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Striving to Thrive

The state of Indonesian Micro and Small Enterprises, 2023/24

A 60 Decibels report for
Mastercard® Strive
Indonesia

About Strive Indonesia

Mastercard Strive Indonesia is part of a portfolio of philanthropic programs – supported by the Mastercard Center for Inclusive Growth – aimed at helping small businesses around the world thrive in the digital economy.

By 2025, Mastercard Strive Indonesia program aims to empower 300,000 Indonesian small businesses to succeed in the digital economy. To achieve this goal, Strive Indonesia has three strategies:

1. Go Digital - Build demand and lower barriers to technology adoption through peer mentoring and addressing the cost of digitalization.
2. Get Capital - Work closely with bank and non-bank institutions to further democratize access to credit for small businesses, especially for women-led or owned businesses.
3. Ecosystem Strengthening - Establish a learning network and conduct research on small business digitization to share best practices and insights, co-create initiatives to address systemic bottlenecks, provide the ecosystem with rich quantitative data, and trigger positive shifts.

About 60 Decibels

60 Decibels is a global, tech-enabled social impact measurement company that brings speed and repeatability to impact measurement and customer insights. We provide genuine benchmarks of impact performance, enabling organizations to understand impact relative to peers and set performance targets.

We maintain a growing network of 1,200+ researchers in 80+ countries, and have worked with more than 1,000 of the world's leading impact investors, companies, foundations, corporations, NGOs, and public sector organisations. 60 Decibels makes it easy to listen to the people who matter most.

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A note on micro and small businesses

Before diving in we want to underscore about whom this report is about. It is a focus on solo, micro, and small enterprises. These types of organizations are quite specifically determined and exclude medium and large enterprises.

So, what are they? A solo business, as the name suggests, is one where a single individual does everything; we sometimes refer to them as "solopreneurs". A micro business is one with an entrepreneur and an additional 1–4 employees, and a small business has 5–19 employees. Anything bigger than this is medium or large and is not included in this report.

And if you are familiar with the ubiquitous term SME (small and medium sized enterprises) or even MSME (micro, small and medium sized enterprises) please note that the people we spoke to are similar but not the same. We know that it is a bit of a tongue twister and easy to confuse MSE with SME or MSME, but repeat it a few times before reading (MSE, MSE, MSE) and it will be easy to distinguish between these groupings.

We have focused on this group for good reason. There is a growing consensus that, collectively, businesses of this size are essential to our shared prosperity and yet are all too easy to ignore, given the prevailing interest (some might say obsession) in scale and growth.

So, this paper is dedicated to the small yet mighty, to those who do so much to make our societies and economies tick, whilst receiving scarcely any of the attention they so richly deserve.



Foreword

Empowering Indonesian Small Businesses for a Digital Future

Small businesses, particularly Micro, Small, and Medium-sized Enterprises (MSMEs), are the backbone of the Indonesian economy. With approximately 64 million small businesses employing 97% of the total domestic workforce, these businesses contribute nearly 61% to the country's gross domestic product (GDP).

For many of these companies, digital adoption is increasingly key to success. As the world's fourth most populous country, and with about 50% of its population under 30 years as of 2020, Indonesia has emerged as a significant player in the global digital landscape. By 2023, around 27 million small businesses had embraced the digital economy, marking a notable increase in digital participation.

At Mastercard, we have observed a strong interest among small business owners in adopting digital tools, fueled by the growing popularity of applications such as e-commerce, fintech, and ride-hailing and food delivery services. However, while these businesses find themselves at the forefront of Indonesia's digital transformation, their enthusiasm often outpaces their expertise.

In particular, while the accelerated speed of digital transformation during and after the COVID-19 pandemic has been a boost for the digital economy, it has also revealed numerous hurdles for MSMEs, such as limited access to credit, lack of digital literacy skills, and inadequate training, which have prevented them from fully capitalizing on digital opportunities. A staggering 64% of small businesses acknowledge uncertainty about which tools best fit their specific needs. This highlights the critical need for more targeted support and education, especially for micro and small enterprises.

To close the gap, Mastercard Center for Inclusive Growth, in collaboration with Mercy Corps Indonesia, launched the Mastercard Strive program in Indonesia in 2023. The program

aims to empower 300,000 Indonesian small businesses to thrive in the digital economy by providing access to capital, facilitating the adoption of digital tools and marketplaces, expanding networks, and enhancing business know-how.

To support this program, the Mastercard Center for Inclusive Growth and Mercy Corps Indonesia have partnered with 60 Decibels to conduct an in-depth study of Indonesian small businesses. The Small Business Barometer Report explores the realities, challenges, needs, credit access, aspirations, and digital adoption by MSMEs, incorporating an analysis sensitive to gender issues. The findings will ensure that the support provided to small businesses aligns closely with their on-ground needs and challenges.

We hope the insights presented in this Small Business Barometer Report will not only enlighten readers but also inspire actionable steps. We invite you to join us in our mission to ensure that every small business in Indonesia benefits from the digital economy. Together, we can drive meaningful change and leave a lasting impact.



Subhashini Chandran
VP, Social Impact, Asia Pacific
Mastercard Center for
Inclusive Growth



Aileen Goh
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Foreword

Bridging Gaps for Growth: The Mastercard Strive Small Business Barometer Report – Indonesia

Mercy Corps Indonesia proudly presents the Mastercard Strive **Small Business Barometer Report** – Indonesia, an in-depth exploration of the challenges and opportunities facing Indonesia's Micro and Small Enterprises (MSEs). Through the Mastercard Strive program supported by Mastercard Center for Inclusive Growth, we reaffirm our commitment to fostering the growth and resilience of Indonesian small businesses, which serve as the cornerstone of our nation's economy.

Undeniably, MSEs fuel employment, innovation, and local growth in Indonesia. However, this barometer report shows that two-thirds of small business owners struggled to access essential support services last year, despite 70% recognizing the need for skills in business management, digital marketing, and financial literacy. These gaps highlight systemic challenges that not only hinder individual entrepreneurs but also impede the broader economic progress of our nation.

Mastercard Strive in Indonesia is designed to address these critical gaps head-on. Our mission is to empower MSEs by equipping them with tools, skills, and resources necessary to succeed in an increasingly complex and competitive marketplace. At the core of our initiatives is providing accessible, high-quality training in key areas such as digital marketing, financial skills, and cybersecurity through MicroMentor, a digital mentoring platform. These training programs are designed to be practical and user-friendly, enabling entrepreneurs to improve operational efficiency and expand their market reach.

Another crucial element of our approach is fostering strategic alliances. We believe in the power of collaboration and actively seek partnerships with government entities, private sector, and other nonprofit organizations. These partnerships are vital for creating a supportive ecosystem

for MSEs, allowing us to share resources and expertise to amplify the impact of our programs.

Supporting the strategy above, this year's **Small Business Barometer Report** – Indonesia serves as leverage to enhance the program's impact. Using the evidence-based recommendation, Mercy Corps Indonesia can accelerate the implementation of Mastercard Strive in Indonesia. Moreover, the report also provides crucial inputs for government policy-making processes and offers targeted recommendations for practitioners dedicated to SME development programs.

We sincerely thank our partners, especially Bappenas (Ministry of National Development Planning) and 60 Decibels, for their invaluable support. Together, we will address the barriers faced by MSEs and unlock Indonesia's MSE sector's full potential. Let us advance with determination towards a prosperous and inclusive future.



Ade Soekadis
Executive Director, Mercy Corps Indonesia

Opening remarks by Deputy of Population and Manpower, Ministry of National Development Planning

Bridging Gaps for Growth: The Mastercard Strive Small Business Barometer Report – Indonesia

Micro, Small, and Medium Enterprises (MSEs) have long been vital to the Indonesia's economy. They constitute 99 percent of national enterprises and contribute more than 60 percent of our Gross Domestic Product (GDP). At the same time, they represent the segment of businesses that most vulnerable to excessive bureaucracy and economic crises. That is the reason why the Ministry of National Development Planning (Bappenas) supported the barometer study to provide accurate insights and perspectives on the current situation of this entrepreneurial sector.

Micro and small enterprises (MSEs) in Indonesia experienced a considerable mixed fortune. Over the past 12 months, 40 percent of MSEs reported an increase in revenue, though only 6 percent noted a significant increase. Meanwhile, an almost equal proportion of MSEs (42%) experienced a revenue reduction. Despite this, number of employees remained relatively stable, with a small difference between businesses that reduced their workforces (13%) compared to those that increased them (8%). Although these figures might seem minor, given the significant role of MSEs, slight variations can lead to meaningful changes, which warrants close attention.

Furthermore, due to tighter competition, 35 percent of MSEs reported that they experienced higher levels of mental stress. One out of ten MSEs acknowledge a significant rise in competition. Interestingly, those who report increase of competition and therefore high levels of stress showed above-average resilience compared to the average. Only 4 percent of businesses indicated they could not cover an emergency expense equivalent to 1/20th of the Gross National Income per capita (~3.5M IDR), while the figure for the wider Indonesian population stood at 8 percent, according to Findex research.¹ Firm size significantly influenced resilience, with around 54 percent of small enterprises finding it easy to secure emergency funds, compared to just 28 percent of micro-enterprises.

Bappenas is well aware of the limits of the national budget. However, we believe that the government should not view well-planned assistance to the private sector as a cost but as an investment. This is especially true for such a vulnerable economy like micro and small enterprises.

There is a silver lining to the current difficult situation. It is likely to accelerate the adoption of modern technologies and increase the importance of business efficiency. Most entrepreneurs reported leveraging digitalization to navigate these challenges. Around four in five business owners considered digital tools critical to their future success. Therefore, it is encouraging to see that despite significant challenges, Indonesian businesses have the will and desire to improve their operations and increase efficiency. This alone should be sufficient reason for the government to provide as much support as possible.

We are confident that the outcomes of this survey will be useful, as they provide a comprehensive and current overview of the country's smallest businesses. Hopefully, this will also serve as a good catalyst for stakeholders – including policymakers – to formulate accurate and impactful support for the backbone of our economy, micro and small enterprises.



Maliki, S.T., MSIE, Ph.D.

Deputy of Population and Manpower,
Ministry of National Development Planning

¹ <https://www.worldbank.org/en/publication/globalindex/Data>

Background

Small businesses are the driving force behind Indonesia's economy, contributing to growth and employment. Around 64 million small businesses employ 97% of the total domestic workforce and contribute 61% of the Gross Domestic Product (GDP). However, they face significant challenges, including limited connectivity, financial barriers, and a lack of digital skills.

Mastercard Strive Indonesia, supported by Mastercard Center for Inclusive Growth, took the initiative to address this challenge. Learning from the success of Mastercard Academy 2.0 program, Strive Indonesia will address the needs of small businesses and empower women entrepreneurs for three years. This program will empower 300,000 small businesses (40% women) by prioritizing digitalization, access to credit, and strengthening supporting ecosystems.

Through a dynamic blend of in-person interactions and technology, Strive Indonesia will provide digital training, mentoring, and financial products, enabling small businesses to seize digital opportunities. By facilitating access to credit, offering digital marketing support, and enhancing the entrepreneurial support ecosystem, the program will enhance the financial resilience of small businesses, particularly those led by women.

This initiative presents a unique opportunity for collaboration with diverse stakeholders to establish a supportive ecosystem for small businesses. Through engaging discussions and policy advocacy, Strive Indonesia aims to drive inclusive economic development, generate employment opportunities, and build a more resilient Indonesian economy.

What We Do

Mastercard Strive Indonesia program has three strategies:

- 1. Go Digital** - Build demand and lower barriers to technology adoption through peer mentoring and addressing the cost of digitalization.
- 2. Get Capital** - Work closely with bank and non-bank institutions to further democratize access to credit for small businesses, especially for women-led or owned businesses.
- 3. Ecosystem Strengthening** - Establish a learning network and conduct research on small business digitization to share best practices and insights, co-create initiatives to address systemic bottlenecks, provide the ecosystem with rich quantitative data, and trigger positive shifts.

