

sixty two. **Nation^o**

STATUS QUO REPORT

Qualitative and Quantitative study on Entrepreneurship Landscape in Jakarta



Funded by the European Union



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Foreword

Jakarta today offers a plethora of opportunities, thanks to the diversity and the collaborative spirit imprinted in the community. However, the recent crisis demands a new frame to guide the people in living a post-pandemic lifestyle, most apparent about the policy to nurture values, innovation, and job growth.

Through the sister city partnership, Jakarta and Berlin are joining forces to strengthen the entrepreneurial ecosystem by implementing the project “Smart Change”, funded by the European Union. Within the area of policy, Jakarta and Berlin partner up to identify the gaps and improvements to address entrepreneurs’ challenges of today.

In collaboration with Sixty Two and Nation Insights, the project gathered feedback from hundreds of entrepreneurs in the region about the multi-dimensional adaptations they faced to stay in business.

The quantitative and qualitative data presented in this report is the compilation of the voices on the ground, calling for policymakers to urgently make that change.

In the movement to improve prosperity and innovation in the city, Smart Change believes that a policy co-design will generate the momentum to shape the inclusive intervention in empowering entrepreneurs, government, academia, and citizens to work hand-in-hand. We hope the initiative presented here shall encourage a further promotion of entrepreneurship, to arrive at a landscape of fair income opportunities in Jakarta.

Best Regards,

Surya Darmadi, Kariem El-Ali, Antonin-Salice Stephan, Alecia Firnanda

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Acknowledgment

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We also thank the Tenggara Strategics team who had worked tirelessly to complete the quantitative survey amidst these challenging times.

Lastly, we thank all of the research participants who had taken part in this study. We truly appreciate your contribution.



About The Author

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two.**

Sixty Two

Sixty Two is a global family of product strategists and designers who take pride in crafting impactful, innovative & lovable experiences that meet your business goals. We partner with organizations, big and small, around the globe on strategy, product innovation and user experience design.

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Nation

Nation Insights

Nation is a team of researchers with backgrounds in marketing strategy and industrial design. We inform the development of strategies for product and brand design through our understanding of people and culture. Nation has offices in Singapore & Jakarta, and works across Asia.

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1 Executive Summary

This report summarizes the study done on Jakarta's entrepreneurship ecosystem commissioned by Jakarta Smart Change and Berlin.de and developed by Sixty Two and Nation Insights.

MSMEs form the backbone of Indonesia's economy. They contribute to more than 60% of Indonesia's GDP, absorb 97% of the workforce, and make up a significant proportion of the country's entrepreneurs.¹

They play a critical role in both the country's economy and entrepreneurial development, yet it has been shown time and time again that MSME entrepreneurs and their businesses remain largely underserved. They continue to face a multitude of issues that weaken their ability to withstand negative shocks.

Meanwhile, technology startups may not be represented in great numbers as MSMEs, but their contributions in creating a digitally-driven and innovative economy is enormous

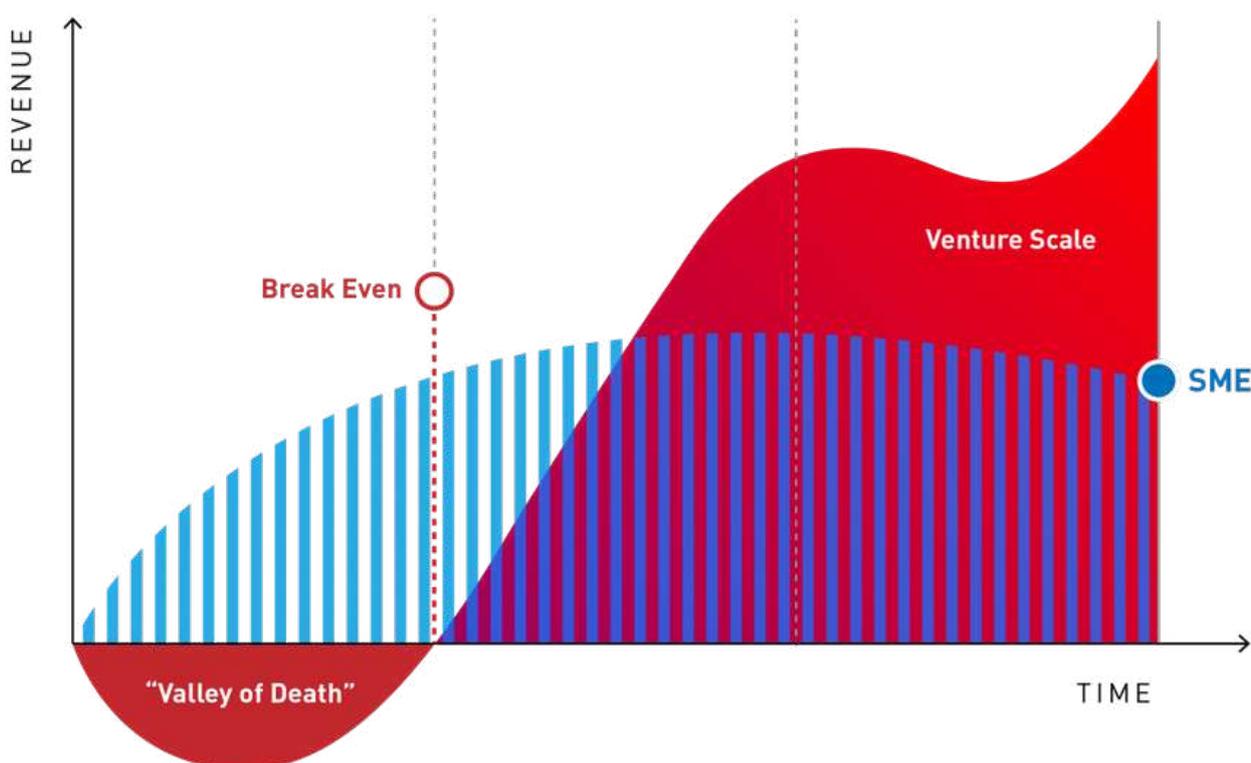
Startups not only create opportunities for a thriving knowledge-based economy but also lay down the stepping stones for MSMEs to digitalize and grow in the internet economy. Therefore, it is crucial to also support startup development as they are important actors in the entrepreneurship ecosystem. Currently, only 5% of startups are expected to succeed.² Similar to MSMEs, there are a myriad of factors that contribute to this low success rate.

As such, **this research was conducted to explore and deeply understand the factors that are most critical to a successful MSME & startup development.** We focused on learning what these entrepreneurs needed the most help with—deep diving into the issues and obstacles that when unlocked would have the biggest potential impact on business growth and resilience. From the unique insights gathered, we synthesized and analyzed how we could apply the learnings to reimagine and redesign policies and programmes to have the greatest possible effect.

Regulations & past research have often grouped MSMEs & startups in the same category, but in fact, they are vastly different with stark contrasts in their business models, goals and operations.

As shown on Figure 1, startups typically enter the “Valley of Death” in its early stages, which is a difficult period of negative cash flow. Startups who survive the valley will then enjoy exponential growth with venture-backed capital. MSMEs, on the other hand, tend to go with a more sustainable route from the get-go—steady, slow growth sustained over a long period of time. It’s unsurprising, then, that MSMEs & startups face very different challenges throughout their journey (Figures 2 & 3).

Fig 1 | Startups Vs MSMEs Growth Model



Graph from 'Opinion: Indonesia Needs More Scale-Ups, Not More Start-ups'. Forbes. 11 Dec 2017. Web.

Fig 2 | The top challenge for MSMEs is market access

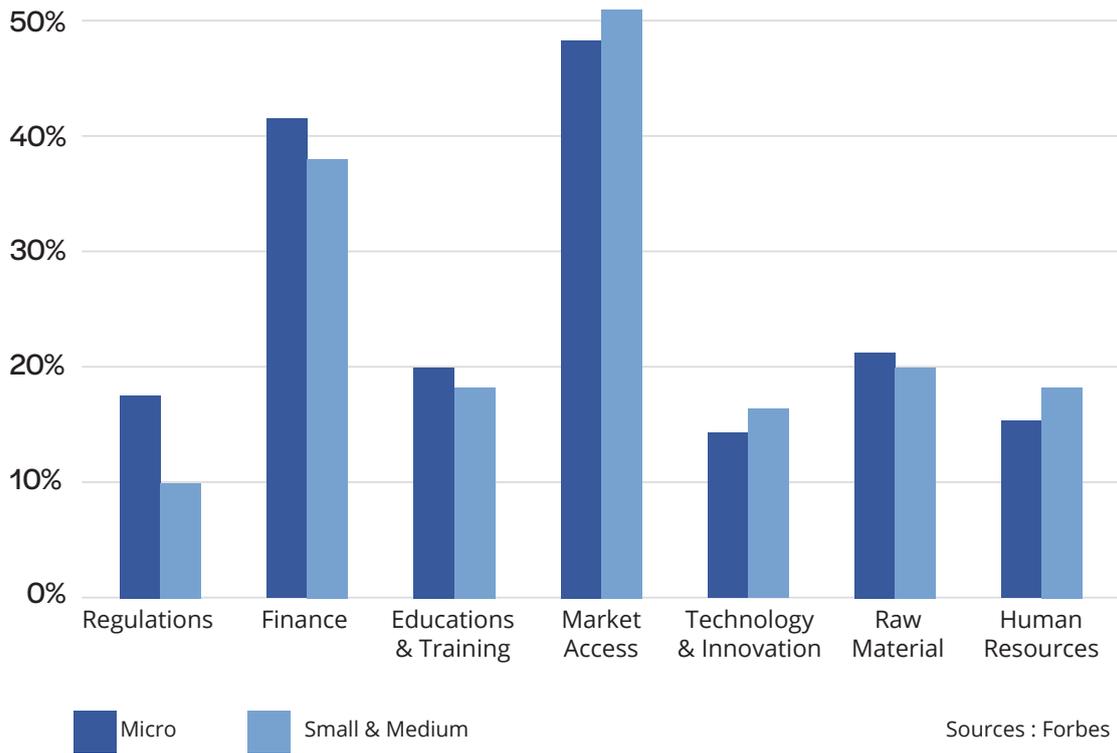
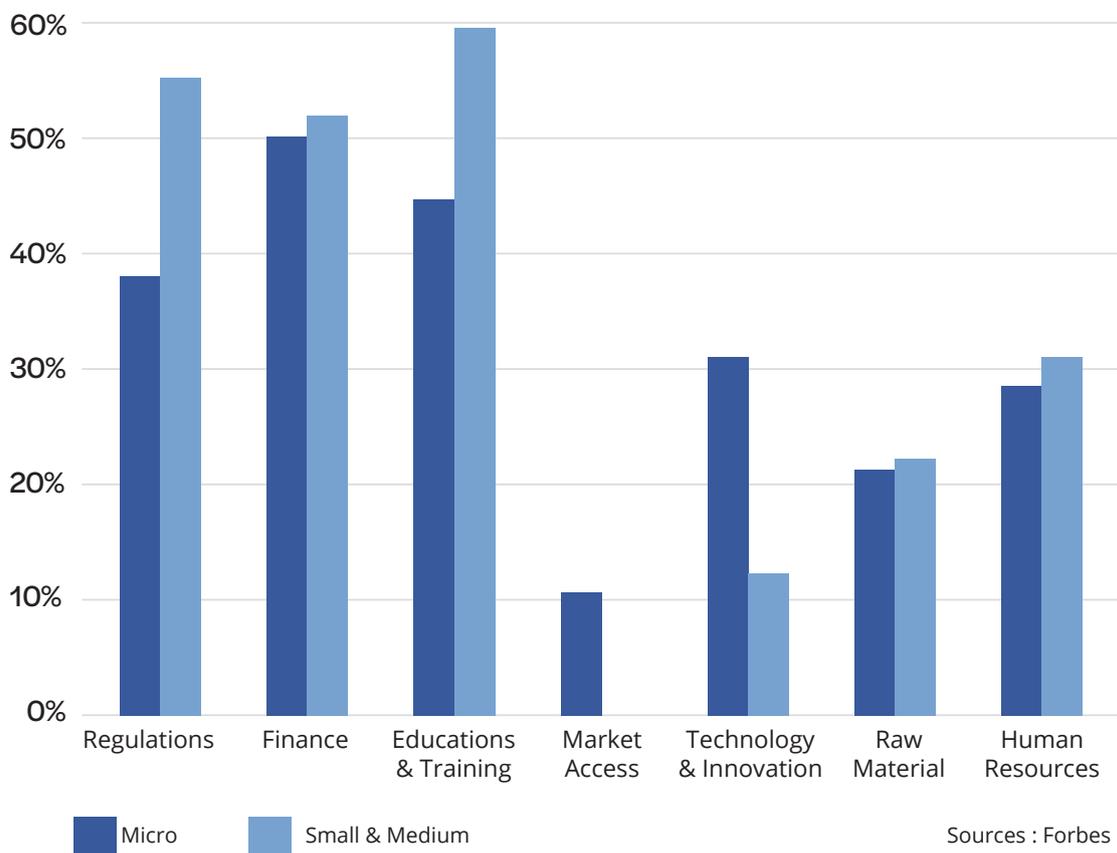


Fig 3 | The top challenges for startups are education & training, regulation, financing and human resources



Here's what we learned

01

Most entrepreneurs are not aware of government policy and programmes designed to help them.

Many of the policies & programmes are not reaching the entrepreneurs, who remain unaware that help is available.

02

Associational life plays an important role throughout the entrepreneurs' journey.

For the majority of entrepreneurs, their social network is crucial in helping them get the business off the ground and running. Sales, recruitment, partnerships, industry knowledge and even funding are commonly instigated from personal networks.

03

Growth is critical, yet market access is still the biggest challenge for MSMEs.

They remain highly dependent on a small pool of customers grown from the entrepreneurs' personal network and unable to expand their market. This struggle is further exacerbated by a lack of urgency to grow that is rooted in their accepting and submissive cultural upbringing, as well as tendency to be highly self-reliant.

04

Digitalisation remains a valuable solution to overcome barriers to growth.

Technology offers MSMEs the ability to expand their reach, improve productivity, and spot opportunities. With the pandemic, there is a stronger urgency amongst MSME to adopt technology in various aspects of their business and this provides a great momentum to further drive MSME digitalization.

05

Online sales and marketing channels can empower MSMEs to expand their reach beyond personal networks.

However, MSMEs lack the digital skills to utilise these channels optimally and are afraid of being overwhelmed by rise in online demands, yet do not have the funds to strengthen supply.

06

Innovation is key for MSMEs to attract consumers in an increasingly competitive and value-conscious market.

They need to strengthen their market & industry knowledge and prepare their business with the necessary skills and assets to successfully develop appealing innovations.

07

MSMEs are increasingly keen to adopt technologies to improve productivity in various business processes and unlock growth.

Most, however, have yet to realise this desire as they lack the knowledge and HR capability to find and adopt the most suitable software, and still perceive these technologies to be unaffordable.

08

Financing is essential to a startup's survival, yet current financing culture & regulations remain a barrier.

Startups experience difficulty in getting funding as local investors tend to prefer investing in conventional businesses with easy-to-understand offerings and business models. To compensate, many startups look for foreign funding but often hit a roadblock with Indonesia's complicated foreign direct investment regulations.

09

Current tax regulations are burdensome to a startup's growth ambitions.

Early-stage startups are rarely cash flow positive, typically focusing the majority of their resources on high-growth strategies. The tax burden inhibits their ability to reinvest their thin or even negative profit margins.

10

Startup educational & training programs are highly sought after as a way to gain funding and networking opportunities and knowledge from peers, mentors and other industry players.

However, many high-profile local programs have struggled to deliver those benefits.

11

Talent shortage is a big issue in the country's tech industry.

It is increasingly challenging to recruit and retain high-quality talent in technical roles (e.g. programmers), especially for young startups who struggle to compete with bigger companies in offering competitive remuneration.

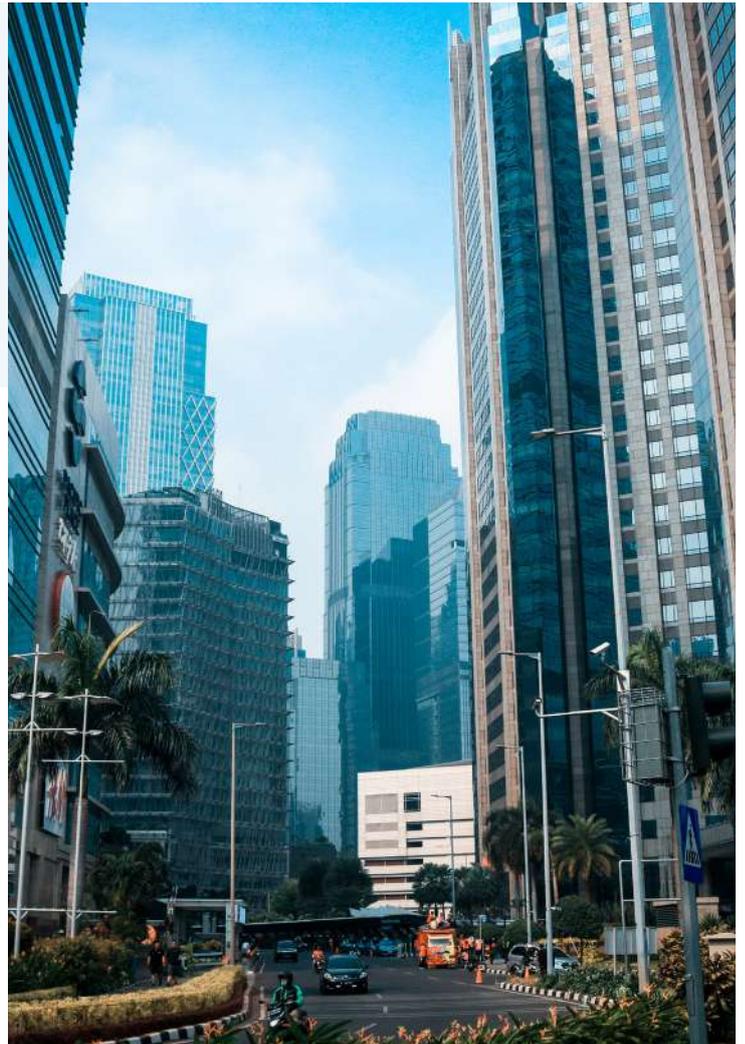
12

Education & training programs for future and current tech workers are largely underserved.

Higher-education institutions struggle to fill the talent pipeline with the latest in-demand technical skills. Meanwhile, there is a lack of advanced technical training programs available in the country.

We synthesized our findings into three key areas each for both MSMEs and startups that urgently need the most support from the public & private sector.

We proceeded to review the regulatory progress for each key area to help us determine which has the most gaps, and therefore, to prioritize for the co-design session. The cards summarize the key areas and issues, as well as its corresponding magnitude (i.e. scope of businesses affected), regulatory progress, and lastly, ranked from low to high, the level of importance to the business and the level of feasibility (i.e. the ease and likelihood of delivering successful solutions).



Feasibility

Importance to the business

High

Medium



Issues

MSMEs: Developing digital capabilities within their organisation

Access to skills that support utilization of digital platforms available at their disposal, from sales and marketing channels to softwares relevant to their business operations



Magnitude

All MSMEs.



Regulatory Progress

Plenty of public and private programmes have been designed and implemented. Overall, MSMEs in Jakarta are the most digitised nationwide. However, access to information is unequal. The suitability of current solutions and sustainability of business after adopting online channels remain an issue.

Data of existing MSMEs will be reconciled in 2022 as part of the GR 7/2021, which may further ease their access to relevant programmes.

Feasibility

Importance to the business

High

High



Issues

MSMEs: Building strong and up-to-date market and industry knowledge

Access to the latest insights around the market, including customers' appetite and pricing, and industry-specific trends or skill set to enable effective and relevant innovation



Magnitude

Newcomers who are trying to find the right target market, experiment with product-market fit, and learn how to fulfill the market need at a profit.

Emerging small businesses that have proved themselves and are ready to take on growth opportunities.



Regulatory Progress

While there is some mention of research and development assistance for micro and small businesses in GR 7/2021, there are currently little known public programmes on market intelligence provision for MSMEs.

Feasibility

Importance to the business

Medium

High



Issues

MSMEs: Making digitally empowered growth affordable

Access to funding or reduced cost to digitalizing, from the cost of the technology itself (e.g. software, membership, commission fee) to business improvements to strengthen supply for online demands or support innovations.



Magnitude

All MSMEs.



Regulatory Progress

Several regulations, including the recently issued regulation GR 7/2021 have provided financing options for MSMEs.

However, awareness of and inclination for state support programmes are relatively low. Little is known about the implementation of the new regulation, and more information on incentives and amount of support is needed.

Feasibility

Importance to the business

Low / Medium

Medium



Issues

Startups: Startup-friendly financing culture & regulations

Ease in attracting and accessing local and foreign funding, as well as tax incentives and exemptions



Magnitude

All startups.



Regulatory Progress

Several regulations to ease investment rules have recently been issued. However, new rules on foreign investment are specified for tech startups located inside SEZs. More details on the amount of grants available and investment incentives for local investment are needed.

Feasibility	Importance to the business
High	Medium

 **Issues**
Startups: Provision of all-round startup education & training programmes (e.g. incubators, accelerators)

Programmes that provide access to funding & networking opportunities, relevant industry knowledge tailored to startup stage, and a well-structured mentorship programme improvements to strengthen supply for online demands or support innovations.

 **Magnitude**
 All, but in particular early-stage startups that find it difficult to access support and resources.

 **Regulatory Progress**
 The recently issued regulation GR 7/2021 addresses incubator development and contains several positive changes. However, metrics and milestones for the monitoring and evaluation of incubators are still not clearly defined.

Feasibility	Importance to the business
Low/ Medium	High

 **Issues**
Startups: Ease of recruiting & developing tech talent

Ease of filling in technical roles and the availability of advanced and niche technical training programmes that are affordable

 **Magnitude**
 All, but especially emerging startups that have secured some investment.

 **Regulatory Progress**
 The recently issued regulation on recruiting foreign talent contains weak improvements. Further, despite the government's focus on training tech talent in-country, the need for specialised skills outpaces training efforts.

Based on the importance to the business and feasibility, we recommend the policy design to focus on tackling these key issues:

MSMEs

Building strong and up-to-date market and industry knowledge

How might we support MSMEs to develop strong and up-to-date market and industry knowledge?

MSMEs

Making digitally empowered growth affordable

How might we make digitally-empowered growth affordable for MSMEs?

