

SHORT FEATURE

Indonesia's Experience in Entrepreneurship Development

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Indonesia has started to focus on entrepreneurship development since the beginning of the sixth of the Five Year Development Plan of the President Soeharto era through the enactment of the President Instruction number 4 of 1995 on the promotion of entrepreneurship spirit throughout Indonesia. In the framework of APEC, Indonesia proposed in 1996 an APEC Center for Entrepreneurship, a virtual center, which will benefit all APEC member economies for entrepreneurship development in the Asia – Pacific region. Moreover, the 1998 economic crises has made Indonesia realize the importance of entrepreneurship development, particularly to cope with the crisis-led increase of unemployment.

Entrepreneurship in Indonesia

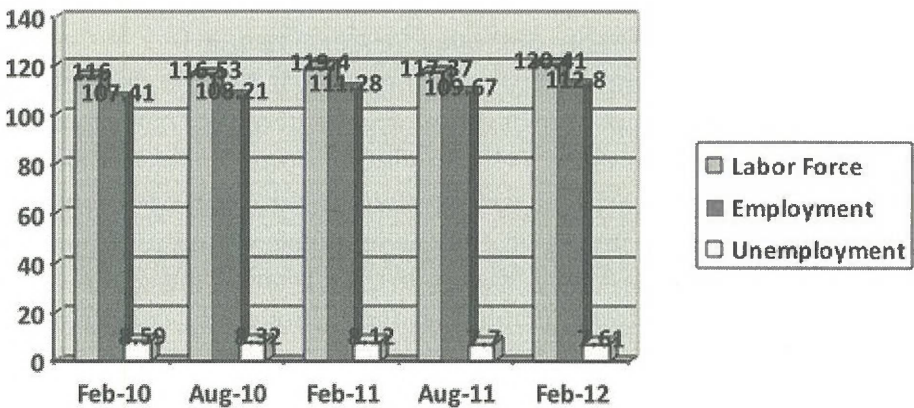
The current unemployment rate is around 6.1%. The rate has somewhat decreased since 2010, although the percentage is less than 1% (See Figure 1). In February 2011, the unemployment rate was 7.14 percent and in February 2012 6.32 percent. The government hopes to reduce the unemployment rate to less than 5% by 2014. One of the so-

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lutions to reduce the unemployment rate is through entrepreneurship development program.

There are a number of problems faced by the Indonesian government in promoting entrepreneurship. *First*, Indonesia lacks proper and professional training and educational institutions for entrepreneurs. *Second*, the business environment in Indonesia is not conducive for the growth of entrepreneurship, especially concerning issues of business licensing. *Third*, it is difficult to find established entrepreneurs who can and are willing to teach and train common people to become entrepreneurs. *Fourth*, most Indonesians tend to prefer to become government officers than entrepreneurs after completing their education at the universities or academies. *Fifth*, it is difficult to find good programs for entrepreneurship development.

Figure 1. Labor Force, Employment and Unemployment, February 2010 to February 2012 (in million)



Source: Data from the Ministry of Cooperatives and SMEs

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officers than entrepreneurs after completing their education at the universities or academies. *Fifth*, it is difficult to find good programs for entrepreneurship development.

The Presidential Instruction Number 4 in 1995 enacted the "National Movement for Socializing and Cultivating Entrepreneurship," and states that "the society should be actively involved in the national development, by nourishing entrepreneurship to support their businesses." More recently, the Ministry of Cooperatives and Small and Medium Enterprises (SMEs) has promoted the national movement of socializing and cultivating entrepreneurship programs has been implemented for several years. The programs consist of three main programs. *First*, institutionalizing entrepreneurship, which include preparing the concepts and manuals for building entrepreneurship skills, preparing networking development for SMEs, coordinating programs for SMEs development, developing consultation and information center for SMEs development, building capacity for field workers for SMEs development, and mobilizing and training for the Extension Workers, Field Consultants, and other Strategic Groups.