Target Areas and Participants

Strive Indonesia will focus on small businesses in four provinces (West Java, East Java, South Sulawesi and West Nusa Tenggara). This program aims to assist 300,000 small businesses (40% women) in digitalization, accessing finance, and improving the quality of the supporting ecosystem. The program participants will consist of small businesses from four sectors, which are food and beverages, non-furniture crafts, fashion, and businesses in the tourism chain. We will also work closely with governments, financial institutions, and experts in their fields to achieve this goal. This program aims to create a positive impact in accelerating the growth of small businesses and women entrepreneurs in Indonesia.



Part 1: Introduction



Sedikit sedikit, lama lama, menjadi bukit.

Indonesian proverb

Context and rationale for the barometers

If you ever thought small meant insignificant, think again. Around the globe, small businesses are their respective countries' (and perhaps the wider global economy's) unsung heroes. Every day, they work within their communities to provide livelihoods, promote community, and foster stability. In short, in each and every country they are a vital chapter in their countries' economic story. And things are no different in Indonesia.

This is backed up by clear-eyed statistics too. Indonesia boasts more than 64 million MSEs, 99% of which are micro-enterprises.¹ These MSEs employ 93% of Indonesia's total workforce² and as of 2022, they constituted more than three-fifths (61.1%) of Indonesia's GDP, of which micro-enterprises amounted to 98%.³

Small businesses are not weak, but they are vulnerable. Their size leaves them exposed to macroeconomic instability, and with fewer resources to ride out the storms. It's crucial that we understand the unique challenges they face, so as to give them the support they need to thrive.

Indonesian MSEs face a daunting task

When we look at the challenging environment Indonesian MSEs operate in, their accomplishments become all the more impressive. Indonesia ranks 73 out of 190 countries in the World Bank's 2020 'ease of doing business' index, and 9 out of 25 countries in the East Asian and the Pacific region.⁴ Globally, Indonesia ranks particularly poorly for 'ease of starting a business' (rank 140) and 'enforcing contracts' (rank 139).



Little by little, with time, it becomes a hill.

Indonesian proverb

Though almost 77% of all Indonesians use the internet, it's still a struggle for businesses to digitize.⁵ Only 20% of Indonesia's 64 million enterprises have digitized for online business. MSEs struggle with digital illiteracy and unclear information about government regulations in the digital economy.⁶ Access to finance has been another obstacle. MSEs have historically faced a lack of or limited access to credit, with MSME loans in 2011 representing only 21.5% of total bank credit.⁷

Despite these trials, Indonesian women are flying the entrepreneurial flag high. In a country with a noted gender gap in the workforce, women impressively account for about 60% of Indonesia's MSMEs. Not only that: women make up the bulk of Indonesian micro-enterprises.⁸ But the path they walk has its own unique difficulties. Historically, female entrepreneurs in Indonesia have been constrained to low-productivity sectors, burdensome domestic responsibilities, less business assets, and lower access to capital.⁹

Indonesia may have no shortage of MSEs, but they're punching below their weight. Indonesia's MSEs only contribute 15% of total exports. This puts Indonesia far behind its regional neighbors such as Singapore and Thailand, despite Indonesia having the most MSMEs in Southeast Asia.¹⁰ In 2018, small businesses took up less than 0.1% of R&D spending in Indonesia, far behind the Organization for Economic Co-operation and Development (OECD) average of 2.3%.¹¹

But help is at hand

Fortunately, there are a number of organizations and initiatives (in addition to our ambitions at Strive Indonesia) that are seeking to uplift MSEs across the country. Not least the Indonesian government itself, which supports the sector's ability to drive economic growth through specific

¹ <https://databoks.katadata.co.id/datapublish/2023/10/13/usaha-mikro-tetap-merajai-umkm-berapa-jumlahnya>

² <https://www.forbes.com/sites/forbesbusinesscouncil/2023/07/10/how-the-digital-ecosystem-can-help-traditional-shops-in-rural-indonesia/?sh=ce304614fd20>

³ <https://www.mdpi.com/2227-7099/11/6/156>

⁴ <https://archive.doingbusiness.org/en/rankings>

⁵ <https://www.forbes.com/sites/forbesbusinesscouncil/2023/07/10/how-the-digital-ecosystem-can-help-traditional-shops-in-rural-indonesia/?sh=ce304614fd20>

⁶ <https://www.asiapacific.ca/publication/new-normal-digitalization-msmes-indonesia#:~:text=To%20aid%20MSME%20digitalization%20during,in%20the%20food%20and%20beverage>

⁷ <https://documents1.worldbank.org/curated/en/738881467782741648/pdf/AUS5568-P147245-PUBLIC-WomenEntrepreneursinIndonesia-1.pdf>

⁸ <https://www.weforum.org/agenda/2024/01/microfinance-women-indonesia-mekaa/#:~:text=Women%20accounted%20for%20about%2060,the%20underprivileged%20and%20underserved%20population.>

⁹ <https://www.worldbank.org/en/region/eap/publication/enterprising-women-toward-equal-business-opportunity-in-southeast-asia?socialmedia>

¹⁰ <https://jakartaglobe.id/business/msmes-only-account-for-15-pct-of-indonesian-exports#:~:text=However%2C%20Indonesian%20MSMEs%20only%20contribute,exposed%20to%20the%20global%20market.>

¹¹ <https://www.thejakartapost.com/news/2018/10/10/smes-account-for-less-than-0-1-of-rd-spending-in-indonesia-oecd.html>

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MSME laws and a dedicated Ministry for Cooperatives and SMEs. Many ministries operate programmes to aid MSEs, such as the Transformation 4.0 for MSMEs campaign¹² led by the Ministry of Cooperatives and SMEs to digitize 30 million MSMEs by 2024, assisted through means such as digital infrastructure development and a digital education and incubation platform called 'UMKM Hebat'¹³ ('Great MSMEs').

The government also runs the People's Business Credit (KUR) scheme, a financing scheme for MSMEs. KUR features interest/margin subsidies that produce interest rates much lower than those offered by commercial banking, with the KUR interest rate declining from 24% in 2008 to 6% in 2022.¹⁴ While undoubtedly beneficial to businesses, this has also led to issues with a lack of coherence and overlapping programmes.¹⁵

And despite the fact that Indonesian banks may have provided historically low percentages of credit allocated to MSEs¹⁶, interest rates on business loans have at least begun to decline in recent years (though they remain high compared to the average in other countries). In Malaysia, the average interest rate on SME loans for banking institutions was 7%¹⁷ in 2017, while in Australia it was 3.4%¹⁸ in 2020. In contrast, Indonesia's average interest rate in 2018 was 12.69%.¹⁹

Fortunately, for MSEs with the potential for breakthrough scale (after all, every successful tech company was once a start-up), venture capital financing is rather more promising, with an average funding growth rate of 13.02% from 2021-2018.²⁰ Moreover, fintech platforms are also eager to cater to MSEs' needs for finance with a range of low-cost, digital-friendly lending services, such as peer-to-peer (P2P) lending. Such fintechs provide an alternative capital source to traditional banks. As of August 14, 2020, the total number of fintech peer-to-peer lending or fintech lending operators registered and licensed with the OJK was 157 companies.²¹ Capping this off, local and international NGOs and civil society organizations such as CISDI, KAPAL Perempuan and Pamflet run a wide range of programmes to empower small businesses, from technical assistance to training courses.²²

It's time to listen

The challenges that MSEs face make it clear that they warrant both additional and effective support. And one of the best ways to tailor such support is to let Indonesian business owners tell us in their own words what they need to thrive. Through this barometer, we take the pulse of MSEs, listening to both their aspirations and their anxieties.

We let them describe their business challenges, and look with hope to their future. By doing so, we aim to offer a further perspective into this critical sector of the Indonesian economy. We hope that these insights can guide the work of the various private and public stakeholders dedicated to helping small businesses flourish.



¹² <https://en.antaranews.com/news/293829/govt-seeks-to-help-msmes-level-up-face-digital-trade>

¹³ [https://ugm.ac.id/en/news/30-million-msmes-to-go-digital-by-2024/#:~:text=The%20plan%20is%20for%2030,Hebat%E2%80%9D%20\(Great%20MSMEs\).](https://ugm.ac.id/en/news/30-million-msmes-to-go-digital-by-2024/#:~:text=The%20plan%20is%20for%2030,Hebat%E2%80%9D%20(Great%20MSMEs).)

¹⁴ <https://ap.fttc.org.tw/article/3324>

¹⁵ <https://www.oecd-ilibrary.org/sites/9789264306264-en/index.html?itemId=/content/publication/9789264306264-en>

¹⁶ <https://setkab.go.id/en/president-jokowi-urges-banks-to-speed-up-loan-for-msmes/>

¹⁷ <https://www.oecd-ilibrary.org/sites/b6c31164-en/index.html?itemId=/content/component/b6c31164-en>

¹⁸ <https://www.oecd-ilibrary.org/sites/7db4539a-en/index.html?itemId=/content/component/7db4539a-en>

¹⁹ <https://www.oecd-ilibrary.org/sites/67ce6854-en/index.html?itemId=/content/component/67ce6854-en>

²⁰ <https://www.oecd-ilibrary.org/sites/67ce6854-en/index.html?itemId=/content/component/67ce6854-en>

²¹ Suryono, Ryan & Budi, Indra & Purwandari, Betty. (2021). Detection of fintech P2P lending issues in Indonesia. Heliyon. 7. e06782. 10.1016/j.heliyon.2021.e06782.

²² [https://hivos.org/supporting-small-businesses-in-indonesia/#:~:text=The%20Association%20for%20Advancement%20of%20Small%20Business%20\(PUPUK\),-PUPUK%20was%20established&text=PUPUK%20provides%20technical%20assistance%20to,entrepreneurs%20in%20facing%20economic%20competition.](https://hivos.org/supporting-small-businesses-in-indonesia/#:~:text=The%20Association%20for%20Advancement%20of%20Small%20Business%20(PUPUK),-PUPUK%20was%20established&text=PUPUK%20provides%20technical%20assistance%20to,entrepreneurs%20in%20facing%20economic%20competition.)

11 things we learned from Indonesian MSEs

There is a fair amount of information in this report. You may come to your own conclusions about what is most interesting and relevant, but this selection stood out to us.

- 1. Business performance is mixed among Indonesian MSEs:** The proportion of businesses we spoke to who reported that their revenues had either gone up or down in the last 12 months was roughly equal, at 40-42% in each direction respectively. The remaining 18% saw no change.
- 2. Employment growth amongst MSEs was minor.** A small 7% of businesses reported an increase in number of employees, with double that number reporting a decrease (14%). Overall, a majority of businesses (80%) report no change in the number of employees in their businesses.
- 3. Indonesian MSEs are roughly twice as economically resilient compared with the wider population:** Only 4% of businesses say they would not be able to cover a reasonable but generally not catastrophic emergency expense of ~3.5M IDR. This compares to roughly 8% in the wider Indonesian population.²³
- 4. However, MSEs have a relatively low appetite for credit:** Two-thirds of MSEs report that they have not used credit or loans in the last 12 months. Of these the primary reason for not using credit was cited as not needing credit (62%), followed by being unable to afford credit (28%). When MSEs do access credit, most select their credit source based on its ease of application. Correspondingly, most MSEs chose to receive credit from a formal finance institution.
- 5. When it comes to digitalization, size matters:** Small enterprises are more likely to report being more proficient with technology, both in terms of their adoption of, and ability to use, digital tools.
- 6. But women-led businesses do not appear materially disadvantaged:** Across multiple metrics such as revenue, financial resilience, growth expectations, customer retention, and employee growth, there was little difference in the outlook of women-led businesses compared with their male-led counterparts. This is a marked improvement for the position of Indonesian female entrepreneurs, who have been historically disadvantaged.²⁴
- 7. Indonesian MSEs value support, but aren't getting enough of it.** Roughly 70% of MSEs consider support services like business, finance, digital and human training important for their business growth. MSEs are clearly eager to access such support for their business. Nevertheless, there remains a sizable gap in access to this support, with two-thirds of businesses not accessing any such services in the past 12 months.
- 8. Indonesian MSEs are positive towards digital tools, but this doesn't mean they use them well.** With two-thirds of businesses using digital tools such as mobile wallets and e-commerce platforms, MSEs seem to be fans of digitalisation. Businesses display both confidence and eagerness to use more digital tools, with 7 in 10 MSEs saying they are confident in their ability to utilize digital tools to enhance their operations. Yet this confidence does not seem to equate to proficiency. 64% of MSEs say they don't know which digital tools/services are right for their businesses.
- 9. Lack of digital skills is the main barrier to digitalisation.** It wasn't surprising to see that a lack of digital literacy skills was the top reported barrier to improving business operations. More than half of MSEs we spoke to say they don't have the requisite digital skills to use digital tools. This inconsistency between confidence and lack of practical skills could indicate a low awareness of how digital tools can be used in their businesses.
- 10. Whilst not exactly upbeat, Indonesian MSEs are at least mildly optimistic.** Two thirds of businesses expect moderate growth in the next 12 months. This aligns with 3 in 5 MSEs expecting revenue increases and 62% expecting an increase in customers.
- 11. The primary challenge to MSEs seems to be internal rather than external forces.** 59% of businesses cite a lack of marketing knowledge as their biggest challenge in the next 12 months. Further access to inputs that MSEs lack include supply chain disruptions (29%) and access to capital (20%).

