is implemented in collaboration with KIBAR, a technology start-up ecosystem builder. The objective is to generate 1 000 high-quality digital start-ups for a total valuation of USD 10 billion by 2020. Funding covers the cost of pre-incubation workshops, boot-camps and hackathons, three months in the incubator (which works more like an accelerator), and post-start-up follow-up. The whole programme takes one year to complete and, as of 2017, was active in ten cities.

On the whole, the three main SME digitalisation programmes of the Ministry of Communication and Informatics appear to complement each other. The first two help SMEs expand their markets by building an online presence, while the third encourages digital start-ups. An important challenge with the existing programmes, however, is not only to meet the ambitious targets that they have set, but also to make such achievements sustainable after the phase-out of government support. For example, the new one million id. domains, even if they are effectively created, will need to remain active and generate business revenues if the corresponding programme is to have an impact on the economy.

More generally, while most digitalisation policies in Indonesia have focused on the adoption of e-commerce, the integration of ICT at the firm level has also been an important dimension of business digitalisation policies in many OECD and non-OECD countries. The experience of Mexico (see Box 5.5) in supporting the adoption of digital technologies in small firms in low value-added sectors (e.g. retail trade and low-tech manufacturing) could offer insights for the development of a similar programme in Indonesia.

Box 5.5. International inspiring practice: "Tablet" Programme to upgrade digital and managerial skills in micro-enterprises, Mexico

Description of the approach

Mexico's so-called "Tablet" Programme was launched in 2015 and mostly targets micro-enterprises employing less than ten employees in traditional sectors of the economy such as retail trade (e.g. convenience stores and restaurants) and low value-added manufacturing (e.g. blacksmith's forges). Most participant companies (around 60%) operate in the retail trade industry. The programme is innovative in the way it combines basic training in key management principles with the provision of new ICT solutions.

The programme offers six hours of basic management training on six thematic areas considered very relevant to the survival and growth of small businesses: inventory management, accounting, customer relationships, micro-market analysis, repayment capability, and the use of management software. Moreover, participants receive a tablet which includes the management software, another software programme that enables customers to pay utility bills and phone charges, and a swipe-card extension to the tablet that allows customers to pay by credit/debit card.

Success factors

The programme has been innovative in the way it has combined digitalisation support and managerial skills upgrading in small traditional enterprises. The main goal is to help these companies to increase their market shares by accepting payments by credit card and the payment of utility bills in their shops. Another goal is to bring these enterprises, which are very often operating in the informal economy, within the purview of the government.

Another feature of Mexico's Tablet Programme has been its ability to reach a relatively large number of participants, about 70 000 over two years, thanks to a sizeable budget (MXN 660 billion, i.e. about USD 34 million) and low per-enterprise implementation costs.

Obstacles and responses

The main challenges facing the Tablet Programme have been high intermediation costs and possible displacement effects. The programme is managed through a government call for tender for which only regional governments (state-level governments in the case of Mexico), national business associations and chambers of commerce can apply. However, the activities of the programme are delivered by training organisations further contracted by the chambers, business associations and regional governments. The existence of two layers of intermediation between the Ministry and the final beneficiaries of the policy (i.e. the small businesses), implies high overhead costs that reduce the amount of spending on programme activities.

With respect to displacement effects, these are more likely to materialise in mature sectors of the economy, such as retail trade and low value-added manufacturing, where public support for companies offering services/products similar to others can lead to the exit of the non-supported companies. In the case of the Mexican programme, however, the competitors of the main recipients were chain stores, making the risk of displacement effects less compelling.

Relevance to Indonesia

An overwhelming majority of businesses in Indonesia are micro-enterprises, many of which operate in low value-added sectors of the economy. A key challenge for these companies is to grow and possibly graduate to the small-firm size. A programme that aims to improve productivity in the companies through a change in process efficiency and technology is, therefore, particularly relevant for the current development stage of the Indonesian economy.

Sources for further information

OECD (2016b), "Increasing Productivity in Small Traditional Enterprises: Programmes for Upgrading Management Skills and Practices", unpublished report.

Promoting the creative economy

The creative economy ranks high on the political agenda of Indonesia, as shown by the creation of the Creative Economy Agency (*Badan Ekonomi Kreatif*, BEKRAF) in 2015 and the recent inclusion of the cities of Bandung and Pekalongan in the UNESCO Creative Cities Network in the field of design and arts. The Indonesian government expects the creative economy to contribute 12% of national GDP, 10% of national export, and 13% of national employment by 2019.[3]

The overarching objective of BEKRAF is to nourish a national ecosystem for the creative economy by focusing on six strategic areas (research, education, and development; access to capital; infrastructure; marketing; facilitation and regulation of IPR; and inter-institutional and regional relations) and working on 16 different sectors (applications and game development; architecture; interior design; visual communication design; product design; fashion; film, animation, and video; photography; crafts; culinary arts; music; publishing; advertising; performing arts; fine arts; and television and radio). BEKRAF executes its own set of programmes, which however do not provide funding, and liaises with government and financial institutions which can support the growth of the creative economy through funding.

The establishment of BEKRAF should expand the scope and improve the performance of Indonesia's cultural and creative industries, although it has been suggested that its start was slow because of limited funding.[4] Moving forward, BEKRAF could receive a stronger mandate to better co-ordinate government support to the creative economy, including by helping other government institutions to channel more resources into the support of this sector.

Internationalisation programmes

Indonesia encourages business internationalisation through a range of both traditional and innovative programmes (e.g. the Business Aggregator Programme). The most active government institutions in this field are Indonesia Eximbank, the Ministry of Trade, the Indonesia Investment Co-ordinating Board (i.e. *Badan Koordinasi Penanaman Modal*, BKPM) and the Co-ordinating Ministry for Economic Affairs.

Export financing and export training

Indonesia Eximbank is the national export financing agency responsible for export credit, export guarantees and export insurance services. In addition to export financing services, it also manages training programmes for export-oriented companies. Indonesia Eximbank is a relatively new institution, having only been established in September 2009 under the responsibility of the Ministry of Finance. As of 2017, it had eight offices and approximately 480 employees across the country.

Indonesia Eximbank's main programme is the Export Oriented People's Business Credit Programme (i.e. *Kredit Usaha Rakyat Beriorientasi Ekspor*, KURBE), a spin-off of the KUR Programme. KURBE offers working-capital financing (for up to three years) and investment financing (for up to five years) at a subsidised interest rate of 9%. The loan ceilings change depending on the size of the company and the purpose of the credit: IDR 5 billion for micro-enterprises; IDR 15 billion for small enterprises (IDR 25 billion for investment loans); IDR 25 billion for medium-sized enterprises (IDR 50 billion for investment loans). KURBE's main target is suppliers of large national employers, making the programme mostly intended for sizeable companies. Indeed, in 2016, of the IDR 88.53 trillion disbursed by KURBE, only 12% was used by SMEs, although on a year-on-year basis KURBE's SME financing increased by 45% between 2015 and 2016.[5]

Indonesia Eximbank also administers the Coaching Programme for New Exporters, a training programme where potential exporters can learn about export regulations, customs procedures, packaging, foreign language skills and online marketing. In 2017, this programme was delivered to ten sets of companies.

