

Indonesia Investments

Micro, Small & Medium Enterprises

- Why Are the MSMEs Called the Backbone of the Indonesian Economy? And What Are the Biggest Challenges Faced by the MSMEs?
- Encouraging the Blossoming of Digital Talents Ranks Among the Most Challenging Issues
- By 2025 Many Businesses Will Have Started Cutting Jobs Due to Their Digital Transformation
- The Indonesian Government and Financial Authorities Encourage the Banking Sector to Disburse Credit to MSMEs

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Micro, Small and Medium Enterprises in Indonesia



Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. The topics in these updates may be discussed in more detail (and in an updated form) in the forthcoming monthly report.

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- Business -

Micro, Small and Medium Enterprises in Indonesia: the Backbone of the Indonesian Economy

The micro, small, and medium enterprises (MSMEs) of Indonesia are an interesting phenomenon. Why? Well, let's take a look at three remarkable statistics:

- Indonesian MSMEs contribute slightly over 61 percent to Indonesia's total gross domestic product (GDP);
- Indonesian MSMEs absorb around 97 percent of Indonesia's domestic employment; and
- Around 99 percent of existing business in Indonesia today fall in the MSME category.

These are all very impressive figures, although one could certainly argue that when 99 percent of existing businesses are MSMEs, their contribution to the economy at 61 percent is possibly somewhat mediocre. Nonetheless, it does remain appropriate to call the MSMEs the backbone of the Indonesian economy as they generate so much economic activity, including the harvesting, making and delivery of basic necessities -such as food- to almost the entire population. Try imagining an Indonesian economy

without the presence of the MSMEs, and everything would (sort of) collapse as their presence is so influential, both in urban and rural environments.

Structure of Business in Indonesia:

Type of Enterprise	Number of Enterprises	Number of Workers	% of Total Enterprises	Definition
Big	± 5,500	± 3,700,000	0.01%	Assets > IDR 10 billion
Medium	± 61,000	± 4,000,000	0.09%	Assets IDR 500 mln–10 bln
Small	± 783,000	± 6,000,000	1.2%	Assets IDR 50 mln–500 mln
Micro	± 63,350,000	± 108,500,000	98.7%	Assets < IDR 50 million

Source: Bisnis Indonesia (08.12.2021)

However, besides their somewhat modest impact on the country's total economic growth at 61 percent of GDP, it is also remarkable that they are poorly integrated into the world's supply and value chains, and thus their contribution to Indonesia's total export performance is also rather weak.

Last year, Yulius, who is Expert Staff to the Minister of Cooperatives and SMEs for Productivity and Competitiveness, stated on the IDX Channel that the MSMEs only contribute about 14 percent to total Indonesian exports, which is a much lower ratio compared to those seen in other countries. For example, in Singapore, the MSMEs

account for 41 percent of the country's exports, while in China the MSMEs account for 60 percent of exports.

The weak involvement of Indonesian MSMEs in export certainly tells us something. It is a strong indicator that Indonesian MSMEs lack competitiveness compared with regional counterparts. Key factors that come to mind are:

[...]

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