²³ <https://www.worldbank.org/en/publication/globalindex/Data>

²⁴ <https://apfcanada-msme.ca/sites/default/files/2019-06/MSME-GenderRoles-Report-v4.pdf>

About the data in this report

Who were the MSEs we listened to?

This report aims to capture the state of MSEs in Indonesia. The data herein is from surveys with either owners, or senior executives, directors, or managers of 835 micro and small enterprises during November 2023 to January 2024. The businesses that participated are dispersed across location, size, sector, tenure, and gender of business owners.

- **Business Location:** Businesses are mostly located in West Java (30%), East Java (24%) and Central Java (23%).
- **Business Ownership:** Nearly nine out of ten MSEs own their respective businesses, reflecting a strong culture of entrepreneurship and independent enterprise ownership.
- **Business Size:** 95% of respondents are classified as microenterprises, with one to four employees; 5% are small enterprises, with 5 to 19 employees. Notably, 57% of micro enterprises operate as solo entrepreneurs.
- **Business Tenure:** A majority of businesses (81%) have been in operation for more than two years.
- **Business Leadership by Gender:** 50% of MSEs are run by women, 35% are run by men, and 15% are run jointly.
- **Business Sector:** For this report, we focused on sectors of interest to the Strive Indonesia program. 62% of MSEs are in the food and beverage sector, 27% are in fashion, and 13% are in the craft sector. 26% of businesses are in the tourism value chain i.e. they sell mostly to tourists or on a tourist site.
- **Business Model:** 70% of businesses sell their products/ services through physical stores; 30% use both physical stores and online platforms to sell their products. Less than 1% are fully online.
- **Annual Revenue:** 66% of MSEs report annual revenues above 25 million Indonesian Rupiah, while 17% generated between 12.5 and 25 million Indonesian Rupiah, and 15% report revenues below 12.5 million.

Figure 1.1: Business Location

Q: Can you mention where your business is located? (n = 835)

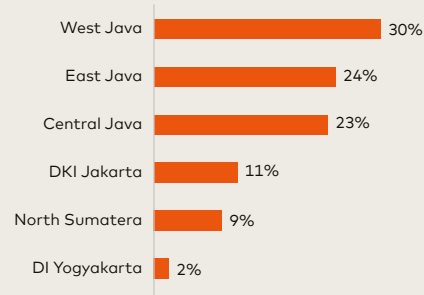


Figure 2: Business Ownership

Q: Do you own or run a small business? (n = 835)

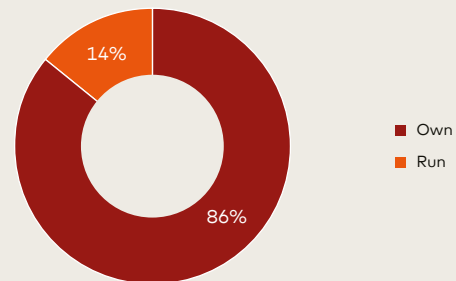


Figure 3: Business Size

Q: How many employees does your business currently have? (n = 835)

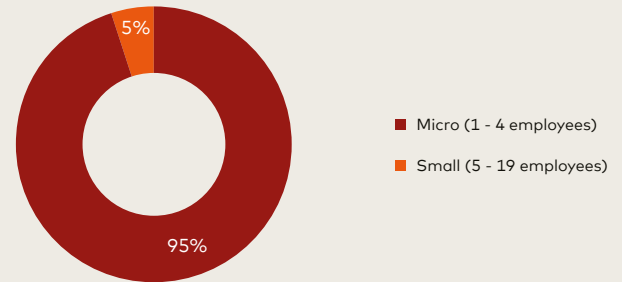


Figure 4: Tenure

Q: How many months has your business been in operation? (n = 835)

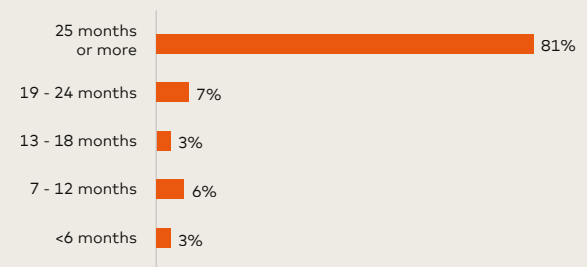


Figure 1: Business Location

Q: Can you mention where your business is located? (n = 835)

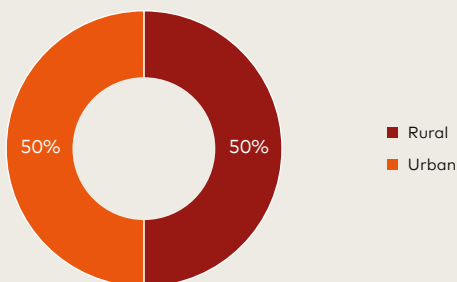


Figure 5: Gender Leadership

Q: Who runs this business? (n = 835)

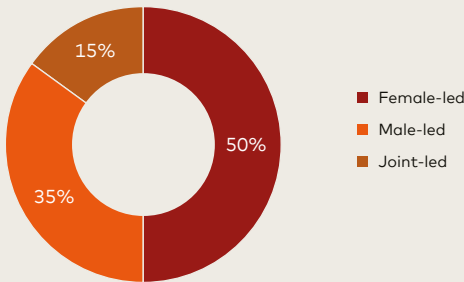


Figure 6: Business Sector

Q: Can you specify which sector your business operates in? Multi-select (n = 835)

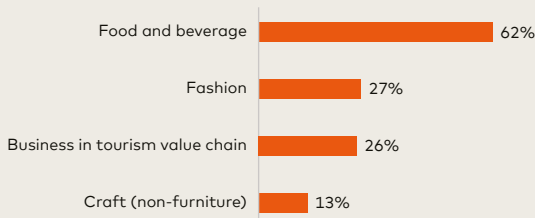
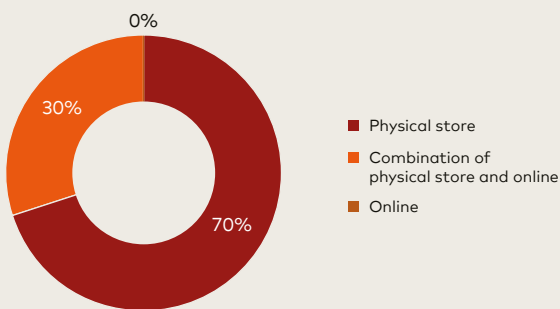


Figure 7: Business Model

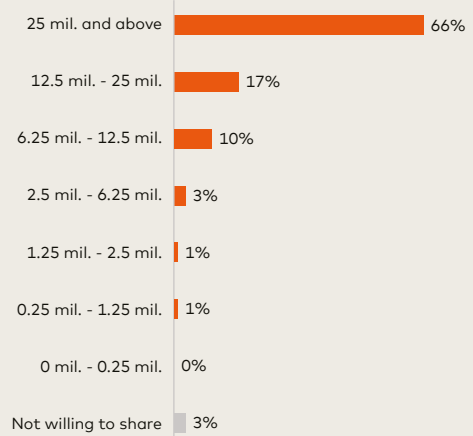
Q: How can your customers access your products and/or services? (n = 835)



Brief on methodology: We asked MSEs a set of 44 questions. The survey was administered in person and via phone in Indonesia. Respondents were screened to confirm that they were business owners or running their businesses. Businesses that had 20 employees or more were excluded from this study. We focused on sectors that are aligned with Strive Indonesia’s program (i.e. food and beverage, fashion, non-furniture craft, and businesses in the tourism value chain).

Figure 8: Annual Revenue

Q: Can you share approximately the annual revenue of your business? (In Indonesian Rupiah) (n = 818)



What we asked about:

Our survey asked questions regarding:

- Business Profile
- Business Outlook – Past & Future
- Access to Credit, Support Services, and Sources of Support
- Financial Resilience
- Challenges and Support Required
- Digital Outlook

A transcript of the survey can be found in the annex.

Representativeness: It is important to note that for the purposes of this report, respondents were selected based on the following criteria:

1. Number of employees: Micro enterprises with 1 to 4 employees and small enterprises with 5 to 19 employees.
2. Region: Rural – 50%, Urban – 50%
3. Sector: We selected businesses that are in-line with Strive Indonesia’s program i.e. food and beverage, fashion, craft (non-furniture) and businesses in the tourism value chain.

The distribution of our sample aligns with the split of MSEs in the general population of Indonesia—of which 95% are micro-enterprises and 5% are small enterprises.²⁵

Other complementary data sources: Where wider information helped us to paint a richer picture of the experience of MSEs, we drew on existing secondary sources. Our main additional sources are OECD data on MSEs, the World Bank’s Global Findex Database, EIB surveys, and ADB publications on MSEs.

²⁵ <https://www.bps.go.id/id/publication/2023/02/28/18018f9896f09f03580a614b/statistik-indonesia-2023.html>

Part 2: Detail on Three Key Themes



Di mana ada kemauan, di situ ada jalan.

Indonesian proverb

Without further ado, we now move on to some of our more detailed findings. In this section, we look to uncover patterns and lessons about the lived experience of Indonesian entrepreneurs across three themes of central concern: how they view their growth prospects, the challenges they face, and their use of digital tools.

The Perceived State of Indonesian MSEs

We started our journey to better understand MSEs by asking businesses about the fundamentals of their business health over the past 12 months: earnings, stress levels, access to finance. We also seek their views in respect of expectations for their future.



Where there is a will, there is a path.

Indonesian proverb

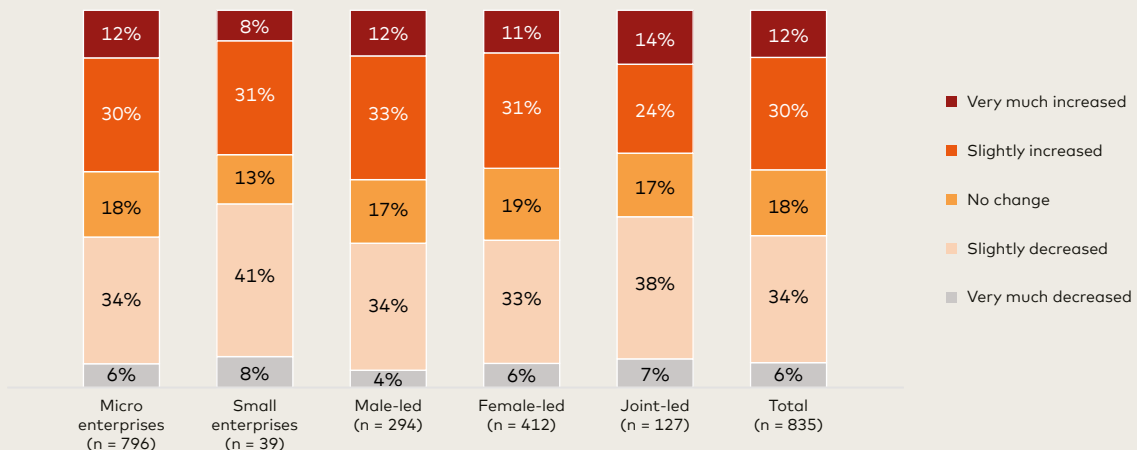
Overall Business Health

In the context of a country whose GDP growth rate, whilst slowing by a marginal 0.26%, still maintained an impressive 5% over 2023,²⁶ MSEs appeared to have enjoyed reasonably mixed fortunes. 40% of MSEs saw an increase in revenue over the last 12 months, though only one in twenty (6%) reported a significant increase. However, an almost equal proportion of MSEs (42%) reported a decrease in revenue.