The Ministry of Trade, through the Directorate General for National Export Development, organises its support to business internationalisation activity under four pillars: i) market information (e.g. market intelligence and market briefs); ii) product development (e.g. compliance with standards, design development and packaging); iii) export information (e.g. trade fairs and trade mission); iv) export training (both short-term courses of a week and long-term courses of up to three months). Some of the Ministry of Trade's training programmes are tailored to local industry needs, which are identified through policy dialogue with local governments and local business associations.

The Ministry of Trade also has trade representatives (i.e. trade attachés) in 34 embassies which help Indonesian companies market their products and find local partners in the countries in which they operate. Indonesian firms looking to utilise this support first need to register at the Ministry of Trade and undergo a quality control of their products, after which the Ministry decides whether to grant its support. In addition, recognising the potential of the recent creation of the ASEAN Economic Community (AEC) for the

Indonesian business sector, the Ministry of Trade established an AEC Centre in Jakarta in September 2015. The centre offers advocacy and business counselling to prepare Indonesian companies for increased market integration at the ASEAN regional level.

The programmes of Indonesia Eximbank and the Ministry of Trade offer traditional financing and training solutions to exporting companies and companies seeking to enter international markets. Some of these programmes are also well tied-in with local industry needs, tailoring national support to local sectors with the strongest export potential. However, Indonesia's export support measures are somewhat small in scale and are mostly aimed at large businesses, which is in part the consequence of the low involvement of domestic SMEs in exports (see chapter 2). Additional budgetary resources could help these programmes, especially training measures, reach more SMEs. Furthermore, KURBE's target could be expanded beyond existing suppliers of large companies to include SMEs which are currently Tier-II suppliers or which, based on pre-existing product quality requirements, would be considered ready to become Tier-I suppliers.

The SOE-led Business Aggregator Programme

An innovative approach to SME internationalisation has recently been trialled by the Co-ordinating Ministry for Economic Affairs through the Business Aggregator Programme. The underlying rationale is that small enterprises find it difficult to understand the regulations and handle the documentation required to be able to export. State-owned enterprises (SOEs) can step in to help SMEs by acting as "trading houses" offering a range of support services for SMEs ready to export. In addition to boosting the exports of small producers, especially to other ASEAN countries, an objective of this initiative is to nourish business linkages between rural SMEs and urban SOEs and thereby favour regional and rural development.

The Business Aggregator Programme is an innovative measure whose success is likely to depend on the extent to which the SOEs will be able to play the leading role that the programme assigns to them. Furthermore, while the programme makes it easier for SMEs to export by passing the related "regulatory burden" on to large SOEs, it prevents SMEs from getting first-hand exposure in the export process.

One complementary strategy could, therefore, consist in a new policy initiative to help SMEs obtain direct exposure to export, for example through the financial support of export-oriented consortia or co-operatives. This policy would also have a significant multiplier effect by reaching a larger number of SMEs than would be possible through targeting individual companies. Box 5.6 provides an example of a similar policy from Italy.

Box 5.6. International inspiring practice: Export consortia, Italy

Description of the approach

The Italian government has a long tradition of supporting export consortia. Export consortia are voluntary alliances of SMEs, which come together to improve their export performance through the development of common activities. Each consortium needs to have at least eight SMEs (five in southern Italy). A consortium grant is worth on average EUR 2-3 million per year and funds are primarily used to finance visits abroad, workshops and advertising. Grants are disbursed annually, based on the expenses incurred in the previous year. A maximum of 40% of promotional expenses (60% for consortia based in Southern Italy) can be funded through the grants.

In 2014, the policy had funded over 1 600 companies grouped in 110 consortia. The Italian Federation of Export Consortia (Feder-export) has been set up to represent the consortia. It provides tax and legal advice, organises conferences and market surveys, arranges trade delegations, and negotiates credit lines with banks to finance the export activities of the consortia.

Success factors

Export consortia provide SMEs with the opportunity to develop the scale needed to internationalise. Moreover, the policy also achieves a leverage effect by channelling resources to a group of SMEs, rather than individual firms; in doing so, financial benefits are spread across a larger number of beneficiaries, while implementation costs are reduced by the fact that the government only interfaces with the leaders of the consortia. Finally, the creation of consortia naturally favours collaboration and knowledge exchange which can go beyond the initial objective of increased export activity.

Obstacles and responses

One drawback in this programme is that turnover in the government-supported consortia has been limited, making some consortia overly reliant on government support for their export activity. Moreover, it is important to set limits to the share of funding allocated for promotional activities (e.g. participation in international trade fairs), as done in Italy, to ensure that government resources are also used for other purposes, such as improving the quality of products and services of the consortium's members.

Relevance to Indonesia

Indonesian SMEs do not sufficiently partake in export activity. Supporting the export of SMEs through consortia, or co-operatives which have a stronger tradition in Indonesia, would enable policy makers to reach out to a larger number of SMEs than through policies targeting individual enterprises. Moreover, through this policy, SMEs would gain direct exposure to exporting and increase their chances of becoming long-term exporters.

Sources for further information

OECD (2014), *Italy: Key Issues and Policies,* OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris, https://doi.org/10.1787/9789264213951-en.

Supporting SME participation in global value chains

In addition to exporting directly to foreign markets, SMEs can indirectly participate in international markets by supplying exporters. Besides the KURBE Programme, the Indonesian government fosters SME participation in global value chains through local content requirements in certain industries (machinery, motor vehicles, food, beverage, etc.). The Indonesia Investment Co-ordinating Board (i.e. *Badan Koordinasi Penanaman Modal*, BKPM) oversees the sectors subject to local content requirements, as well as the sectors fully or partly closed to foreign investment (see chapter 3).

BKPM has also recently taken a more proactive approach in building business linkages between local SMEs and multinational enterprises (MNEs) through the development of a website that hosts information on location and product specialisation of potential suppliers and through the organisation of matchmaking events between local SMEs and MNEs. Stronger MNE-SME linkages could also be favoured through tax incentives similar to those outlined in chapter 3, with Malaysia and Singapore offering good examples (see Box 3.6).

