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International  
Labour  
Organization  
Jakarta



# BUSINESS ENVIRONMENT

for Young Entrepreneurs in Indonesia

# **BUSINESS ENVIRONMENT**

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# Foreword

**ATTRACTING** investment is a declared priority of the Indonesian Medium Term Development Plan, to ensure that current growth – mainly based on an increase in commodity prices – translates into an economy with higher added value. To this end, reforming the business environment has been a Government priority because of its expected impact on business creation, business sustainability, and the generation of livelihoods and jobs.

The improvement of the business climate should (a) reduce business costs - through easier access to capital and infrastructure for instance; (b) reduce business risks by improving the predictability of doing business; and (c) stimulate innovation and competitiveness by increasing competitive pressures (with a greater number of new entrants on the market). Greater ease of doing business is therefore generally associated with growth and more jobs; however, its impact on youth enterprises and on decent work is less known.

Youth enterprises tend to be disproportionately affected by the shortcomings of the business climate because they operate in sectors with low entry barriers, harsher competition, and greater precariousness with regard to facing challenges related to the business environment. However, it is uncertain whether changes in the business climate as a whole will have a greater impact on youth enterprises in particular. In fact, this study makes the case for specific, carefully targeted measures to address business environment characteristics that are likely to disproportionately impact Young Entrepreneurs.

An intense debate has also taken place in the past decade on how to minimize the cost of the regulatory burden on micro-enterprises and thus enhance the prospects for their growth and formalization, without compromising the job quality of those who work in these enterprises. While there is often a need to incentivize

business formalization, it should not be taken as a way of institutionalizing poor labour conditions.

Due to the lack of sufficient jobs in the formal economy, Indonesia continues to promote entrepreneurship because of its potential for job creation and poverty reduction. No less than 17 ministries and national institutions are currently implementing programmes on youth entrepreneurship. While many are focusing on training of start-up micro businesses for underprivileged populations, others are also facilitating youth access to finance. Few, however, are looking at improving the environment in which youth enterprises operate.

This research, with the findings on the *Business Environment for Young Entrepreneurs in Indonesia*, aims to bridge this gap. It is based on a well-established methodology and proposes clear recommendations for improvement. It is hoped that Young Entrepreneurs, and organizations that represent them such as HIPMI, will use them as a tool for their advocacy work, and that a concerted effort to create solutions will result in more decent jobs for youth.

This publication was funded by the Embassy of the Kingdom of the Netherlands in Jakarta. Swisscontact conducted the Business Environment Perception Survey (BEPS) for Young Entrepreneurs in the four provinces East Java, South Sulawesi, East Nusa Tenggara and Papua and prepared a first draft of the paper. The analysis and final draft of the present paper was produced by Jakob von Fircks. Particular appreciation is also given to Prof. Mudrajad Kuncoro and his team from Gadjah Mada University for their contribution and hard work in analysing and structuring the results of the survey.

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Many local stakeholders and 1,600 Young Entrepreneurs from those four provinces have contributed through their participation in the Business Environment Perception Survey and focus group discussions. HIPMI, the Indonesian Young Entrepreneurs Association, provided valuable support in the implementation and finalization of this report. ■

Jakarta, 11 August 2011

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# Abbreviations and Acronyms

<b>APINDO</b>	Asosiasi Pengusaha Indonesia (Indonesian Entrepreneurs Association)
<b>BDS</b>	Business Development Services
<b>BEPS</b>	Business Environment Perception Survey
<b>BMO</b>	Business Membership Organization
<b>BPR</b>	Bank Perkreditan Rakyat (Rural Credit Union Bank)
<b>BPS</b>	Badan Pusat Statistik (Statistics Indonesia)
<b>FDI</b>	Foreign Direct Investment
<b>FGD</b>	Focus Group Discussion
<b>GDP</b>	Gross Domestic Product
<b>GEDI</b>	Global Entrepreneurship and Development Index
<b>GNI</b>	Gross National Income
<b>GRDP</b>	Gross Regional Domestic Product
<b>GTZ</b>	Gesellschaft für Technische Zusammenarbeit (German Development Cooperation)
<b>HDI</b>	Human Development Index