Whilst a majority of enterprises did not see a change in the number of employees in their business, on the margin slightly more businesses reported reducing their employees (13%) than increasing them (8%). Whilst this may be small in percentage terms, given the predominance of such businesses as employers in the Indonesian economy, even small differences could translate into meaningful changes in aggregate employment. This is something to remain mindful of.

Figure 9: Changes in Revenue

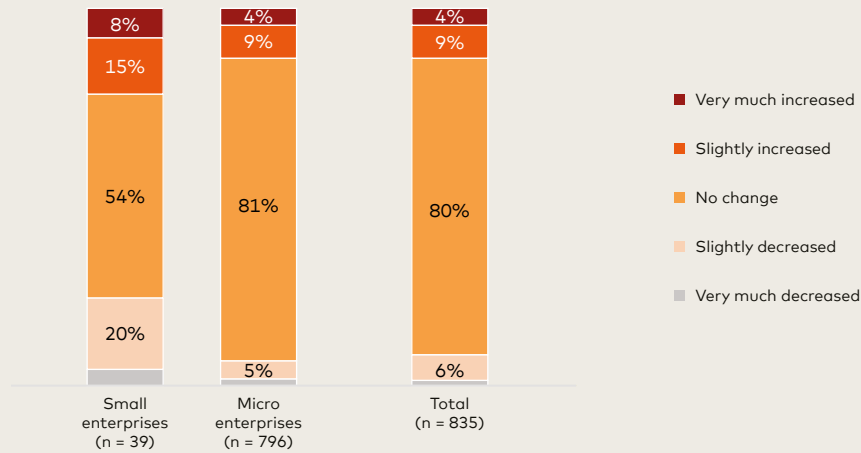
Q: Over the last 12 months, has the revenue you earn from your business changed? (n = 835)



²⁶ <https://asia.nikkei.com/Economy/Indonesia-s-2023-GDP-growth-slows-to-5.05-on-weak-exports>

Figure 10: Changes in Employee Headcount

Q: Over the last 12 months, has the number of employees in your business changed? (n = 835)



Stress and Resilience

In line with this mixed business performance, as many as 35% of businesses reported an increase in their levels of stress. This was consistent across both micro and small enterprises. Not far off from that, one in ten businesses report that their stress levels have greatly increased.

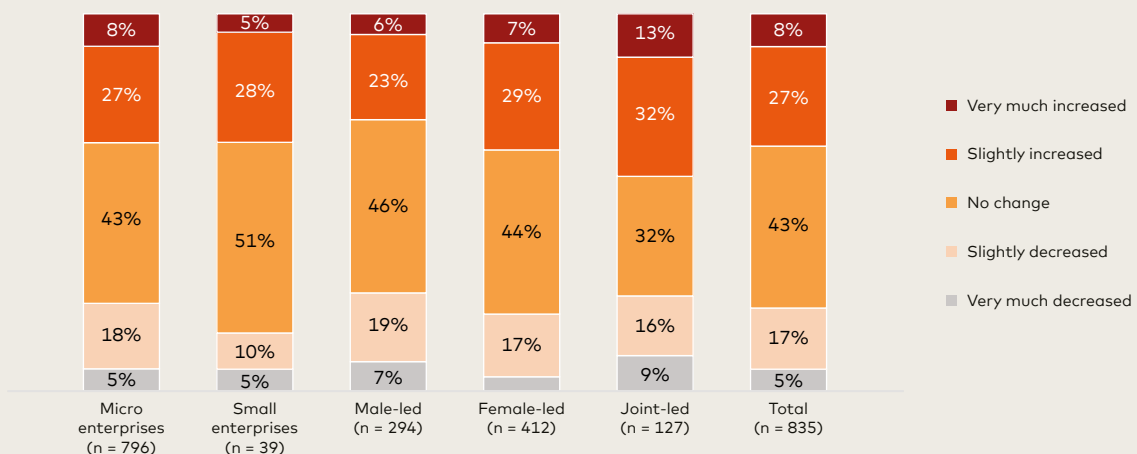
But whilst stress may be of concern, Indonesian MSEs do at least enjoy above-average levels of resilience when compared to the general Indonesian population. Only 4% of businesses reported that they would not be able to cover an emergency expense of 1/20th of Gross National Income per capita (~3.5M IDR). Research by Findex suggested that the equivalent figure for adults in the wider Indonesian population was 8%.²⁷ Again in line with MSEs' mixed performance, as many MSEs (three in ten) found it 'easy' to come up with the funds as those that found it 'difficult'.

Firm size seemed to have an outside influence on resilience. 54% of small enterprises found it easy to come up with the funds, compared to just 28% of micro enterprises. Meanwhile, gender mattered much less. Almost identical proportions of male and female MSEs found it easy to come up with the funds.

Indonesian MSEs have moderate savings levels, with two in five businesses that could cover an emergency expense saying they would rely on savings to do so. Other means of coming up with the funds included money from sales (one in five) and loans from friends/family (one in five), pointing to adaptability as well as strong community networks. This compares to research showing that about seven in ten Southeast Asian SMEs rely on startup capital raised from personal savings, family and friends, according to a 2023 report by Funding Societies.²⁸

Figure 11: Changes in Stress Levels

Q: Over the last 12 months, have the stress levels relating to your business finances changed? (n = 835)

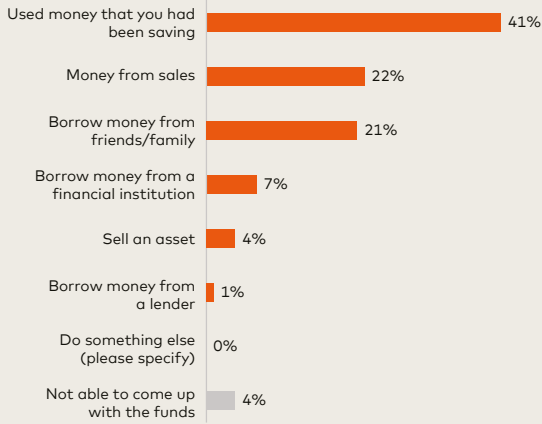


²⁷ <https://www.worldbank.org/en/publication/globalindex/Data>

²⁸ <https://www.prnewswire.com/apac/news-releases/nearly-seven-in-10-smes-in-southeast-asia-rely-on-startup-capital--from-savings-family-and-friends-sme-industry-report-301950936.html>

Figure 12: Coping Mechanisms for Economic Shock

Q: Imagine tomorrow that your business has an emergency and needs to come up with 3,500,000 Indonesian Rupiah within the next month. What would be your primary option for coming up with the money? (n = 835)



“

Because I want to keep improving my business and it can be done gradually.

Female-led, North Sumatera, Urban, Fashion

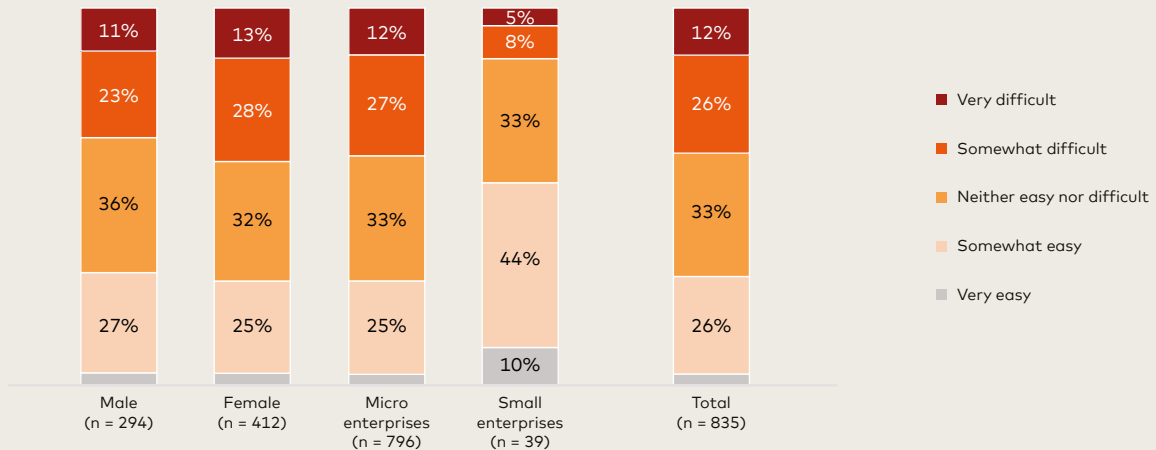
“

Wish to progress and gradually open new branches, meaning that if one branch is successful, there's a desire to open more branches gradually, not all at once.

Micro, Wholesale or retail, Female, 35-44 years-old

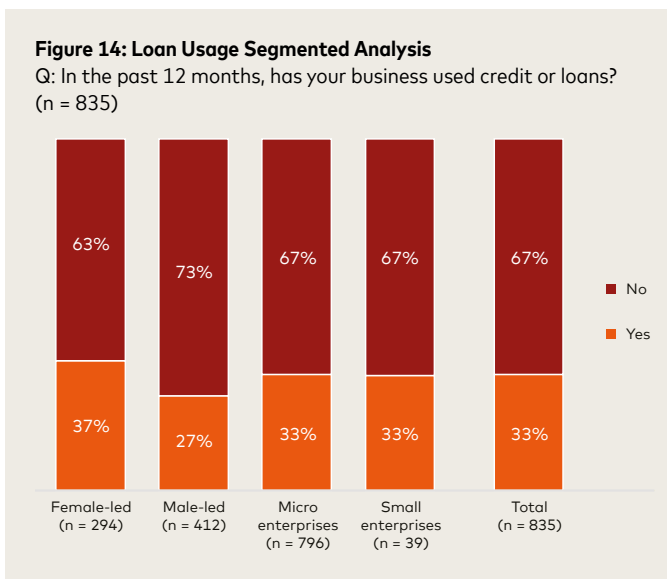
Figure 13: Ease of Coming Up with Emergency Expenses

Q: How easy or difficult would it be to come up with this money? (n = 835)



Access to finance

A majority (two-thirds) of MSEs did not access (i.e. receive) credit or loans in the past 12 months. The primary reason for non-use of credit was cited as not needing credit (62%). This could either point to MSEs' general financial self-reliance and resilience or perhaps a preference for not taking on formal debt. This is consistent with data from the World Bank showing that most Indonesian businesses prefer to finance themselves through means such as profits, rather than accessing credit.²⁹ And the good news continues: for those who have tried to access credit, nearly half say they have faced no barriers in accessing credit.



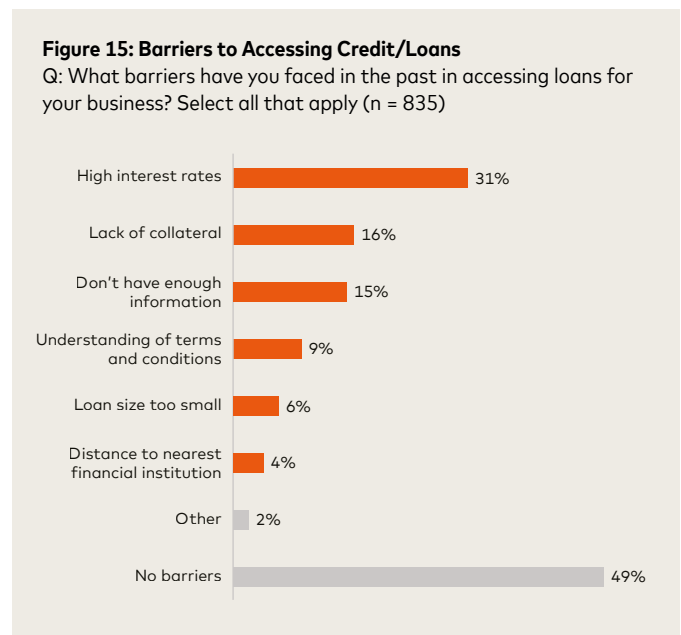
Despite these positive signs, we can't overlook the Indonesian MSEs that do want credit, but still struggle to access it. 31% of MSEs cited high interest rates as a barrier to accessing credit, followed by 16% mentioning lack of collateral, and 15% saying they don't have enough information. Initiatives to manage repayment burden, increase access to information and bridge the funding gap for Indonesian MSEs are still needed here.