Workforce training programmes

Workforce training refers in this chapter to the training of current SME employees, inside or outside the workplace. The participation of Indonesian workers in certified training is low and proportional to their educational attainments. In 2015, only 0.9% of workers with qualifications up to junior high-school had participated in training courses, rising to 9% for senior high-school graduates, and to 26% for workers with tertiary education. Thus, re-skilling and up-skilling activities are low especially for those who need it most. Furthermore, only about 5% of Indonesian firms offer formal training to their workers, a figure which is affected by the large proportion of informal enterprises in the Indonesian economy.

Both government and accredited private training institutions deliver workforce training programmes. The main government institution in this field is the Ministry of Manpower and Transmigration, which operates 22 SME Productivity Centres that deliver technical training to upgrade the productivity of SME workforces. In addition, in collaboration with the national government, the UN International Labour Organisation (ILO), offers its globally-tested training programme SCORE (Sustaining Competitive and Responsible Enterprises), which aims to upgrade the productivity of SME workforces while improving their working conditions (health and safety at work, labour rights, etc.).

Entrepreneurship and management training programmes

Entrepreneurship and management training aims to instil entrepreneurial attitudes (risk-taking, leadership, etc.) and improves managerial skills in existing and would-be entrepreneurs. It differs from entrepreneurship education (see next section) by taking place outside the national education system and assuming many different formats and durations. More than 100 entrepreneurship training programmes are conducted annually in Indonesia by various ministries and agencies. Some of the most notable examples are the following:

- The Ministry of Co-operatives and SMEs supports entrepreneurship training for youth, women, fishing and farming communities, disadvantaged communities and communities living in border regions. One of the most relevant programmes is the

National Entrepreneurship Movement, which supports 1 000 young nascent entrepreneurs every year through a range of skills development activities, including learning from successful entrepreneurs.

- The Ministry of Research, Technology and Higher Education provides entrepreneurship training to tenant firms as part of its incubation programmes (see section on business incubation activity).
- The Ministry of Industry's Entrepreneurship Programme offers incubation, training and mentoring to increase start-up activity in manufacturing sectors.
- The Ministry of Social Affair's entrepreneurship training is mostly aimed at low-income people and other vulnerable groups.
- The Creative Economy Agency (BEKRAF) targets would-be entrepreneurs in cultural and creative industries which include 16 different sectors and activities.
- The Ministry of Youth and Sports organises entrepreneurship training for youth aged between 16 and 30 (see section on programmes for specific target groups).
- The Ministry of Manpower and Transmigration offers entrepreneurship training to unemployed people who cannot find jobs in the formal economy, people with disabilities, migrant workers, and women (see section on programmes for specific target groups).

Some of these training programmes are in collaboration with universities, chambers of commerce and industry or entrepreneur associations, which helps training to remain hands-on and of practical nature.

The Ministry of Co-operatives and SMEs also takes a different approach to entrepreneurship training by encouraging internships and apprenticeships for students and graduates in SMEs through the Youth Entrepreneurship Apprenticeship Programme (see Box 5.7).

Box 5.7. The Youth Entrepreneurship Apprenticeship Programme of the Ministry of Co-operatives and SMEs

The Youth Entrepreneurship Apprenticeship Programme (MKU) promotes exchanges between students and SMEs for the purpose of mutual learning. Students work for about three months in SMEs, acquiring direct knowledge and managerial skills from industry. The internship experience focuses on improving the managerial, communication and networking skills of the students, as well as on stimulating their motivation to become self-employed or business partners in their place of apprenticeship.

In 2017, the Ministry of Co-operatives and SMEs had a target of placing 500 interns in 100 SMEs. While the programme operates on a modest scale, it gives higher education institutions an opportunity to co-operate more closely with industry and to better adapt their learning offer to the skills demanded in the labour market.

Source: Liunir, Z. et al. (2017), "Enterprises internships to increase managerial ability of business students" (*Magang Kewirausahaan Sebagai Upaya Peningkatan Manajerial*), http://jurnal.upi.edu/file/Liunir.pdf.

International organisations are also active in entrepreneurship training. For example, the International Labour Organisation (ILO) offers its Start Your Business (SYB)

Programme, which includes “train the trainer” sessions to build up the capacities of local training organisations implementing the programme at the national level. The Association of Business Development Services of Indonesia (ABDSI) has established the Indonesian SME-institute.id website, which tailors training materials from the online ASEAN SME Academy to the Indonesian market. These international initiatives are helpful in increasing the supply of quality training programmes for entrepreneurs and should be widely promoted and supported.

This is especially the case because, with the exception of these international initiatives, there are no national standards for entrepreneurship training in Indonesia. This means that each programme uses its own approach, curriculum, and modules. Furthermore, although thousands of Indonesians participate in these trainings on an annual basis, there is no central database collecting and reporting data on total number of participants and programme effectiveness, including outcomes in terms of new enterprises. The government should strive to collect such information to better assess outcomes and identify national good-practices.

This effort will also support the current work of the Ministry of Manpower and the Ministry of Education and Culture to develop a standardised competency-based curriculum for entrepreneurship training.[6] The intention is to require entrepreneurs to hold this certificate in order to access government financing programmes. The merits of asking entrepreneurs to have a certificate of competency in order to access government funding are questionable; for example, this could favour larger or new companies over smaller and existing ones, whose owners are less likely to have the time to undertake a full training course. Nonetheless, a positive outcome of a national curriculum would be the draft of national guidelines for government-supported entrepreneurship training programmes. Mexico provides an example of an official government-backed entrepreneurship training scheme, where the government has been delivering a standard 150-hour training programme to thousands of its citizens every year (see Box 5.8).

Box 5.8. Broad-based access to entrepreneurship training opportunities in Mexico

In 2007, the Mexican Ministry of Economy launched the New Entrepreneur National Programme, the general objective of which was to contribute to the creation of jobs, new entrepreneurs and new enterprises by building a stronger entrepreneurship culture, fostering an “entrepreneurial mind-set”, and imparting entrepreneurial and business planning skills to potential entrepreneurs.

The programme had four major components:

- Entrepreneurship promotion roadshows;
- Entrepreneurship training workshops;
- The national system of business incubation;
- The Seed Capital Programme.

Particularly relevant to Indonesia are the first two components.

The roadshows were part of a national promotional and information dissemination effort to create widespread awareness about entrepreneurship and encourage people to consider starting a business. Mobile units travelled from city to city throughout the year holding two-day events that provided information on the steps to take to start a business and the government support available. These events were often organised in co-operation with universities and local business associations.

During the course of these roadshow events, Mexicans interested in taking the next step could apply to participate in the entrepreneurship training workshop (Young Entrepreneurs Model), a 150-hour programme on how to start a business resulting in the preparation of a business plan. The design, piloting and testing of the workshop and its modules took three years to develop under the auspices of the Ministry of Economy and began to be implemented in 2010. The training workshop, consisting of a combination of online and classroom sessions, was delivered through a network of 153 "franchises" (normally held by private consulting and training firms) previously approved by the Ministry of Economy. Over 70 000 people were trained in these workshops between 2010 and 2013. This entrepreneurship training model has been used by at least 67 Mexican universities and technology institutes.