<b>HIPMI</b>	Himpunan Pengusaha Muda Indonesia (Indonesian Young Entrepreneurs Association)
<b>HO</b>	Izin Hinder Ordonnantie / Izin Gangguan (Nuisance License)
<b>IDR</b>	Indonesian Rupiah
<b>IFC</b>	International Finance Cooperation
<b>ILO</b>	International Labour Organization
<b>IUI</b>	Ijin Usaha Industri (Licence for Industrial Businesses)
<b>Jamsostek</b>	Jaminan Sosial Tenaga Kerja (Workers' Social Security Program)
<b>Kemenakertrans</b>	Kementerian Tenaga Kerja dan Transmigrasi (Ministry of Manpower and Transmigration)
<b>KPPOD</b>	Komite Pemantauan Pelaksanaan Otonomi Daerah (Committee to Monitor the Implementation of Regional Autonomy)
<b>NPL</b>	Non Performing Loans
<b>NTT</b>	Nusa Tenggara Timur (East Nusa Tenggara)
<b>OSS</b>	One Stop Services (Pelayanan Terpadu Satu Pintu)
<b>SD</b>	Sekolah Dasar (Elementary School)
<b>SITU</b>	Surat Ijin Tempat Usaha (Business Location License)
<b>SIUP</b>	Surat Ijin Usaha Perdagangan (Business Trade License)
<b>SMA</b>	Sekolah Menengah Atas (Senior High School)
<b>SME</b>	Small and Medium Enterprises
<b>SMK</b>	Sekolah Menengah Kejuruan (Vocational Training School)
<b>SMP</b>	Sekolah Menengah Pertama (Junior High School)
<b>SMU</b>	Sekolah Menengah Umum (Public Senior High School)
<b>TDP</b>	Tanda Daftar Perusahaan (Business Registration Certificate)
<b>WEF</b>	World Economic Forum
<b>YE</b>	Young Entrepreneur



# Executive Summary

**YOUTHS** (people aged 15-29 years) account for 31.8 per cent of the Indonesian labour force. This equals 36.9 million out of the total national labour force of 116 million persons (BPS 2010). This age group is disproportionately affected by unemployment, with youth unemployment rates five times higher than those of adults. Even though Indonesia has been experiencing a slight decrease in youth unemployment since 2005, the challenge remains particularly severe, with a youth unemployment level of 22.2 per cent in 2009 (BPS 2010b).

Whereas many young women and men are forced into self-employment to make ends meet, few of them end up building sustainable businesses. To create better employment possibilities for youths and to facilitate the transition to the formal economy, it is critical to tackle the root causes of the prevailing low rate of entrepreneurship in Indonesia.

Young Entrepreneurs (YEs) are especially dependent on a business enabling environment. They are, more so than adult entrepreneurs, confronted with business constraints such as limited access to markets, raw materials and capital. To create opportunities for YEs and unleash their full potential to build successful enterprises, policy makers need a thorough understanding of the business environment of YEs and the constraints they are facing.

This survey constitutes the first comprehensive business climate survey of Young Entrepreneurs by the International Labour Organization (ILO). The objective of this survey is to assist policy makers and stakeholders to improve business conditions for YEs through a better understanding of their characteristics and the identification of specific obstacles that impede their businesses.

## Methodology

**THREE** sources of information have been analysed: primary data were collected through (a) the Business Environment Perception Survey (BEPS) of 1,600 Young Entrepreneurs and (b) focus group discussions (FGDs) with YEs and policy makers. Both sources were enriched with (c) a review of secondary data.

The four Indonesian provinces selected for the study represent the diversity of the business environment faced by YEs across the country: East Java, South Sulawesi, East Nusa Tenggara and Papua. In each province, the sample includes one urban setting (the provincial capital) and one semi-urban area represented by a district with a medium-sized city. It was beyond the scope of this study to analyse the situation of young entrepreneurs in rural settings.

For the Business Environment Perception Survey, 400 Young Entrepreneurs were interviewed in each province. The sample size provides a minimum level of confidence of 95 per cent with a 7 per cent margin of error. The sample is designed to represent the entire group of Young Entrepreneurs in the 15-29 age group, applying stratification for locations, economic sectors and gender.

The widely accepted concept of the “Business Enabling Environment”<sup>1</sup> was adapted to identify a set of key factors that are most suitable to assess the business environment of YEs. These key factors are: (1) Cultural and Social Values, (2) Business Assistance, (3) Regulatory Environment (4) Business Dynamics, (5) Access to Finance and (6) Human Resources and Employment.

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<sup>1</sup> According to Buckley et al. (2009), “[a] good business environment enables entrepreneurs to expand their activities and creates incentives for them to formalize their businesses.” (p. 27).

# Characteristics of Young Entrepreneurs in Indonesia

From the findings of this study, it is possible to draw a broad picture of Young Entrepreneurs in Indonesia. It is important to understand these characteristics when addressing issues related to the business environment of Young Entrepreneurs. The following sets of characteristics were identified:

First and foremost, the majority *of Young Entrepreneurs are self-employed or run a micro business*. The survey data show that they rarely have more than four employees.