At the same time, it is a testament to MSEs' resilience that they seem able to overcome barriers to accessing credit. A similar proportion of MSEs who reported no barriers to credit access (34%) were able to access credit as those who mentioned at least one barrier to credit access (33%).



We kind of have our own struggle to survive that we need to add more goods to stock to reduce the cost of shopping for merchandise to wholesalers, so right now to remain the business as it is already good.

Male-led, East Java, Rural, Food & beverage



Of those who accessed credit, 86% of MSEs received it from a formal institution. This puts Indonesian MSEs ahead of the banking gap in Southeast Asia. According to the Asian Development Bank, 60% of Southeast Asian MSEs requiring financing face difficulty obtaining loans from traditional financial institutions.³⁰ This crucial increase in banking attention to MSEs is likely due to recent government efforts such as the Indonesian central bank's 2021 policy requiring all banks to disburse at least 30% of their loans to MSEs.³¹ The second most popular source of credit was from family and friends (15%).

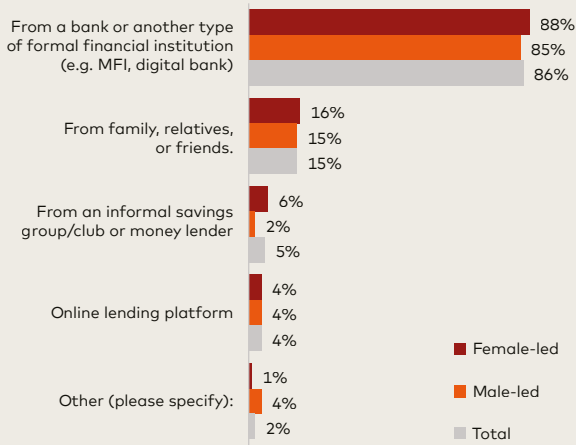
²⁹ <https://documents1.worldbank.org/curated/en/691661477568338609/pdf/109534-WP-ENGLISH-SME-Indonesia-Final-Eng-PUBLIC.pdf>

³⁰ <https://www.adb.org/publications/asia-sme-monitor-2021-country-regional-reviews>

³¹ <https://www.bloomberg.com/news/articles/2021-09-02/indonesia-tells-banks-to-disburse-30-of-loans-to-small-firms?leadSource=verify%20wall>

Figure 16: Source of Credit or Loan

Q: What was the source of the credit/loans? Select all that apply* (n = 276)



*This question was only asked to respondents who reported accessing credit in the past 12 months.

There was a slight - and welcome - gender-based variance within those businesses that did access credit. 37% of female business owners used credit, which was a surprising ten percentage points more than male business owners. This is potentially heartening news, showing progress on historical constraints on female access to credit. As data from the IFC showed, in 2016 female-owned Indonesian MSEs faced a \$6 billion financing shortfall,³² which is hopefully now being bridged.

Seemingly, recent initiatives to increase Indonesian women entrepreneurs' access to credit are likely bearing fruit. For example, Pusat Investasi Pemerintah (PIP), a government agency, has disbursed loans to 5.4 million micro-entrepreneurs since 2017, 95% of whom are women.³³

The primary reason reported by MSEs for selecting their credit source was ease of application (75%), consistent across both formal and informal sources of credit. This was followed by affordable interest rates (9%) and loan size (7%).

Looking Forward

With predictions of stability for Indonesia's economic growth in 2024,³⁴ Indonesian MSEs are, perhaps unsurprisingly, somewhat optimistic about their future. A healthy 60% and 62% of MSEs expect their revenue and customer base to grow respectively, though a more modest proportion (29%) predicted their employee headcount would grow.

Figure 17: Reasons for Choosing Credit Source³⁵

Q: Why did you choose the loan from [selected option]? Select all that apply (n = 264)

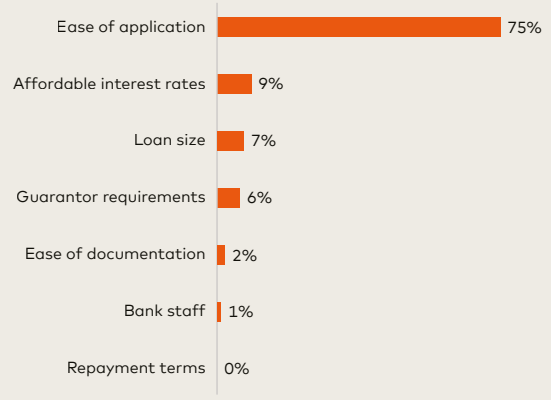


Figure 18: Reasons for Not Using Credit/Loans

Q: Why did you not use credit or loans? Select all that apply* (n = 558)



*This question was only asked to respondents did not access credit in the past 12 months.



Because the scope of customers is limited and the surrounding economic support is also lacking, whatever the conditions are, I will keep maintaining this business

Woman-led, East java, Rural, Fashion

³² <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=18090>

³³ <https://www.womensworldbanking.org/insights/understanding-and-unlocking-the-potential-of-women-ultra-micro-entrepreneurs-in-indonesia/>

³⁴ <https://www.kompas.id/baca/english/2023/12/29/en-optimisme-menyongsong-perekonomian-indonesia-2024>

³⁵ Note: This chart aggregates responses relating to all credit sources.

Figure 19: Expected Change in Revenue

Q: Can you give a rough estimate of the expected change of your revenue over the next 12 months?

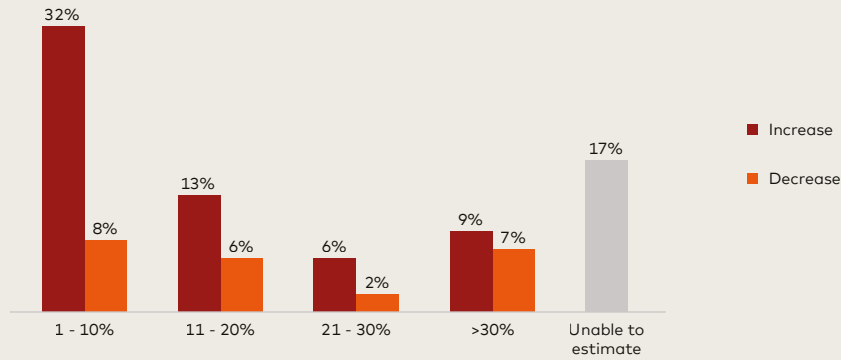


Figure 20: Expected Change in Customers

Q: Can you give a rough estimate of the expected change in your customers over the next 12 months?

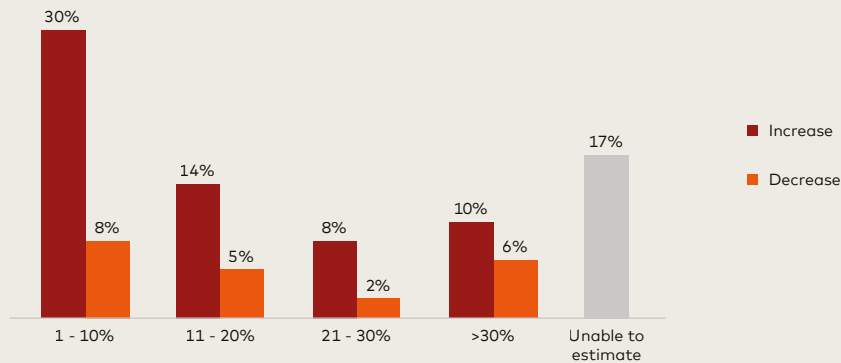
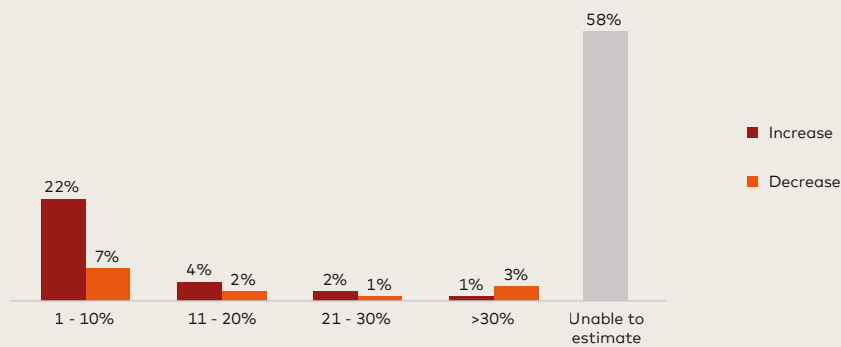


Figure 21: Expected Change in Employee Headcount

Q: Can you give a rough estimate of the expected change in the number of employees in your business over the next 12 months?



Across revenue, customers, and employee headcount, optimism for the future was perhaps somewhat surprisingly more pronounced amongst rural businesses and their urban counterparts. This general positivity amongst rural business owners is to be welcomed and may be linked to efforts to improve infrastructure in rural parts of Indonesia (e.g, recent rural Internet connectivity efforts).³⁶

As well as location, size also matters, with the smallest of the small at a marked disadvantage. Solo entrepreneurs are more likely to say they expect a decrease in revenue than enterprises that have at least two employees.

³⁶ <https://ibtekr.org/en/cases/how-indonesia-is-improving-the-economic-situation-of-rural-communities/>



Case Study 1 Business Outlook

Aditya, a male entrepreneur based in rural East Java, has been running his children's clothing business for more than two years with the support of his two dedicated employees.

The past 12 months have not been without challenges, having recorded a decrease in revenue. Despite this setback, Aditya has managed to maintain his workforce, albeit amidst heightened financial pressure and increased stress levels due to his business finances.

Despite these challenges, Aditya's optimism shines through as he maintains his positive projections for moderate business growth and anticipates serving more customers in the next 12 months. This optimism is rooted in his hopes to expand his business and increase the variety of the products he intends to sell.

However, likely influenced by his financial performance over the past year, he is preparing for the worst-case scenario of a revenue decrease, while not expecting any changes in his current employee headcount.



Challenges Faced & Support Required



Air tenang menghanyutkan.

Indonesian proverb

From gaining access to credit to challenges marketing and securing skilled labor the life of a small business is undoubtedly challenging. This makes it all the more important that they receive support to help them to thrive.

We asked Indonesian MSE owners to describe both the main challenges they face, as well as the types and quality of support on offer to succeed and/or address those challenges. We also enquire as to the support they feel they need but can't access, as well as about the types of organizations they feel could ideally provide any and all support.

Challenges Faced

The biggest challenge experienced by MSEs related to internal capacity rather than external environment. 59% of MSEs mentioned a lack of knowledge on marketing as the biggest challenge to their business – though of course, mentioning marketing may reflect how much competition MSEs feel.

Given that in 2021 there was 1 SME for every 5 Indonesians,³⁷ it is hardly surprising that MSE owners see differentiation as critical for their success. Today, most marketing by Indonesian MSEs is done on digital media such as Facebook, Instagram and local e-commerce platforms like Tokopedia and Shopee.³⁸ With that in mind, MSEs could likely be supported to improve the effectiveness of their digital messaging and skills over these kinds of digital marketing platforms. A fifth of MSEs said they needed support with online marketing and sales.