In addition to building a stronger entrepreneurship culture, fostering an entrepreneurial mind-set and providing business know-how to trainees, one of the objectives of the roadshows and workshops was to build demand for the national system of business incubators.

Source: OECD (2013), *Mexico: Key Issues and Policies*, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris, https://doi.org/10.1787/9789264187030-en.

Entrepreneurship education

Entrepreneurship education includes all the pedagogical activities aimed at promoting entrepreneurial skills (e.g. creativity, risk-taking, leadership) and an entrepreneurial mind-set among young people. The objective is to instil, through the national education system, a positive view in the younger generations about the effects and possibilities related to entrepreneurial activity. To achieve this goal multiple tools are typically used: classroom lectures, business games, the creation of real or virtual student business start-ups, business idea competitions, guest-speaker lectures, etc.

In 2017, the Ministry of Education and Culture issued Regulation 17/2017 on Assistance in the Implementation of Entrepreneurship Skills Education Programmes, which applies to both early childhood education and community education. Through this regulation the Ministry of Education and Culture is expected to provide funding to schools, universities and other educational organisations and community learning centres to organise entrepreneurship education programmes. The priority targets are school drop-outs or graduated students who are not currently undertaking any school or training activity (16-21 years of age). The regulation has, therefore, a mostly social vocation to help young people who are neither in employment nor in education. Between 2017 and 2018, the Ministry of Education and Culture allocated IDR 228 billion and reached 85 500 people. Institutions are required to deliver standardised courses of at least 150 hours, with 50 hours dedicated to entrepreneurship theory and 100 hours dedicated to practice.

Entrepreneurship education in primary and secondary schools

At the primary and secondary levels of education, the inclusion of entrepreneurship as a topic in school curricula was first mentioned in the Presidential Instruction 4/1995 and, subsequently, in Law 203/2003. However, a competency-based curriculum of entrepreneurship education has only been in place since 2010, and entrepreneurship teaching at this level remains mostly limited to secondary schools with a focus on social sciences.

Entrepreneurship education in higher education

The Ministry of Research, Technology and Higher Education and the Ministry of Education and Culture are both active in supporting entrepreneurship education in higher education institutions. As of 2017, almost all Indonesian universities offered seminars and training courses on entrepreneurship, with some of them also offering majors in entrepreneurship (Hermanto and Suryanto, 2017).

The Ministry of Research, Technology and Higher Education supports Entrepreneurship Campus Centres (*Pusat Kewirausahaan Kampus)*, which offer advisory services, mentoring and lectures to encourage student entrepreneurship. The same Ministry also operates the Student Entrepreneurial Programme (*Programme Mahasiswa Wirausaha*), which offers funding to students who develop a business plan for the commercialisation of creative and/or innovative products.

The Ministry of Education and Culture, on the other hand, has developed the Entrepreneurship Lecture Programme, the aim of which is to nurture entrepreneurial attitudes among students. This programme is structured around five core competences: character; communication and interpersonal skills; creativity and innovation; marketing; and business management. These five core competences are organised in 14 modules, each of which consists of a 150-minute lecture (Ministry of Education and Culture, 2013). The creation of such a structured programme is a positive development which strengthens the consistency of entrepreneurship teaching and learning at the university level.

Another noteworthy programme, still from the Ministry of Education and Culture, is the Business Lecture Programme (*Kuliah Kerja Usaha, KKU/KKN-PP*), a practical course intended to equip students with the ability to apply what they learn to solve social problems at the community level.

On the whole, Indonesia is well advanced in the field of entrepreneurship education thanks to several learning opportunities offered by the Ministry of Research, Technology and Higher Education and the Ministry of Education and Culture. Nonetheless, there could be better co-ordination between the different levels of the education system (from primary to university) to ensure a more strategic approach to entrepreneurial learning objectives and outcomes. Moreover, standardised programmes to train teachers on the contents and methods of entrepreneurship training should be promoted.

The example of the Dutch National Entrepreneurship Education Programme shows how the creation of a national commission on entrepreneurship and education, with membership from all relevant ministries and levels of education, has helped examine entrepreneurship education curriculum and learning outcomes at each education level to ensure a building-block approach (path) to the progression of entrepreneurial attitudes and competencies across levels of education (see Box 5.9).

Entrepreneurship education in Indonesia could also be strengthened in other ways. According to recent academic work, there is still more emphasis on theory than practice; better linkages between incubators and entrepreneurship education opportunities should be developed; and more needs to be done to embed an entrepreneurial culture within the university system (Purwana and Idyastuti, 2017).

Box 5.9. International inspiring practice: National Entrepreneurship Education Programme, the Netherlands

Description of the approach

In 2000, the Dutch government launched the National Entrepreneurship Education Programme as part of its policy to create a more entrepreneurial society. The Ministry of Economic Affairs, in co-operation with the Ministry of Education, Culture and Science, established a broad-based, consultative Commission on Entrepreneurship and Education consisting of 16 people from different fields of education, employer associations, entrepreneurs (male and female) and multicultural organisations to plan the strategic integration of entrepreneurship at all levels of the education system. All levels of education were represented in the membership of the Commission. An independent chair headed the Commission and the Ministry of Economic Affairs served as its secretariat.

The Commission was given a threefold task:

- To create support and awareness of entrepreneurship within the education community.
- To draft proposals for the development, piloting and implementation of activities to foster entrepreneurial skills and enterprise creation within the education system.
- To draft proposals to remove obstacles that prevented an entrepreneurial culture from prospering within the education system.

The Commission was mandated to develop a portfolio of good practices/projects in entrepreneurship, spanning all levels of education from primary school to university, and which would serve as examples that could be easily duplicated by other educational institutions. The ultimate objective was to create a snowball-effect throughout the education system and, at the same time, develop a continual learning path from primary school to secondary school, vocational education and university. To reach this goal the Commission organised a series of meetings with experts and representatives from the different levels of education; completed an inventory of the existing good-practice initiatives that fit in this learning path; and identified barriers faced by schools and universities in promoting entrepreneurship education.

The final outcome was the Dutch “Pulchri” model, which distinguished five phases in the entrepreneurial learning journey.

- *First experiences with entrepreneurship (primary schools)*: Students are introduced to the notion of entrepreneurship as a life option. At this stage students learn through play some general skills, such as working in groups/projects, orientation to production, and research.
- *Consciousness of skills (lower secondary schools):* Students gain an understanding of their own skills and talents.