Second, there is *a high rate of family involvement* in the businesses of Young Entrepreneurs. Most commonly, members of their direct or extended family are employed. About half of the survey respondents also started their business in conjunction with a family member. As the age of the YE rises, family involvement lessens.

Third, the majority of Young Entrepreneurs *work in the Wholesale Trade, Retail Trade, and Restaurants and Hotels sectors*. In contrast, only a few work in sectors such as manufacturing, construction or financial services. The sectors with the most opportunities for Young Entrepreneurs naturally have low entry barriers, demanding low levels of skills, technology and capital, but offer few chances for innovation and higher value creation.

Fourth, the majority *of Young Entrepreneurs work full-time* in their businesses and only a third of the respondents have a second occupation or are still students. They pay their employees mainly directly (in cash) but payments in kind (indirect) are also common. The high occurrence of payment in kind involves the risk of labour exploitation, in particular if those contributions are vital for the receiver.

Fifth, the majority of Young Entrepreneurs have completed senior high school (SMA), followed by junior high school (SMP), senior vocational school (SMK) and university. Interestingly, *the educational background of Young Entrepreneurs is higher than the average level of education among the Indonesian workforce*, suggesting that successful entrepreneurship is not an alternative to education.

Sixth, female Young Entrepreneurs *are slightly younger than their male colleagues*.

# Business Environment of Young Entrepreneurs in Indonesia

As this survey was structured around the six key factors of a Business Enabling Environment, the main findings are presented according to these factors below.

## 1. CULTURAL AND SOCIAL VALUES

*Independence and a higher income are the two prevailing incentives for Young Entrepreneurs to start a business. But the lack of alternatives on the job market also pushes youths to become entrepreneurs.* Given the prevailing oversupply of youths entering the Indonesian labour market, entrepreneurial activities are crucial to prevent youth unemployment.

*Young Entrepreneurs value their profession highly, indicating a high level of self-fulfilment that entrepreneurship provides.* At the same time, however, the findings indicate the low social status of entrepreneurs together with a lack of entrepreneur role models in Indonesia. The two findings are not contradictory; the high validation shows the individual satisfaction among Young Entrepreneurs while the lack of entrepreneur role models indicates their low status in the Indonesian society. This is further reflected in the finding that 'status' is almost non-existent as a motivational source for the survey respondents.

*Age-related mistrust is, generally speaking, not a major business constraint for Young Entrepreneurs in Indonesia.* Few of them perceive mistrust (from customers or suppliers) due to their age as a severe constraint. Age-related mistrust in relation to access to finance, by contrast, is more complex. Although accessing loans is most difficult for the youngest entrepreneurs, the findings suggest that the constraints mainly depend on the type and maturity of the business rather than on the age of the entrepreneur.

*Young Entrepreneurs in Indonesia have a tendency towards risk aversion.* This attitude hampers successful entrepreneurial activities, as any new venture involves high levels of uncertainty. Promisingly, the survey data indicate that respondents in the youngest age sub-group show a greater willingness to take risks, which suggests a positive shift of attitude in the future.

*Mistrust against female Young Entrepreneurs is an issue, although high regional discrepancies persist.* Surprisingly, female respondents perceive discrimination against women less severely than their male counterparts. This difference in perception might derive from the internalisation of coping mechanisms among female Young Entrepreneurs against discriminative practices in their working life.

## 2. BUSINESS ASSISTANCE

*Awareness and use of Business Development Services (BDS) is very low among Young Entrepreneurs and the large majority does not seek external help.* Interestingly, those who make use of BDS are very satisfied and are ready to pay for such services. The willingness to pay indicates that those services are acknowledged to bring added value to the respondents' businesses. It sends a clear message to BDS providers to promote their services more effectively and offer them to a wider market, including to Young Entrepreneurs.

The low awareness of Business Membership Organizations (BMOs) reveals that *greater utilization of BMOs can be achieved if female Young Entrepreneurs in particular and all Young Entrepreneurs outside of the provincial capitals are made aware of their existence.* Awareness of BMOs is low, as it is for BDS, and very few Young Entrepreneurs are active members of such organizations. The survey data indicate a strong domination of males and of Young Entrepreneurs from provincial capitals in Indonesian BMOs.

## 3. REGULATORY ENVIRONMENT

*Young Entrepreneurs in Indonesia commonly operate without a business license.* This research clearly indicates a very high degree of informality among them. The majority of respondents do not even possess a generic business license. There is a clear positive correlation between formalization and the age of the entrepreneur as well as the maturity of the business, as the initial high costs of entering the formal sector are outweighed by the benefits over time. A comparison with previous studies reveals that the share of informal enterprises among Young Entrepreneurs is similar to that of micro enterprises in Indonesia in general.