Just under a third (29%) of MSEs cited supply chain disruptions, showing the continued effect of the COVID-19 pandemic, and other disruptions, on global supply chains. Indonesian businesses were likely not immune to other global shocks, such as a prolonged El Nino in the second half of 2023 which slowed the agricultural sector, likely driving up prices for the food and beverage businesses we surveyed.³⁹

³⁷ <https://www.weforum.org/agenda/2021/09/how-can-indonesian-smes-scale-up/>

³⁸ <https://www.atlantis-press.com/article/125987049.pdf>

³⁹ <https://asia.nikkei.com/Economy/Indonesia-s-2023-GDP-growth-slows-to-5.05-on-weak-exports>

⁴⁰ https://www.apec.org/docs/default-source/publications/2022/10/policy-reponses-to-stimulate-msme-demand-in-the-wake-of-covid-19-pandemic-in-apec-economies/222_ec_policy-reponses-to-stimulate-msme-demand-in-the-wake-of-covid-19.pdf?sfvrsn=12a3fda3_2



Calm water drifts you away.

Indonesian proverb

MSEs also mentioned a lack of access to affordable capital (20%). This highlights the continuing need to bridge the funding gap for the MSEs that desire to access capital but cannot do so. A notable 51% of businesses said that they needed support with capital assistance and training to overcome their challenges, hinting that there may be a greater desire for access to capital than reported by MSEs (see section 2.1: Current state of Indonesian MSEs).

Figure 22: Challenges Expected

Q: In the next 12 months, what are the biggest challenges to your business? Open-ended coded by 60 Decibels (n = 835)



When times are hard, MSEs turn to the government. MSEs listed government agencies (51%) as their top preferred source of support. MSEs place a considerable level of trust in governmental policies' ability to facilitate their growth, with 24% mentioning the need for government support and policy advocacy. This is unsurprising, given the bevy of policy initiatives launched by the Indonesian government (particularly the Ministry of Cooperatives and SMEs) to prioritize MSE growth, such as the MSME Digital Market platform and Proud of Indonesian Made campaign⁴⁰.



Figure 23: Source of Support Available

Q: Who would you go to for support to overcome these or other challenges? Select all that apply (n = 835)

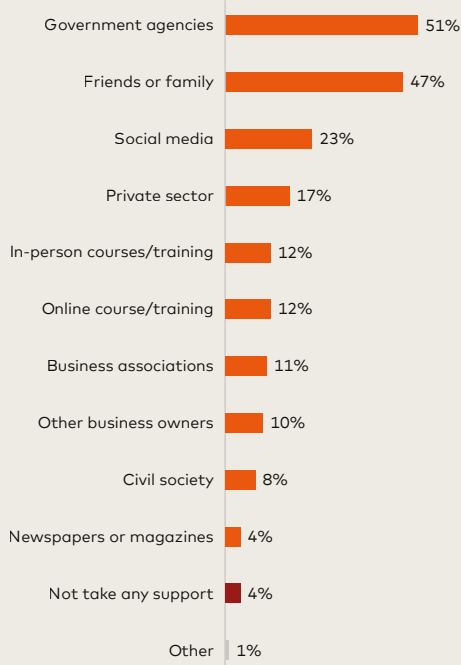


Figure 24: Support Needed by MSEs

Q: What support do you need to overcome or prevent these challenges? Open-ended coded by 60 Decibels (n = 834)



Access to support

While MSEs were clear about the support they needed, many were unable to access it. Two-thirds of MSEs did not access any support services in the past 12 months. This is concerning, given that almost an equal proportion of MSEs (roughly 70%) consider support services such as business, digital marketing, and finance skills training to be of high importance. Indonesian MSEs face a support gap here which, if addressed, may help them to flourish.

Again, micro-enterprises fell behind their larger counterparts in access to support. More micro-enterprises than small-enterprises (13% difference) did not access support services in the last 12 months.

Among the businesses that accessed support, the top two support services accessed were digital marketing (16%) and access to peer groups (15%). Notably, this does not include access to finance—yet it was (as reported in the last section) MSEs’ most needed area of support. This highlights a need to increase financial access for the MSEs that cannot rely on earnings or savings.

Indonesian MSEs are particularly keen on cyber security support. At least 60% of MSEs considered support through mentoring and access to cyber security training important, pointing towards cyber security concerns potentially slowing digitalisation. This concern is well-founded. The National Cyber Security Index (NCSI) placed Indonesia at the third-lowest rank among G20 countries, at 38.96 out of 100 in 2022.⁴¹ Beyond educating MSE owners on cyber safety practices, broader support must be given to improve Indonesia’s cyber security infrastructure to create a conducive business environment.

Which groups of MSEs received more—or less support than others? Happily, male and female MSEs stand on a fairly equal playing field when it comes to access to support services. An almost equal percentage of male (33%) and female (32%) MSEs were able to access support services.

On the other hand, size matters more. Small enterprises again seem to be at a significant advantage compared to micro enterprises. 46% of small enterprises were able to access support services, compared to only 33% of micro enterprises. More help must be given to micro enterprises—which already face unique challenges due to their smaller size - so that they are not overlooked for their larger siblings.

⁴¹ <https://www.ums.ac.id/en/news/featured/indonesia-internet-boom-and-cybersecurity-challenges#:~:text=According%20to%20data%20from%20the,lowest%20rank%20among%20G20%20countries.>

“

I need business capital and I want to expand my business space, but I still lack the necessary funds to do that. Because this business is my primary source of income

Female-led, West Java, Urban, Food & beverage



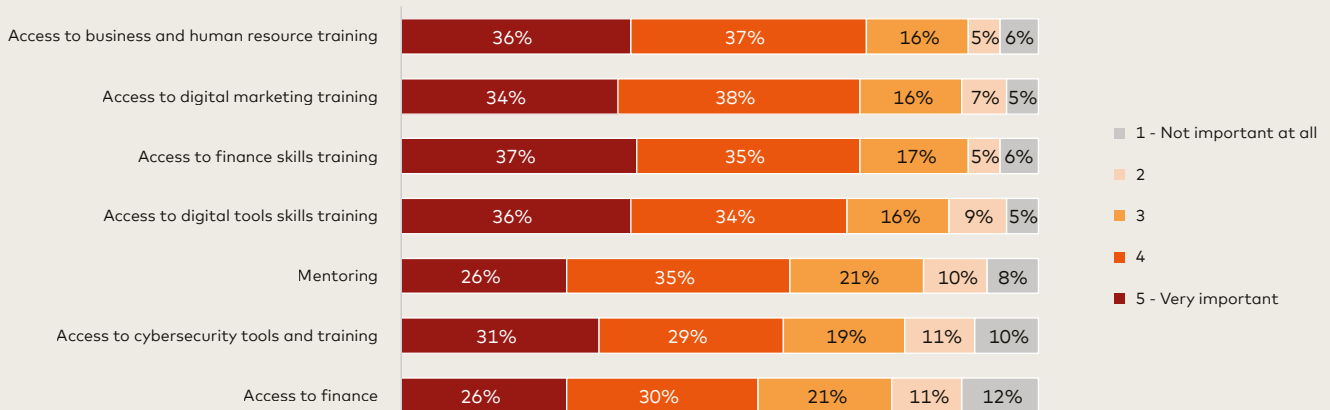
Figure 25: Support Received

Q: In the last 12 months what type of support services have you used/accessed for your business? Select all that apply (n = 835)



Figure 26: Importance of Support Services

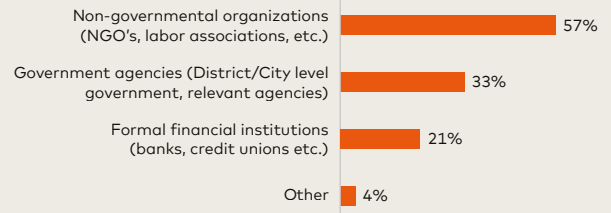
Q: On a scale of 1 to 5 where 1 is not important at all, and 5 is very important, how important are the following for your business to grow in the next 12 months? (n = 835)



Finally, it seems that NGOs are particularly active in supporting Indonesian MSEs. Most MSEs that received support did so from NGOs (57%), followed by government agencies (33%) and formal financial institutions (21%). Given that most support given was through NGOs, yet MSEs listed government agencies as their preferred support source (see: 'Top Challenges Faced' section), further research is needed into how NGOs can better support MSEs in Indonesia.

Figure 27: Source of Support Services

Q: Who did you receive these support services from? Select all that apply (n = 279)





Case Study 2 Support

Fera, a female solo-entrepreneur based in West Java, has been successfully running her food and beverage business for more than two years, catering mainly to tourists. Specializing in snacks, pastries and coffee, she established a physical store to serve her customers. Despite experiencing an increase in revenue and totalling more than 25 million Rupiah in the past year, Fera finds herself grappling with ongoing financial stress related to her business operations.

Looking ahead, Fera aims to modestly expand her business and anticipates a slight uptick in revenue. However, though

she recognizes the importance of accessing training services to facilitate this growth, she has not received this support in the past year.

She currently has a minimal digital presence, mainly selling her products on Facebook and Whatsapp and aspires to incorporate digital marketing strategies into her business model and implement digital payment solutions to streamline her transactions and improve her record keeping. She acknowledges that not bridging her marketing knowledge gap could pose a problem for her in the next year and would be interested in receiving external support in this area.



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Mercy Corps Indonesia



Kementerian PPN/
Bappenas

60__dB

Spotlight on Digitalisation



Sambil menyelam minum air.

Indonesian proverb

Indonesia has a long track record of supporting digitalization amongst MSEs. Prior to the pandemic it had set bold targets to become Asia's largest digital economy by 2020. President Joko Widodo has continuously emphasized the necessity of digitization and digitalization for economic growth and the country has previously launched initiatives such as the 2018 Making Indonesia 4.0 Roadmap, the 2019 E-Commerce Roadmap, and the 2020 Go Digital Vision. These collectively placed support for increasing the competitiveness of MSEs in the digital economy high up the policy landscape. But despite this attention, Indonesia's digital literacy rates remain fairly low. The Ministry of Communications and Information's Digital Literacy Index gave Indonesia a moderate score of 3.49 (on a scale of 1 to 5) in 2021, with digital ethics and safety worsening from the previous year.⁴² Meanwhile, the Economist Intelligence Unit ranks Indonesia 61st out of 100 countries for level of education and preparedness to use the Internet.⁴³ This is significantly lower than regional neighbors like Singapore (22nd) and Malaysia (33rd). Yet we know that digitalisation brings MSEs numerous benefits, from reaching a larger consumer base to reducing costs.

Geography, too, may be influencing MSE digitalization rates. A majority of Indonesian businesses that have recently digitized are in urban areas like Jakarta and Surabaya, with fewer resources available for rural-based businesses. That the country is an archipelago with more than 17,000 islands, presents further logistical challenges when it comes to providing reliable internet connection, especially to those MSEs that are most dispersed.

Given this background, we took a closer look into how Indonesian MSEs themselves feel about their confidence with, and usage of, digital tools, including the levels of support they need to continue to deepen their use of productive technology.

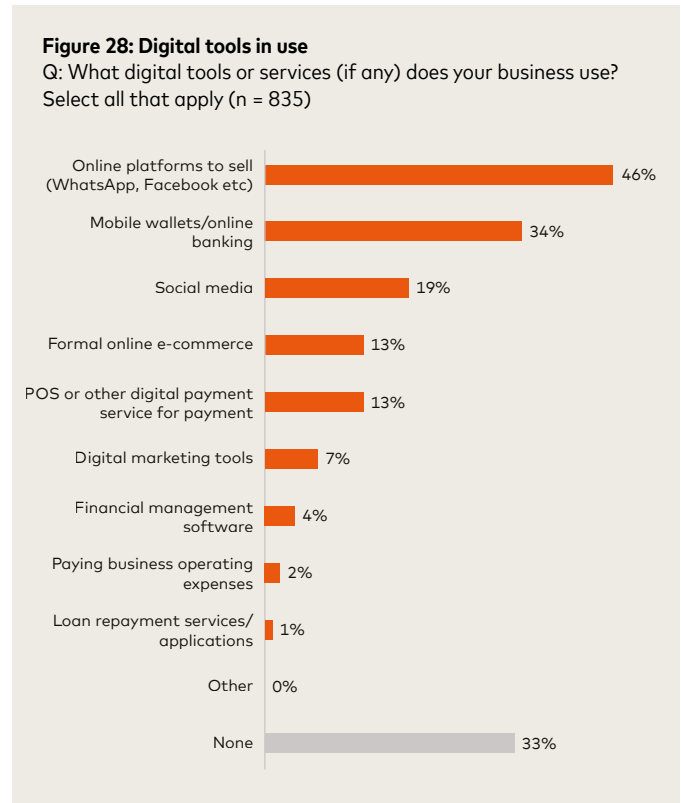


Drinking water while diving.