- *Creative applications and enrichment of experiences (upper secondary schools):* Students are introduced to learning by experience and to elements of competition. This could involve mini-enterprise projects where students from secondary and higher vocational education run their own enterprise over the course of a year supported by a teacher and mentor (often an entrepreneur).
- *Preparation and real start-up:* At this stage, education institutions should raise interest in entrepreneurship. In higher education, this may mean support of a real start-up as part of the regular curriculum.
- *Growth and innovation phase:* In this final phase support for start-up firms becomes more important. Higher education can provide supporting facilities (finance, personnel, knowledge). Co-operation with intermediaries, such as chambers of commerce and former students, can be very useful in supporting transfer of knowledge and the overall enterprise growth.

In order to stimulate the broader application of entrepreneurship projects, the Dutch government approved a Subsidy Scheme on Entrepreneurship to fund small pilot projects (e.g. seminars, training for teachers etc.) and larger development projects (e.g. projects that developed learning instruments and methods linked to the school curriculum).

Success factors

Support for larger development projects linked to the school curriculum was a critical factor of success because it safeguarded the structural place of entrepreneurship in the education system and prevented the risk that projects would only have a temporary effect.

Moreover, the build-up of a portfolio of good practices for every education level, to serve as examples for other institutions, helped ensure the diffusion of entrepreneurship education across the different levels of the education system (i.e. snowball-effect).

Obstacles and responses

The major barriers, as noted by Dutch officials and experts, involved giving entrepreneurship a structural place in the curricula of the different levels of the education system, changing the often negative culture towards entrepreneurship within the education sector (including entrepreneurship as a legitimate area of study), and training teachers who could teach students about entrepreneurship.

Relevance to Indonesia

Indonesia already has a host of programmes and activities supporting entrepreneurship education. The creation of an Entrepreneurship and Education Commission and the subsequent launch of a national entrepreneurship education programme could help promote a more strategic approach to entrepreneurial learning objectives and outcomes.

Sources for further information

Stevenson L. and A. Lundström (2002), Beyond the Rhetoric: Defining Entrepreneurship Policy and Its Best Practice Components, Swedish Foundation for Small Business Research, Stockholm, pp. 296-300.

Social entrepreneurship and corporate social responsibility

Social entrepreneurship has gained momentum in recent years in Indonesia, as shown by the emergence of many social businesses, the establishment of social entrepreneurship study centres on several university campuses, and the formation of the Indonesian Social Entrepreneurship Association (AKSI) in 2009. The government has also begun to emphasise social entrepreneurship development, particularly with the inclusion of a dedicated chapter in the Draft Law on National Entrepreneurship. As of mid-2018, however, there was no shared definition of a social enterprise at national level, although the Draft Law on National Entrepreneurship refers to social entrepreneurship as entrepreneurship which has the vision and mission to solve social problems and/or provide positive changes to the welfare of society and the environment, and that reinvests most of its profits to support its mission. The draft law further states that social entrepreneurship involves the participation and empowerment of communities through business activity and can take the form of foundations, associations and co-operatives.

The Ministry of Social Affairs is the main government institution mandated with social enterprise development, except for co-operatives which may also have social objectives but are under the responsibility of the Ministry of Co-operatives and SMEs. Support for social entrepreneurship is still at a very incipient stage in Indonesia and is mostly driven by donors.

In the Indonesian context, social entrepreneurship can also be tied to the concept of corporate social responsibility (CSR), which is backed by government laws requiring all large businesses to have a CSR strategy and to allocate CSR funds for social causes, including entrepreneurship development. This creates a fertile ground for co-operation between for-profit businesses and social entrepreneurs, as shown, for example, by the environmentally-oriented partnership between *Asgar Muda*, a youth social enterprise foundation based in Garut (West Java), Chevron Corporation and Indonesia Power.

In addition, state-owned enterprises (SOEs) have an obligation to engage in the Partnership Programme with Small Business (PKBL). The PKBL is regulated by the Ministry of SOEs' Regulation 02/MBU/7/2017, which mandates that SOEs should reserve 4% of their after-tax profits to this programme. As part of the PKBL, small businesses benefit from subsidised loans to finance the acquisition of fixed assets or working capital. The programme is also used to support education, training, marketing and promotional activities of small businesses (Fridaus, 2014; Palesangi, 2017). To be eligible for the PKBL, small enterprises must have a maximum net worth not exceeding IDR 200 million (excluding land and buildings) or maximum annual sales of IDR 1 billion; have at least one year of activity; and find traditional bank credit inaccessible.

Programmes for specific target groups

Women's entrepreneurship programmes

The priorities of the National Medium-Term Development Plan 2015-2019 include women's integration in the national labour force, the collection of data allowing gender-based analysis, and the formulation of gender-responsive economic development policies. These objectives are to be achieved mostly through gender mainstreaming, which involves taking into consideration the gender dimension in the design and implementation of most economic development policies,[7] and establishing gender-based policy targets and policy indicators.

In addition, Indonesia also has a number of specific programmes for women entrepreneurs, although they appear to be small in scale and fragmented across different technical ministries. The Ministry of Women's Empowerment and Child Protection organises trade shows and financial literacy training, and supports technology adoption in women-owned businesses. This Ministry also co-operates with the Ministry of Co-operatives and SMEs through an agreement whereby the latter commits to facilitate women's participation in co-operatives and SMEs through improving their access to markets and finance.

The Ministry of Co-operatives and SMEs also runs the Welfare and Healthy Families and Women Programme, a revolving fund that provides financing to women's co-operatives and that has proven an important vehicle for addressing the financial constraints of women-owned micro and small enterprises. The Ministry provides IDR 100 million to each co-operative part of the programme, which in turn lends up to IDR 4 million to each member of the co-operative. Once members repay their loans to the co-operatives, funds are re-used for loans to other members.

Bank Indonesia has also supported women's financial inclusion strategies. Between 2013 and 2016, the Central Bank ran the Women Empowerment Programme to offer financial literacy training for women micro-entrepreneurs. Moreover, many financial institutions, including commercial banks, seek to reach women self-employed through microcredit schemes which use group lending methodologies (World Bank, 2016).

Access to markets is often as important as access to finance. However, there are limited programmes in Indonesia to prepare women-owned SMEs to tap into global supply chains. Two exceptions are the Embroidery and Apparel Cluster Development Pilot Project, initiated by Bank Indonesia, and the Women in Global Business-Indonesia Project, which is a partnership of the Indonesian government with the International Trade Centre and donor funding from Australia.