STARTUPS

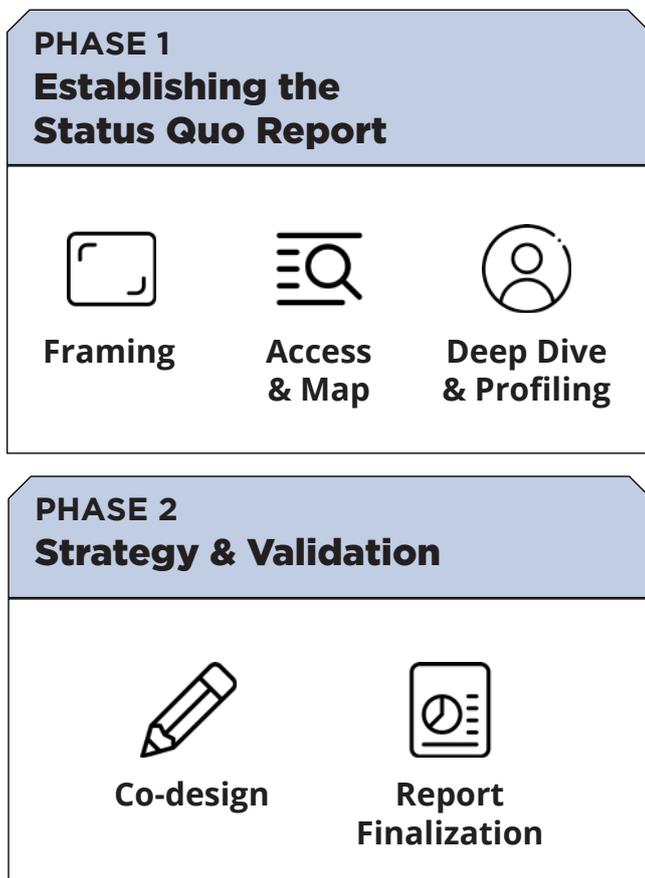
Ease of recruiting & developing tech talent

How might we build the tech talent reservoir to meet the evolving industry demand?



2 Research Approaches

This study consists of two phases



PHASE 1 Establishing the Status Quo Report

To inform an effective policy strategy design, our study began with a development of this status quo report to identify priority areas to address and provide a nuanced understanding of the key issues and actors within Jakarta's entrepreneurship ecosystem. We employed a three-steps research approach that includes both a macro and micro view to get a holistic view, including the perspective of the entrepreneurs themselves.

Deep Dive & Profiling

Framing

Access & Map

STEP 1 Framing

The first step of our study was to frame our thinking, building a baseline understanding by conducting a literature review to create a theoretical framework to underpin primary research. There are two key topics covered:

- 1. The entrepreneurial ecosystem & population:** entrepreneur types and characteristics, key stakeholders. This will inform our participant sample design to research
- 2. Known issues within the ecosystem and policies** (to develop early hypotheses on areas to be addressed), as well as past / existing initiatives to address these

To gain an in-depth understanding of these topics, we examined a wealth of literature from sources like OECD, ILO and the Centre for Strategic and International Studies (CSIS), and existing regulations on entrepreneurship.

STEP 2 Assessing & Mapping

In the second step of this study, we ran a quantitative survey, conducted through a mix of face-to-face interviews, zoom or phone call, and online questionnaire. The aim was to answer the following questions:

1. Priority target groups
“Who should we help?”
Identifying target groups with the most potential to drive economic and employment growth, but are currently disadvantaged, to ensure a policy design with the greatest effect
2. Priority issues
“What should we address?”
Identifying the most urgent issues that have the highest level of impact on MSME businesses

The survey targets 300 MSME owners, who are divided into 5 (five) business segments:

1. Retail and reparation
2. Food & Beverages and Accommodation
3. Manufacturing
4. Transport & Logistics
5. Start-up

across 6 (six) mayoralities or regions in Jakarta. We also break down the business segments by their size and legal status. We define the classification for the businesses as following:

Segment

Retail and Reparation

A firm in the wholesale and retail trade (i.e., sales without technical changes) of various types of goods and is the final stage distribution of merchandise, as well as car and motorcycle reparation services.

F&B and Accommodation

A firm that provides food, beverages, and short-term lodging.

Manufacturing

A firm that is involved in processing materials, elements, or components through chemical or physical changes into new products.

Transport & Logistics

A firm that provides transportation of passengers or goods, including related facilities such as warehousing and courier or postal activities.

Start-up

A technology-oriented company in the early stages of its development that offers a solution (product/service) relevant to one of the Smart City dimensions and with a goal to grow rapidly and scale using technology.

Size

Micro

A firm whose yearly sales revenue is less than or equal to Rp 2 billion

Small and Medium

A firm whose yearly sales is more than Rp 2 billion, but not greater than Rp 50 billion

Legal Status

Micro

A firm whose yearly sales revenue is less than or equal to Rp 2 billion

Small and Medium

A firm whose yearly sales is more than Rp 2 billion, but not greater than Rp 50 billion

All respondents are selected through non-probability sampling with a target sample for a set of criteria to control bias. The target sample has a tight selection criterion and was allocated according to the MSME population distribution in Jakarta to control bias.

Sample Distribution

Size	Retail & Repairation	F&B Accommodation	Manufacture	Transport & Logistics	Startup	Total
Micro Informal	56	61	12	10	6	145
Micro Formal	33	27	11	14	11	96
Small & Medium Informal	13	15	2	4	-	34
Small & Medium Formal	20	12	4	6	7	49
Total	122	115	29	34	24	324

Region Assignment

West Jakarta	East Jakarta	South Jakarta	North Jakarta	Central Jakarta	Kepulauan Seribu
25%	21%	23%	15%	13%	3%

STEP 3

Profiling & Deep-diving

For the last leg of the first phase, we ran a qualitative study to gain a contextualized understanding of what underpins the pressing challenges within Jakarta's entrepreneurial ecosystem and the experience of the entrepreneurs affected.

Through the quantitative survey, we identified three priority issues along with the key target groups.



Technology & Innovation

The ability of a business to utilize technology to support various business functions.

Target Group

Micro and small-medium retail & repairation, and micro and small-medium F&B and accommodation.



Market Access

The ability of a business to reach customers (e.g. marketing, sales channels)

Target Group

Micro startups, small-medium F&B and accommodation.



Human Resources

The ability of a business to hire, retain, and develop labour.

Target Group

Micro-small startups, small-medium retail & reparations.

Based on this insight we developed a sample design of **12 respondents**, focusing on three segments:

- **Food & Beverages MSME**
- **Retail and Reparation SME**
- **Micro to small Startups**

each exploring two issues that are most pressing to their respective industry.

BUSINESS TYPE Priority Area Topics	MICRO	SMALL	MEDIUM
STARTUPS Market Access & HR	2x	2x	
F&B AND ACCOMMODATION Market Access and Tech & Innovation	2x	2x	
RETAIL & REPARATION HR and Tech & Innovation		2x	2x

GENERAL CRITERIA

- A good mix of gender male vs female
- Business must be in operation for 3 years or longer (except startups, which must be between 3-5 years, no longer than 5 years)
- Good mix of informal and formal (except startups, which can be as it falls)

Our qualitative study employed a combination of two methods



01

Digital self-ethnography

A 3-day task on WhatsApp, in which we asked our entrepreneurs to answer questions and share relevant documentation to provide rich texture on the business' background, as well as their approach to and struggles in each priority area.



02

Remote in-depth interview

A 2-hour discussion to understand our entrepreneurs as a human and business person, their experience with Jakarta's entrepreneurial ecosystem, and to deep dive into the relevant priority areas

We synthesised the knowledge gathered from quantitative and qualitative legs into this status quo report, and transformed the key insights into policy design challenges to take into the second phase of this study.

PHASE 2 Strategy & Validation (January 2022)

With challenges to address identified during Phase 1, Phase 2 will then focus on designing actions and policies aimed at improving these aspects.

These solutions will be formulated collaboratively between future beneficiaries of the policies along with policymakers & implementers through a **co-design** session to ensure policies we develop are both relevant to entrepreneurs and realistic to implement.

The workshop will run for 5 days in January 2022, and we will start by immersing in learnings from Phase 1 research, and end with clear and actionable implementation strategies.

Co-design

Report Finalization

Our final report will be a consolidation of both phases, equipped with a simple and visual guiding tool for policymakers & implementers.

It will include all of the insights from the status quo report and the proposed policies developed in Phase 2, each with clear strategic goals, relevant stakeholders, and implementation plans.



3 Introduction

A. Current Entrepreneurship Landscape in Indonesia & DKI Jakarta

Entrepreneurship is central to boosting a nation's economy and spurring innovation. Most research done to date agree that

MSMEs which total 64.2 million as of May 2021—accounting for more than 95 percent of Indonesia's businesses and absorbing nearly 97 percent of domestic employment are a significant driver of the Indonesian economy, and comprise a significant proportion of the country's entrepreneur population.³ Similarly, technology startups have received considerable attention by the Indonesian government and the public since their emergence in the early 2010s. In recent years, with Indonesia becoming the fastest-growing internet economy in Southeast Asia, it has become increasingly evident how startups can play a crucial role in contributing to the economy.

Through its innovation and scalable technology, startups can make impactful products and services accessible to more people.

As the world's fourth largest consumer market in the world, with abundant natural resources and an increasingly technology-savvy population, Indonesia continues to hold great potential for empowering growth amongst MSMEs and startups. A PESTEL analysis of the entrepreneurship ecosystem demonstrates that despite the complexities, Indonesia, and in particular Jakarta, remains an attractive place to do business. At a glance, there is no other city in Indonesia that holds as much promise for entrepreneurs to thrive than Jakarta.

Contributing a massive 17-18% to the nation's economy, it is currently home to 1.1 million MSMEs and more than half of Indonesia's 992 active startups.^{4,5}

It is also the most developed market in the country, as Jakartans would often be the first to develop and adopt any trends and innovations before they spread to other Indonesian markets.



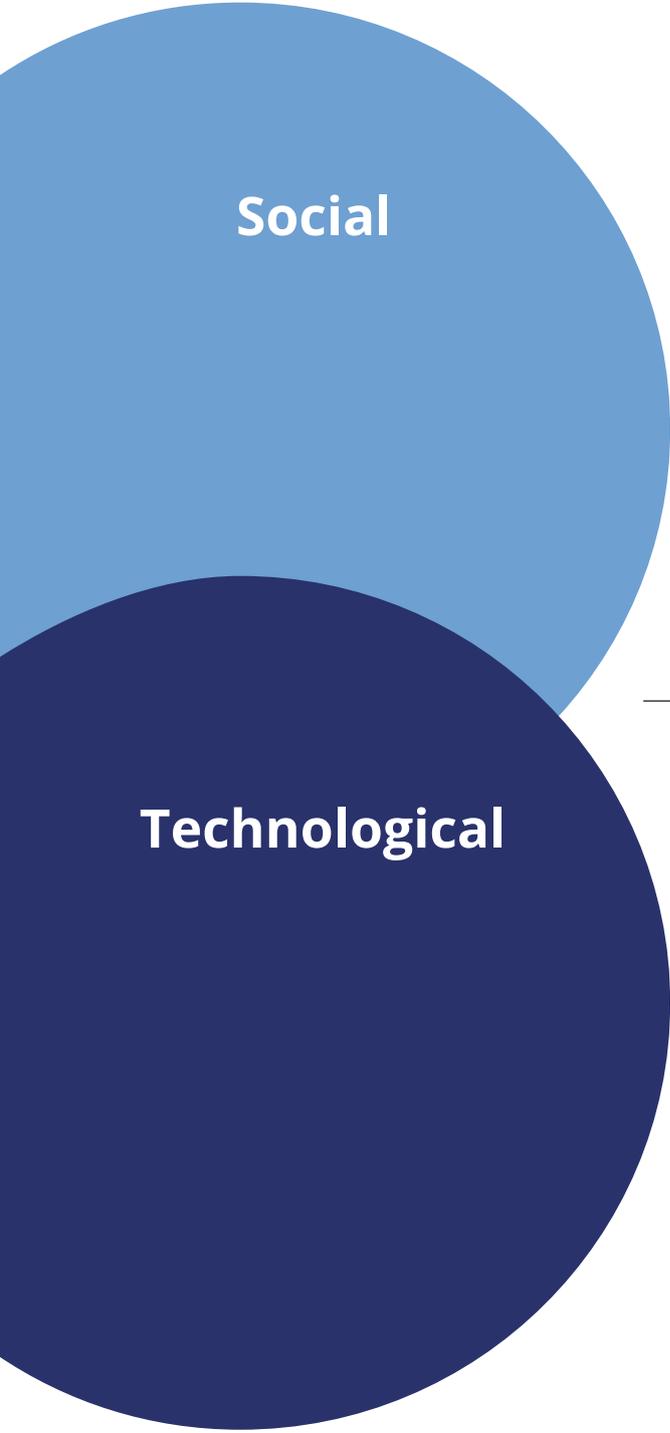
PESTEL ANALYSIS OF THE ENTREPRENEURSHIP ECOSYSTEM IN INDONESIA & DKI JAKARTA

Political

- Clear government support for MSMEs and startups development at the national and regional levels
- **Multiple government ministries, provincial governments and other entities are involved in entrepreneurship development**
- National Medium Term Development Plan (RPJMN) 2020-2024 aimed to increase national entrepreneurship ratio to 3.9 percent and new entrepreneurs to 4 percent by 2024
- DKI Jakarta Regional Medium Term Development Plan (RPJMD) 2017-2022 targeted 200,000 new entrepreneurs between 2018 and 2022

Economic

- Fourth-largest consumer market in the world
- **Reduced consumer spending due to the decline in household income and savings as a result of the pandemic**
- **High logistics costs due to the archipelagic geography and multimodal system (land and sea transportation, warehouses)**
- **High labour costs with DKI Jakarta setting the country's highest minimum wage (roughly USD 252)**

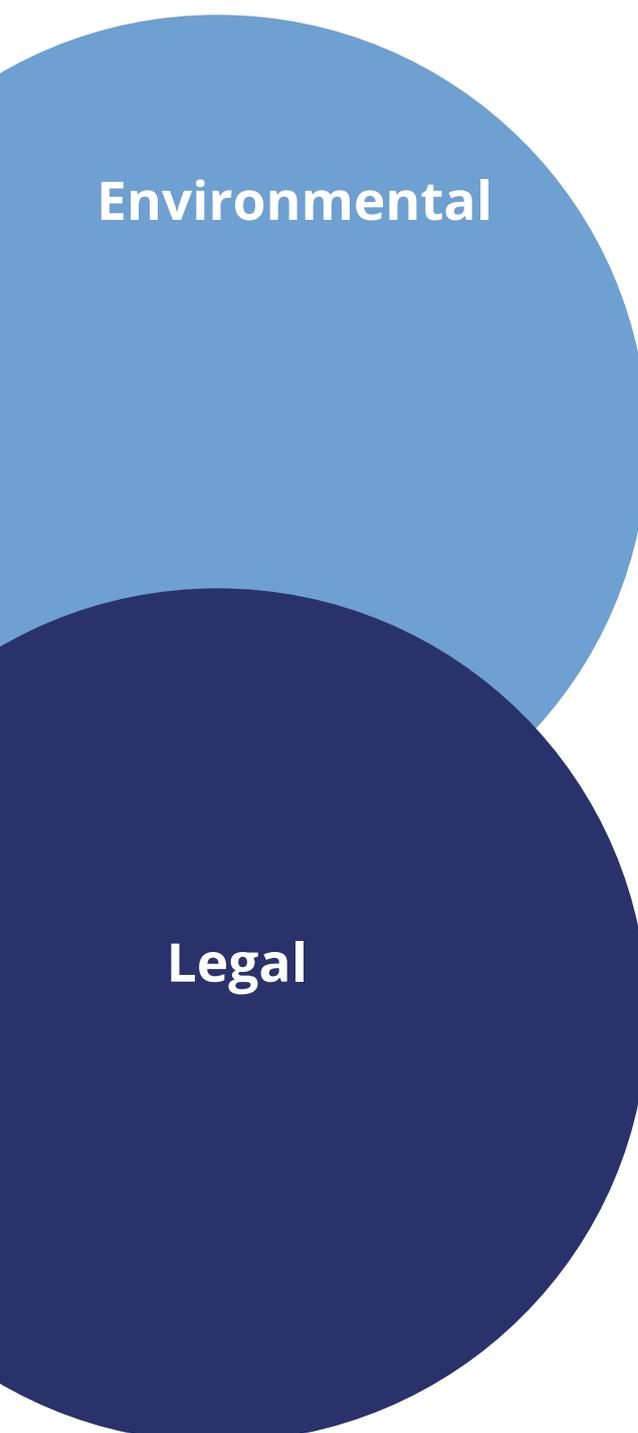


Social

- **Demographic bonus with more than 70 percent in productive age**
 - **Popularity of social media in consumers' buying decisions**
 - **Shift towards online shopping during the COVID-19 pandemic**
 - **Huge potential for halal industry due to a sizable Muslim population**
-

Technological

- **Rapid growth of e-commerce and other intermediary services such as digital platforms (e.g. Gojek, Grab)**
- **Increased internet and smartphone use, with 95 percent of Indonesians accessing internet through mobile data**
- **Unequal access to technology and varying levels of digital literacy**



Environmental

- **Abundant natural resources for sustainable raw materials**
- **Frequent floods and rising sea levels in DKI Jakarta negatively impacting businesses**
- **Severe air pollution in DKI Jakarta may drive up costs of healthcare and cause potential environmental damage**
- **The recent issuance of Law No. 11 of 2020 on Job Creation (“Job Creation Law”) aimed at improving the investment and business ecosystems**
- **The issuance of the Government Regulation No. 7 of 2021 (“GR 7/2021”) on the Ease, Protection and Empowerment of Cooperatives and MSMEs and other implementing regulations of the Job Creation Law**
- **The issuance of the Governor Regulation No. 2 of 2020 on the Implementation of Integrated Entrepreneurship Development (“GR 2/2020”) and launch of the provincial government’s flagship Jakpreneur entrepreneurship development programme**

Legal

-
- The recent issuance of Law No. 11 of 2020 on Job Creation (“Job Creation Law”) aimed at improving the investment and business ecosystems
 - The issuance of the Government Regulation No. 7 of 2021 (“GR 7/2021”) on the Ease, Protection and Empowerment of Cooperatives and MSMEs and other implementing regulations of the Job Creation Law
 - The issuance of the Governor Regulation No. 2 of 2020 on the Implementation of Integrated Entrepreneurship Development (“GR 2/2020”) and launch of the provincial government’s flagship Jakpreneur entrepreneurship development programme

While these attributes shape Jakarta into a land of opportunity, they also create a highly challenging environment as competitors and consumer needs move faster than any other place in Indonesia. Social media and the superapps (e.g. Gojek, Tokopedia) present opportunities for MSMEs to expand their reach, but at the same time it exacerbates competitiveness—creating a steeper divide between those who thrive and fail—especially during the pandemic, in which successful digitisation is the key to survival for many businesses. In this increasingly cut-throat environment that has yet to leave the shadows of the pandemic, MSMEs and promising young startups need help more

than ever. Governments at all levels have shown commitment to advancing the development of MSMEs and startups through the issuance of supportive regulations and programmes.

Yet, the same initiatives are frequently implemented for both MSMEs and startups—despite the stark differences in their circumstances and challenges. To design the best impact policies and programmes, it is crucial for governments to treat them differently.

B. Literature Review & Policy Context on Entrepreneurship in Jakarta and DKI Jakarta

Past research on MSMEs development in Indonesia has primarily focused on the regulatory and financing barriers that stifle business growth. **While efforts have been made to reduce regulatory burden and simplify business registration processes in recent years, the bulk of MSMEs, particularly micro-sized enterprises, remain small and informal.**

Despite the various efforts undertaken by the government to encourage the formalisation of MSMEs, pressure and a strong reason to formalise—such as access to export markets and government assistance—are typically needed before MSME entrepreneurs take action.

This inadvertently creates barriers to business development and constrains them from accessing bank loans and other formal sources of income, perpetuating a continuous cycle of stagnant growth and informality.

In addition to regulatory barriers, access to finance has been cited by much of literature as one of the biggest hurdles to the growth of both MSMEs and startups.

There is a wide range of government regulations and programmes that facilitate financing which have evolved and improved over time. Since 2015, financing regulations have continuously evolved to gradually increase MSMEs' access to finance through loan disbursement. Policies that regulate alternative forms of financing, such as peer-to-peer lending and equity crowdfunding, have also been introduced in recent years to expand both MSMEs' and startups' access to finance.

Other challenges faced by MSMEs and startups relate to other aspects of the business such as access to market, technology preparedness, as well as organisational and human resource development. Although a large proportion of MSMEs have shifted their business online and a number of them are using digital softwares to manage their business, **many are still not using digital tools to their full potential.**

The urgency to digitalise, expand their market access and innovate is heightened by COVID-19's hit to brick-and-mortar businesses, and declining demand of MSME products as a result of the pandemic impact on consumer spending.^{6,7} Organisational and human resource development, however, is a major issue—many entrepreneurs, the majority of whom are self-employed micro business owners, are concerned about their business skills

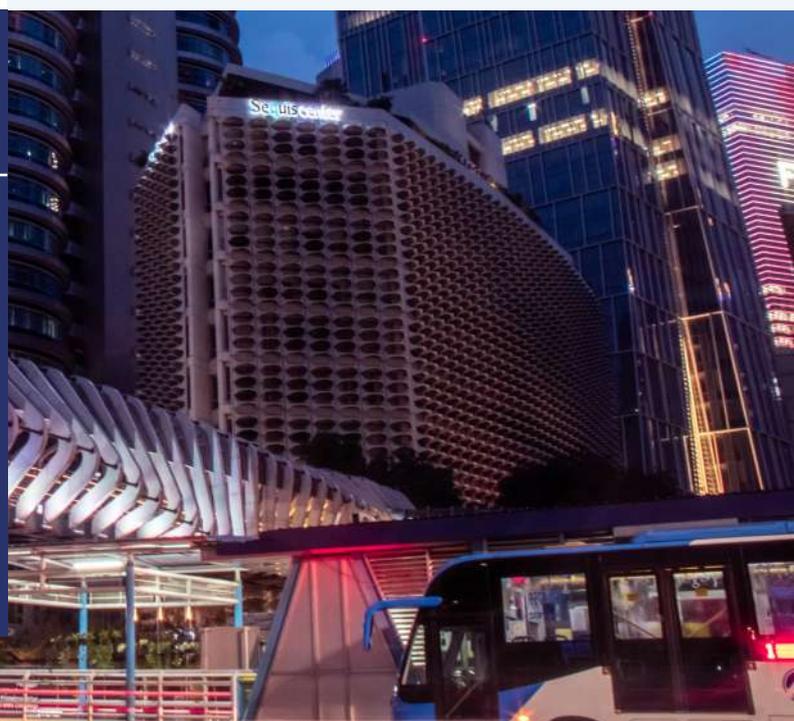
and are interested in finding training or mentorship that could help develop their skills.^{8,9}

Although both MSMEs and startups share similar challenges, how these challenges manifest in their business are vastly different due to differences in their business objectives, characteristics and growth paths. Recruiting and managing talent effectively, for example, is a major challenge for both MSMEs and startups.

But while human resource issues faced by MSMEs are largely related to family-oriented management and a closed recruitment process, technology startups' challenges lie in tech talent shortage and increased competition for talent by other startups.¹⁰ These differences were further made evident through the data collected from entrepreneurs in both segments during the research process.

Barriers experienced by MSME & Startups

1. Regulation
2. Financial
3. Access to Market
4. Technology
5. Organisational & Human Resources Development



The Indonesian government has expressed its commitment to encouraging entrepreneurship and driving MSMEs and startup growth, and sought to express this commitment through the issuance of supportive policies and implementation of various programmes and initiatives.