Second, socializing entrepreneurship, which include developing strategic group participation, developing general society participation, campaigning through mass media, giving information and extension for society leaders, journalist and reporters, conducting workshop for business people, and including entrepreneurship in formal education curricula at the earliest level till the highest level. *Third*, cultivating entrepreneurship, which include training programs, consultation, comparative studies, self-learning facilities, developing appropriate technology for local industry, developing access to local, regional, and international market, and assisting financial access for SMEs.

The Ministry of Cooperatives and SMEs has developed the intermediate action plan for entrepreneurship development, with the objective to develop entrepreneurship behavior among the SMEs. The program includes: providing the incentives and entrepreneurship promotion to create new entrepreneurs; developing and strengthening the entrepreneurship training and education institution throughout the country; developing cooperation and networking system especially on transferred technology, export marketing, and human resources development; providing incentive system and facilities for Exporter En-

trepreneurs and Entrepreneurs that develop local creation and innovation; and upgrading the quality of human resources of Entrepreneurs including the Women Entrepreneurs.

In 2011, the government launched a new program called the National Movement for Entrepreneurship (*Gerakan Kewirausahaan Nasional-GKN*), with the objective to reach at least 2% ratio of entrepreneurship in Indonesia. Since the start of the initiative, the ratio of entrepreneurship has increased steadily, amounting to 1.56% in 2012.

The Challenge of Competitiveness

Indonesia is faced with the challenge to create strong entrepreneurial growth in order to cut the gap between developed and developing economies, as a strong and competitive knowledge-based entrepreneurship is required to increase competitiveness. Hall argued that Indonesia supposed to have 20 million non-agricultural SMEs by 2020, if Indonesia wants to compete with other economies in APEC.¹ This challenge should become the power to promote entrepreneurship in the country. Otherwise, Indonesia will always become the markets of the products from neighboring countries.

The ratio of entrepreneurs in Indonesia is lower than most countries. In Malaysia, the ratio of entrepreneurs in 2011 was 2.4%, Singapore 7.2%, USA 12% and Australia 11.3%.² Based on the survey conducted by the *World Economic Forum*³, in 2011-2012, the position of competitive edge Indonesia is on the rank 46 from 142 countries and has been decreasing 2 levels from the previous year 2010-2011 which was on the rank 44. The position of Indonesia is very far compare to Malaysia on 21 increasing 5 levels from 2010-2011 which was on 26, and Thailand on 39 slightly decreasing 1 level from that of the year 2010-2011. Moreover, Singapore, even though slightly decreasing 1 level, but still on the rank 2nd in 2011-2012.

¹ Chris Hall, *Profile of SMEs and SME Issues in APEC, 1990-2000* (Singapore: World Scientific Pub, 2002)

² "Total Entrepreneurial Activity per Country," accessed on 30 December 2011 <http://www.internationalentrepreneurship.com/>

³ World Economic Forum, *The Global Competitiveness Report 2011-2012*, accessed on 30 December 2011 http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf

Embracing the wider region of the Asia Pacific, The designed APEC Center for Entrepreneurship (ACE) was finalized in 1999, with the following strategic objectives: (1) Targeted training for APEC SMEs in order to improve their entrepreneurial skill; (2) Adoption to globalization, since APEC FTA will be implemented since 2010 for developed economies and in 2020 for developing economies; (3) Sharing best practices, policies and programs related with SME development in the APEC region; (4) Promoting strategic alliances between SMEs and also between SMEs and Big Companies in the APEC region; and (5) Promoting E-Commerce for SME products within and beyond APEC economies.