With respect to the domestic market, Indonesia actively supports the participation of women-owned enterprises in public procurement. Reforms to the procurement system of Indonesia take place within the framework of the Millennium Challenge Account (MCA) Indonesia Procurement Modernisation Project which, among other things, emphasises gender-sensitivity in national procurement practices. Through this project, the Goods and Services Procurement Agency of Indonesia (*Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah*, LKPP) has sought to make the procurement system more friendly to women-owned businesses (MCA-Indonesia et al., 2014), including by hiring more female procurement officers and by organising workshops to educate local procurement officers on a gender-equitable procurement process and women entrepreneurs on the skills required to access government contracts. One of the main challenges in this process has been that the overwhelming majority of women-owned businesses are informal.

Since Indonesia is in the early stage of implementing gender-sensitive public procurement practices, it could draw inspiration from the experience of the United States, one of the forerunners in this area (see Box 5.10).

Box 5.10. International inspiring practice: Procurement policies and programmes targeting women-owned businesses, United States

Description of the approach

The 1994 Federal Acquisition Streamlining Act was the first to establish a goal (not the mandate) of 5% of the value of all federal prime contracts and subcontracts in each fiscal year to be awarded to women-owned small businesses (WOSBs). This initial initiative, however, had limited success, which led to further legislative changes through the 2000 Small Business Programs Reauthorization Act. The new Act set out the definition of a WOSB (i.e. a minimum of 51% of the business is owned by one or more women); allowed agencies to restrict competition in industries in which WOSBs were under-represented; required WOSBs to provide proof of certification; and directed the Small Business Administration (SBA) to conduct a study of industries where WOSBs were under-represented in federal procurement contracts. In order to implement the procurement provisions of the Reauthorization Act, the SBA established the Office of Federal Contract Assistance for Women Business Owners, which was mandated to work with agencies to increase their contracting to WOSBs.

In 2011, the SBA-administered WOSB Federal Contracting Programme went into effect. Its main aim was to level the playing field for WOSBs to compete for federal contracts and, for the first time, allowed specific set-asides for WOSBs. The programme expanded the number of industries where WOSBs were substantially under-represented and where set-asides were thus required. WOSB set-asides now apply to contracting in more than 92 NAICS (North American Industry Classification System) industry groups. In 2013, the programme also removed previous caps on the contract size falling within the WOSB set-aside limits (USD 6.5 million in manufacturing and USD 4 million for all other contracts).

The aim is for not less than 5% of the value of all federal procurements in each fiscal year to be awarded to WOSBs. This target has been in place since 1994, but was first reached only in 2015 (totalling USD 17.8 billion).

Success factors

The SBA provides regular training workshops to public procurement officers on the WOSB Federal Contracting Programme. To make this possible, it was important to develop a process for women-owned businesses to become certified as valid WOSBs. The list of certified WOSBs is hosted on an SBA platform that can be accessed by public procurement officers when they look for women suppliers.

To educate women about the programme, the SBA Learning Centre has developed a primer for WOSBs on how to compete for federal contracts that can be accessed on its website, and the SBA offers training to women business owners on contracting opportunities and procedures as well as facilitating connections with government buyers around the country.

Obstacles and responses

The full implementation of the procurement programme for women-owned businesses has encountered many obstacles. Initially, there was limited success in achieving the 5% goal due to lack of a specific definition of a WOSB and lack of knowledge about in which sectors WOSBs were under-represented in procurement contracts. This was resolved by setting out the definition of a WOSB (and requiring companies to provide a certification) and undertaking research on the allocation of public procurement contracts by the gender of the business owner.

In addition, further legislation was required to achieve the 5% target. The establishment of the SBA Office of Federal Contract Assistance for Women Business Owners, for example, worked with agencies to increase their contracting to WOSBs, including by introducing rules making it easier for WOSBs to compete for tenders.

Relevance to Indonesia

The US experience indicates that it can take considerable time and effort to raise the level of participation of women-owned businesses in public procurement. The main takeaway is that several actions are needed in order to increase women's participation in the tendering process and their success in securing awards, namely: i) setting a definitional criteria for a women-owned business; ii) establishing a process for certifying that the enterprise meets the definitional requirement; iii) establishing procurement set-asides for which only women-owned businesses can compete; iv) training of public procurement officers in the implementation of the procurement rules; v) training of women entrepreneurs in how to participate in public procurement; vi) promoting the programme widely among women entrepreneurs' networks; vii) organising opportunities for women entrepreneurs to meet with government buyers; and viii) reporting on progress made towards achieving the prescribed quota.

Sources for further information

SBA, "Federal Government Breaks Contracting Record for Women-Owned Small Businesses", SBA Press Release, 2 March, 2016, https://www.sba.gov/content/sba-federal-government-breaks-contracting-record-women-owned-small-businesses/.

Federal Procurement Data System Small Business Goaling Reports (for trends in the awarding of contracts to WOSB), https://www.fpds.gov/fpdsng_cms/index.php/en/reports.html/.

Beede, D. and R. Rubinovitz (2015), *Utilization of Women-Owned Businesses in Federal Prime Contracting*, Report prepared for the Women-Owned Small Business Program of the Small Business Administration (SBA), Office of the Chief Economist, U.S. Department of Commerce, Washington, DC.

In addition to the national government, associations of women entrepreneurs, notably the Indonesian Women's Business Association (IWAPI) with its membership of about 30 000 female entrepreneurs, also play a relevant role in women's entrepreneurship support. For example, IWAPI collaborates with multinational technology companies (Microsoft, Nokia, etc.) to improve the digital literacy, online presence and logistic operations of its members. Women's associations are also active in favouring access to finance for their members, including through the establishment of their own financial institutions, mainly savings and loan co-operatives.

To summarise, there are a number of support programmes for women's entrepreneurship in Indonesia, but these are mostly small in scale and concentrated on women's co-operatives and micro-enterprises. There are also some significant policy gaps. For example, there is no formal mentoring programme for women entrepreneurs, contrary to what is observed in other ASEAN countries (OECD/ERIA, forthcoming; World Bank, 2016). Women are also poorly represented in main supply-chain development initiatives, except for some that have been funded by international donors in sectors where women are predominant (e.g. clothing).

It follows that Indonesia would benefit from a more targeted and comprehensive approach to meet the needs of different types of women-owned SMEs. For example, programmes to support micro-enterprises could focus on improving financial literacy and managerial and workforce capacity; women-owned small businesses could be better assisted by improving access to technology, innovation, and new markets; and support to medium-sized enterprises could prioritise internationalisation and the overall improvement of enterprise competitiveness.

Youth entrepreneurship programmes

About half of the Indonesian population is under the age of 30, pointing to the importance of education and skills policies to support the participation of the Indonesian youth population in the (formal) labour force. For the purposes of youth entrepreneurship policy, youth is defined as the age between 16 and 30 years in Indonesia. Law 40/2009 and Regulation 41/2011 on youth development mandates all levels of government to promote youth entrepreneurship through training, apprenticeships, mentoring and access to capital, further stipulating that local governments are to establish Youth Entrepreneurship Centres to roll out such activities.