*Many Young Entrepreneurs in Indonesia do not see the formalization of their business as an important factor for success.* Business licensing is not perceived as a major constraint by the majority of Young Entrepreneurs, especially in urban areas. The findings of this study suggest that this perception with regard to the formalization of businesses derives from (1) the absence of perceived benefits, or the benefits are outweighed by the associated costs of formalization; and (2) a lack of working mechanisms to enforce formalization. This is especially problematic regarding the non-payment of taxes and the poor compliance with labour standards (e.g. minimum wages, maximum working hours) of informal enterprises.

Business licensing is perceived to be too time consuming, complicated and opaque. In most cases, Young Entrepreneurs perceive the process as too complicated. Oftentimes they even lack any information on how to license their enterprise at all. Additionally, the entrepreneurs simply do not have the time to go through the very time-consuming process of registering since they are too occupied with the managing of the business, while it is perceived that the related costs are not offset by the advantages of formalization



#### 4. BUSINESS DYNAMICS

*The majority of Young Entrepreneurs operate in highly competitive markets, offering the same type of products or services as many other businesses.* A major obstacle to Young Entrepreneurs diversifying their products and services seems to be a lack of capacity for innovation. A minority of the respondents operating in niche markets, on the other hand, are keener to expand their businesses and show great potential for innovation. As innovation is a key indicator for business dynamics it is not surprising that the more innovative businesses tend to be more prosperous and have more employees.

*Many Young Entrepreneurs in Indonesia are reluctant to innovate.* The findings on business dynamics indicate a low level of innovation among Young Entrepreneurs. This trend is particularly distinct among the youngest entrepreneurs. Alarmingly, survey data suggest that it is this attitude, rather than external obstacles, that is preventing them from realizing innovations. Thus, most Young Entrepreneurs do not comprehend that innovation is a prerequisite for growth and sustainable economic success.

#### 5. ACCESS TO FINANCE

*The family is by far the most important source of initial capital for Young Entrepreneurs in Indonesia.* Family involvement is crucial for nascent enterprises, but decreases with the maturity of a business. Implicit in this high level of family involvement is the risk of shared ownership and social pressure on Young Entrepreneurs. Thus they are often forced to ensure that their businesses serve the needs of their families, for example when it comes to hiring employees (see findings on Human Resources and Employment).

*The younger and less experienced Young Entrepreneurs are, the more difficult it is for them to access external finance.* As noted earlier, this is not due to their age but to the maturity of their business and can be directly ascribed to the guidelines of many banks that commonly require a business to have been operating for a minimum of two years before it can get access to loans. Nevertheless, commercial banks are the single main source of external credit for Young Entrepreneurs

*Greater barriers exist for female Young Entrepreneurs than for their male counterparts with regard to access to external finance.* The survey data indicate, however, that more female than male respondents are financially literate, keep financial records and possess bank accounts. The fact that they still have more difficulties accessing external financing indicates that women are still discriminated against.

## 6. HUMAN RESOURCES AND EMPLOYMENT

*Many Young Entrepreneurs face constraints due to a lack of prior working experience when starting their venture.* The majority of those who possess work experience have gained it in family businesses. At the same time, many Young Entrepreneurs have none or very few chances to gain relevant work experience prior to starting their venture.

*Young Entrepreneurs perceive a strong need for further skills development.* The areas of highest demand are financial management, marketing and specific technical skills. The need for skills development is particularly pronounced among start-up entrepreneurs, who need to be targeted specifically (e.g. by Business Development Services). The lack of specific technical skills can be ascribed to the fact that Young Entrepreneurs have predominantly graduated from senior high schools (SMAs) and have not benefited from vocational training.

*Many Young Entrepreneurs consider it difficult to recruit qualified workers.* At the same time, the survey shows that respondents predominantly employ family members. This combination might indicate the burden many of them face as a result of social pressure to employ family members, no matter how qualified they are.

The profile and size of Young Entrepreneurs' businesses reinforces the assumption that while the promotion of entrepreneurship among youths is important to prevent many of them from entering unemployment, *Youth Entrepreneurs themselves are not substantial employer on the job market.*

*There is a very high level of informality among the employees of Youth Entrepreneurs, which is reflected in the low compliance with regional minimum wages and social protection.* One explanation for that is certainly the high level of family involvement. With regard to minimum wages, the survey data suggest that a lack of awareness is the biggest obstacle to greater compliance. The low compliance with social protection (Jamsostek) is partly compensated through other informal schemes that cover medical costs of employees.