Prior to 2021, entrepreneurship activities in Indonesia were governed primarily by the Micro, Small and Medium Enterprises Law No. 20 of 2008 (“MSME Law”) and its implementing regulation Government Regulation No. 17 of 2013 (“GR 17/2013”).

More recently, the Job Creation Law No. 11 of 2020 (“Job Creation Law”) had revised the MSME Law and revoked GR 17/2013. Its implementing regulation, the Government Regulation No. 7 of 2021 on the Ease, Protection and Empowerment of Cooperatives and MSMEs (“GR 7/2021”),



took effect in February 2021 and is aimed at developing MSMEs and improving their competitiveness. A crucial part of GR 7/2021 is the changes to the way MSMEs are categorised and developed, which allows them to expand their operations while continuing to enjoy the benefits designed for MSMEs, such as taxation and loans. Despite their differences, startups are categorised in the same way as their MSME counterparts, which is by size of capital or annual turnover.

As regulators, the government plays a significant role in shaping institutional structures to address these challenges and to create a supportive business environment for entrepreneurs.

In 2017, the Ministry of Cooperatives and MSMEs, together with other ministries and national stakeholders, prepared a Draft Law on National Entrepreneurship. The Draft Law referred to a future creation of a National Entrepreneurship Master Plan and a National Entrepreneurship Taskforce, both which aimed to improve the coordination of existing policies and programmes related to entrepreneurship development.¹¹ However, there has been little update on the progress of the Draft Law since 2018.¹²

Currently, while Indonesia has a specific ministry dedicated to the development of MSMEs - the Ministry of Cooperatives and MSMEs - in practice MSME development sees the involvement of various ministries, agencies and provincial governments, creating overlaps in programmes, initiatives, and government spending.^{13,14}

- **Ministry of Cooperatives and MSMEs** has a mandate for MSME policy coordination
- **Coordinating Ministry for Economic Affairs** draws up MSME policy packages for relevant ministries and agencies
- **Ministry of National Development Planning (BAPPENAS)** outlines five-year development priorities and targets that affect MSMEs
- **Sector-focused ministries** such as industry, agriculture, fisheries, tourism, and communication and informatics are involved in developing or implementing policies that are relevant to MSMEs

Ministry / Agency	Role (s)
Ministry of Co-operatives and SMEs	Ministry of Co-operatives and SMEs Focal point of SMEs and entrepreneurship development in Indonesia
Ministry of National Development Planning (BAPPENAS)	Strategy planning and development of SME and Entrepreneurship
Co-ordinating Ministry of Economic Affairs (CMEA)	SME and entrepreneurship strategy co-ordinator
Central Bank of Indonesia (BI)	Macro-financial policy maker
Financial Services Authority (OJK)	Providing alternative financial access and programme for SME
Statistic Indonesia (BPS)	Centre of SME and entrepreneurship data
Ministry of Trade (MoT)	Policy and programme related to market access and promotion for SME and entrepreneurs
Ministry of Industry (MoI)	Policy and programme related to market access and promotion for SME and entrepreneurs
Ministry of Finance (MoF)	Fiscal policy and financial access for SME and entrepreneurs
Ministry of Manpower (MoM)	Policy and programme related to employment, and programme to improve SME productivity
Ministry of Research, Technology, and Higher Education (MoRTHE)	Policy and programme related to entrepreneurship, and SME business incubator and technology

Ministry / Agency	Role (s)
Ministry of Education and Culture (MoEC)	Entrepreneurship education for elementary and secondary school
Ministry of Youth and Sports (MoYS)	Policy and programme for special target (youth) SME and entrepreneurs
Ministry of Communication and Informatics (MoCI)	Policy and programme for promoting SME digitalisation
Ministry of Social Affairs (MoSA)	Policy and programme for special target (disabilities) SME and entrepreneurs
Ministry of Female Empowerment and Child Protection (MoFECP)	Policy and programme for special target (women) SME and entrepreneurs
Creative Economy Agency (BEKRAF)	Policy and programme of creative SME and entrepreneurs
Ministry of Environment and Forestry (MoEF)	Program dan kebijakan UKM dan Kewirausahaan - Social Forestry Programme
Ministry of Home Affairs (MoHA)	Main co-ordinator of policy implementation among local government on SME and entrepreneurship
Agency for the Assessment and Application of Technology (BPPT)	Promote technology development for the benefits of SME and entrepreneurs
Public Procurement (LKPP)	Policy related to involvement of SME in public procurement
Indonesia Stock Exchange (IDX)	Programme and policy related to capital market targeted for SME

Ministry / Agency	Role (s)
Investment Coordinating Board (BKPM)	Policy and programme related to investment for SME
Indonesia Eximbank (LPEI)	Policy and programme to facilitate financial support for SME export
Credit Guarantee Indonesia (Jamkrindo)	Programme and policy of SME ratings and related with SME credit guarantee
Commission for the Supervision of Business Competition (KPPU)	Monitor and supervise business competition among SMEs
Indonesian Chamber of Commerce and Industry (KADIN)	SME representatives
Local government	Manage and implement the policy of the SME and entrepreneurship

However, although there is no shortage of stakeholders supporting MSMEs, there is currently no official ‘one-stop-shop’ for all information pertaining to MSME services and funds, nor an MSME-focused organisation to provide advice to MSMEs and help entrepreneurs develop their business capacity.¹⁵

At the regional level, the integrated entrepreneurship development ‘Jakpreneur’ programme is led by the Office for Industry, Trade, Cooperatives and MSMEs under the Provincial Government of DKI Jakarta, which evolved from the OK OCE programme in 2018 to

Jakpreneur in 2020 with the issuance of the Governor Regulation No. 2 of 2020 on the Implementation of Integrated Entrepreneurship Development (“GR 2/2020”).

With regards to uptake, the enrolment has met with considerable success: as of October 2021, Jakpreneur has recruited 287,000 enterprises to be part of its programme, out of which 176,000 have been directly trained, while 155,000 have been assisted.¹⁶



The regulatory landscape for technology startups in Indonesia is fragmented. Although startups generally enjoy a dynamic startup ecosystem - in particular in Jakarta, Indonesia's capital and largest city - the ecosystem lacks an organised, integrated framework and is largely driven by a handful of actors and support organisations. Similar to the overlaps seen in the MSMEs landscape, several ministries and government bodies have launched their own programmes.

Ministry of Communications and Informatics (Kominfo)

Startup Studio, The Next Indonesian Unicorns (NEXTICORN), and 1000 Startup Movement (Gerakan 1000 Startup)

Ministry of Tourism and Creative Economy

BEKUP (Baparekraf for Startup)

Ministry of Education, Culture, Research and Technology

Indonesian University Students Accelerator (ASMI)

Ministry of Research and Technology

Startup Inovasi Indonesia Funding Programme

Ministry of Industry

Startup4Industry

Ministry of Cooperatives and MSMEs

Target to create 750 new startups in collaboration with 18 other ministries and government bodies.¹⁷

Ministry of State Owned Enterprises

The Merah Putih Fund, backed by state-owned enterprises, is focused on funding homegrown startups.¹⁸

In DKI Jakarta, programmes and initiatives targeted at supporting startups are led by Jakarta Smart City under the Department of Communication, Informatics and Public Relations under the Jakarta Capital City Government. Some of the activities led by the Jakarta Smart City include incubating or partnering with technology solutions that improve city life for public servants and citizens.¹⁹

However, since not all startups are developing products or services that are related to smart city development, it is inevitable that some entrepreneurs may inadvertently be left out of these initiatives.

A review of existing literature suggests that plenty has been done by the government to encourage and support entrepreneurs, particularly in recent years. Nonetheless, despite the wealth of policies, programmes and initiatives that have been designed and implemented for MSMEs and startups, many businesses are still unaware of how they can go about accessing government assistance (ILO, 2019; UNDP, 2020).

Research shows that there is a gap between policy and practice which can be explained by, among others, the lack of data, fragmented programmes, and limited attention paid to the effectiveness of information dissemination to target beneficiaries.

Despite these limitations, information about available opportunities have reached some entrepreneurs but not the others, leaving government support out of reach for many. Leveling the playing field to ensure equal opportunities for all entrepreneurs across the available resources remains a challenge.



4 Needs & Challenges of Businesses in Jakarta

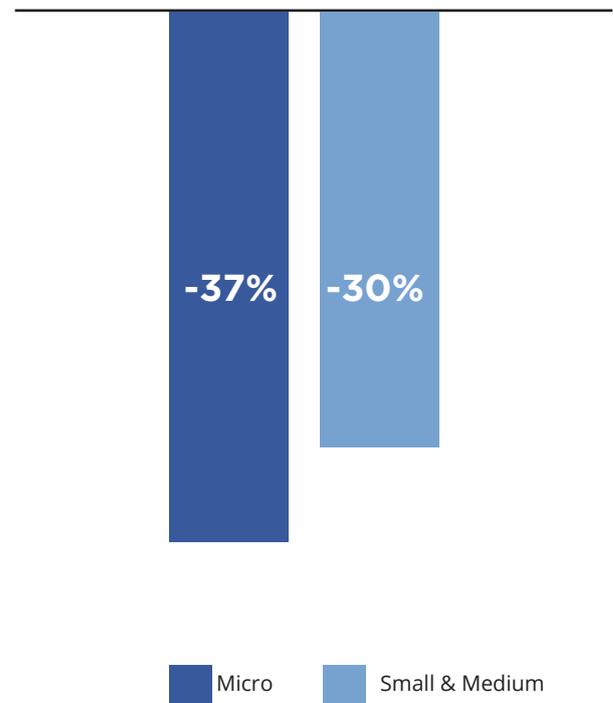
A. MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES)

With a significant and consistent contribution to Indonesia's GDP, MSMEs have been constantly lauded as the backbone of the nation's economy. **However, when the pandemic hit in 2020, a steep decline in GDP contribution from 60.3% in 2019 to 37.3% revealed that this backbone is, in reality, extremely fragile** ²⁰

MSMEs operate on a very thin cash flow. Their income is highly dependent on a small pool of customers and this is a very precarious position to be in.

During the pandemic, MSMEs lost almost a third of their revenue on average. Moreover, the Indonesian chamber of commerce revealed that 30 million MSMEs went bankrupt in the same period, with the majority being micro-businesses.²¹ This serves as an important wake-up call for Indonesia: there is an urgent need for our MSMEs to continuously grow their market to survive and, hence, for the nation's economy to be resilient.

MSME's Average Venue Loss During Pandemic



Our hotel used to rely so much on loyal customers, but then the pandemic happened and our occupancy rate plunged. We had to start putting in more effort not only in engaging our existing customers but to actively find new ones to survive.

– M, 31 y.o. Small-business, Accommodation, Formal, 20 years in operation



While MSMEs have a strong desire to grow, it remains their biggest challenge as they lack capabilities to expand their market. This struggle is further exacerbated by a lack of urgency to grow that is rooted in two common traits: **First, is the inherent mindset of 'ikhlas' (accepting) 'pasrah' (submitting) that many in this Islamic majority country are brought up to hold. Second, is their tendency to be highly self-reliant, where even at Medium size, MSME entrepreneurs still assume multiple roles.** While such traits are not necessarily negative, these led MSME entrepreneurs to focus their time mainly on the tangible, daily operations, while forgoing activities that can support growth, such as learning, training, and R&D.

I do have ideas of what else my bike shop could offer, but that requires a lot of thinking and right now I am still preoccupied with the day-to-day operations, I still need to visit the shop everyday. Maybe in the long-term.

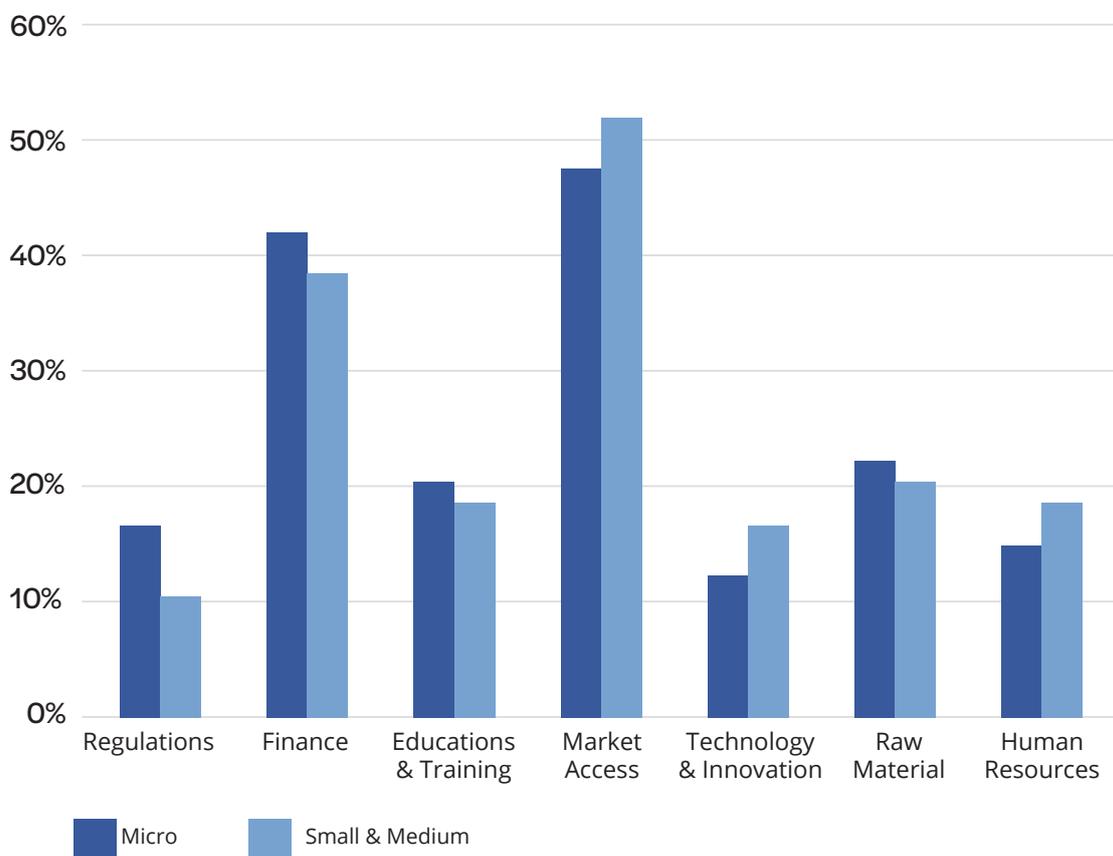
– M, 31, Small-business, Reparation, Formal, 5 years in operation

Lower Urgency To Grow Amongst Indonesian Women

Most women MSME entrepreneurs possess an even lower urgency to grow compared to men. As women and, often, mothers, a desire to make time for their family while still gaining income tends to be their primary motivation to start a business.

Having to juggle between familial and business responsibilities, naturally, family thus becomes a priority for women. While they have growth aspirations, their goal mainly revolves around gaining a stable income. Women expressed reluctance to commit the time and energy required to grow their business, especially if their children are still young. Furthermore, with Indonesia's patriarchal dynamic, women are often obligated to get their husbands' approval for business decisions. This condition further diminishes their ability to run and grow their business more dynamically.

Top Challenges for MSMEs





Digital technologies have strong potential to become a solution for MSMEs in overcoming these barriers to market growth: tools such as e-commerce and business software offer the ability to expand their reach, improve productivity, and spot opportunities. And this potential has been recognized in studies from global institutions such as the IMF, OECD, and UNCTAD, as well as **President Joko Widodo's administration, who has constantly been championing a digital transformation for MSMEs in recent years.**^{22,23,24,25}

However, before the pandemic, the uptake of digital technology amongst MSMEs in DKI Jakarta remained relatively low, with only 18% of businesses selling online despite the province's high internet penetration.^{26,27}

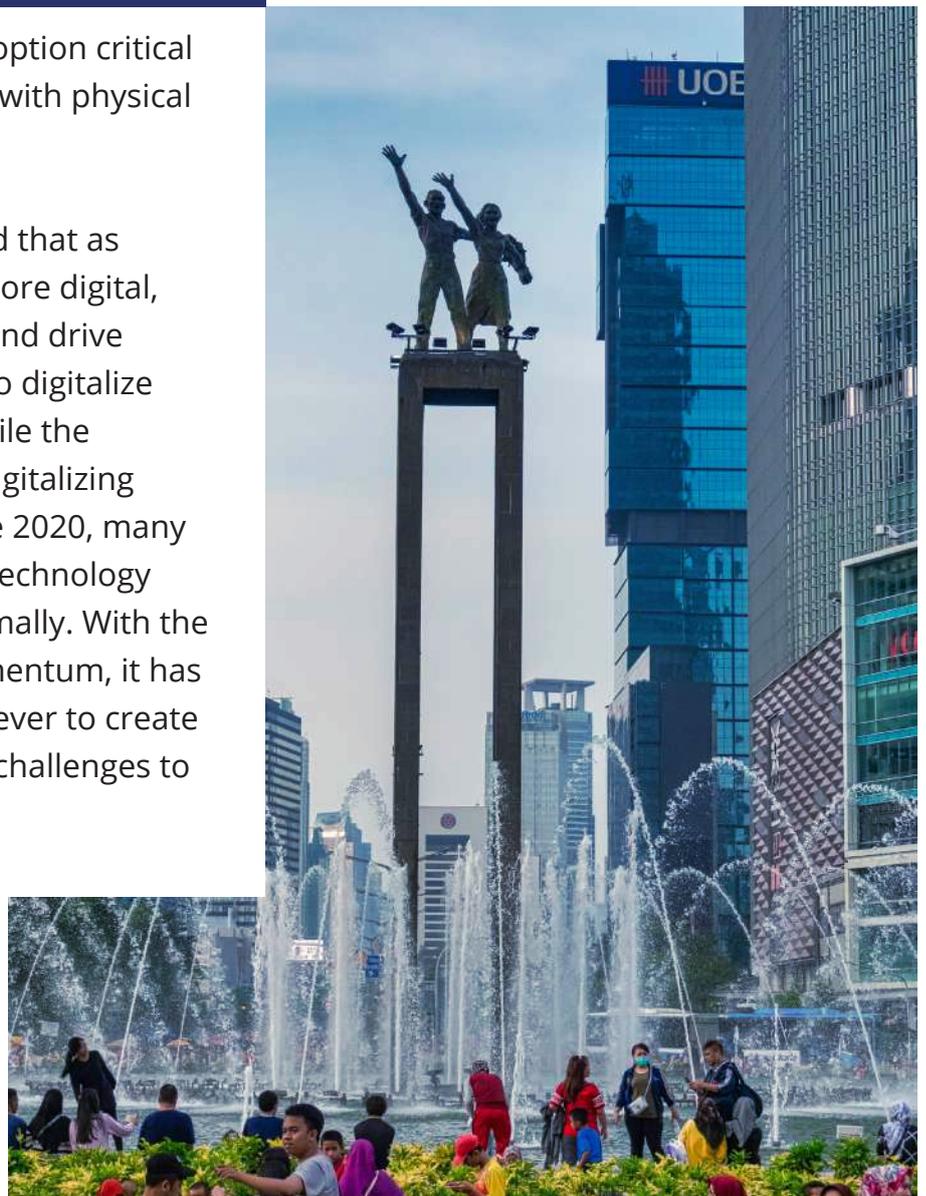
I think it's clear that in this era we need to make use of technology to survive, especially in retail, now that offline sales are slowing down significantly. I know there's a lot of benefits to it and I also know that the government has been pushing for it. But I feel that there are still a lot of challenges that I need help with to be able to go online

– M, 40 y.o., Medium-business, Retail, Formal, 10 years in operation

Today, the Covid-19 pandemic has led the digital transformation of MSMEs in DKI Jakarta to an inflection point.

First, it has made technology adoption critical for MSMEs to survive and thrive with physical limitations in place.

Secondly, this study has revealed that as the world is forced to become more digital, there is real, strong awareness and drive amongst MSME entrepreneurs to digitalize their business. Nevertheless, while the number of Indonesian MSMEs digitalizing their business has doubled since 2020, many difficulties remain for adopting technology and harnessing its benefits optimally. With the pandemic providing strong momentum, it has thus become more urgent than ever to create an ecosystem that can ease the challenges to digitalization for MSMEs.



01

Maximizing online sales and marketing channels for market expansion



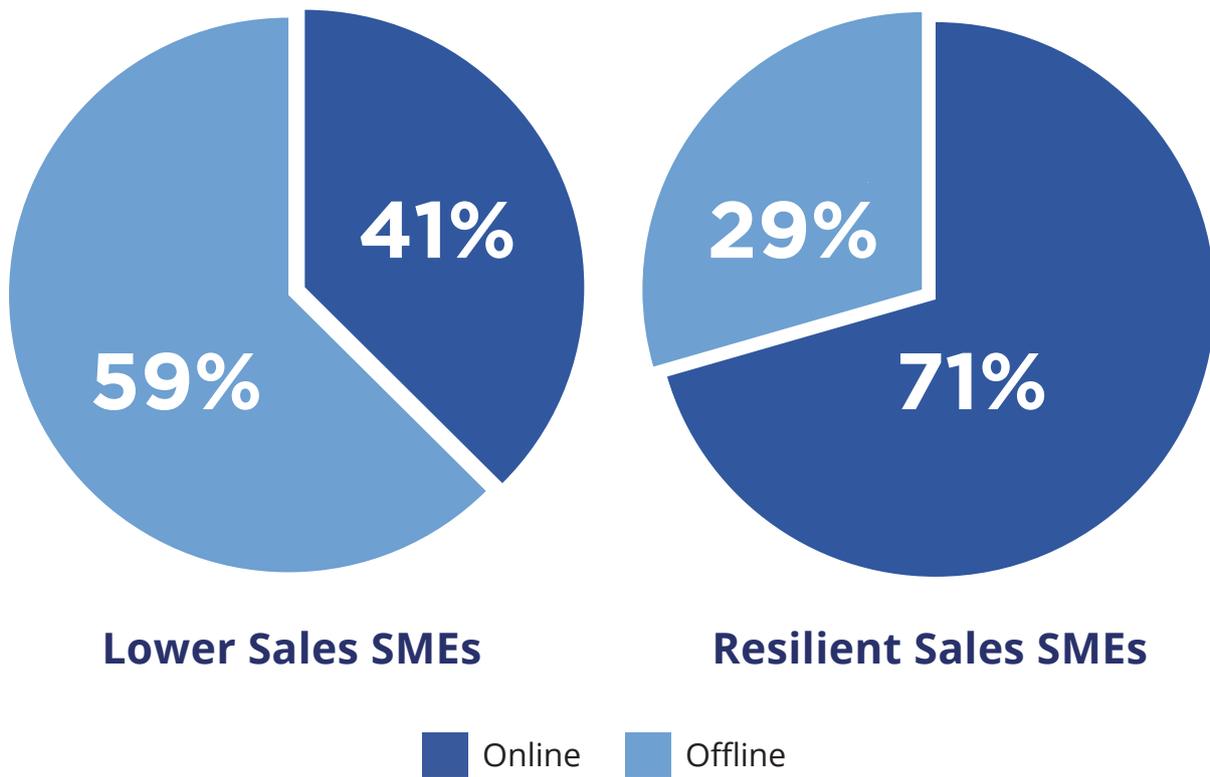
Personal networks are the lifeblood of MSMEs: word-of-mouth, foot traffic, and participation in communities have formed the majority of many MSMEs' customer base,

and many are able to survive from growing and maintaining this close circle alone. While there is no denying the value of personal networks, the pandemic has shown how an economic downturn would greatly diminish consumers' buying power. Hence, it is crucial for MSMEs to expand their customer base as wide as they can to maintain their business resilience.