The Ministry of Youth and Sports is the main institutional player in this field, delivering its own programmes and co-ordinating those of other ministries (e.g. the National Entrepreneurship Movement of the Ministry of Co-operatives and SMEs). The 2018 budget of this Ministry dedicated to youth entrepreneurship was IDR 47.4 trillion, with programme activities including entrepreneurship workshops, financial support for Youth Entrepreneurship Centres, e-commerce training, youth entrepreneurship fairs, and youth entrepreneur competitions. The two main programmes are the Young Beginner Entrepreneur Programme (*Wirausaha Muda Pemula*, WMP) and the Youth Entrepreneurship Centres (*Sentra Kewirausahaan Pemuda*, SKP).

The Young Beginner Entrepreneur Programme offers non-repayable financial contributions to young people who have run a business for less than 36 months. Applicants need to submit a business development plan, supplemented by budget details and a business analysis. The programme offers annually 1 000 small grants of up to IDR 20 million on a competitive basis, for a total budget of IDR 20 billion. Grants can be used for: purchasing raw materials and equipment; marketing and product promotion; participation in entrepreneurship development training courses; and reducing production costs. The WMP financing may also include access to low-cost loans from the Partnership Programme of State-Owned Enterprises (if the enterprise has at least a one-year track record and is able to show turnover growth).

Youth Entrepreneurship Centres are established locally with support from the central government and support youth entrepreneurship through training, mentoring and networking. These centres can also apply to the Ministry of Youth and Sports for additional funding to implement the Young Beginner Entrepreneur Programme as part of their activities. In 2017, the Ministry funded 34 Youth Entrepreneurship Centres with a total budget of IDR 34 billion.

Entrepreneurship programmes for returning migrants

The National Agency for the Placement and Protection of the Indonesian Migrant Worker (*Badan Nasional Penempatan dan Perlindungan Tenaga Kerja Indonesia*, BNP2TKI) undertakes a wide range of training programmes to equip Indonesian workers with sufficient skills and abilities to work abroad and to help them live independently when they return home. This includes entrepreneurship training so that returning migrants can invest their savings into productive activities in Indonesia. For example, in 2017, the Bandung office of the BNP2TKI organised entrepreneurship training in the Garut regency (West Java province) attended by 50 full-time migrant workers who had worked in the Middle East and Korea. They attended entrepreneurship training for seven days, with a focus on handicraft and livestock businesses. The training was co-ordinated by several government agencies with the involvement of the business sector, co-operatives, banks and local trainers.

Public procurement

Based on Presidential Regulation 16/2018 on the procurement of government goods and services, ministries and government agencies are expected to maximise the offer of government contracts to micro and small businesses (as defined by the 2008 MSME Law) and small co-operatives by reserving for them all government contracts of up to IDR 2.5 billion, except for contracts requiring high technical competences which micro and small enterprises may not be able to meet. Furthermore, the regulation expects companies winning larger bids (above IDR 2.5 billion) to subcontract some of the work to micro and small enterprises.

The Presidential Regulation falls short of setting a target for the percentage of procurement contracts (number or value) to be awarded to micro and small companies. However, although the National Government Procurement Agency (LKPP) does not report data on the share of procurement contracts being awarded to micro and small enterprises, in 2017, 587 014 procurement packages were issued with a value of up to IDR 2.5 billion each (and, thus, *de facto* reserved for micro and small enterprises), totalling IDR 87.7 trillion, while 15 104 procurement packages had a nominal value above IDR 2.5 billion each for a total of IDR 222.4 trillion (LKPP, 2017). Thus, 97.5% of procurement packages were issued to micro and small enterprises, although this only amounted to 28.3% of the total procurement value in 2017.

The government also gives preferential treatment to micro and small enterprises in terms of the percentage of the contract that can be paid in advance: 30% versus 20% for other businesses. Furthermore, the LKPP manages an online vendor directory where SMEs can register. This raises awareness of their businesses among procuring agencies and increases their opportunities to bid for government contracts. As seen earlier, the LKPP is also working to increase the participation of women-owned businesses in the procurement process through gender-sensitive practices and targeted promotion and training (see previous section on women's entrepreneurship programmes).

Overall, Indonesia offers good public procurement opportunities to micro and small businesses (and small co-operatives), although less than 30% of the total value of government contracts is assigned to micro and small companies by the virtue of falling under the legal threshold of IDR 2.5 billion. Moving forward, the government could work with business associations and chambers of commerce to provide guidelines and training to SMEs on how to bid for government contracts and to create opportunities for SMEs to meet with public procurement officials.

Conclusions and policy recommendations

Indonesia has a large number of support measures for SMEs and entrepreneurship, although some of them lack scale and there are overlaps among certain programmes (e.g. business incubators and entrepreneurship training). The largest SME programme is the People's Business Credit Programme (*Kredit Usaha Rakyat*, KUR), a government-backed loan guarantee *cum* interest rate subsidy whose budget has increased considerably after the 2015 reform. Besides traditional debt finance, Indonesia also supports diversification in the sources of enterprise finance, for example through two junior equity markets with less strict listing requirements than the main stock market. National innovation policies mostly consist of grants and advisory services, rather than fiscal measures such as tax credits. In particular, two national roadmap strategies drive the development of business incubators and e-commerce. Science and technology parks and the creative economy are two other important government priorities. Support for business internationalisation includes traditional policies such as export finance (i.e. credit, guarantees and insurances), market and export information, product development and export training, but also new approaches where SMEs can export by partnering with large state-owned enterprises or where SMEs are helped to become suppliers of exporters.

Entrepreneurship and management training (outside the national education system) and entrepreneurship education (within the national education system) are common in Indonesia, although the former lacks common competency standards which could improve the quality and consistency of the training, while the latter would benefit from a more strategic and integrated approach to entrepreneurial learning objectives and outcomes across the different levels of education. The Indonesian government also supports youth entrepreneurship and women's entrepreneurship, although programmes in these two domains are relatively small. Micro and small enterprises also receive preferential conditions in public procurement by having government contracts below IDR 2.5 million reserved for them.

One more general consideration is that most SME government spending in Indonesia is on socially-oriented programmes supporting necessity-based entrepreneurship. For example, KUR's average loan size makes it effectively a subsidised microcredit programme. In addition, several other programmes encourage business creation in traditional sectors of the economy, with many of them specifically targeting socially-disadvantaged groups such as low-income people, the unemployed, migrant workers or people living in rural and border areas. These measures are important in generating a source of revenues for the recipients and their families, but they are unlikely to become a main source of high-quality jobs.