## Policy Recommendations

Several issues have to be addressed to improve the business environment for Young Entrepreneurs. Various key findings, presented in Chapter 3, call for action among provincial and national decision makers. The most prominent recommendations that derive from those findings are listed in the following paragraphs.

- I. Most Young Entrepreneurs are concentrated in few business sectors, namely in Wholesale Trade, Retail Trade, Restaurants and Hotels. This concentration is very much due to the low entry barriers (capital, technology, skills) of those business sectors. In line with the new economic policy of six economic corridors, a sector based approach can be applied to *lower the entry barriers related to capital and skills for priority sectors*, and encourage the creation of youth businesses related to specific value chains.
- II. Most Young Entrepreneurs had a higher educational background than the Indonesian average workforce, showing that entrepreneurship is not an alternative to education. The biggest stake of them graduated from a Senior High School (SMA). In contrast with vocational senior high schools (SMK), SMA do not offer entrepreneurship training as part of the curricula, and respondents expressed the need for entrepreneurship skills trainings (on financial management, marketing). This lack of entrepreneurial preparation is further reflected in the attitude of survey respondents who demonstrated risk- and innovation adverse behaviour. Investing in *systematic entrepreneurship training as part of SMA education* would increase the capacity of young people to forecast market opportunities and can play a role in their potential to innovate and in the sustainability and profitability of their enterprises.
- III. Given the limited capacities of the Indonesian formal economy to absorb youth entering the labour market, fostering entrepreneurship among youth is an important measure to prevent them from entering underemployment (e.g. through the inclusion of entrepreneurship training in curricula or outside curricula activities). However, the status of entrepreneurs in the Indonesian society is very low and there is an important lack of entrepreneur role models. National and provincial political leaders would need to *systematically promote through the media the success stories and role models* that can inspire the youth to become entrepreneurs, and contribute to change the society image of entrepreneurship as a job of last resort. In this regard, especially information sharing on the world of work at an early stage would have an impact on the fact based decisions of young people wanting to become entrepreneurs.

- IV. Most Young Entrepreneurs had not used and were not aware of the existence of Business Development Services (BDS), in spite of the fact that those who did, appreciated their support. BDS providers have a responsibility to better promote their services and offer services to a wider market, including Young Entrepreneurs in the respective regions. Government agencies should consider the *use of commercial Business Development Service providers as part of programmes of support for youth enterprises*. A system of vouchers for Young Entrepreneurs, valid with accredited BDS providers, would positively impact (a) the sustainability of the youth businesses, (b) the BDS market.
- V. Almost none of female entrepreneurs, of the youngest entrepreneurs, and of entrepreneurs in rural areas are represented in Business Membership Organizations (BMOs). *BMOs have a responsibility to increase their outreach to women entrepreneurs, younger entrepreneurs and Young Entrepreneurs in rural areas*, to ensure these groups get a voice to represent their interests.
- VI. Formalization is a gradual process: the more years in business the less licensing is perceived as an obstacle. There is scope for increasing the access of new businesses to licensing by *(a) speeding up the licensing process and reducing red tape, (b) making it more transparent, (c) reviewing the system of incentives related to access to finance, access to inputs, markets and support services that will assist and encourage new businesses to get licensed*.
- VII. Young Entrepreneurs with limited business experience face the biggest difficulties to access finance, and rely mainly on family funds. This results in (a) a concentration of business start-up in sectors with low capital requirements and limited development potentials, (b) a lack of true “ownership” by the entrepreneur of his/her business and further claims from the extended family (e.g. on employment decisions). In order to unlock the potential of Young Entrepreneurs with nascent enterprises of less than two years, *innovative solutions to increase their access to finance should be found*. These innovative solutions may include for instance (a) a recognition by the banks of a national entrepreneurship certificate to lower the requirement of two years business experience, (b) micro-leasing where the leased equipment is the guarantee for the lease, (c) micro-franchising arrangements according to which a franchisor’s coaching and support may act as a guarantee for the new Young Entrepreneur. The financial sector rather than the government should take the lead in financial product innovations.
- VIII. Financial services should have a specific focus for women enterprises that experience greater difficulties to access finance, in spite of the fact that female respondents demonstrated greater financial literacy skills. Specific arrangements should be made in *Government support programmes with a minimum share of women businesses to be supported, and women officers to review and discuss women proposals*.