Indonesian proverb

Digitalisation: attitudes and skills

Despite the general literacy rates highlighted above, Indonesian MSEs do themselves appear to be digital enthusiasts. Two-thirds of MSEs said they used digital tools, with the most popular forms being online e-commerce platforms (46%) and mobile wallets/online banking (34%). 85% of small enterprises used digital tools, ahead of the 66% of micro-enterprises that did so.



⁴² <https://www.cips-indonesia.org/post/opinion-unpacking-indonesia-s-digital-accessibility>

⁴³ <https://www.econstor.eu/bitstream/10419/249444/1/CIPS-PB11.pdf>

Similarly attitudes towards digitalisation are highly positive, with MSEs reporting eagerness towards tech adoption. 81% of MSEs consider digital tools to be important for their future business growth, a proportion that was roughly equal amongst both small and micro businesses. However, MSEs' enthusiastic attitude towards technology is not necessarily matched by proficiency. Just shy of three in five of MSEs say they would adopt more technology were

it not for a belief that they lacked the requisite digital skills to do so. A similar proportion said they don't know which digital tools/services are best for their business. In addition to the research listed at the beginning of this section, this also aligns with wider regional data from UNESCO showing that only 28% of youth and adults in Southeast Asia possess the digital skills needed in the workplace, compared to 44.5% across OECD countries.⁴⁴

Figure 29: Perception of Importance of Digital Tools

Q: How important is the use of digital tools/services for your future business growth? (n = 835)

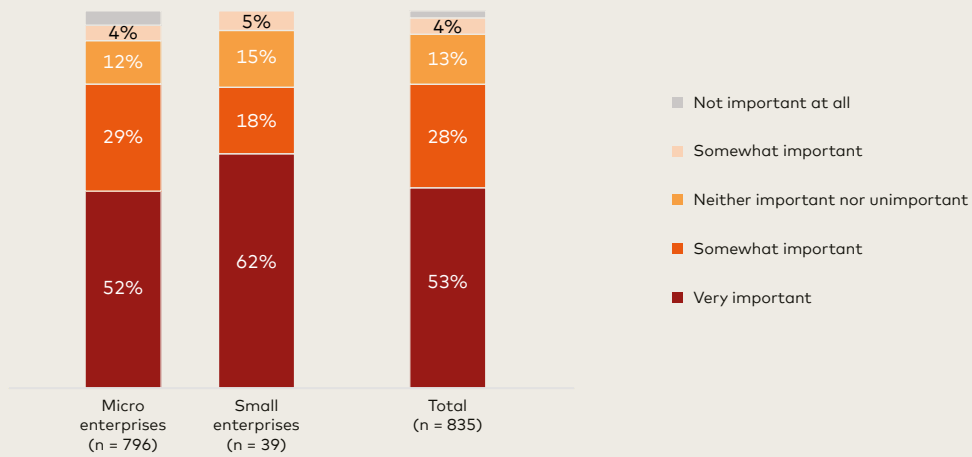
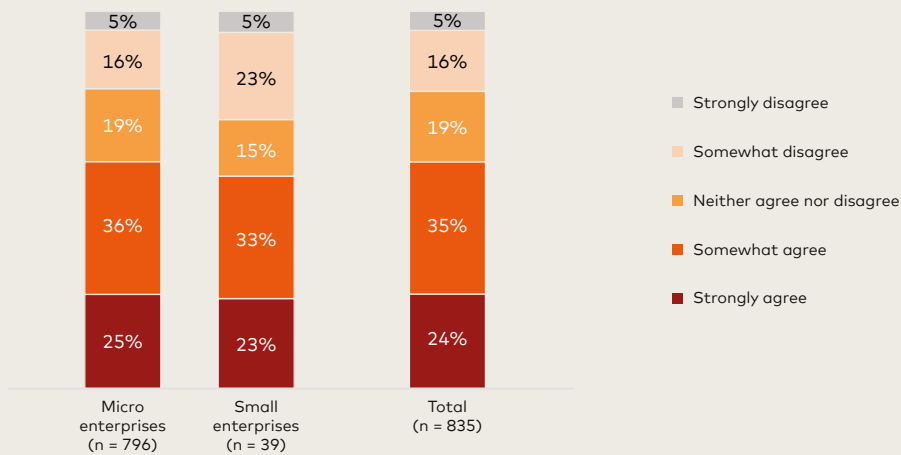


Figure 30: Digital Capabilities

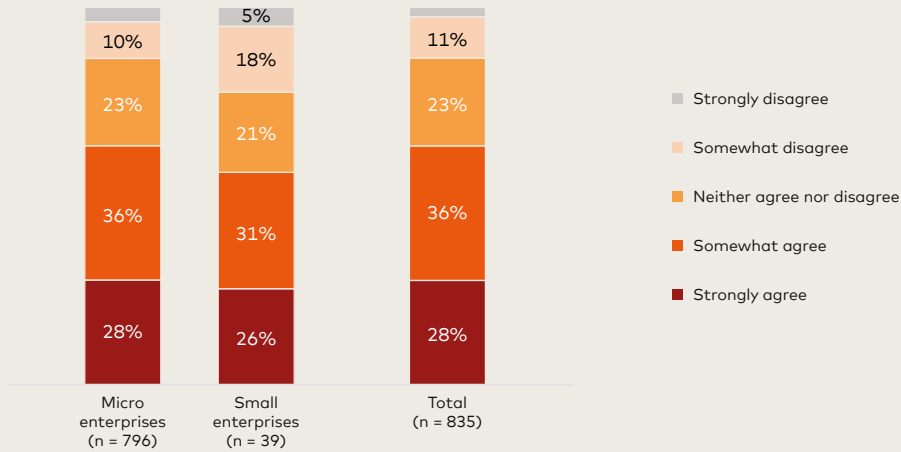
Q: To what extent do you agree or disagree with the following statements: 'I want to use more digital tools/services, but I don't have the requisite digital skills.' (n = 835)



⁴⁴ <https://www.oecd.org/skills/centre-for-skills/OECD-Skills-Strategy-Southeast-Asia-Report-Summary.pdf>

Figure 31: Knowledge of Digital Tools

Q: To what extent do you agree or disagree with the following statements:
 'I want to use more digital tools/services, but I don't know which ones are best for my business.' (n = 835)



Digitalisation: barriers and support

Linked to the data above when asked in the context of how technology might improve business operations the most common issue raised by MSEs was lack of digital literacy skills (38%). This aligns with academic research showing that the most common reason why Indonesian entrepreneurs do not use digital media in their business operations is because they cannot use or lack digital media.⁴⁵ The next most common barriers were uncertainty about which technologies to select (35%), and then the high cost of technology (31%).

When asked about support needed to help adopt new digital tools, the standout issue identified by business was training. 38% of MSEs asked for training on digital tools, almost twice the next most desired forms of support, which were marketing and promotion training (20%). This was also well over three times the demand for financial support (11%). In terms of the content of those tools, those directed toward improving financial management were deemed most useful.



⁴⁵ <https://www.atlantis-press.com/proceedings/icigr-22/125987049>

Figure 32: Barriers to Business Improvement

Q: Which of the following do you consider to be barriers to improving business operations or processes? Select the top 3 (n = 835)

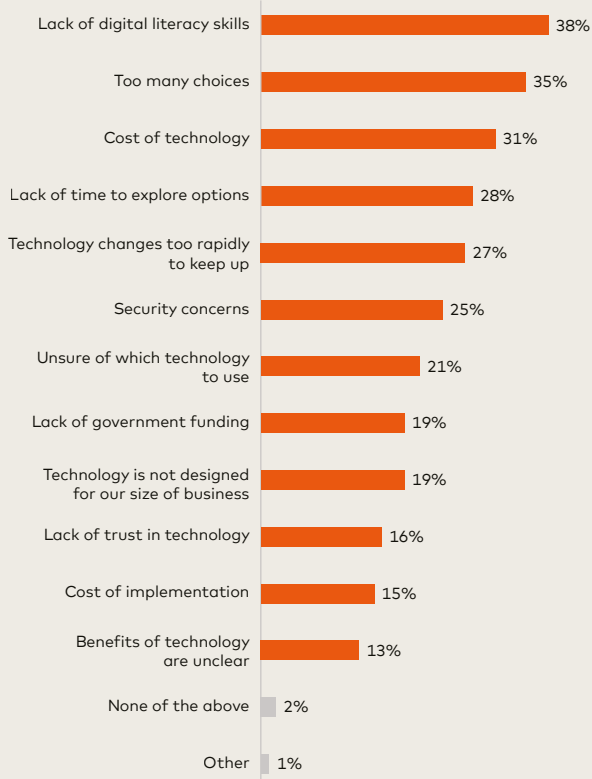


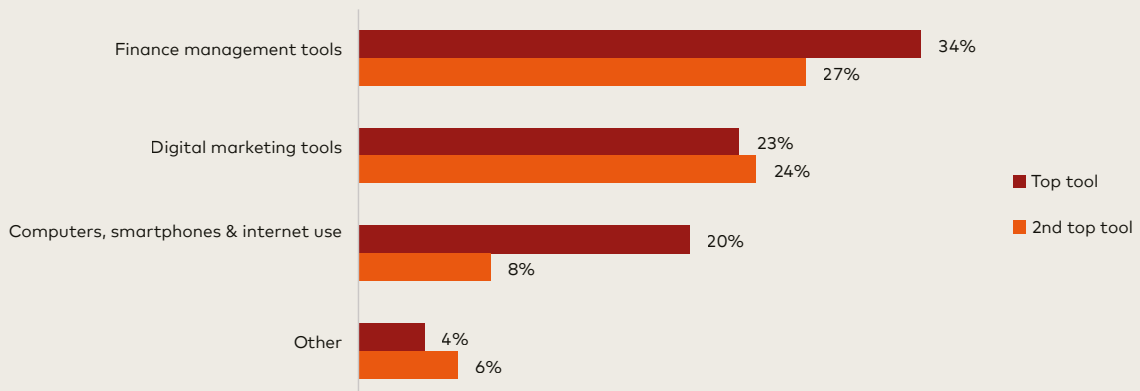
Figure 33: Support Needed for Digital Tools Adoption

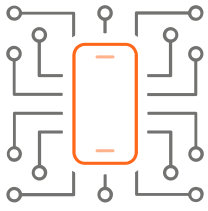
Q: What support (if any) does your business need to help adopt new digital tools/services? Open-ended coded by 60 Decibels (n = 835)



Figure 34: Top Tools Desired

Q: What are the top two digital tools you wish you had that would help your business grow? (n = 835)





Case Study 3 Digitalisation

Nita, a female entrepreneur based in urban West Java, sells food and refreshments on a tourist site where she has a small cafe with the support of her one employee who plays the multiple roles of cooking, serving, and cleaning.

Despite the bustling environment of her business, Nita has yet to tap into digital tools. She would like to use more digital tools and considers digitizing her business important for her business growth, but is unsure which ones would be ideal for her business. Additionally, though she considers herself tech-savvy, and is confident that she

can effectively use digital tools to enhance her business, she does not feel equipped to implement these skills in her business.

Given the chance, she would like to start her business digitalization by learning how to use financial management and payment systems, and digital marketing tools. Currently, her skills gap is the biggest barrier to her digital adoption and because of this, she would like to receive relevant training support to help her upgrade her business.



Conclusion

While we're no stranger to barometers,⁴⁶ this is the first we've run for micro and small businesses in Indonesia. We hope it sheds light on the voices of MSEs, along with what they have to tell us about their needs, wants, and struggles.

Across the board, MSEs particularly struggle with internal challenges, from a lack of marketing knowhow to supply chain disruptions. Yet despite a strong demand for support, not enough MSEs are able to access support. MSEs have identified their need for support and training sources across a wide range of fields—including digitization, HR, finance and business development.