The biggest challenge for me right now is expanding my market reach. Currently my customers are only the people in the neighbourhood and my colleagues. We have tried using Instagram but so far our followers are mostly people who know me.

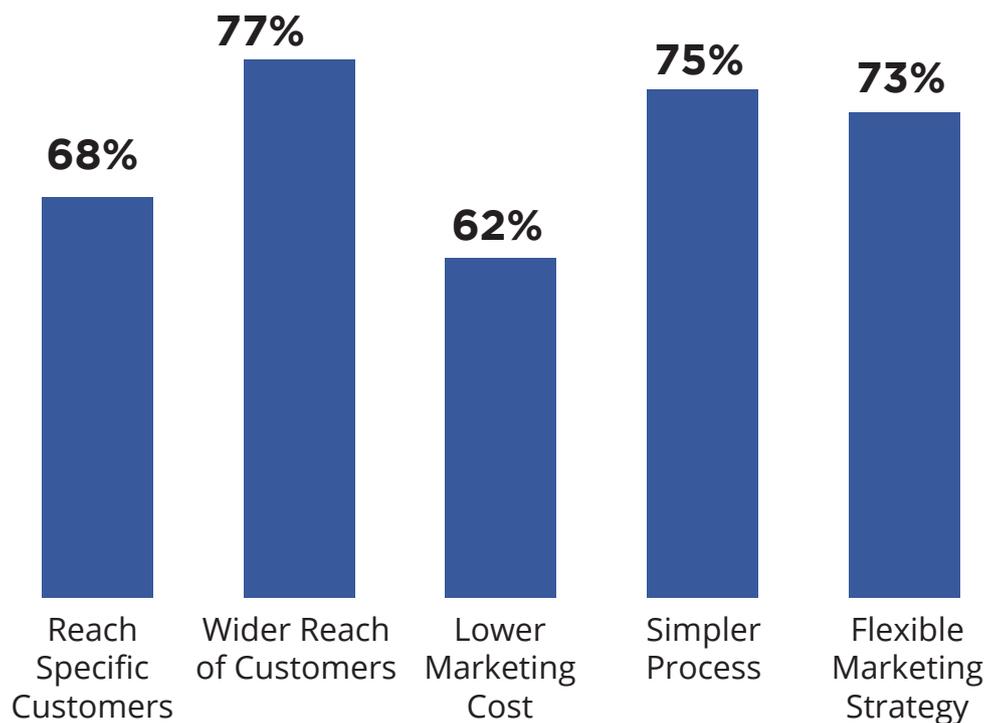
– F, 37 y.o., Micro-business, F&B, Formal, 1 year in operation

Online Marketing Adoption Among SMEs



MSMEs' Perception On Benefits Of Online Marketing

(n=300)



MSMEs believe that online sales and marketing channels, such as e-commerce (e.g. Shopee, Tokopedia), superapps (e.g. Gojek, Grab), and social media (e.g. WhatsApp, Instagram, Facebook), can empower their marketing capabilities with various benefits, with a wider reach of customers being its biggest value. This value was proven during the pandemic, particularly amongst small-medium enterprises, with more than 50% of businesses who experienced lower sales being those who have not adopted online channels, while a majority who managed to maintain or increase their sales are the ones who have digitalized their sales and marketing. The significance of online sales and marketing channels are likely to stay or intensify even after the pandemic, as more consumers are becoming used to buying online.

Hence, MSMEs who do not have presence in the online sales and marketing ecosystem will likely struggle to keep up with market demands, or worse risk falling further behind.

Unfortunately until now many MSMEs still face difficulties to adopt online sales and marketing channels, and even those who have are not always able to fully harness its benefits.



I think platforms such as OLX, Mobil123 can help us sell our used car units. But so far we have not had many sales from there so it has not been very successful

– F, 43 y.o., Small-business, Retail, Formal, 10 years in operation



Key Challenges

A. Limited human resource capability to use online channels optimally

Growing a business' reach and sales successfully through online channels requires more than signing up to multiple platforms. MSMEs must also possess the abilities within their organisation to tackle several elements of online sales and marketing, including:

1. Navigating the platform and using the variety of tools provided effectively, e.g. in-app advertising, catalogues, premium seller feature
2. Creating engaging content that is relevant to the audience and platform format, from product descriptions on e-commerce websites to Instagram or TikTok posts
3. Developing appealing and profitable promotional tactics, from pricing strategies offline versus different online platforms to discounts

Many MSME entrepreneurs, however, tend to only have basic proficiency in sales and marketing, with little to none pertaining to online channels.

They have desires to develop such proficiency themselves or amongst their existing employees **but do not know where they can find knowledge that is not only relevant but also easy to apply to their line of business.** Meanwhile, hiring an employee who already has sufficient skills and experience in managing these ever-evolving platforms is thought to be beyond their means. These tensions are particularly stronger for micro-businesses, who tend to have even less capabilities to attract skilled people with their small operations and constrained cash flow.

GoFood has not worked out for me, I think it might be my pricing? I don't know. I feel that I still need more training because I started my business without any marketing knowledge and I'm also not great at technology.

– F, 37 y.o., Micro-business, F&B, Formal, 1 year in operation.

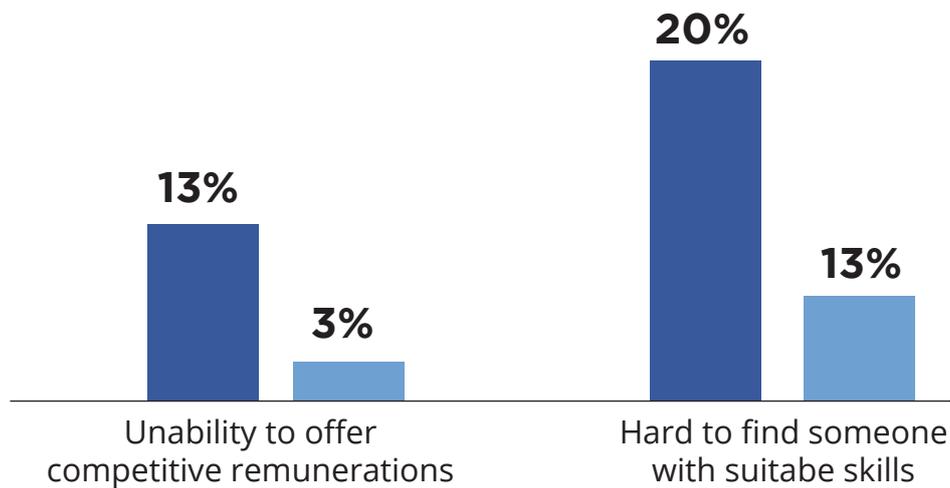


Figure 8. Lack of capable and affordable HR is a major tension in maximising online sales and marketing channels for MSMEs, especially micro-businesses

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B. Difficulty to finance business upgrades to support eventual growth

The hesitancy to adopt online channels also comes from a fear of being overwhelmed by a significant increase in demand. Such a fear is not unfounded, as to avoid loss of potential sales, an effort to drive sales must be accompanied by operational preparedness, particularly:

1. Supply

stocking sufficient products and materials, as well as upgrading tools or assets to help fulfil orders (e.g. heavy-duty tools, bigger storage spaces)

2. Manpower

not only to run the digital channels but also to ensure orders are fulfilled on time, e.g. having enough cooks in an F&B business, staff to handle logistics in a retail business platforms to discounts

Such preparation demands a significant financial investment. Yet many MSMEs face difficulties in raising sufficient funds as they mainly rely on financing from personal savings or friends and family.

Many MSMEs, particularly the micro-small enterprises, are still reluctant to seek a loan from formal institutions such as banks or the government, not only due to aversion to debt but also a strong belief that it comes with burdensome collateral requirements and repayment terms. Meanwhile, there is a lack of interest to apply for a government grant, as they perceive the process to be overly complex and bureaucratic, offering few rewards, and often ends up misdistributed.

If we want to fully utilize online channels, our business needs to be well-prepared. My business is based on pre-order and I only have one person helping me. I fear that someone might order 1000 bottles of chili and I could not fulfil it.

– F, 44 y.o., Micro-business, F&B, Informal, 3 years in operation.

MSMEs Current Source of Financing

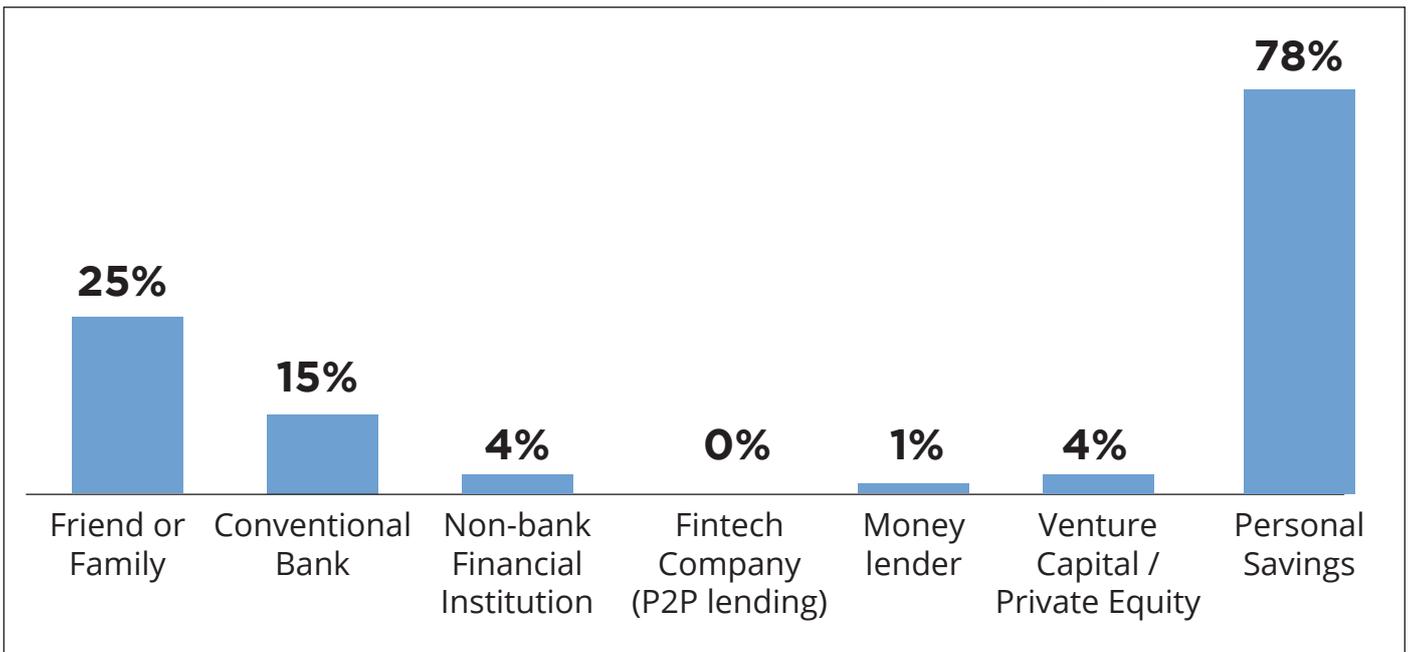
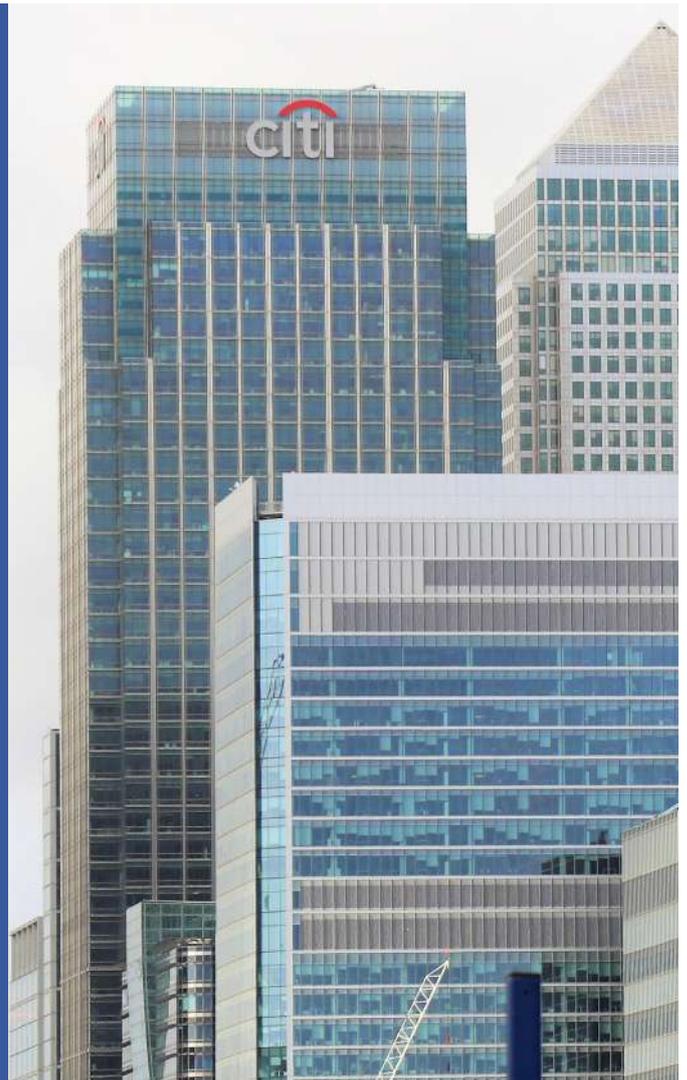


Figure 9. Personal savings remains the main source of funding for MSMEs, followed by friend or family (25%)

Bank loan feels burdensome for me because I heard that I would need to put my BPKB as a collateral. And as for grants, I almost tried applying before but the registration process was too complex and the reward is insignificant, so I don't think I'll try again. Besides, it's often given to irrelevant beneficiaries anyway.

- F, 43 y.o., Small-business, F&B, Informal, 10 years in operation





Evaluation of existing policy and programmes

A significant part of the Indonesian government's digital transformation efforts is concentrated on digitising MSMEs. Various public programmes, campaigns and government-supported initiatives run by the private sector have been dedicated to improving the digital adoption of Indonesia's MSMEs. These include:

- The Ministry of Cooperatives and MSMEs' goal to have 30 million MSMEs - out of 64 million nationally - online by 2024.
- The Digital Entrepreneurship Academy by the Ministry of Communication and Informatics, run in partnership with global tech companies and local startups.
- The Provincial Government of DKI Jakarta's flagship Jakpreneur programme, which combines digital skills training with business and management training.

Given their proximity to the centre and the tendency of such programmes to focus on urban clusters, MSMEs in Jakarta typically benefit from easier access to these trainings. Indeed, most MSMEs that have successfully developed an online presence are concentrated in Jakarta. According to the Ministry of Cooperatives and MSMEs, Nationally, the rate of adoption sees a significant increase from 16 percent in the previous year.^{28 29}

in October 2021, the majority of the 15.9 million - or almost 25 percent - of Indonesia's 64 million MSMEs already connected to online business platforms were located in Jakarta.

A. Limited human resource capability to use online channels optimally

Governor of DKI Jakarta Regulation No. 2 of 2020

The integrated entrepreneurship development “Jakpreneur” programme combines digital skills training with business and management training.

Government Regulation No. 35 of 2021

Fixed-term contracts can be used for jobs that are temporary in nature or associated with new activities.

Government Regulation No. 36 of 2021

Micro and small businesses are allowed to negotiate a salary level directly with their employees instead of following the minimum wage level.

Many MSMEs are not aware that government assistance is available for them.

Compared to large companies, MSMEs face challenges in attracting and retaining skilled labour due to factors such as lower salaries and fewer opportunities for career progression.

B. Difficulty to finance business upgrades to support eventual growth

Coordinating Ministry for Economic Affairs Regulation No. 2 of 2021

Government-sponsored subsidy offers MSMEs access to working capital or investment financing by financial institutions at a low cost and interest.

Financial Services Authority Regulation No. 77 of 2016

Peer-to-peer (P2P) lending allows individuals and legal entities to access credit from other individuals through a financial technology provider that performs the role of an intermediary.

Financial Services Authority Regulation No. 16 of 2021

Securities crowdfunding provides enterprises with access to financing from a crowd in exchange for shares, debt or sukuk of their company.

Government Regulation No. 7 of 2021

The newly-issued regulation offers a variety of financing options for MSMEs, including loans and grants from the central and regional governments, state-owned enterprises and large businesses.

While a wide variety of financing is available, factors such as low financial literacy, bureaucratic red-tape, and the absence of a one-stop information source for funding inhibit MSMEs’ desire to seek external funding.

Furthermore, the Job Creation Law and its implementing regulations GR 7/2021, Government Regulation No. 35 of 2021 (“GR 35/2021”) on Fixed-Term Employment, Outsourcing, Hours of Work and Termination of Employment, and Government Regulation No. 36 of 2021 on Wages (“GR 36/2021”) have made welcome changes to improve the business climate for MSMEs.

Under GR 35/2021, fixed-term contracts can be used for jobs that are temporary in nature or associated with new activities (Article 5), while GR 36/2021 allowed micro and small businesses to negotiate a salary level directly with their employees instead of following the minimum wage level (Articles 36-38).

To ensure that all MSMEs benefit from equal access to opportunities, GR 7/2021 aimed to integrate and consolidate data of MSMEs across agencies by 2022.³⁰ Through this integration, accurate data can subsequently be used by ministries, government institutions, and provincial governments as an integrated information system, enabling them to deliver more effective and accountable assistance to MSMEs in collaboration with the private sector.

Government Regulation No. 35 of 2021

fixed-term contracts can be used for jobs that are temporary in nature or associated with new activities (Article 5).

Government Regulation No. 36 of 2021

Micro and small businesses are allowed to negotiate a salary level directly with their employees instead of following the minimum wage level (Articles 36-38).



However, despite these improvements, many MSMEs have not yet set foot in online markets. **Many businesses involved in this research were not aware that there is government assistance available to improve their digital business activities and train their managerial and workforce skills, which suggests that there is an information gap between the wealth of programmes and the people who need them the most.**

Much of this problem stems from poor dissemination of publicly available information about the availability of training and the lack of a unified single database of MSMEs, thus preventing effective targeting, monitoring, and evaluation of public programmes. The size of Jakarta and the dominance of micro enterprises in the MSME makeup further highlight the crucial importance of addressing the gap between programme design and implementation.

Another policy gap relates to the suitability of existing solutions for the diverse group of MSMEs in Jakarta. Current initiatives related to the adoption of online channels tend to be generic and have the tendency to lump micro, small and medium enterprises into a single category, without accounting for characteristics such as the stage of business and area of operation.

Micro businesses, for instance, have a very strong social aspect to them and many provide goods and services to the local population at competitive prices. As such, their affordable prices contrast with the delivery costs of currently available channels such as online marketplaces or digital platforms. The challenge is in designing a policy strategy that is tailored to their characteristics while also benefiting as many MSMEs as possible. In this aspect, more effort needs to be put in to promote existing initiatives, such as the procurement of MSME products by state-owned enterprises through the PaDi platform.

Lastly, most micro businesses are short on resources - both monetary and manpower - and are operated by a single person or very few people. While GR 35/2021 and GR 36/2021 have sought to address issues related to flexible hiring and wages, attracting talented employees and retaining them is still a struggle for many smaller-scale businesses.

Although existing programmes have sought to equip business owners and their workers with the digital skills they need, in reality adopting new technologies takes time and is in conflict with their other priority - running the business. Government policies could do more with addressing the supply of skilled workers and incentivising them to work with smaller businesses.

Overall, the government's effort to help MSMEs maximise online channels is commendable. Despite the challenges, the number of MSMEs adopting online channels has continued to grow thanks to the various digitalisation programmes that the government had pursued in collaboration with other stakeholders. With this momentum, coupled with the single database that will be made available in 2022, Jakarta will be on track to facilitate its 1.1 million MSMEs' adoption of online channels by 2024.

The remaining challenge is to ensure its sustainability by prioritising effective policy implementation, closing the information gap, focusing on human capital development, and addressing financing constraints to achieve growth ambitions.

attracting talented employees and retaining them is still a struggle for many smaller-scale businesses.



Inspiration

United Kingdom: United Kingdom's Department for Digital, Culture, Media & Sport launched The Local Digital Skills Partnership with the purpose of addressing local digital skill challenges and building thriving and inclusive local economies.

The Local Digital Skills Partnerships (Local DSPs) is a programme launched by the United Kingdom's Department for Digital, Culture, Media & Sport in 2018 in collaboration with Local Enterprise Partnerships (LEP) and Combined Authorities (CA), with the purpose of addressing local digital skills challenges and building thriving and inclusive local economies.

There are currently six Local DSPs currently operating in regions across the UK, with each region's programme aligned with local governance and delivery priorities. Although there are many digital programmes available in the UK, what sets Local DSPs apart is its understanding of the variations in skills shortages across the regions; partnership with both the private and public sectors; and close involvement of the LEPs and CAs in each region.

These helped to avoid the duplication of efforts and ensured that the training is responsive to the needs of the local population. Positive outcomes from this programme include better access to information on digital skills provision for local businesses, as a result of Local DSPs' enhanced effort to promote the initiatives to the wider business base through social media activity and existing local networks.³¹

02

Innovating offerings to stay competitive

While the arrival and rapid growth of e-commerce platforms have brought immense benefits for MSMEs, it has also resulted in stronger competitive pressures that demand MSMEs to constantly innovate and differentiate themselves.

The first factor that drives a need to innovate is the expansion of the competitive landscape. The availability of e-commerce may have brought MSMEs access to an unrestricted pool of consumers. But at the same time it has led to an increasingly **crowded free market where the competition for MSMEs in Jakarta has grown to include even large corporations and businesses from other cities entering the same platforms, all vying for the same customers.**



My sales have really slumped during the COVID-19 pandemic because everyone now buys online. I am thinking of entering e-commerce myself but I am worried that it's going to be difficult— it's very crowded and everyone sells practically the same products.

– M, 40 y.o., Medium-business, Retail, Formal, 10 years in operation

Secondly, competition does not only happen at a seller level but also amongst the e-commerce platforms themselves. They engage in **price wars** with endless offers of remarkable discounts to lure consumers into their platform.

Such an environment has shaped the Jakartan consumers to become increasingly value-conscious. They are always looking to get their money's worth and the COVID-19 pandemic has intensified this mindset, as many are forced to shop more frugally.

I would love to get on GoFood or Grab Food but I think I would need to develop additional offerings that would be worth the delivery fee. It may not feel worth it if customers have to pay Rp 9000 just for a bottle of chili. Even now, I sometimes need to give free delivery to boost my sales.