- IX. The low compliance of minimum wages, suggests little awareness about rights at work among Young Entrepreneurs, even when their businesses grow. *There is a need to disseminate the contents of the labour law and regulations among Young Entrepreneurs.*
- X. Most survey respondents had none or very few chances to gain relevant working experience prior to starting their venture. This lack of opportunities for valuable working experience should be addressed by *offering (a) internship opportunities, and (b) school enterprises.*
- XI. *BMOs can play an active role in regularly reviewing the business environment in which Young Entrepreneurs operate, and in advocating for its improvement at provincial and national levels.* While this advocacy has resulted in a strong sector-based national economic plan, more efforts need to be put in ensuring that the joint efforts of the Government and of the private sector are sustained.

# Introduction

## 1.1 Background

**TODAY**, over 30 per cent of the Indonesian labour force consists of young women and men between the ages of 15 and 29. This age group has a disproportionately severe standing in the labour market, with youth unemployment rates that are five times higher than those of older age groups. Although Indonesia has experienced a slight decrease in youth unemployment since 2005, 22 per cent of youths are still without a job (BPS 2010b) – a challenge that calls for immediate action.

2011 is the International Year of Youth, and there seems to be a momentum in Indonesia to improve the participation of youth in Indonesian society and the economy. During a special session of the 100th International Labour Conference in June 2011, the Indonesian President, Susilo Bambang Yudhoyono, called for a coalition of nations to tackle the high levels of unemployment among young people around the world. To address this issue, the President underlined the importance of promoting entrepreneurship, in particular among young people.

Promoting entrepreneurship among youths is an important way to respond to the prevailing oversupply of youth entering the Indonesian labour market. However, the full potential of Young Entrepreneurs (YEs) in Indonesia is not yet being utilized. Whereas many young women and men are forced into self-employment to make ends meet, few of them manage to build sustainable businesses and enter the formal economy.

Young Entrepreneurs are very dependent on a business enabling environment. They are usually confronted with business constraints such as limited access to markets, raw materials and capital. To create opportunities for YEs and unleash their potential, policy makers need a thorough understanding of the business environment of YEs and the constraints they are facing. Naturally, gained insights have to go hand-in-hand with a strong commitment by national and regional decision makers to tackle those constraints.

The Indonesian government is aware of this challenge and has shown a high level of commitment to creating a better business environment for Young Entrepreneurs. To name just a few examples, the Ministry of Manpower and Transmigration has designed various programmes to encourage entrepreneurship, with a focus on youth with few chances on the formal labour market. The “Action Program of the Ministry of Manpower and Transmigration 2010” includes entrepreneurial competency training for women, start-up entrepreneurs and transmigrants. The Ministry of Youth and Sports is also implementing a range of measures to support young entrepreneurs in different age groups and at different stages of their ventures. These measures predominantly target entrepreneurship training and facilitation, access to capital and character building and leadership formation among Indonesian youth. Nevertheless, entrepreneurship development is not yet part of a grand strategy framework for Indonesia, and mandates tend to overlap among different government agencies (Kemenpora 2011).

## 1.2 Research Questions and Objectives

This survey constitutes the first comprehensive business climate survey of Young Entrepreneurs by the International Labour Organization (ILO) in Indonesia. The objective of this survey is to assist policy makers and stakeholders to improve conditions for Young Entrepreneurs through a better understanding of the business environment of YEs and the identification of specific constraints. The present study is based on a Business Environment Perception Survey undertaken in four provinces of Indonesia: East Java, South Sulawesi, East Nusa Tenggara and Papua. In each province the survey population was divided between the provincial capital and one semi-urban district. While some of the findings of this study are globally valid for the situation of Young Entrepreneurs worldwide, others are specific to Indonesia. The emphasis of this research was on the business environment in urban and semi-urban areas, excluding the situation for self-subsistence farmers. This survey also reveals the particular situation of young women entrepreneurs through a detailed assessment of their situation.

The survey addresses five principal research questions on the business environment of Young Entrepreneurs in Indonesia:

- What is the profile of Young Entrepreneurs?
- What is the broader business environment in which Young Entrepreneurs are operating?
- What are the major constraints and opportunities faced by Young Entrepreneurs?
- What is the institutional framework at the national, provincial and district level regarding legal policy and regulations for YEs?
- What is the level of performance and competitiveness of youth enterprises?

Through this study, major constraints faced by YEs will be brought to the attention of national and regional policy makers and the results will contribute to the international discourse on business enabling environments for Young Entrepreneurs. It is also expected that organizations representing or supporting YEs in Indonesia, and YEs themselves, will be able to use the findings of this study for advocacy purposes.

## 1.3 Outline

**This chapter** explained the background and relevance of Youth Entrepreneurship in Indonesia and presented the main objectives and research questions. **Chapter 2** presents the methodology used in the research. It explains the definition of Young Entrepreneurs, the survey design and the approach to evaluating the business environment for YEs.