While MSEs' access to credit is also low, this seems to be largely due to their own preference not to take on formal debt. But constraints to credit remain, such as high interest rates and MSEs' lack of collateral. Further work must be done to ensure those MSEs that do want credit are able to receive it. Given that MSEs value ease of application when selecting a credit source, organizations aiming to improve MSEs' access to credit must prioritize this.

We've listened to MSEs, but we can't just stop here. Moving forward, it's vital that we take action to help them rise to their future challenges. Our wish is for these data-powered insights to guide the efforts of any and all organizations working to support Indonesian small businesses.

We round off this report with three calls to action for all those working with Indonesian MSEs.

1. Help businesses go digital

Our data shows that Indonesian MSEs are confident about their proficiency with technology. Though their positivity is music to our ears, we're concerned that businesses aren't fully aware of how their digital skills match up—or don't match up—to the array of tools and technologies available today. Businesses report that they aren't able to pick digital tools, or use them as well as they would like. It's crucial that broad-based support is given to boost digital literacy rates for all MSEs, even if they might already consider themselves digitally confident.

Naturally, MSEs need training and support across the entire—and broad!—digital sphere. But as a starting point, we've picked out two key areas that stand out to us. Firstly, MSEs show a significant demand for digital marketing training. This is essential to help businesses differentiate themselves amidst packed online marketplaces and build customer base.

Alongside that, MSEs must be supported with cybersecurity training and broader infrastructure upgrades. With the sheer volume of transactions taking place through e-commerce, it's important to protect the data of both merchants and customers. Without it, MSEs will face difficulties attracting online customers, as well as risk their financial and personal details being exploited.

2. Make sure no one is left behind

As has been clear throughout this report, small enterprises are at an advantage compared to micro-enterprises. Compared to micro-enterprises, small enterprises are more likely to report accessing digital tools training and digital marketing services. They use more digital tools, are more likely to be able to come up with emergency funds, and access more support.

Meanwhile, the smallest of the small are lagging behind. Micro-enterprises face particular challenges, and perform worse than their larger peers on almost all of the metrics we measured. These tiny businesses have unique challenges, such as lack of economies of scale, challenges with digitalization, and lack of credit. To lend effective help to them, programs and services must be specifically designed with their needs in mind.

The fact that the majority of micro-enterprises are led by women⁴⁷ makes it all the more necessary to support micro-enterprises. The women we surveyed report a business performance almost equal to men across multiple metrics, seemingly turning the historical disadvantages of Indonesian female entrepreneurs on their head. This is supported by external research (such as a recent government study showing that Indonesian women have for the first time surpassed men in financial literacy).⁴⁸ However, our findings on micro-enterprises still suggest that a sizable group of female business owners are doing poorly compared to their peers, and support must be given to them. Women reported a particular need for support with capital assistance and training, government support and policy advocacy, and online marketing and sales.

3. Partner up to give better help

Research has shown that public-private partnerships are key to giving MSEs the access to capital, incentives and ecosystem that MSEs need to digitize.⁴⁹ While public actors provide beneficial policy frameworks and infrastructural development, private actors are able to implement more localized, agile programmes. Similar benefits can be reaped from such collaborations in other critical areas, such as access to credit. Whether public or private, organizations must engage in active conversations to share lessons and resources, reduce redundancy, and coordinate better.

⁴⁶ If you'd like to learn more about small businesses in Czechia, please take a look at our barometer here: 'Striving to Thrive, The state of Czech Micro and Small Enterprises, 2022.'

⁴⁷ <https://www.womensworldbanking.org/insights/ultra-micro-entrepreneurs-in-indonesia-how-financial-capability-education-and-customer-centered-design-solutions-are-key-to-growth-and-resilience/>

⁴⁸ <https://www.ojk.go.id/iru/policy/detailpolicy/9625/press-release-2022-national-financial-literacy-and-inclusion-survey>

⁴⁹ <https://www.weforum.org/agenda/2021/06/public-private-digital-recovery-small-businesses/>

Annexes

Survey Script

	Question Text	Answer Options
1.	Do you own or run a small business?	
2.	How many employees does your business currently have?	
3.	Who runs this business? Note : Think of who runs or is in-charge of the business in terms of decision making, management etc	
4.	Can you specify which sector your business operates in?	Food and beverage Fashion Craft (non-furniture) Business in tourism value chain Other: Please specify
5.	Do you sell to tourists or on a tourist site?	
6.	How many months has your business been in operation?	
7.	Can you share approximately the annual revenue of your business? (In Indonesian Rupiah)	0 - 249,999 250,000 - 1,249,99 1,250,000 - 2,499,999 2,500,000 - 6,249,999 6,250,000 - 12,499,999 12,500,000 - 24,999,999 25,000,000 and above Not willing to share Don't know

	Question Text	Answer Options
8.	Can you mention where your business is located?	West Java East Java South Sulawesi West Nusa Tenggara Other: Please specify
9.	How can your customers access your products and/or services?	
Thank you, now I have a few questions about the support services you may have received for your business.		
10.	In the last 12 months, what type of support services have you used/accessed for your business: (Select all that apply)	Digital tools/services training for business development Digital marketing Business financial management training Business training and mentoring Business development network Cybersecurity – related training Access to peer groups or social groups Business legality/certification arrangement: Please specify Other: Please specify Did not access any services [Go to Q12]
11.	Who did you receive these support services from? Select all that apply	Government agencies (District/City level government, relevant agencies) Non-governmental organizations (NGO's, labor associations, etc.) Formal financial institutions (banks, credit unions etc.) Other: Please specify
12.	In the next 12 months, what are the biggest challenges to your business?)	
13.	What support do you need to overcome or prevent these challenges?	

	Question Text	Answer Options	
14.	Who would you go to for support to overcome these or other challenges? (Select all that apply)	Private sector Government Civil society Friends or family Social Media Business associations Newspapers or magazines Online course/training In-person courses/training Other business owners Other: Please specify Not take any support	
We now want to ask about your businesses access to credit and other financial support			
15.	In the past twelve months, has your business used credit or loans?	Yes	No [Go to Q18]
16.	What was the source of the credit or loans? (Select all that apply)	From family, relatives, or friends. From a bank or another type of formal financial institution (e.g. MFI, digital bank) From an informal savings group/club or money lender Online lending platform Other: Please specify	
17.	Why did you choose the loan from [selected Q16 option]? (Select all that apply)	Ease of application Loan size Guarantor requirements Bank staff Affordable interest rates Repayment terms Ease of documentation/ no requirements Other (please specify):	
18.	(Only if No in Q15) Why did you not use credit or loans? (Select all that apply)	I did not need it I do not know where to get it I could not afford it or pay it back I was rejected for a loan/credit I do not think I am eligible Other (please specify):	

	Question Text	Answer Options				
19.	What barriers have you faced in the past in accessing loans for your business?	Lack of collateral High interest rates Distance to nearest financial institution Understanding of terms and conditions Loan size too small Don't have enough information Other (please specify) No barriers				
20.	Imagine tomorrow that your business has an emergency and needs to come up with 3,500,000 Indonesian Rupiah within the next month. What would be your primary option for coming up with the money?	Not be able to come up with the funds [Go to Q22] Used money that you had been saving Money from sales Borrow money from a financial institution Borrow money from friend/family Sell an Asset Borrow money from a money lender Do something else (please specify)				
21.	How easy or difficult would it be to come up with this money?	Very difficult	Somewhat difficult	Neither difficult nor easy	Somewhat easy	Very easy
22.	...revenue you earn from your business	Very much increased	Slightly increased	No change	Slightly decreased	Very much decreased
23.	...the number of employees in your business?	Very much increased	Slightly increased	No change	Slightly decreased	Very much decreased
24.	... your stress levels relating to your business finances?	Very much increased	Slightly increased	No change	Slightly decreased	Very much decreased
25.	Revenue	Increase by 1 – 10%	Decrease by 1 – 10%	Increase by 11 – 20%	Decrease by 11 – 20%	Unable to estimate
		Increase by 21 – 30%	Decrease by 21 – 30%	Increase by >30%	Decrease by >30%	

Question Text		Answer Options				
26.	Customers	Increase by 1 – 10%	Decrease by 1 – 10%	Increase by 11 – 20%	Decrease by 11 – 20%	Unable to estimate
		Increase by 21 – 30%	Decrease by 21 – 30%	Increase by >30%	Decrease by >30%	
27.	Employee Headcount	Increase by 1 – 10%	Decrease by 1 – 10%	Increase by 11 – 20%	Decrease by 11 – 20%	Unable to estimate
		Increase by 21 – 30%	Decrease by 21 – 30%	Increase by >30%	Decrease by >30%	
28.	In the next 12 months, what are your expectations for your business's growth? Business growth could refer to one or more of the following - increase in revenue, profits, investments, employee strength, customers, opening new branches.	To grow moderately <hr/> To remain the same size <hr/> To downsize the business <hr/> Close business temporarily <hr/> Close business permanently <hr/> Not sure <hr/> " <hr/> "				
29.	Please explain your answer)	" <hr/> "				
On a scale of 1 to 5, where 1 is not important at all and 5 is very important, how important are following for your business to grow in the next 12 months?						
30.	Access to finance (loans, credit, etc.)	1	2	3	4	5
31.	Access to digital tools skills training	1	2	3	4	5
32.	Access to business and human resource training	1	2	3	4	5
33.	Access to finance skills training	1	2	3	4	5
34.	Access to digital marketing training	1	2	3	4	5
35.	Mentoring	1	2	3	4	5

Question Text		Answer Options				
36.	Access to cybersecurity tools and training	1	2	3	4	5
37.	What digital tools or services (if any) does your business use? (Select all that apply)	Digital marketing tools Financial management (bookkeeping, accounting software, etc.) Mobile wallets / online banking Online platforms to sell (WhatsApp, Facebook, etc.) Loan services (repayments, applications, credit offers, etc.) Formal online e-commerce (delivery platforms, inventory purchasing, etc.) Paying business operating expenses Using a POS or other digital payment service to allow customers to pay you Social media None Other, please specify				
38.	How confident are you in your ability to effectively utilize digital tools to enhance your business operations? Are you...	Very confident	Somewhat confident	Neither confident nor unconfident	Not very confident	Not confident at all
39.	To what extent do you agree or disagree with the following statements: 'I want to use more digital tools/services, but I don't know which ones are best for my business.'	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree
40.	'I want to use more digital tools/services, but I don't have the requisite digital skills.'	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree
41.	What are the top two digital tools you wish you had that would help your business grow? Digital tools can be software, programs, websites, applications, and other internet and computerized resources that facilitate, enhance and execute digital processes and overall digitisation efforts. Examples could be accounting software or business applications like ERM and CRM.	1 2				
42.	How important is the use of digital tools/services for your future business growth? Is it:	Very important	Somewhat important	Neither important nor unimportant	Somewhat unimportant	Not important at all

	Question Text	Answer Options
43.	<p>Which of the following do you consider to be barriers to improving business operations or processes? (Select top 3)</p>	<p>Cost of technology</p> <p>Cost of implementation</p> <p>Technology changes too rapidly to keep up</p> <p>Technology is not designed for our size of business</p> <p>Lack of trust in technology</p> <p>Lack of time to explore options</p> <p>Security concerns</p> <p>Lack of digital literacy skills</p> <p>Unsure of which technologies</p> <p>Benefits of technology are unclear</p> <p>Lack of government funding</p> <p>Too many choices</p> <p>Other: (Please specify)</p> <p>None of the above</p>
44.	<p>What support (if any) does your business need to help adopt new digital tools/services?</p> <p>Support can include training, tools, or other support services, etc.</p>	<p>"</p> <p>"</p>

A Thank You From 60 Decibels

This work would not have been possible without the generous support of Mastercard Center for Inclusive Growth and collaboration with Mercy Corps Indonesia. We are also indebted to all partners who have supported the Barometer and this process, from beginning to end. Most importantly, to all the respondents who took part in our surveys – we thank you for your time, your honest feedback, and your insightful comments. Without you, this report would not exist. We have done our best to represent your voices here, in the hope that we collectively learn from the results and positive change will result.



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