- F, 44 y.o., Micro-business, F&B, Informal, 3 years in operation

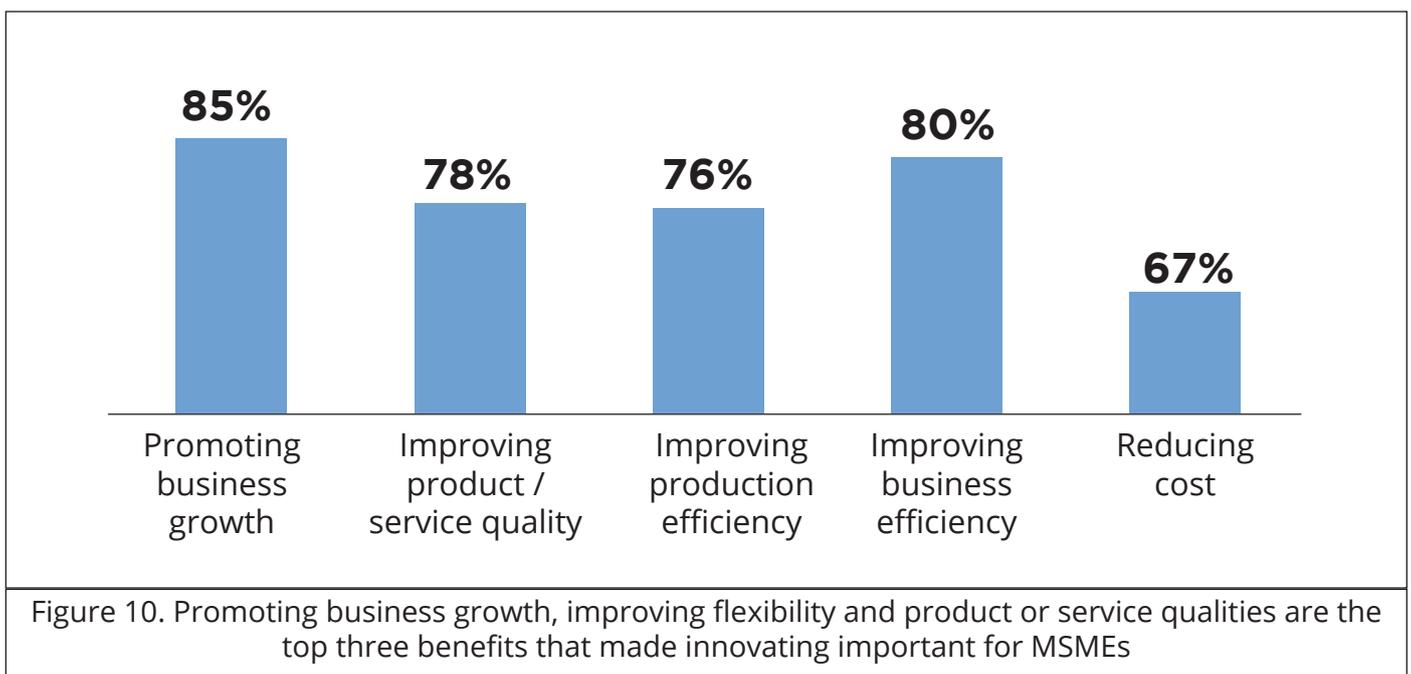
Platforms price wars has shaped Jakartan consumers to become increasingly value-conscious.



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MSMEs Current Source of Financing



Key Challenges

A. Limited industry and market knowledge to inform innovation opportunities

There are two components that MSMEs need to possess in order to develop innovations that can effectively appeal to their core target consumer and a broader market: an understanding of their customers' needs and desires, and a strong knowledge of their industry, including trends.

Currently, most MSMEs are able to develop some sense of their customers' needs by analysing sales performance, building a relationship with their customers, and gathering feedback. These efforts are very important to help them discover optimisation or differentiation points for their current offers and, thus, retain their core customers. However, when it comes to industry knowledge, few have a broad, up-to-date view of what is happening in

their industry, making it difficult for them to innovate and improve their offerings to attract a wider customer base.

MSMEs mostly rely on entrepreneur friends in the same industry or competitors within the same vicinity to build knowledge.

With limited sources of information, it is difficult for them to be sensitive to innovation opportunities, especially ones beyond their core offering, category, and target segment. Furthermore, with trends changing more rapidly than ever, MSMEs are finding it difficult to keep up. And this leads many to miss out on opportunities to capitalize on the trend entirely, or at best follow trends without much thought hence creating unsustainable innovations.

It's important to have a strong knowledge of what's happening in our industry if we want to succeed as an entrepreneur. Trends change so fast in the F&B industry and we need to at least stay informed but I feel like I'm falling behind now.

– F, 44 y.o., Micro-business, F&B, Informal, 3 years in operation

B. Difficulties in building the business' capacity to develop and execute innovations

For an innovation to be successful, it is not enough to only have an idea: MSMEs also need the skills and assets to support its development and execution.

Meanwhile, as innovations are essentially novel or special, they often demand skills that are also new or specialised. To acquire these competencies, MSME entrepreneurs have two options - either to seek training for themselves or their employees, or hire someone who already has the relevant skills. However, entrepreneurs find it challenging to find training that is relevant to both their business and the innovation idea, and also to find people with these specialised skills amidst a small pool of talent. Finding skilled talent is particularly problematic - often the skills that these talents claim to possess do not match

the reality, particularly when they are not recruited through personal networks or referrals, and there is no way to verify until they start working.

Sometimes innovation means acquiring new assets - here the biggest issue is funding as there can be several less obvious costs that entrepreneurs have to bear. For instance, if a restaurant owner were to introduce frozen food products, not only they may need to buy additional kitchen equipment such as freezers and vacuum packaging, but they may also need to expand their space, increase electrical capacity, and register their products with BPOM. This becomes a barrier for MSMEs to experiment and innovate, and thus they need help either in the form of funding or reduced costs.

There's an opportunity for me to extend my services into motorcycle detailing and full vehicle service, but these require specialised skills and I have yet to find all the relevant training required. If I were to hire skilled mechanics, the sure bet is to hijack my competitors' talents but that would mean burning bridges. I could try searching on my own but it's difficult to find mechanics whose skills match what they claim on their CV

- F, 44 y.o., Micro-business, F&B, Informal, 3 years in operation



Evaluation of existing policy and programmes

Traditionally, innovation policies have tended to overly focus on research and development (R&D) related to big, technology-based businesses. Most of the innovation processes taking place in MSMEs, however, are rarely dependent on it. While there is currently little known national policy on innovation that is targeted specifically at MSMEs, there are a number of relevant policies and programmes that have provided innovation support for smaller-scale businesses.

Existing initiatives by the public and private sectors have sought to facilitate innovation through networking and skills training. For instance, in Jakarta, entrepreneurs benefit from the availability

of Jakpreneur, the provincial government's flagship entrepreneurship development programme, as well as a myriad of other entrepreneurship programmes and business communities, both formal and informal. To help businesses of all sizes understand their customers better, market research has been made accessible in recent years through the growth of consumer research startup companies that allow MSMEs to conduct research at a more affordable cost. **Universities and their study service programme (Kuliah Kerja Nyata, or KKN) for final year students have also begun to use their practical work placement to assist MSMEs in business development.**

Governor of DKI Jakarta Regulation No. 2 of 2020

Specialised skills training for MSMEs under the Jakpreneur programme

- Article 9 (4) outlines the technical training provided to participants in the Jakpreneur programme, which include training on production techniques and product development.
- Article 9 (6) involves other relevant government offices - such as the Office for Food Security, Fisheries and Agriculture and the Office for Tourism and Culture of DKI Jakarta - to participate in the technical training, making it more sector-specific and relevant to the participating businesses.
- Article 10 (1) allows experts from outside of the government to conduct training, provided that they are certified and have a minimum three years of related experience.
- Article 12 allows the training to be held in various places, including government offices, privately-owned office buildings and universities.

Government Regulation No. 7 of 2021

Incentives and assistance for MSMEs to partner and conduct innovation and R&D activities

- Article 102(2) incentivises micro and small companies to partner with medium and large companies, in return for reduction of regional taxes and retributions, provision of capital financing, assistance for research and development, vocational training facility, and subsidised interest level for loans.
- Article 102(3) and (4) incentivises medium and large companies to partner with and support micro and small businesses with innovation and product development and appropriate technology use, in return for reduction in regional tax collection.
- Article 102(5) eases the partnership activities through the provision of supporting infrastructure, production and processing, raw and auxiliary materials, and packaging.
- Article 125 mandates the regional government to provide research and development assistance for micro and small businesses.
- Articles 130 and 131 further provide incentives and convenience for large businesses to provide grants for micro and small businesses with innovative products that have market potential or commercial value.

However, while the recent regulation has addressed some of the longstanding issues associated with the capacity of MSMEs to pursue innovation, there are several remaining gaps.

For instance, **GR 7/2021 limits the partnership activities to export-oriented innovation and product development, which may not be suitable for the majority of MSMEs that are focusing on the domestic market (Article 102).**

Furthermore, the regulation does not clearly outline the incentives and convenience given to large businesses that are supporting micro and small enterprises through the provision of grants, which may affect their appetite for participating in the initiative (Articles 130 and 131). The research and development assistance provided by regional governments for micro and small businesses need to be further elaborated and detailed into tangible initiatives (Article 125). Furthermore, while the GR 2/2020 lists training, assistance/mentorship, licensing, marketing, financial reporting and financing facility as part of the curriculum in the Jakpreneur programme, the regulation does not specifically include market research as a core training module (Articles 6 and 9).

A major challenge in instilling a culture of innovation in MSMEs is the capabilities and costs associated with pursuing innovation,

such as market research and experimenting on product development. Since most entrepreneurs in Jakarta lack specialised training, and pursuing innovation incurs significant costs - both in the form of time and money that could be spent on acquiring more sales - policies that aim to support innovation in MSMEs need to make it as easy as possible for them to engage in innovation-focused activities. In this aspect, despite encouraging regulatory improvement, research, development and innovation institutions have not been maximised to serve the innovation needs of MSME businesses across the city.

The COVID-19 pandemic and declining consumer demand underscore the critical importance of engaging in innovation and staying ahead of the competition. Currently, there is limited awareness of the importance of market research as a key business strategy. There is some provision and supporting infrastructure provided through regulation that will allow entrepreneurs to pursue innovation, but details of how these will be implemented still need to be clearly defined. As the pandemic has altered the way consumers choose and purchase their products and services, businesses are under pressure to innovate and differentiate their offerings from their peers. In the current business climate, developing a culture of innovation in entrepreneurs will have a lasting impact on their success post crisis.

Government Regulation No. 7/2021

- Limits partnership activities to export-oriented innovation and, on the contrary, most MSMEs focus on domestic market (Article 102).
- No clear outline on the incentives & convenience given to large businesses who are supporting MSMEs (Article 130 & 131)
- Government research and development support to MSMEs need to be detailed into tangible initiatives (Article 125)

Government Regulation 2/2020

- Market research isn't specifically included as a core training module (Articles 6 & 9)



Inspiration

Innovation vouchers are an important policy tool that have been implemented in the Czech Republic since 2009.

Organised by the regions, **innovation vouchers are one-off grants provided for small and medium enterprises to purchase services from a public sector knowledge provider** - for example a university or research centre - with a view to introducing new products, processes or services in their business operations.³²

Covering 75-85 percent of the budget and amounting up to EUR 19,395, the vouchers allow businesses to access expertise in research and science, as well as the facilities and equipment that they need to pursue innovation.

Widely considered a success, the implementation of the policy has resulted in the successful transfer of technology between research organisations and businesses, and an increased awareness of the potential of collaboration between the two parties.^{33 34} To highlight the crucial role of innovation vouchers in research activities, a study of its implementation in one of the regions found that almost half of the companies would not cooperate without the vouchers, while some would pursue the innovation to a lesser extent and others only probably.³⁵

The Small Business Research + Enterprise Centre (SBREC) is an educational business research support service by the City of London Corporation that provides advice, support and information to startups and established firms in the City. Membership in the SBREC offers small businesses access to business data and information, including company contacts, profiles and financials, as well as worldwide market research, which can be used to identify key trends in the industry and spot potential areas for growth. To ease analysis and reporting, data is available to be downloaded from most of the databases within the Copyright law.

A tiered approach to membership - free and paid subscription (one annual payment of £189 or monthly payments of £18.90 for 12 months) - is used to differentiate the types of access to databases that businesses can have.³⁶ In addition, video tutorials are available on YouTube for businesses to learn how to use the databases and what they can find in them.³⁷

Czech Republic

Innovation vouchers that allow SMEs to purchase services from a public sector knowledge provider

City of London

The Small Business Research + Enterprise Centre (SBREC) offers access to business data & information as well as worldwide market research to small businesses.

A. Limited industry and market knowledge to inform innovation opportunities

Governor of DKI Jakarta Regulation No. 2 of 2020

The Jakarta government's flagship Jakpreneur programme facilitates local industry networks and peer-to-peer support.

Most of the research participants have not heard and have never been approached by the government to participate in an entrepreneurship programme.

While the Jakpreneur programme lists training, assistance/mentorship, licensing, marketing, financial reporting and financing facility as part of the curriculum, market research is not listed as a core training module.

B. Difficulties in building the business' capacity to develop and execute innovations

Governor of DKI Jakarta Regulation No. 2 of 2020

Technical training is provided for MSMEs through the Jakpreneur programme, in collaboration with sector-specific local government offices and industry experts.

Government Regulation No. 7 of 2021

The policy offers a variety of incentives and assistance for MSMEs to partner and conduct innovation and R&D activities.

More information about the types of incentives and assistance that are on offer will be helpful for both MSMEs and large businesses.

03

Digitizing various business processes to improve productivity

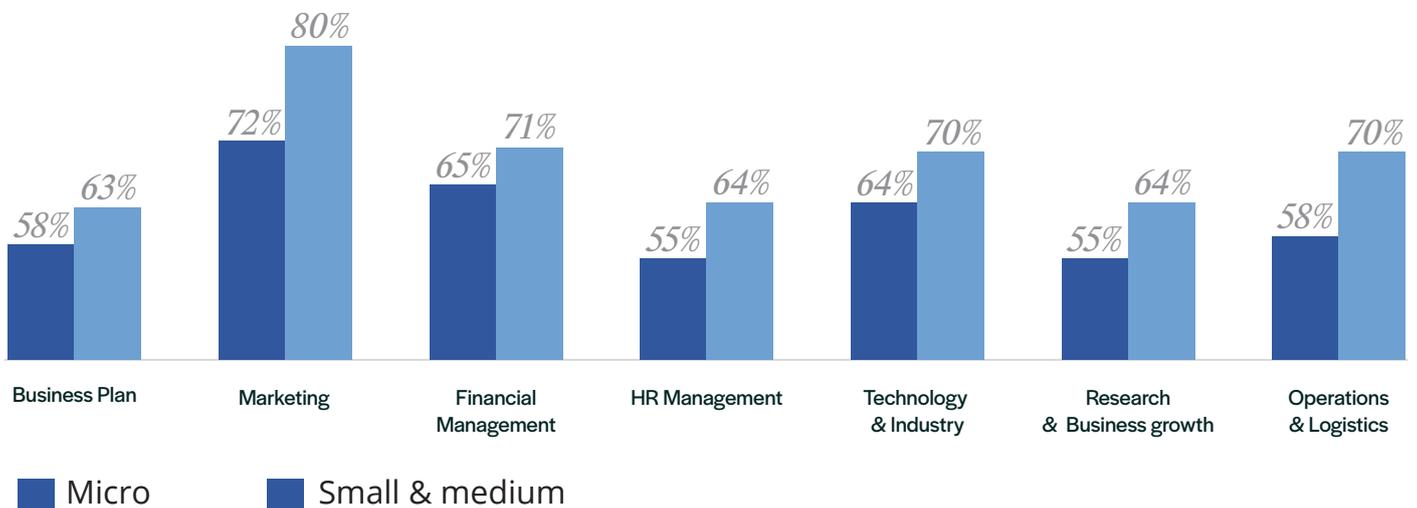


Aside from expanding market access, the advancement of technology can also empower MSMEs to unlock growth through tools that improve productivity. Typically software that simplifies and elevates various business processes, such as Bukukas and Accurate for accounting, Wahyoo for F&B business operations management, and Moka POS for sales and

inventory management.

With many locally developed software options emerging in recent years, MSMEs have become increasingly aware and keen to adopt technology beyond online sales and marketing, particularly to improve the management of their finances, inventories, logistics, and daily operations.

On Which Aspect MSMEs Want To Apply Technology & Innovation?



Despite this enthusiasm, technology adoption among MSMEs, beyond sales marketing, still revolves mainly around hardware and payment systems. Other business processes are still run manually, facilitated at best by tools like Microsoft Excel and Word. With limited and often

minimally skilled manpower, their use of these tools tends to be basic, merely replacing pen and paper to create digital records. Even this can be overwhelming in terms of time and effort required, making them prone to misreporting and suffering unexpected losses.

Current Application of Technology & Innovation : Non-startup MSMEs

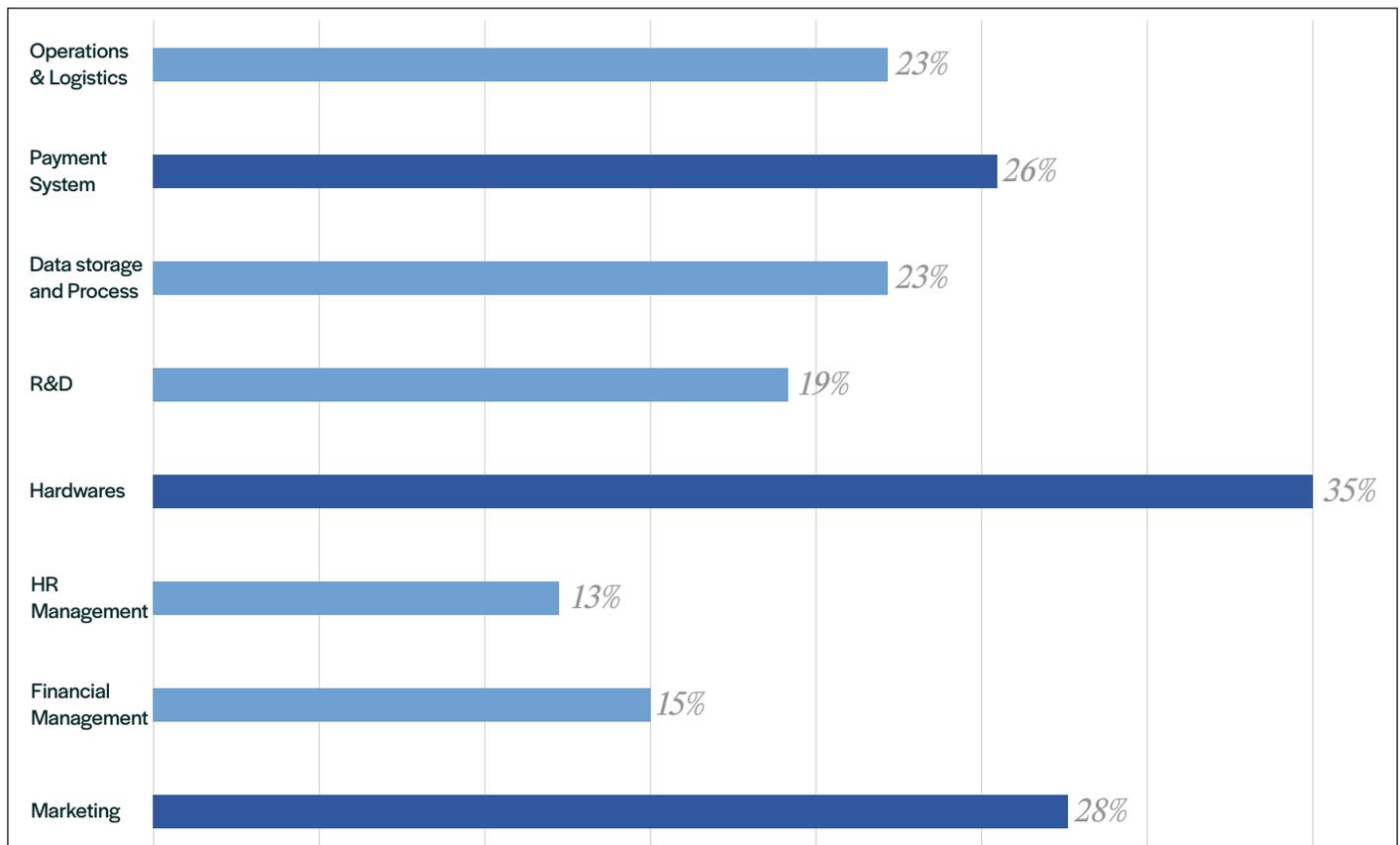


Figure 12. MSMEs technology adoption mainly revolves around hardwares (e.g. computer), followed by sales and marketing channels and payment system

We have experienced a deficit twice. Currently we record everything manually on Google Sheets. The problem is, I need details but my finance manager often forgets to record them, so may not always have complete data. This also happens with my front office— my employees tend to not record customers' check in and check out information immediately, so the report I receive is often messy and not up-to-date.

– M, 31 y.o., Small-business, Accommodation, Formal, 20 years in operation

The emergence of novel business software revolutionises these processes: enabling MSMEs to execute more advanced tasks quicker, monitor multiple operations from afar, and even convert data into valuable insights to improve business performance and profitability.

These benefits are immensely valuable, especially for medium-enterprises, because as a business grows, more tasks, customers, sales channels, and employees will demand the entrepreneurs' time and attention. Through digitization, entrepreneurs will thus be able to spare their time away from daily operations into strategic endeavours that promote growth.

All these years, my business has been running like a mom-and-pop shop— we don't really keep track of things in detail. But as we expand with new branches, I've started looking for digital tools to help me track everything from inventory to sales. Why? First is to make our business more efficient and accountable, second is so that I can monitor everything more effortlessly.

– M, 50 y.o., Medium-business, Reparation, Informal, 10 years in operation.