The idea of developing APEC Center for Entrepreneurship or ACE is not only for the benefit of Indonesia but also for other APEC member economies. Acknowledging the important roles of the ACE for private sector development, the government of Indonesia then decided to give the chance to private sector. In this regard, Chamber of Commerce and Industry (CCI) had been given the chance to lead this center. In fact, due to limited professional staffs, the ACE was unable to run properly. The BRI as the biggest SMEs' bank has been working together with CCI to operate the Center of Development for SMEs (CD-SMEs) under the G-15 program. This center has also supported by the government of Korea through KOICA.

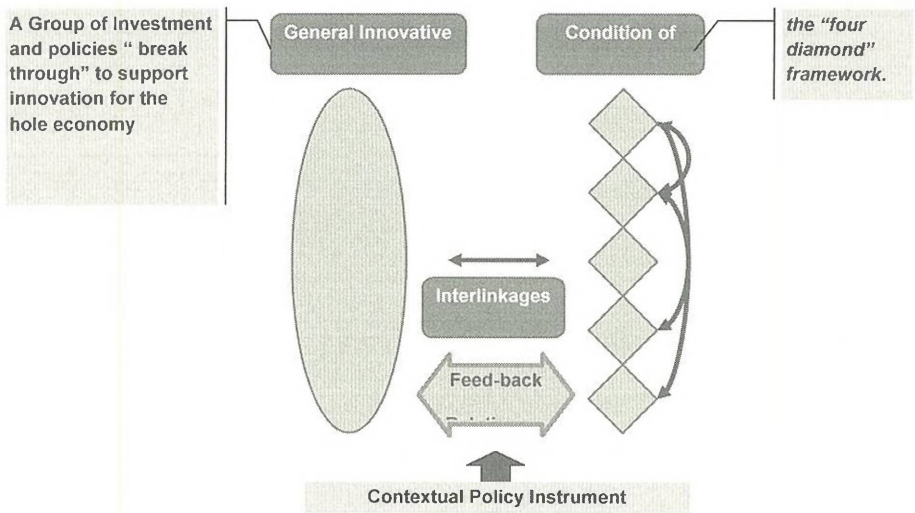
Acknowledging that ACE benefits private sectors, a lot of institutions were interested to run the center; however, none has succeeded in running it properly. APEC then decided to close the center.

Regional Innovative System for Competitiveness Improvement

The strategy to promote innovative SMEs should be well designed, including by identifying important issues related with national innovative system, particularly the problems and challenges faced by the region, as regions are influenced by specific issues, thus there is a need for a correct approach for their innovative system development. Regional innovative profiles can illustrate the capacity of a certain region, by indicating important outputs and inputs. Input indicators consist of availability of human resources, knowledge and technology infrastructures (research and development institutions, laboratory, and university). The Framework of the Regional Innovative System for Competitiveness Improvement is explained in Figure 2.

The purpose of developing regional innovative system include: the development of the general framework for conductivity of innovation, including regulative burden and legal environment weaknesses; supporting capability of knowledge and technology/research and development absorption capability of small and medium enterprises; promoting innovative collaboration and improve innovative diffusion, best practices and R&D results; and promoting and strengthening inter-linkages of well-developed innovative system and industrial cluster between regional and national. The main products that have been developed and strengthen the regional competitiveness are being implemented in the activities in line with the framework of regional innovative system. These are implemented through Regional Innovative Strategy Development in order to improve competitiveness through industrial clustering development.

Figure 2. Framework of Regional Innovative System for Competitiveness Improvement



Conclusion

As the Indonesian government seeks to reduce the unemployment rate to less than 5% by 2014, one of the solutions is through entrepreneurship development program. Entrepreneurship does not impact an economy simply through numbers of entrepreneurs alone. It is important to consider quality like growth, innovation and infrastructure.

Indonesia needs to create strong entrepreneurial growth in order to cut the gap between developed and developing economies, as a strong and competitive knowledge-based entrepreneurship is required to increase competitiveness. In this regard, the Ministry of Cooperatives and SMEs has developed the intermediate action plan for entrepreneurship development, with the objective to develop entrepreneurship behavior among the SMEs.