Shifting the attention, and some budgetary resources, from socially-oriented programmes to economically-driven programmes encouraging business growth (e.g. through innovation, internationalisation, business linkages, the upgrading of workforce skills) would further the scale-up of existing SMEs and the generation of more productive and better-paid jobs in the (formal) economy. In fact, especially in low and middle-income countries, earnings are typically higher and social protection is more common in wage employment than in self-employment (Fields, 2014). Moreover, firms which scale up typically generate jobs not only for the high-skilled but also for the low-skilled (Coad et al., 2014). More government spending on programmes that "upgrade" the performance of

SMEs would also be in line with the provisions of Law 20/2008 (MSME Law) which aims to strengthen, among other things, the participation of Indonesian SMEs in economic growth and job creation.

Based on the analysis in this chapter, the following recommendations are offered to strengthen national SME and entrepreneurship programmes.

Recommendations on national SME and entrepreneurship programmes

- Increase spending on programmes that aim to improve SME productivity (e.g. innovation, internationalisation, managerial and workforce skills) by augmenting the overall SME policy budget or, alternatively, by transferring some of the existing resources from other more socially-driven programmes.

Financing programmes

- Consider increasing the focus of the KUR Programme on certain target groups of disadvantaged borrowers, such as first-time borrowers, enterprises in lagging regions, and sectors experiencing more constrained access to finance.
- Monitor possible misuse of the KUR Programme as well as the rate of KUR-backed non-performing loans.
- Consider decentralising the loan evaluation process in the LPDB Agency's Revolving Fund Programme, with the aim of improving capital allocation efficiency and favouring better geographical representation in the programme.
- Support the growth of the domestic venture capital industry through the establishment of a government venture capital fund and investment readiness programmes for growth-oriented SMEs.

Innovation programmes

- Reduce the number of ministries involved in the development of business incubators with the aim of simplifying the co-ordination of the National Roadmap for Incubator Development and increasing the size of existing incubators.
- Ensure that incubators are well integrated into the local entrepreneurial ecosystem by building relationships with external business support service providers, universities, research organisations and sources of equity finance.
- Open up university-based business incubators to applicants outside of the university hosting the incubator with the aim of making the selection process more competitive and improving the quality of tenant companies.
- Consider shifting the focus of the Indonesia Stock Exchange incubator from start-ups to existing high-growth firms, as the latter are typically closer to the stage of an initial public offering (IPO), which is one of the aims of the programme.
- Ensure that the location of science and technology parks is mostly driven by economic considerations, including the presence of a local base of innovative firms and knowledge-based workers.
- Support business accelerators, whose focus is on scaling up existing growth-oriented SMEs.

- Ensure that the targets of digitalisation support measures, such as the One Million id. Domain Programme, are not only met, but are also sustainable after government support comes to an end, and that they generate a real economic impact (e.g. in terms of increased revenues, profits and export at the firm level).
- Consider the development of a new intervention which fosters the adoption of digital technologies in SMEs beyond e-commerce, notably the use of hardware and software programmes supporting the professionalization of small business management.

Internationalisation programmes

- Increase budgetary resources for business internationalisation, including training measures to improve the export-related skills of SMEs and programmes such as export-oriented consortia or co-operatives that enable SMEs to gain direct exposure to export activity.
- Improve the involvement of SMEs in the KURBE Programme (i.e. the Export Oriented People's Business Credit Programme), for example by targeting not only Tier-I but also Tier-II suppliers of large exporters or SMEs which have the potential to become Tier-I suppliers.
- Strengthen existing programmes to improve the participation of Indonesian SMEs in global value chains, including by facilitating co-operation between multinationals and local SMEs.

Entrepreneurship and management training

- Initiate an evaluation of the main entrepreneurship and management training programmes with a view to assessing the outcomes (e.g. rate of business start-ups by trained participants) and identifying best-practice approaches and curricula.
- Expand the Youth Entrepreneurship Apprenticeship Programme to benefit a larger number of apprentices and SMEs. Ensure that businesses offering internships within this programme focus on the learning process of students and possibly on creating employment opportunities for them.

Entrepreneurship education

- Establish a National Commission on Entrepreneurship and Education, represented by relevant ministries and all levels of the education system, to review the entrepreneurship-related curriculum and learning outcomes at each educational level and to ensure a building-block approach (path) to the progression of entrepreneurial attitudes and competencies across the different levels of education.
- Allocate resources to the capacity building and professional development of teachers in the primary and secondary education systems to improve their competencies and abilities in the teaching of entrepreneurship content.

Social entrepreneurship and corporate social responsibility

- Establish government support for the development of social entrepreneurship and social enterprises in the form of dedicated capacity-building actions and access to finance.

- Develop a clear definition of social entrepreneurship and social enterprise in order to substantiate eligibility for government support programmes.

Programmes for specific target groups

- Consider increasing the size of the grant in the Young Beginner Entrepreneur Programme (and as a result the overall budget) to foster the creation of employer enterprises. Consider making job creation one of the requisites of the programme.
- Give stronger attention to supporting growth-oriented women-owned enterprises through appropriate programmes providing mentoring, training and access to domestic and international markets.
- Consider establishing goals or legal set-asides in terms of the proportion of procurement contracts to be awarded to women-owned businesses, whose definition and eligibility requirements should be set by the law.

Public procurement

- Strengthen SME access to public procurement through enhanced information on existing government contract opportunities and through targeted training to increase the ability of SMEs to bid for government contracts.

Notes

[1] Optimal efficiency is reached when capital markets work perfectly, that is, when capital flows to the most productive uses. If credit markets are inefficient, however, capital may flow to less productive activities or may not flow at all. In this case, interest rate subsidies may help redress the situation by channelling resources into more productive uses than would otherwise have been the case.

[2] Information from the ASEAN Co-operation Project Number "IND/SME/11/002/REG", Republic of Indonesia, Jakarta.

[3] "Indonesia Expects Jump in Creative Economy by 2019", Jakarta Post, 15 March 2017. http://www.thejakartapost.com/news/2017/03/15/indonesia-expects-jump-in-creative-economy-by-2019.html

[4] "Creative Economy Agency: Where Are You?", Global Indonesian Voices, 13 May 2017. http://www.globalindonesianvoices.com/26138/creative-economy-agency-where-are-you/

[5] "Indonesia Eximbank Financing Soars by 18.31%", Jakarta Post, 15 March 2017, http://www.thejakartapost.com/news/2017/03/15/indonesia-eximbank-financing-soars-by-18-31.html

[6] Competency-based training enables participants to start and end training programmes at different times and levels, based on the level of acquired competencies. It can involve various training methods and techniques, including on-the-job training, off-the-job training and training through relevant media tools.

[7] Examples include training programmes which are delivered at times suitable to the working hours of women, financing programmes open to sectors where women-owned businesses are most prominent, etc.

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