**Chapter 3** starts with an overview of the locations of the study before presenting the characteristics of Young Entrepreneurs in Indonesia. The chapter then elaborates six key factors for assessing the business environment that affect YEs, and presents the major constraints they face. **Chapter 4** provides policy recommendations that are drawn from the key findings presented earlier.





# Methodology

## 2.1 Young Entrepreneurs

**THE CONCEPT** of entrepreneurship and the understanding of its role in society were largely coined by 20<sup>th</sup> century economist Joseph Schumpeter. According to Schumpeter, an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation (Schumpeter 1942). He argued that entrepreneurs play a lead role in innovation and technological change and are therefore largely responsible for long-term economic growth. Today, the concept of innovation is more broadly defined and also encompasses new production methods or different ways of marketing products to new markets.

Young entrepreneurs (YEs) are highly relevant to society for several reasons. Worldwide, the 15-29 year old age group accounts for approximately 26 per cent of the population. In societies with an oversupply of labour, self-employment is often the only chance for young people to earn an income. Beyond that, young entrepreneurs have the potential to positively influence society in terms of innovation, competitiveness and employment creation, as this age group could be expected to be particularly responsive to new economic opportunities and trends (IZA 2007). However, policy makers should also be aware that not all youths are capable of becoming successful entrepreneurs.

In this study, a young entrepreneur is defined as a person that (a) has full ownership of a business or runs a business that is owned by his/her family; (b) is

involved in strategic decision making in the business; (c) works at least 20 hours per week for the business and (d) is between 15 and 29 years old.

While many surveys have been conducted on enabling environments for businesses in general, this study analyzes the particular obstacles and constraints for Young Entrepreneurs in Indonesia. Certainly, YEs are under the influence of the same business environment factors that also apply to the general business community, such as infrastructure, business regulation and business dynamics. However, YEs face additional constraints that are unique to this age group, in particular those related to access to finance and credibility when dealing with customers and suppliers (Ciputra 2010).

## 2.2 Survey Design

### 2.2.1 Selection of Provinces

For this survey four provinces were selected that represent the diversity of the business environment faced by YEs across Indonesia. In each province, the sample includes one urban setting (the provincial capital) and one semi-urban area represented by a district with a medium-sized city. The following provinces are part of this study: **East Java** (the city of Surabaya and the district of Jember), **South Sulawesi** (the city of Makassar and the district of Barru), **East Nusa Tenggara** (the city of Kupang and the district of Sikka) and **Papua** (the city of Jayapura and the district of Merauke).

The provinces of East Java and South Sulawesi are among the top ten contributors to Indonesia's GDP, while East Nusa Tenggara (NTT) and Papua represent two of the provinces with the lowest contribution. Moreover, in terms of regional economic growth, the selected provinces represent both above average (East Java and South Sulawesi) and below average (NTT and Papua) GRDP growth rates. The disparity of the four provinces in terms of GRDP, population, size and population density is reflected in **Table 1**. For a more comprehensive overview of the selected provinces for this study, refer to **Chapter 3.1**.

**Table 1: The Characteristics of the research provinces**

Province (in mio. USD)	GRDP 2006 (2006)	GRDP share (million)	Population (km <sup>2</sup> )	Size	Population Density
East Java	271.25	15.1%	37.5	47,922	782.1
South Sulawesi	38.87	1.6%	3.6	62,482	58.1
NTT	10.37	0.5%	4.7	48,718	96.1
Papua	18.41	1,5%	2.9	309,934	9.2

Source: BPS (2010); Bank Indonesia (2010)

### 2.2.2 Survey Instruments

In this research, three sources of information were analyzed to evaluate the business environment for YEs: primary data were collected through (a) the Business Environment Perception Survey (BEPS) of 1,600 YEs and (b) focus group discussions (FGDs) with YEs and policy makers. Both sources were verified and enriched with (c) analysis and a review of statistical and secondary data.

The *Business Environment Perception Survey* (BEPS) is the main source of data for the analysis of the business environment. It covers the perception of 1,600 YEs on the problems and constraints of YEs related to starting and running a business. The BEPS was conducted in collaboration with partners at the national and local levels. The partner at the national level was the Indonesian Association of Young Entrepreneurs (*Himpunan Pengusaha Muda Indonesia*, HIPMI), which endorsed this study and supported its implementation. The survey was conducted between January and March 2010.<sup>2</sup> A two-step quality control process was carried out, including random verifications on interviews as well as data cleaning throughout the survey data gathering process.