Currently, there are two key obstacles preventing MSMEs from digitizing their business processes:

<p>1. Lack of knowledge and capability to find and adopt suitable technology,</p> <p>stemming from limitations in assistance, awareness of best-suited technology, and adequate HR to adopt the software</p>	<p>2. High software cost.</p>
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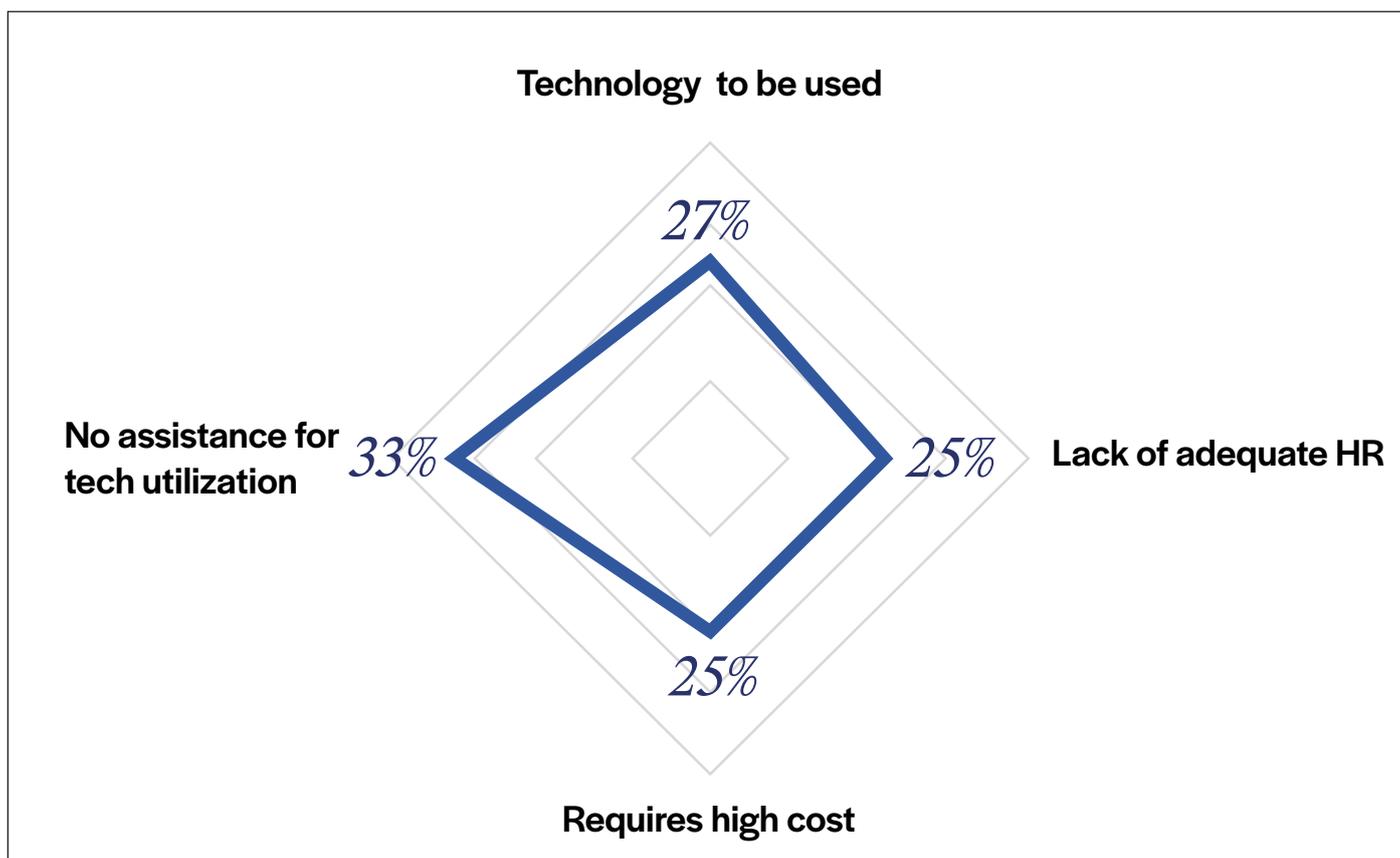


Figure 13. Obstacles to digital tools adoption amongst MSMEs can be boiled down into lack of knowledge and human resource capability and high software cost

Key Challenges

A. Lack of knowledge and human resource capability to find and adopt suitable technology

With an abundance of business software in the market, MSMEs find it daunting to adopt these tools as they lack knowledge on which software is best suited for their business. Software providers generally offer free trials to alleviate this tension by allowing entrepreneurs to explore their tools before committing. However, adopting trials can, in reality, be a very demanding process for entrepreneurs.

With the majority of such software being a novelty, entrepreneurs and their employees are likely to not have experience or knowledge on how to use it. Each software comes with a myriad of features and functions to learn and often requires them to migrate plenty of existing data. This can be a very intimidating process, especially when there is no guarantee on the software's suitability for their business. Yet entrepreneurs do not have or know where to find assistance nor information to help them navigate it, leading them to become discouraged from exploring, much less adopting the technology.

Adopting business software can be an intimidating process because most MSMEs entrepreneurs and employees do not possess the experience nor knowledge to operate and migration of existing data can be troublesome.

I would like for my business to adopt one of those accounting softwares but none of us understands how to use them. We've tried watching YouTube but it's difficult to understand. I don't think the software company provides assistance for this.

– M, 31 y.o., Small-business, Accommodation, Formal, 20 years in operation

B. Limited financial capability to invest in technology adoption

Despite being built with their capability in mind, many MSMEs still perceive business software to be unaffordable. Some softwares require a hefty upfront investment, while others may offer a relatively low monthly subscription but demand extra costs for additional, yet important features, leading to a significant total investment. Although these costs might still be economically feasible, many

MSMEs are not yet willing nor able to allocate the required budget to adopt such technology despite their enthusiasm to reap the benefits. This inability to invest is driven by the combination of a limited cash flow, especially amongst micro to small businesses, and MSMEs' tendency to deprioritize growth, which led the cost of technology adoption to seem more burdensome than it actually is.

MSMEs limited cashflow creates an inability to invest on business softwares. They tend to deprioritize growth and focus on the day to day operations.

I used Moka POS for my transactions before but it was too expensive— it cost me IDR 2.4 million in the first year, and went up by IDR 200,000 in the second year. I now use ePOS which is cheaper, but it still requires me to add extra costs to get basic service like customer service.

– M, 31 y.o., Small-business, Reparation, Formal, 5 years in operation



Evaluation of existing policy and programmes

In recent years, the government has partnered with MSME-focused companies that are focused on serving the needs of MSMEs through digitalisation. These include companies that offer logistics, shipping, payment, and bookkeeping solutions to entrepreneurs who have been poorly served by software. Public-private partnerships done by the government in this space include but are not limited to:

- The Ministry of Cooperatives and MSMEs' collaboration with the point of sales (POS) software Moka in 2020.³⁸
- The Provincial Government of DKI Jakarta's partnership with JAKmikro in 2017, which aimed to digitalise 150 public markets in Jakarta.³⁹

In addition to partnerships, the government has provided additional sources of financing that can be used for tech adoption. The Financial Services Authority Regulation No. 77 of 2016, for instance,

regulates peer-to-peer (P2P) lending, where MSMEs comprise the majority of platform borrowers. Another example is the government-sponsored micro credit programme (KUR). The Coordinating Ministry for Economic Affairs Regulation No. 2 of 2021, for instance, reiterated the government's commitment to providing small credit to MSMEs for the purpose of financing investments. Investment loans obtained through KUR can be used to finance business expansion, for example by starting a new project or purchasing machineries and raw materials. Further, through the Ministry of Cooperatives and MSME Regulation No. 6 of 2020 and No. 2 of 2021, the government provided non-repayable grants (Rp 2.4 million and Rp 1.2 million respectively) to help micro enterprises across Indonesia weather through the pandemic.

Furthermore, the newly issued GR 7/2021 has sought to address the financing challenges by providing additional funding options for MSMEs. The regulation mandates national and regional governments to provide easy and affordable financing for micro and small businesses from the government budget (Article 128). The national and regional government will also be offering incentives and convenience for large businesses that provide easy and affordable financing for the business activities of small and micro businesses via a partnership agreement (Article 130). To incentivise technology adoption in MSMEs, micro and small enterprises entering into a partnership with medium and large businesses with the purpose of utilising appropriate technology will receive various incentives including capital assistance and regional tax reduction (Article 102).

Despite these policy initiatives, digital transformation of MSMEs is still at a nascent stage. From the financing perspective, more clarity is needed for the available funding to be beneficial for MSMEs. GR 7/2021, for instance, does not

specify the incentives and convenience that large businesses will receive through such partnership (Article 130). Furthermore, as highlighted in the research, many MSMEs are reluctant to go through traditional banking methods due to an aversion to debt, complicated bank procedures, and cumbersome bureaucracy, which suggests that there is room for improvement to make these policies more relevant for their target beneficiaries.

Furthermore, businesses need to understand their own needs and requirements in order to make access to financing beneficial for them. Although the government had established partnerships to provide software training for MSMEs, **these were software-specific and involved a relatively small number of beneficiaries. Meanwhile, concerns that MSMEs have with regards to choosing digital tools that are most appropriate for their business requirements are still left unaddressed.** Businesses need continual support and guidance to cement their transition and maximise the full potential of their new technology.

Financial Services Authority Regulation No. 77 of 2016

- Regulates peer-to-peer (P2P) lending

Second revision to the Coordinating Ministry for Economic Affairs No. 2 of 2021

- Reiterated government's commitment to providing small credit to MSMEs

A. Lack of knowledge and human resource capability to find and adopt suitable technology

Ministry of Cooperatives and MSMEs partnership with point-of-sale (POS) software company Moka in 2020

Roadshow to four cities (Bandung, Mataram, Surabaya and Solo) to offer 200 MSMEs a free trial of the business software and educate them on the benefits of digitising their business management processes.

Provincial Government of DKI Jakarta partnership with JAKmikro in 2017

The collaboration aimed to digitalise unbanked traditional market vendors in Jakarta by shifting their transactions to digital platforms.

In addition to the absence of tailored support, programmes are limited to few one-off partnerships with limited scope and scale.

B. Limited financial capability to invest in technology adoption

Financial Services Authority Regulation No. 77 of 2016

Peer-to-peer (P2P) lending allows individuals and legal entities to access credit from other individuals through a financial technology provider that performs the role of an intermediary.

Coordinating Ministry for Economic Affairs Regulation No. 2 of 2021

Government-sponsored subsidy offers MSMEs access to working capital or investment financing by financial institutions at a low cost and interest.

Ministry of Cooperatives and MSMEs Regulation No. 6 of 2020 and No. 2 of 2021

Non-repayable grants targeted at micro enterprises to help them weather through the pandemic.

Government Regulation No. 7 of 2021

The newly-issued regulation offers a variety of financing options for MSMEs, including loans and grants from the central and regional governments, state-owned enterprises and large businesses.

Despite the wide variety of financial support available, most of their funding purpose has not been specified for the digitisation of business processes.

An evaluation of the current policies and programmes demonstrates that initiatives to promote the use of technology in MSME business processes are still limited.

Despite the wide variety of financial support available, most of their funding purpose has not been specified for the digitisation of business processes, which suggests that there is a need to translate funding availability into relevant programmes. It is important to acknowledge and address the barriers to tech adoption while continuing to educate MSMEs that digital transformation is crucial to their future survival and growth. As progress in digital transformation is a holistic process, it needs parts of the ecosystem - the government, service providers and MSMEs themselves - to come together and drive the transformation process.

In Jakarta, this requires prioritising digital transformation in the city's digitalisation efforts agenda, instead of merely seeing technology as a useful tool for sales and marketing.



Government Regulation 7/2021

- Clarity is needed to specify the incentives and convenience that large businesses will receive from providing easy and affordable financing to micro and small businesses (Article 130)

Government Regulation 7/2021

- National and regional governments to provide easy and affordable financing for micro and small businesses (Article 128)
- Incentives and convenience for large businesses that provide easy and affordable financing to micro and small businesses (Article 130)
- Capital assistance & regional tax reduction for micro and small enterprises that utilize appropriate technology in partnership with medium and large enterprises



Inspiration

Since 2018, the Australian Small Business Advisory Service (ASBAS) has been providing grants and non-financial support, in the form of advisory and mentoring services, to Australian small businesses.

Several areas that are covered by ASBAS - Digital Solutions (DS) programme include social media and digital marketing, how to use small business software, and data privacy. To help small businesses understand their own requirements, ASBAS-DS offers businesses an initial review of their needs along with access to webinars, workshops, and one-on-one training. While it is not free - the programme costs AU\$44 for 7 hours of support - it is highly customised to suit the specific business needs and includes 3 hours of one-on-one tailored support. Due to ASBAS-DS' critical role in supporting small businesses, in 2020 the Australian government announced its plan to expand the service by 10,000 places to allow more businesses to benefit from the support.⁴¹

Germany has launched several well-targeted measures to promote digital transformation in the country's small and medium enterprises. To complement the work of the Mittelstand 4.0 Competence Centres, which only give general advice to SMEs, in 2017 the German Federal Ministry of Economy and Technology launched Go Digital, a funding measure that subsidises professional counselling services to SMEs on specific digital issues, such as IT security, new business models and exploring new digital markets. To reduce the amount of bureaucracy that businesses have to face, funding applications were handled by authorised consulting companies.⁴² In 2020, the government launched another programme called Digital Now - Investment Funding for SMEs, a subsidy programme aimed at encouraging businesses to invest in suitable hardware and software, and in digital skills training for their employees. Businesses applying for the grant are required to provide a digitalisation plan.^{43,44}

Germany Go Digital

Government funding program for professional counselling services that provide support to SMEs on digital issues, such as IT security and new business model.

Germany Digital Now

Subsidy program to encourage SMEs to invest in suitable hardware and software, and digital skills training.

NEEDS & CHALLENGES OF BUSINESSES IN JAKARTA

B. TECH STARTUPS

Despite burgeoning local tech startup scenes in smaller cities across the nation, Jakarta is still the most thriving startup ecosystem. It comes as no surprise as the capital city has long been the country's main engine of growth and de facto leader in digital competitiveness ⁴⁵, attracting the most ICT infrastructure development, largest pool of digitally capable human resources and foreign investment.

The prospects of promising growth have drawn ever more highly educated Indonesian students & workers both homegrown and returning from abroad to participate in the local startup scene—dreaming and working hard to revolutionize an entire industry in breakneck speed, just as Gojek has done with transport, Traveloka with tourism and Tokopedia with retail.

When I returned to Indonesia, my friend and I had a conversation about what we wanted to do after finishing our degrees. We thought about starting a company together. We wanted to make a difference.

- M, 32 y.o., Startup Founder, 3 Years in Operation

My legal & civic tech startup was born when I realized during my career that law enforcers are not always aware of changes in regulations. Our goal was to help the government and law enforcers keep up with the changes, and also create good regulations that are targeted and based on data by giving them legal insights. Our big vision is to be the one stop service for legal insight in Indonesia. Similar to an NGO, we want to be impactful. We want to change things.

- M, 29 y.o., Startup Founder, 4 Years in Operation

This is the essence of a startup's existence: they aim to address society's most pressing problems & inefficiencies, and in doing so create impact at scale in addition to profitability. Typically, both the solution (i.e. product or service) and rapid growth are facilitated through the use of technology.

While the big names have attracted much attention, the Indonesian tech industry as a whole is still nascent. There is yet an established framework for regulating it and potential new technologies. And while the tech startup ecosystem has grown rapidly in the last few years, they are still faced with many issues and hurdles.

Top Challenges for Startup

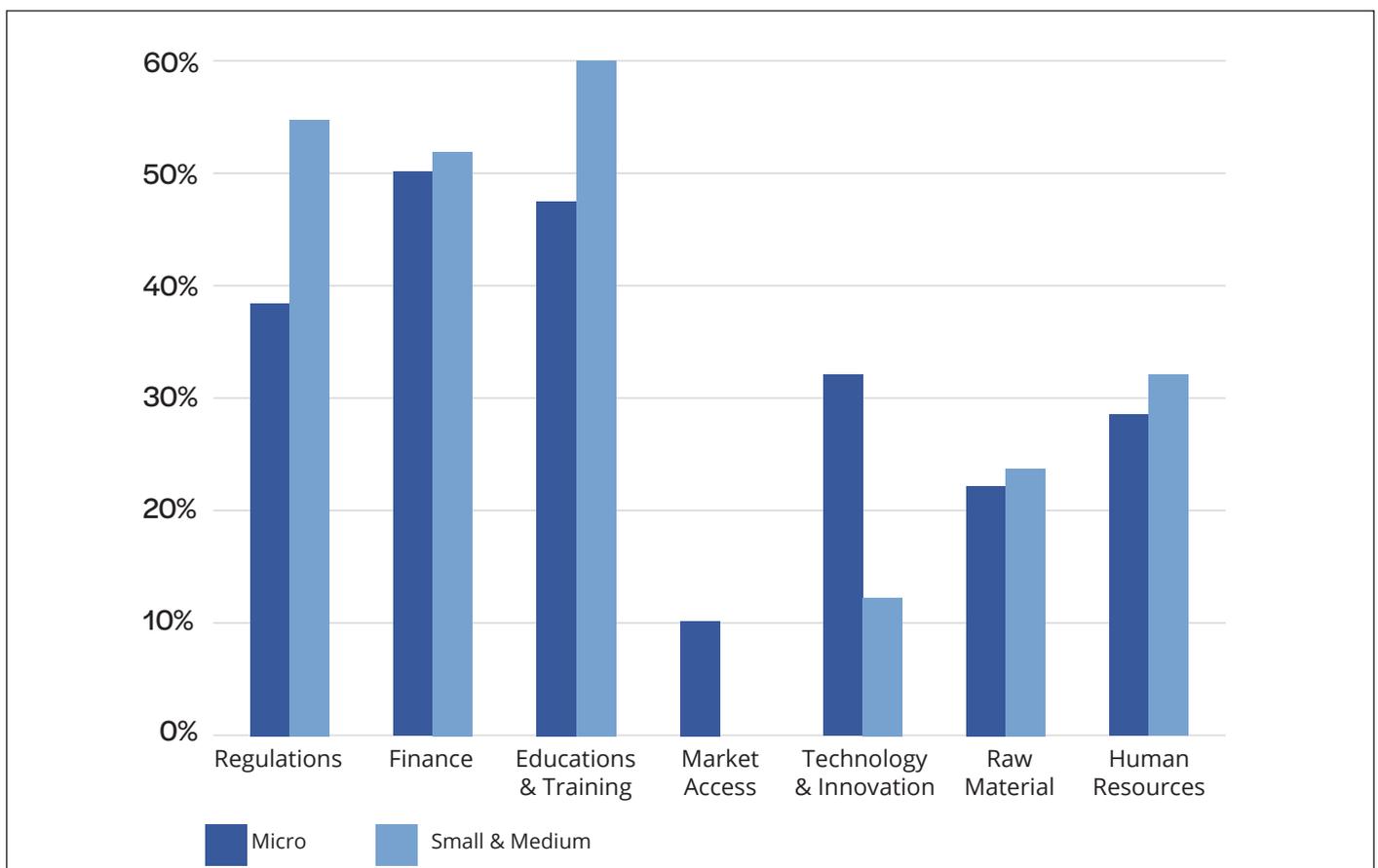


Figure 14. The top three challenges for micro, small and medium-sized startups are related to regulations, financing, and education & training

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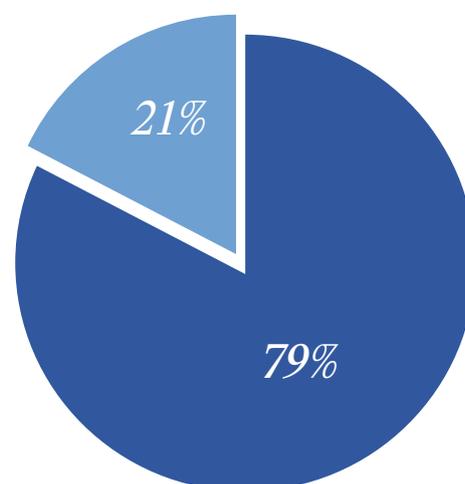
Startup-friendly financing culture & regulations

Since the product or service tends to be novel and heavily tech-oriented, most startups undergo copious cycles of marketing & product iterations, constantly developing and testing to move towards a full-fledged product and solid user base. This process takes significant time, money and resources—especially because startups must go through the cycles faster to be able to grow and scale rapidly. Additionally, their business model is often uncertain in the beginning, many even forego profitability in its first few years.

Therefore even though most startup founders self-finance their new company in the beginning, almost all of them at one point or another will have to seek funding, typically from venture capital or angel investors. Most founders are constantly raising funds—and it is one of the most demanding and challenging aspects of their business. Moreover, the pandemic has led to many investment deals being put on hold due to the economic uncertainty.



Majority of startups use personal savings as source of financing



Key Challenges

A. Difficulty attracting local investors

Startup founders experience difficulty in getting local funding as local investors tend to be on the conservative side, especially compared to their foreign counterparts. As the industry is still nascent in the country, many local investors lack the expertise on tech startup valuation and prefer to invest in companies that focus on traditional, established industries with an easy-to-understand offering and direct-to-consumer business model.

Attracting funding is especially challenging for startups with the following characteristics:

- 1. Rely on emerging high technology**
(e.g. artificial intelligence)
versus **those that are tech-enabled**
(i.e. uses common, existing technology).
- 2. Target relatively new or uncommon industries or behaviours in the market**
(e.g. environmentally friendly waste management)

These are two big challenges for us:

- 1. Trying to understand what the investors want**
- 2. Making them understand why our business is a good one.**

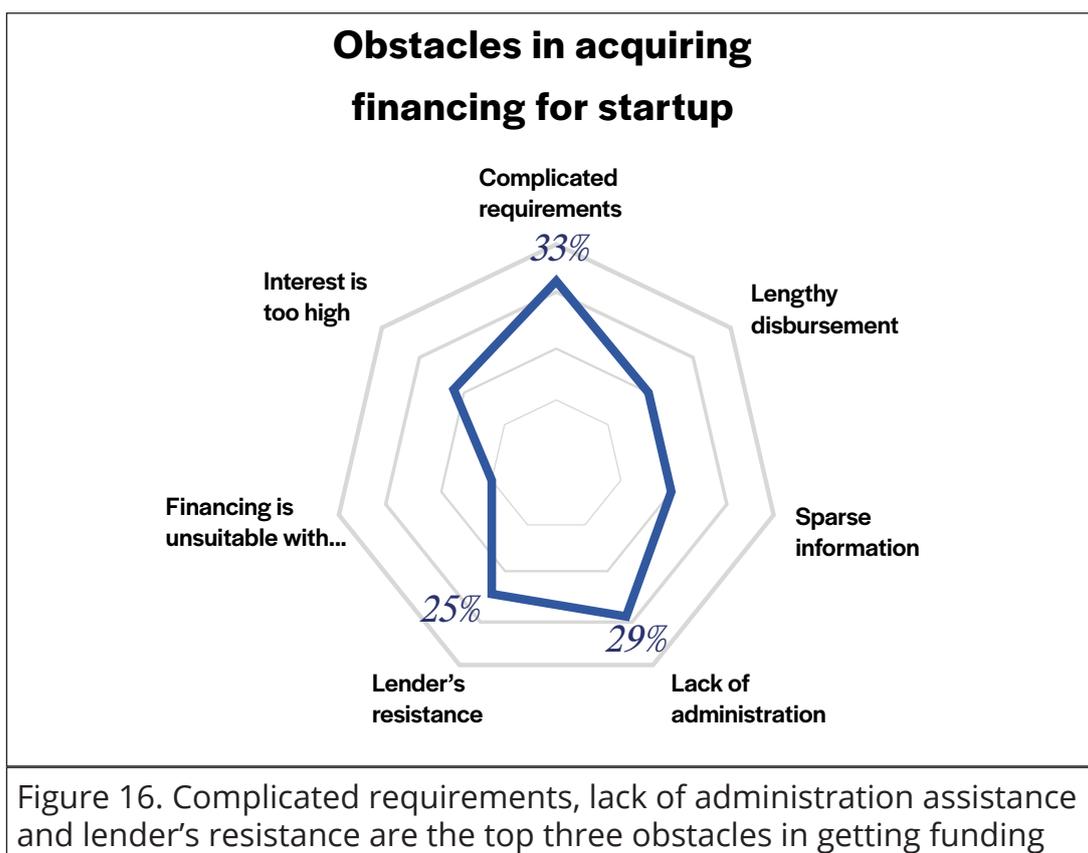
Local investors prefer investing in businesses that are already profitable and 'conventional'. It is difficult for startups that are bit out of the norm to get funding, like those who talk about AI, machine learning or business-to-government (B2G) model. Not many local investors understand these things, unlike when we pitched to investors in the United States.

– M, 29 y.o., Startup Founder, 4 Years in Operation.

COVID-19 restrictions have also necessitated approaching investors through online methods, which has proven particularly challenging as local investors normally prefer face-to-face and on-site visits.

Furthermore, many young startup founders lack the know-how on how to vet and approach potential investors.

Easing the way for startups to work with local investors is important as there are several advantages that foreign investors cannot offer: experience & knowledge on local context, culture and network.



Since COVID-19, several investors have put our funding on hold. The restrictions also make it more challenging to meet up with investors since they typically want to meet on-site. Now we meet with potential investors online, which requires a whole different approach.

- M, 28 y.o., Startup Founder, 3 Years in Operation

B. Complex & costly requirements for obtaining foreign investment

As local funding is generally insufficient and difficult to obtain, many startup founders actively look for funds abroad either by joining international startup support programmes (e.g. accelerators, incubators) with monetary rewards or directly approaching venture capitalists. Unfortunately, once they have secured the reward or deal, Indonesia's myriad of foreign direct investment regulations often lead to a complex and lengthy bureaucratic process before being able to receive the funds.

There are several restrictions and requirements that slow down the flow of foreign investment. For example, foreign investors must meet a minimum capital threshold and form a limited liability company that can take months to set up, or alternatively, find a local investor partner. Another pain point is the requirement to have a business address—

many startups have given up office spaces to curb real estate costs, a trend that is further accelerated in light of the pandemic and wide acceptance of remote working.

- **Minimum capital threshold to accept foreign investment**
- **Time required to setup limited liability company**
- **Detailed business address requirements**

We have been planning to use the funding we will get from a program supported by the German government to develop our app, but actually getting our hands on the money has been a very slow process. I hope our FDI regulations can expedite the process.

- M, 28 y.o., Startup Founder, 3 Years in Operation

As a consequence, some startups have preferred to register their company in Singapore as foreign direct investment regulations there are known to be more open, allowing easier flow of foreign funding. They are then able to direct the funding from the Singapore-registered company to the Indonesia-operating company.



I know colleagues who have had to set up their companies in Singapore because of Indonesia's complex Foreign Direct Investment regulations. The business operates in Indonesia, but the Singapore company receives the funding. If the company grows well and gets acquired, it will then become fully owned by a Singaporean entity. It's avoidable if FDI regulations here are improved.

- M, 29 y.o., Startup Founder, 4 Years in Operation

C. Burden of taxes weigh heavily on early stage startups

Startups are not availed of concessions and exemptions in the form of tax regulations and incentives. All startups regardless of revenue are obliged to pay the final income tax of 0.5% of their gross revenue. Meanwhile, early-stage startups are rarely cash flow positive, typically focusing the majority of their resources on high-growth strategies—continuously testing and refining critical aspects of the business, such as product development and customer acquisition. The tax burden adds significantly to a young startup's resource constraint, inhibiting their ability to reinvest their already-thin if not non-existent profit margins.

Early stage startups, rarely cash flow positive, are required to pay the final income tax of 0.5% of gross revenue.

There needs to be a set of law that gives startups financial flexibility such as tax relief. Currently, our tax system is almost the same as conventional businesses... It would be very helpful if the government can give financial and tax incentives for startups that are still growing and burning money.

- M, 32 y.o., Startup Founder, 3 Years in Operation



Inspiration

Kazakhstan / Estonia Startups Regulations

Startup Estonia

Highly digitized procedures, no corporate tax on retained and reinvested profits and easy for foreigners to obtain work and entrepreneur visa.

Digital Kazakhstan Programme

Astana Hub resident startups are not charged corporate income taxes until 1 January 2029

Kazakhstan has slowly built its reputation as a startup-friendly country in the global startup world, with the presence of a major startup hub, various startup development programs, accelerators, and an emerging venture capital ecosystem. Founded in 2018 and located in Kazakhstan's capital city Nur-Sultan, Astana Hub was conceived as part of the Digital Kazakhstan Programme.⁴⁶ Astana Hub is the largest technology park for technology startups in Central Asia and currently houses more than 500 technology companies, including the Barcelona-based delivery app Glovo. Special tax regime is one of the major draw of the Astana Hub - resident startups in the hub enjoy a number of tax incentives and are currently not charged corporate income taxes until 1 January 2029.⁴⁷

Estonia is home to a thriving startup ecosystem with a supportive regulatory landscape and a tight-knit entrepreneurial ecosystem. With 1229 startups registered in Estonia, the country currently boasts one of the highest rates of startups per capita in Europe.⁴⁸ Startup Estonia, the flagship government initiative to support the country's transformation into a full-fledged startup ecosystem, was established in 2015 by an executive order of the Minister of Entrepreneurship.⁴⁹ Estonia is an attractive base for startups due to its highly digitised procedures, no corporate income tax on retained and reinvested profits, and ease for foreigners to obtain work and entrepreneur visas. The country does not differentiate between foreign and local investments, with both treated equally under the Estonian law.⁵⁰



Evaluation of existing policy and programmes

The Indonesian government has demonstrated a clear commitment to supporting the establishment and development of startups. There have been several policy initiatives to provide funding for startups, such as:

- The Regulation of the Head of the Creative Economy Agency No. 10 of 2016 on the Government Assistance for the Initial Funding of Startups.
- The recently issued GR 7/2021 sought to provide micro and small technology start-ups with capital in the form of grants by the government, state-owned enterprises, and large businesses (Articles 128-131).
- The Merah Putih Fund, a funding platform launched by the Indonesian president Joko Widodo and initiated by the Minister for State-Owned Enterprises Erick Thohir, is backed by state-owned enterprises and is focused on funding domestic startups created

by Indonesian nationals that will soon reach unicorn status.⁵¹

The private sector has also been actively involved in investing in startups. Over the last several years, the nation's wealthiest families have staked their claim in the local tech scene, either by launching their own ventures or financing other startups. Other big local players in this space include Indonesia-based financial institutions, such as large banks and venture capital firms. In addition to local funding, regulatory improvements have also been made to facilitate foreign investment. The recently announced Presidential Regulation No. 10 of 2021 on Investment Business Fields ("PR 10/2021") waived the minimum capital requirement of Rp 10 billion (roughly USD 710,000) which foreign investors were required to meet in order to invest in local technology startups, for investments in startups located in the country's special economic zones (SEZs) (Article 8).⁵²

However, despite Jakarta's dynamic startup ecosystem, tax regulations have remained a sore spot for startups. Even though the government has relaxed several tax rules as part of their COVID-19 measures, in normal circumstances startups in Jakarta do not benefit from preferential tax incentives and are taxed the same way as their MSME counterparts.

As Indonesia currently lacks a legal definition for a start-up, they are often treated in the same way as MSMEs despite differences in their business objectives, characteristics, and growth paths. In line with the government's strong commitment to establishing more technology startups in the country, providing more targeted support can help startups to be financially sustainable and reserve more money for their long-term growth efforts.

Furthermore, existing government policies and initiatives could be adapted to provide startups with better access to financing. The newly-launched Merah Putih Fund is focused on funding 'sooncorns' - soon-to-be-unicorn startups with a valuation of USD 200 million - and does not cater to startups at the earlier stages.⁵³ Meanwhile, although the funding provisions outlined in GR 7/2021 are a welcome source of financing for early-stage startups, there is currently limited information on the standard amount of the grants that startups can obtain and the incentives that large businesses will receive from the national and regional governments (Articles 128-131).

Moreover, **tax incentives that fit into the venture capital investment model - such as tax exemptions on capital gains - are not available in Indonesia, which may discourage many smaller local investors from actively participating in the market.**

Another limitation is related to **PR 10/2021**, which looked to encourage the strengthening of the local startup ecosystem by waiving the minimum capital requirement for foreign investors seeking to invest in technology startups. **A caveat to this is that the change in rules is aimed at startups located in SEZs**, of which there are 19 across the archipelago.⁵⁴ A recent announcement by the Acting Secretary of the SEZ National Council Elen Setiadi stated that only four SEZs are considered to be performing optimally.⁵⁵ Meanwhile, **Jakarta - the focus of this study and the centre of the startup ecosystem in Indonesia - is not a SEZ.**

Although the government has made great strides to facilitate investments and alternative sources of financing for startups, more legal changes are needed in order for Indonesia - and in particular the capital city Jakarta - to emerge as a top startup hub. Currently, **startup policies and initiatives are still not optimal and regulations need to provide better clarity over the benefits that stakeholders will receive for supporting startups.** Developing clearer incentives and expectations around funding capabilities, along with addressing issues around taxation, will contribute to the city's startup growth and help Jakarta to become the leading startup hub in the region.

Presidential Regulation No. 10 of 2021 on Investment Business Fields (“PR 10/2021”)

Waived the minimum RP 10 billion foreign investment capital investment in special economic zones (Article 8)

A. Difficulty attracting local investors

Government Regulation No. 7 of 2020

The newly-issued regulation provides micro and small technology startups with capital in the form of grants by the government, state-owned enterprises, and large businesses.

Merah Putih Fund

The new venture capital fund backed by state-owned enterprises focuses on funding domestic startups that were established by Indonesian nationals and are operating in the country.

Information on the monetary value of grants that will be disbursed and the incentives that large businesses will receive by way of GR 7/2020 is not yet available. Meanwhile, the Merah Putih Fund does not cater to startups at the earlier stages.

B. Complex & costly requirements for obtaining foreign investment

Presidential Regulation No. 10 of 2021

The regulation waives minimum capital requirement of Rp 10 billion for foreign investments in startups located in SEZs.

Most startups in Indonesia are based in Jakarta, but the country's capital city is not classified as a SEZ.

C. Complex & costly requirements for obtaining foreign investment

Government Regulation No. 23 of 2018

With effect from 1 July 2018, tax rate for MSMEs was reduced to a new "final tax" rate of 0.5 percent (down from 1 percent).

Ministry of Finance Regulation No. 44 of 2020

Relaxed tax rules for MSMEs during the COVID-19 pandemic were also enjoyed by startups.

Due to the lack of a specific tax regime for technology startups, startups are subject to the same tax rules as their MSME counterparts.

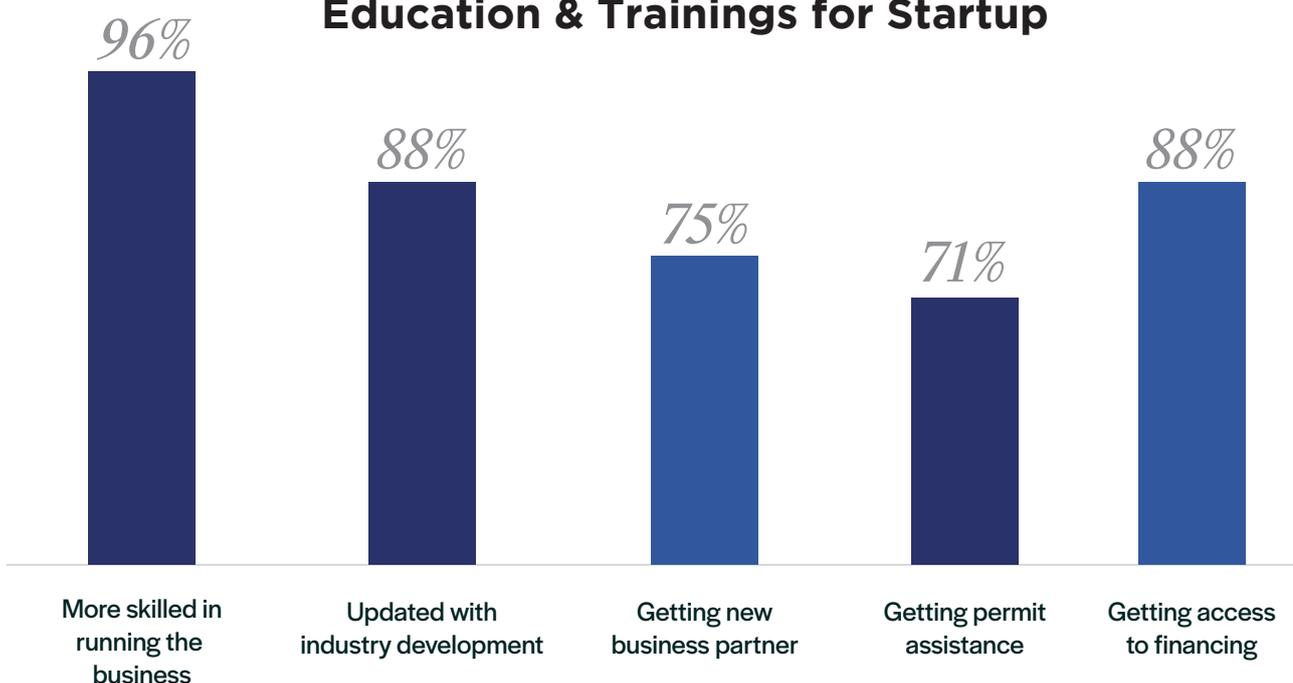
02

Provision of all-round startup education & training programs

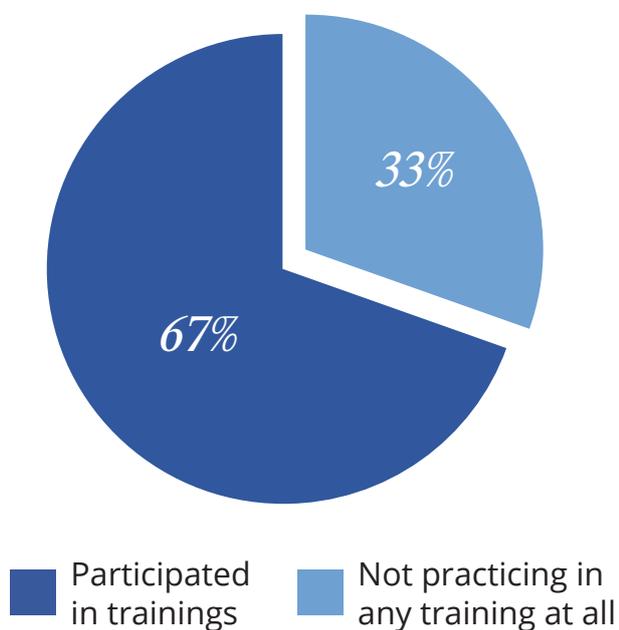


The majority of startup founders have joined support programs throughout their business journey and concur that they are essential tools for validating business ideas and fostering growth. Unsurprisingly, many have participated in not just one but multiple programs, putting in a great deal of their time and resources into it. The main benefits they seek are funding & networking opportunities and obtaining industry knowledge & insight from peer ventures, mentors and other industry players.

Perception On Importance of Education & Trainings for Startup



Startup participation in education & training



Figures 17 and 18. More than half of startups have participated in support programs

We've participated in MaGIC Malaysia and another startup program in the Netherlands. We learned a lot and built very useful connections. I am still in touch with my mentors from those programs, they are very happy and willing to communicate. These programs also connect you with investors.

- M, 29 y.o., Startup Founder, 4 Years in Operation

Key Challenges

A. Blanket programs for all startup stages

One of the most important benefits sought by joining these programs is to gain relevant knowledge and insight. Local programs, however, have a tendency to focus on graduating as many startups at a given time, commonly mixing startups in varying stages into one class, assimilating those that are still fleshing out their business ideas with those that are already in operation. In reality, they would need vastly different education and resources tailored to their needs. Startups at more advanced stages are particularly underserved, often finding that the information they get is too basic.

1000 Startup Digital by Kemkominfo is a massive program with participants that even include university students. While incubators are more focused and work only with those who have established a company. At my stage, I need something that is even more than what an incubator can offer.

– M, 38 y.o., Startup Founder, 2.5 Years in Operation.

B. Inadequate mentorship program

The ideal mentor acts as a counsellor for early-stage startups, providing crucial guidance and expertise to help founders scale up their business. Access to an experienced and dedicated mentor is often attributed as one of the keys to success as a startup founder. Having a mentor with local knowledge & experience is even more invaluable as they understand best how to navigate the local business landscape and its unique nuances. However, **many startup founders have expressed frustration at the difficulty of finding a suitable local mentor.**

Firstly, the tech industry is relatively young in the country, and as such there are not

many options available for mentors with the relevant expertise and experience. Secondly, most startup support programs do not adequately facilitate these mentor-mentee relationships. The mentors provided generally lack the relevant experience, whereas industry practitioners with firsthand knowledge are often invited only on a one-off basis. It is even more challenging to find an appropriate mentor who is generous with their time, even though a good mentorship requires the mentor to dedicate their time to guide the development of the business and of its founder through regular meetings over a period of time.

1. Low number of mentors with relevant expertise and industry experiences

2. Eligible mentors are generally busy and there's no solid mentor-mentee facilitation

C. Lack of networking support

Many startup founders credit their business traction and success thus far to opportunities gained through their network. The power of networking cannot be downplayed—it's how many founders get their initial funding and partnerships. Startup support programs play a key role as they are often the first way for founders to gain access to key figures in the startup ecosystem, from mentors to potential investors.

It is critical that these programs dedicate more time and resources to help facilitate these, because in reality—despite the tremendous importance of networking—it is often haphazardly and informally done. As many programs are now conducted fully online due to the pandemic, it is even more vital for organizers to be active enablers of these connections, as approaching people virtually vs. in person often presents its own challenges.

It is very important to have a mentor who can validate our ideas and guide us with their knowledge and experience. Foreign mentors sometimes don't understand Indonesian culture very well, so they might not always have the best insight on whether an idea is good or not.

– M, 28 y.o., Startup Founder, 3 Years in Operation.

The quality of the mentors were not so good when I participated in 1000 Startup Digital program. It felt like being lead by a blind person. A few were good, like Nadiem Makarim, but he was only there for the larger class. The mentors for the smaller, intimate classes were lacking. They were not serious enough and didn't have good comprehension of the startup world.

– M, 38 y.o., Startup Founder, 2.5 Years in Operation.

D. Insufficient rewards system

The most desirable incubators or accelerators are those that offer participants some sort of reward, either monetary (e.g. seed funding, loan) or practical (e.g. free or low-cost co-working space, internet), or a combination of the two.

Unfortunately, many local programs do

not offer sufficient rewards. On the other hand, joining these programs takes up a significant amount of time for the founders, who must juggle growing their early-stage startups whilst also sustaining themselves. Ideally, every program must provide access to monetary rewards, or at the very least, practical rewards that can help reduce overhead for the startups as they grow.

Participants don't get any rewards after participating in a 3-month long program by 1000 Startup Digital. They should give seed funding that can help the startups grow or a 3-month stipend for the startup to pay for internet, salary etc. Foreign programs usually always give small rewards and they really facilitate connections to investors.

– M, 29 y.o., Startup Founder, 4 Years in Operation.



Inspiration

MaGIC Malaysia Startup Ecosystem

Malaysian Global Innovation & Creativity Centre (MaGIC) is an agency under Malaysia's Ministry of Science, Technology and Innovation (MOSTI) that has developed a comprehensive entrepreneurship ecosystem well-known for its capacity building programs that empower technology startups and social innovators.

It cultivates a thriving community of start-ups, investors and ecosystem players—facilitating and enabling connections between them. MaGIC offers a range of structured training programs that are tailored to help entrepreneurs in different stages of growth—ensuring the biggest relevance and impact for each.

MaGIC's most well-known program is its award-winning Global Accelerator Program (GAP), widely touted as the largest of its kind in Southeast Asia. GAP is designed for mid-to-late stage startups (ideally less than three years old) who have launched a highly scalable product with good traction and looking to expand in the ASEAN region. It's competitiveness (less than 6% acceptance rate), ensures impactful benefits for each startup participant.

The benefits it provides participants include, among others:

- Access to distinguished mentors and experts with technical and business backgrounds
- Monthly stipend and access to services/benefits by renowned partners such as Amazon Web Services and Microsoft. Prior to the pandemic, participants also received a coworking space and accommodation
- Access to potential capital from MaGIC ecosystem (GAP Investment Partners)

The 3 months program satisfies nearly everything that is desired by startup founders. It not only provides them with the necessary business and technical knowledge, but also with the tools, skills and network to be investment-ready.

Entrepreneurship for the Future

A structured training programme to help Aspiring to Experience Entrepreneurs in elevating the entrepreneurial mindset leveraging on technology and innovation.

Early Stage

"Great, you're just getting started!"

Idea Lab

What do I need to build my own startup?

Bootcamps

How do I get my initial product into a full-blown product development?

University Startup Challenge

How as students from Institutions of Higher Learning, to experience and pitch for a startup?

Mid Stage

"Nice, you're growing steady!"

Grill or Chill

How do I iterate and test my assumptions on the problem and solution?

Global Accelerator Programme

How do I accelerate my startup and be investment ready?

Late Stage

"Awesome, you're expanding quick!"

Global Market-Fit Programme

How do I expand to another market?

Global Accelerator Programme

How do I expand my business from overseas to Malaysia?



Evaluation of existing policy and programmes

As Indonesia's tech startup ecosystem started booming in the 2010s, tech-focused supporting programmes such as incubators and accelerators have also grown over the years, led by stakeholders in both the public and private sectors. For instance, MDI Ventures, a corporate venture initiative by the state-owned Telkom Indonesia, co-manages two of Indonesia's largest digital incubators: Telkom Indonesia's Indigo Creative Nation and Bank Mandiri's Mandiri Digital Incubator.^{56,57} Another example is the GnB Accelerator, a joint-venture between the US venture capital firm Fenox and the Japanese IT company Infocom.⁵⁸

These programmes are currently regulated by GR 7/2021, which outlined the criteria, standards, and responsibilities over the implementation of incubator programmes, replacing the Presidential Regulation No. 27

of 2013 ("PR 27/2013") on the Development of Entrepreneurship Incubator. A major improvement in GR 7/2021 is that it specifies required activities to be conducted at specific stages of the incubation process. For instance, GR 7/2021 requires incubators to provide startups access to mentorship and network through business matching during the programme, and to sources of financing post-programme (Article 133). Further, according to GR 7/2021, the Ministry of Cooperatives and MSMEs are required to publicly announce the ranking of the various available programmes (Article 134). Details of the design and implementation of business incubators, including for startups, are governed by the Ministry of Cooperatives and MSME Regulation No. 24 of 2015 on the Norms, Standard, Procedure and Criteria of the Entrepreneurship Incubator Management.

An evaluation of existing policies related to startup development programmes revealed several policy gaps. Various startup programmes, such as incubators and accelerators, are often conflated together. While they are often assumed to provide the same kind of training, the differences in their goals, structure and target participants need to be underscored and categorised so that startups can get the specific help that they need at different stages of their business. Moreover, not all programmes have the same track record for building successful companies. Although the Ministry of Cooperatives and MSME Regulation No. 24 of 2015 have outlined the norms, standard, procedure and criteria that incubators need to fulfill, the development of more specific indicators is needed to systematically gauge the success of these programmes.

Developing metrics and milestones is crucial to reduce failure and improve the value that the programmes bring to their participants.

GR 7/2021 has made welcome changes to the way startup development programmes are being designed and implemented. In addition to the points that had been made, **close observation of the implementation of the recently-issued GR 7/2021 is needed to monitor and evaluate the performance of startup programmes**, in particular when it comes to their capabilities and level of engagement. Since relations and people matter significantly in the startup world, access to deep pockets, extensive industry connections, and a reservoir of specific skills and resources are needed for these programmes to provide value for the startups joining them.

Government Regulation 7/2021

- Outlines the criteria, standards and responsibilities over the implementation of incubator programmes (Article 133)
- Ranking public announcement of the various available programmes (Article 134)

Ministry of Cooperatives and MSME Regulation No. 24 of 2015

- Outlines the norms, standards, procedures and criteria of the Entrepreneurship Incubator Management.

A. Blanket programs for all startup stages

Government Regulation No. 7 of 2021

The Ministry of Cooperatives and MSMEs will curate and announce the ranking of incubators to the public.

Ministry of Cooperatives and MSMEs Regulation No. 24 of 2015

The policy regulates the norms, standards, procedures and criteria of business incubators.

Programs are not differentiated based on the business stage of their participants and do not account for different kinds of target audience, e.g. startups vs. MSMEs.

B. Inadequate mentorship program

Government Regulation No. 7 of 2021

Incubators are required to provide access to mentorship during the program.

Program indicators, such as the metrics and milestones that can measure the success of incubators, are not yet available.

C. Lack of networking support

Government Regulation No. 7 of 2021

Incubators are required to provide access to networks through business matching during the program.

Program indicators, such as the metrics and milestones that can measure the success of incubators, are not yet available.

D. Insufficient rewards system

Government Regulation No. 7 of 2021

Incubators are required to provide access to sources of financing post-program.

Business incubators are regulated and managed by the Ministry of Cooperatives and MSMEs, while investor matching activities for technology startups are currently led by the Ministry of Communications and Informatics.

03

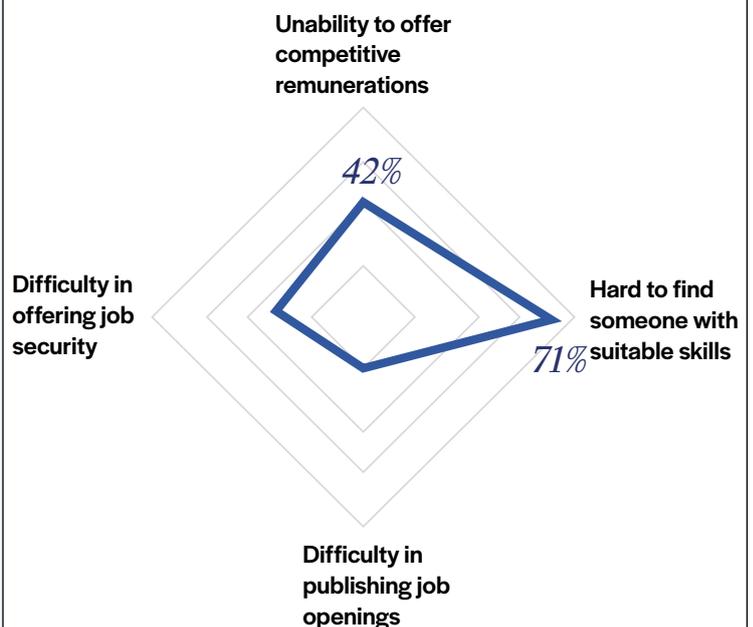
Ease of recruiting & developing tech workers



Talent shortage is increasingly becoming a big issue in the region's tech industry. It is a problem for the big players but even more pronounced for the smaller, up-and-coming startups who may not have as much capital as the bigger companies to offer lucrative salaries in the tug-of-war of talent acquisition.

It is becoming an immensely competitive game that the topic of recruitment is consistently quoted by startup founders to be the biggest and most time-consuming problem on their plate. Companies must constantly think out-of-the box and go the extra mile when it comes to acquiring, retaining and developing their employees.

Hiring obstacles for startup



Figures 19 and 20. More than half of startups have participated in support programs

Key Challenges

A. Scarcity of tech talent with specialised skills & knowledge

While the tech industry is booming at an unprecedented rate, the tech talent pool and skill sets have not grown at quite the same pace. This issue is further compounded by the fact that the industry's fast-paced and dynamic nature means companies are looking for tech skills that are constantly evolving. Although many students today aspire to have a career in tech, institutions are scrambling to adapt their curriculum to the latest in-demand technical skills. As a result, many of the tech candidates churned out of these institutions are not maximally equipped with the technical sophistication required.

Technical roles such as software engineers and programmers are often the most difficult to fill, followed by niche roles like product management. The talent crunch becomes more pronounced the higher up the ladder. Since most tech companies in Indonesia have not been around for more than a decade, the majority of tech talent are also limited in their experiences, making it challenging for companies to fill in upper management positions that require experience. Most job matching comes from network and word-of-mouth. For many founders, it takes a lot of patience, hard work and luck to fill in technical and C-level roles.

It is very difficult to find good quality programmers because most only knows Python and that's it. There are very few who have a willingness to learn and good analytical skills. Moreover, they are very expensive to hire for a very limited skillset.

– M, 29 y.o., Startup Founder, 4 Years in Operation.

Universities need a lot of improvement because their teaching is obsolete. That's why both big and small companies are fighting for tech workers from a very small pool. It's still an issue, which is why many Indonesian companies outsource to Vietnam or India.

– M, 32 y.o., Startup Founder, 3 Years in Operation.

B. Scarcity of advanced technical training courses

Tech workers must frequently upgrade their skills to keep up with the demands of the industry. New products and innovations require increasingly sophisticated skills in areas such as artificial intelligence, advanced computing, and machine learning just to name a few. Amidst the difficulty of recruiting new talent with the desired skills—and often to reduce headcount costs—startups are also compelled to more intensively nurture and empower their existing employees. However, there

is a lack of advanced technical training courses or workshops available in the country. Occasionally, the courses are available abroad but require significant time and money investment, which is not a luxury that young startups have. The most frequent case will be that these skills are in the hands of a select group of professionals, and therefore, another viable alternative is to join workshops or talks hosted by technical experts who are practitioners in the field and can share knowledge from their experience.

Trainings on specialized tech knowledge are rare in Indonesia. We tried looking for one but they are mostly summer courses abroad with exorbitant prices. Before the pandemic, there was actually a coworking space in Jakarta that frequently invites CTOs with lots of experience to share their knowledge. These sessions are usually even better than trainings because it is free and the speakers can help answer technical issues with practical solutions.

– Startup Founder



Inspiration

MaGIC Malaysia Startup Ecosystem

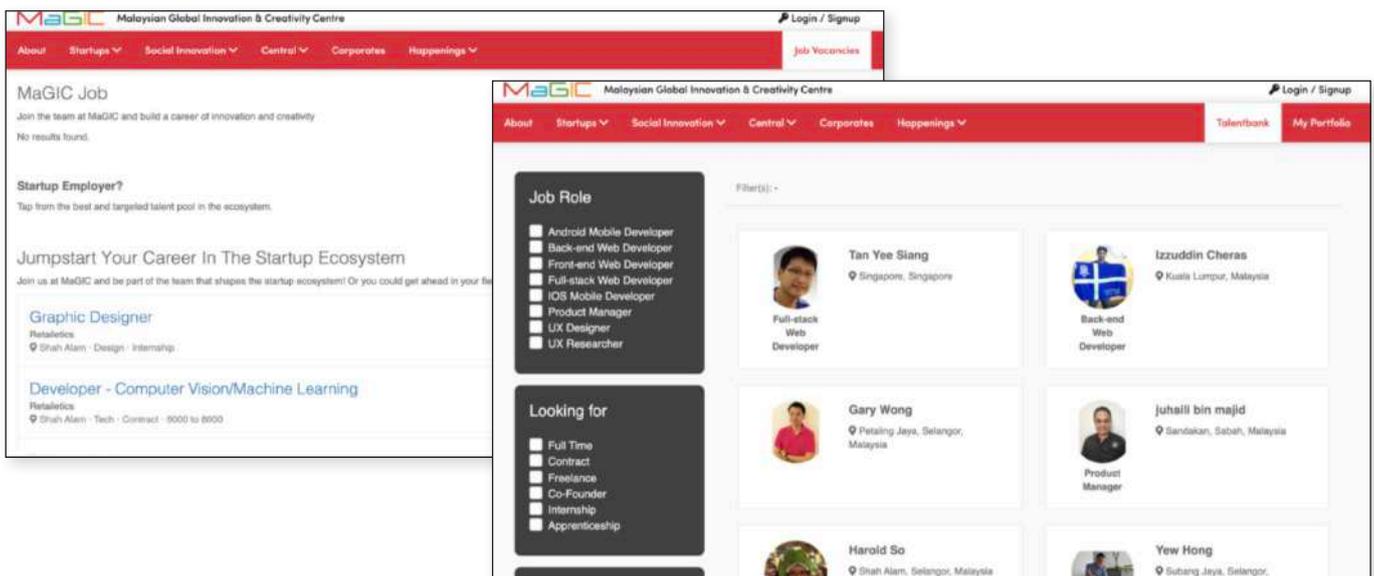
Besides developing well-rounded training programs, MaGIC offers a digital suite of services accessible on its website that help startups tackle the different challenges that they face, including access to talent. The MaGIC Job platform allows startup employers to post job postings that can be accessed by potential candidates. There is also the MaGIC Talentbank platform, which is a 'collaborative directory that aims to track every Malaysian startup talent currently available in the ecosystem'. Candidates can post their profile, resume and the type of jobs (e.g. full time, internship) that they are looking for on the platform.

Returning Expert Programme

Living and financial incentives for eligible Malaysians who are willing to relocate back home.

Residence-Pass Talent (RP-T)

Offers 10 years renewable residence passes to highly qualified expatriates who have worked for a minimum of three years in Malaysia



TalentCorp Malaysia

TalentCorp Malaysia has launched several programmes to attract Malaysian citizens abroad and other skilled workers to come and work in Malaysia. For example, the Returning Expert Programme offers attractive living and financial incentives for overseas Malaysians with invaluable experiences, skill sets, knowledge, and intercultural abilities who are willing to relocate back to their home country.⁵⁹ Another programme, the Residence-Pass Talent (RP-T) Programme, was established in cooperation with Malaysia's Immigration Department, and issues 10-year renewable residence passes to highly qualified expatriates who have worked for a minimum of three years in Malaysia. A key advantage of obtaining the RP-T is that it allows flexibility in employment without the need to change passes. Furthermore, to provide a welcoming environment for workers with families, spouses are eligible for the RP-T if they wish to work in Malaysia, and both spouses and children are eligible for the RP-T Dependant Pass.⁶⁰

Tech.Pass Singapore

The Tech.Pass is a visa launched by the Singaporean government in mid-January 2021 that allows established tech entrepreneurs, leaders, or technical experts from around the world to work and live in Singapore. The goal of Tech.Pass is to grow the Singapore technology ecosystem by developing a strong base of technology companies and talent in the country. ⁶¹Different from other work passes in Singapore, the Tech.Pass is administered by the Singapore Economic Development Board, the lead government agency under the Ministry of Trade and Industry that is responsible for strategies that enhance the country's position as a global centre for business, innovation, and talent. Further, unlike the Employment Pass, Tech.Pass does not require candidates to have secured an employment in Singapore in order to be eligible. Under the Tech.Pass, they can start and operate one or more tech companies, work in one or more companies at any time, and lecture in institutes for higher learning. To make the prospect of moving more attractive, spouses, children and parents may join the visa holders in Singapore on either a Dependant's Pass or a Long-Term Visit Pass. ⁶² Tech.Pass is highly competitive - as of November 2021, 150 Tech.Pass passes have been approved by the Singaporean government, out of the 500 available places.⁶³

Singapore Tech.Pass offers tech entrepreneurs, leaders and technical experts to work and live in Singapore.



Evaluation of existing policy and programmes

Human capital is a longstanding issue in Indonesia, and nowhere does this feature more prominently than in the tech sector. The country produces just 0.8 science, technology, engineering and mathematics graduates per 1,000 citizens, far below China (3.4) and India (2.0).⁶⁴ Although coding is not yet a mandatory school subject, both the public and private sectors have taken the initiative to set up informal coding schools to meet the evolving industry demand and close the country's tech talent gap. Another strategy to fill the talent pipeline is by attracting qualified talent from the Indonesian diaspora and easing the process to hire foreign workers.

Coding schools vary in their costs and structure. In 2018, the Ministry of Communication and Informatics formed an agreement with the government of France to build L'Academie - a free, open-for-all coding school in Indonesia. Privately-run coding bootcamps, such as the Jakarta-based Hactiv8 and Impact Byte, offer intensive training in in-demand programming languages and work with hiring partners to hire a portion of students that graduate from the programmes. To address the financial challenges, the government-funded Pre-Employment Card (Kartu Prakerja) and the Ministry of Communication and Informatics' Digital Talent Scholarship provides financial assistance for several of the programmes.

Kartu Prakerja & Ministry of Communication and Informatics Digital Talent Scholarship provides financial assistance for technical programs.

Indonesia has undertaken several initiatives to encourage expatriates to return home and ease the hiring of foreigners by startups in the country. The recent years have seen a series of overseas roadshows and meetings by both public and private stakeholders, such as the Indonesian Diaspora Congress, that sought to engage the Indonesian diaspora, which had met some success. Further, to ease the hiring of overseas high-skilled workers, the Job Creation Law and the new implementing Government Regulation No. 34 of 2021 Concerning the Use of Foreign Talent (“**GR 34/2021**”) had waived the Foreign

Worker Utilisation Plan (Rencana Penggunaan Tenaga Kerja Asing, or RPTKA) requirement for startups seeking to hire foreign talent for no more than three months (Article 19). Furthermore, subject to agreement by the first employer, foreigners are allowed to work for multiple employers in a similar position, such as a director, commissioner, or expatriate in the digital economy sector (Article 5). Details related to these changes are further explained in Ministry of Manpower Regulation No. 8 of 2021 (“**MoM Regulation 8/2021**”).

Government Regulation No. 34 of 2021

waive the Foreign Worker Utilisation Plan requirement for startups seeking to hire foreign talent for no more than 3 months (Article 19)

Ministry of Manpower Regulation No. 8 of 2021 (“MoM Regulation 8/2021”)

Subject to agreement by the first employer, foreigners are allowed to work for multiple employers in a similar position (Article 5)

Despite these interventions, challenges associated with recruiting and developing tech workers are difficult to address.

Startups move at a rapid pace, while building and shaping tech talent takes time. The creation of new digital jobs - such as cybersecurity and data scientists - is outpacing the significant efforts that have been made in developing the local human capital. Moreover, although the new regulation on foreign workers eases the hiring process for startups that need to hire urgently, less complex bureaucracy is still needed to attract and retain foreign talent for longer-term.

Hiring foreign talent incurs additional costs to employers. Based on the recently issued Ministry of Manpower Regulation No. 8 of 2021, employers are still required

to pay US\$100 every month, for every foreign talent hired, to the Foreign Worker Utilisation Compensation Fund (Article 35). Furthermore, despite positive changes brought by GR 34/2021, many steps still need to be taken to hire foreign workers. For foreign workers employed by startups, the RPTKA is only waived for the first three months, after which the startup must apply for the RPTKA approval (Article 19). According to MoM Regulation 8/2021, employers must also submit an annual report to the government that contains detailed information on the utilisation of foreign workers, training for foreign workers' assistants, as well as the skills and technology transfer to the local counterparts (Article 44).

Ministry of Manpower Regulation No. 8 of 2021

Employers are still required to pay US\$100 every month, for every foreign talent hired, to the Foreign Worker Utilisation Compensation Fund (Article 35)

Ministry of Manpower Regulation No. 8 of 2021

Employers must submit detailed annual report on foreign workers utilization and skills & technology transfer to the local counterpart (Article 44)

Government Regulation 34/2021

RPTKA is only waived for the first three months, after which the startup must apply for the RPTKA approval (Article 19)

Talent recruitment efforts must also take into account the contexts and circumstances that foreign talent may be in. Under the law in Indonesia, **foreign worker permits are tied to a single employer or guarantor, with additional processes required for workers who wish to conduct a transfer of guarantor.**⁶⁵

Furthermore, spouses of foreign workers are not permitted to work on a spouse visa, which may create challenges for foreigners who are relocating with their partner or family.⁶⁶ Given that foreign talent with niche skills and qualifications have the potential to play a significant role in on-the-job expertise transfers and mentoring their local peers, more could still be done to ease the hiring process for local startups and to make tech sector opportunities in Indonesia more flexible and attractive for overseas professionals.

There is a strong sense of urgency to address the shortage of tech skills, especially considering that time is of the essence when it comes to startups. At the moment, Indonesia is not producing enough tech talent to meet the growing tech talent need. Talent shortage is a significant barrier to the adoption of emerging technologies, which will leave some startups unable to compete against other companies that are able to move faster. Left unaddressed, this will not only result in the failure of supporting startups, but also in many lost revenue opportunities. Major policy changes and alternative solutions are needed to keep pace with technology change and avoid jeopardising the huge potential of Jakarta's growing tech ecosystem.

A.Scarcity of tech talent with specialised skills & knowledge

Government Regulation No. 34 of 2021

The submission of Foreign Worker Utilization Plan (RPTKA) waived for startups seeking to hire foreign workers for no more than three months.

Ministry of Manpower Regulation No. 8 of 2021

Implementing regulation for GR 34/2021.

Startups wishing to employ foreign workers for more than three months are still required to submit RPTKA.

Other requirements, such as reporting obligations and regular payments to the Foreign Worker Utilisation Compensation Fund, created additional burdens for startups that are in need of foreign talent.

B. Scarcity of advanced technical training courses

Presidential Regulation No. 76 of 2020

Launched at the start of the pandemic, the Pre-Employment Card program combines temporary social assistance with skills development to provide laid-off workers and job seekers with job-ready training.

Digital Talent Scholarship

Since 2018, the programme has offered technology competency development training for digital talent in Indonesia.

Most of the technology training courses available for Pre-Employment Card beneficiaries are introductory-level classes.

Lessons

An important takeaway of this study is that while MSMEs and startups play equally crucial roles in driving Indonesia's economic growth, each faces starkly different challenges due differences in business models, goals, and operations. Empowering entrepreneurs from the two industries thus requires very different approaches.

MSME

MSMEs' biggest tension lies in its ability to grow its market, and while digitalization has long been touted as a potential solution, technology adoption and utilisation amongst MSMEs are still far from reaching an ideal level. With the Covid-19 pandemic driving on-ground awareness and desire for technology adoption, however, there is currently strong momentum to push for MSME digitalisation.

To achieve a successful digitalisation-empowered growth, MSMEs need to maximize their utilization of online sales & marketing, continuously innovate to gain a competitive edge, and start adopting technologies not only for selling, but also to improve their business productivity. While each of these aspects has its own challenges, they can be sum up into three key issues in which MSMEs need most help:



Feasibility

Importance to the business

High

Medium



Issues

MSMEs: Developing digital capabilities within their organisation

Access to skills that support utilization of digital platforms available at their disposal, from sales and marketing channels to softwares relevant to their business operations



Magnitude

All MSMEs.



Regulatory Progress

Plenty of public and private programmes have been designed and implemented. Overall, MSMEs in Jakarta are the most digitised nationwide. However, access to information is unequal. The suitability of current solutions and sustainability of business after adopting online channels remain an issue.

Data of existing MSMEs will be reconciled in 2022 as part of the GR 7/2021, which may further ease their access to relevant programmes.

Feasibility

Importance to the business

High

High



Issues

MSMEs: Building strong and up-to-date market and industry knowledge

Access to the latest insights around the market, including customers' appetite and pricing, and industry-specific trends or skill set to enable effective and relevant innovation



Magnitude

Newcomers who are trying to find the right target market, experiment with product-market fit, and learn how to fulfill the market need at a profit.

Emerging small businesses that have proved themselves and are ready to take on growth opportunities.



Regulatory Progress

While there is some mention of research and development assistance for micro and small businesses in GR 7/2021, there are currently little known public programmes on market intelligence provision for MSMEs.

Feasibility

Importance to the business

Medium

High



Issues

MSMEs: Making digitally empowered growth affordable

Access to funding or reduced cost to digitalizing, from the cost of the technology itself (e.g. software, membership, commission fee) to business improvements to strengthen supply for online demands or support innovations.



Magnitude

All MSMEs.



Regulatory Progress

Several regulations, including the recently issued regulation GR 7/2021 have provided financing options for MSMEs.

However, awareness of and inclination for state support programmes are relatively low. Little is known about the implementation of the new regulation, and more information on incentives and amount of support is needed.

An important takeaway of this study is that while MSMEs and startups play equally crucial roles in driving Indonesia's economic growth, each faces starkly different challenges due to differences in business models, goals, and operations. Empowering entrepreneurs from the two industries thus requires very different approaches.

MSMEs

Building strong and up-to-date market and industry knowledge

How might we support MSMEs to develop strong and up-to-date market and industry knowledge?

MSMEs

Making digitally empowered growth affordable

How might we make digitally-empowered growth affordable for MSMEs?

Startups

Government regulations have often grouped together MSMEs and startups, supporting them with the same initiatives and programs. Though to reimagine and redesign impactful policies and programmes, it is crucial to think of startups as its own entity and acknowledge their distinctive business goals, models and operations vis-à-vis MSMEs.

As the Indonesian tech industry is relatively nascent, there is yet a clear regulatory framework and a well-developed startup ecosystem to support their growth. In particular, there are three key areas in which startups need the most help with to be able to survive the “valley of death” and achieve exponential growth:

Feasibility

Low /
Medium

Importance to the
business

Medium



Issues

Startups: Startup-friendly financing culture & regulations

Ease in attracting and accessing local and foreign funding, as well as tax incentives and exemptions



Magnitude

All startups.



Regulatory Progress

Several regulations to ease investment rules have recently been issued. However, new rules on foreign investment are specified for tech startups located inside SEZs. More details on the amount of grants available and investment incentives for local investment are needed.

Feasibility	Importance to the business
High	Medium

 **Issues**
Startups: Provision of all-round startup education & training programmes (e.g. incubators, accelerators)

Programmes that provide access to funding & networking opportunities, relevant industry knowledge tailored to startup stage, and a well-structured mentorship programme improvements to strengthen supply for online demands or support innovations.

 **Magnitude**
 All, but in particular early-stage startups that find it difficult to access support and resources.

 **Regulatory Progress**
 The recently issued regulation GR 7/2021 addresses incubator development and contains several positive changes. However, metrics and milestones for the monitoring and evaluation of incubators are still not clearly defined.

Feasibility	Importance to the business
Low/ Medium	High

 **Issues**
Startups: Ease of recruiting & developing tech talent

Ease of filling in technical roles and the availability of advanced and niche technical training programmes that are affordable

 **Magnitude**
 All, but especially emerging startups that have secured some investment.

 **Regulatory Progress**
 The recently issued regulation on recruiting foreign talent contains weak improvements. Further, despite the government's focus on training tech talent in-country, the need for specialised skills outpaces training efforts.

After reviewing the regulatory progress for each issue, it is clear that the tech talent crunch is the one with the most urgent need of better solutions. For that reason, we recommend the policy design to focus on solving it:

STARTUPS

Ease of recruiting & developing tech talent

How might we build the tech talent reservoir to meet the evolving industry demand?



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