In addition to the BEPS, *focus group discussions* (FGDs) were conducted with participants from all survey locations. At each location, two FGDs with YEs and decision makers from the provincial government and the private sector were held. Altogether, 190 people (130 men and 60 women), including 80 YEs, participated. The FGDs were guided by the leading question of how to create opportunities for sustainable enterprises and decent work as defined by Buckley et al. (2009). The FGDs contributed to validating the findings from the BEPS and obtaining a better understanding of the business environment affecting YEs.

In addition to primary data obtained from the sources described above, the study also reviewed statistical and secondary data to verify and enrich the insights gained from those two instruments.

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<sup>2</sup> Except in the province of Papua, where the process took longer than in other locations due to difficulties in finding respondents who met the criteria explained in the previous chapter.

### 2.2.3 Sample Method and Composition

The sampling method for this survey combined elements of probability and non-probability sampling, applying a stratified snowball sampling approach. The two methods were combined to achieve reliable results in a feasible manner.

The strata for the Business Environment Perception Survey of YEs were (a) location, (b) economic sector and (c) gender, which defined the appropriate size for each sample. In each province, the sample consists of 400 respondents (200 in each location), amounting to a total sample size of 1,600 YEs. The sample size of 200 respondents per location provides a minimum level of confidence (95 per cent) with a 7 per cent margin of error based on the total potential business population of the 15-29 age group.<sup>3</sup>

The survey was designed to include all economic sectors, excluding farmers who are producing for self-subsistence only. The classification is in line with the standard industrial classification of economic activities for Indonesia (BPS 2010). The target numbers for YE respondents by economic sector were defined by the overall distribution of businesses per sector for the selected provinces.

Stratification by gender was applied based on the ratio of women to men in the potential business population within the YEs age group, assuming that women and men have equal chances to become YEs. This proportion varies between 50 and 53 per cent across the selected locations for this survey.

To identify the respondents, the snowball sampling method, also known as referral sampling, was applied. Snowball sampling is a method that identifies respondents through referral by previous respondents. For this kind of survey on YEs, snowball sampling was the only feasible way of reaching the target group as most respondents are not registered with any government agency or business membership organization.

### 2.2.4 Limitations of the Survey Design

In the interpretation and analysis of the survey results, the following limitations have to be taken into account.

First, **methodological bias** can occur when applying the snowball sampling method since the results are heavily reliant on the skill of the interviewer to find an appropriate sample as well as to collect the data coherently. This limitation has been mitigated as far as possible by strictly referring to the selection criteria that had been established (i.e. age, position in business, minimum average working hours). Nevertheless, snowball sampling might affect the representativeness of the BEPS findings, in particular at the level of individual locations.

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<sup>3</sup> The potential business population was calculated as follows: "total population in the 15-29 age group" \* "total number of businesses per province" / "total population per province".

Second, **selection bias** occurred as the survey sample did not accurately match the targeted distribution of business sectors. While some economic sectors (in particular *Wholesale Trade, Retail Trade, Restaurants and Hotels*) are overrepresented, fewer YEs could be identified in other sectors (*Manufacturing Industry* (see Table 2). Those deviations were inevitable due to the difficulties in finding YEs in all targeted sectors for the defined gender ratio, and a lack of accessibility due to difficult geographical conditions.

**Table 2: Selection Bias for Distribution of YEs in Economic Sectors**

	<b>Economic Sector</b>	<b>Target</b>	<b>Sample</b>	<b>Dev</b>
1	Agriculture, Forestry, Hunting and Fishery	0	0	0
2	Mining and Quarrying	10	0	-10
3	Manufacturing Industry	138	56	-82
4	Electricity, Gas and Water	0	0	0
5	Construction	19	0	-19
6	Wholesale Trade, Retail Trade, Restaurants and Hotels	936	1096	160
7	Transportation, Storage and Communication	240	184	-56
8	Financing, Insurance, Real Estate and Business Services	105	64	-41
9	Community, Social, and Personal Services	152	200	48
	<b>Total</b>	<b>1600</b>	<b>1600</b>	<b>0</b>

Source: BPS (2010); BEPS (2010)

Third, response bias might have resulted from different interpretations of questions, or in cases where respondents deliberately shaped their answers. When discussing the results of the survey, it is important to take into account that most indicators of the BEPS are based on the perceptions of the respondents (53 out of 66 indicators).

## 2.3 Measuring the Business Environment for Young Entrepreneurs

### 2.3.1 Previous Empirical Studies

Business competitiveness has been measured extensively across different countries. Most of the studies conducted in Indonesia have concentrated on identifying key obstacles to doing business. **Table 3** gives a broad overview of the most important surveys.

Table 3: Measuring Business Competitiveness in Indonesia

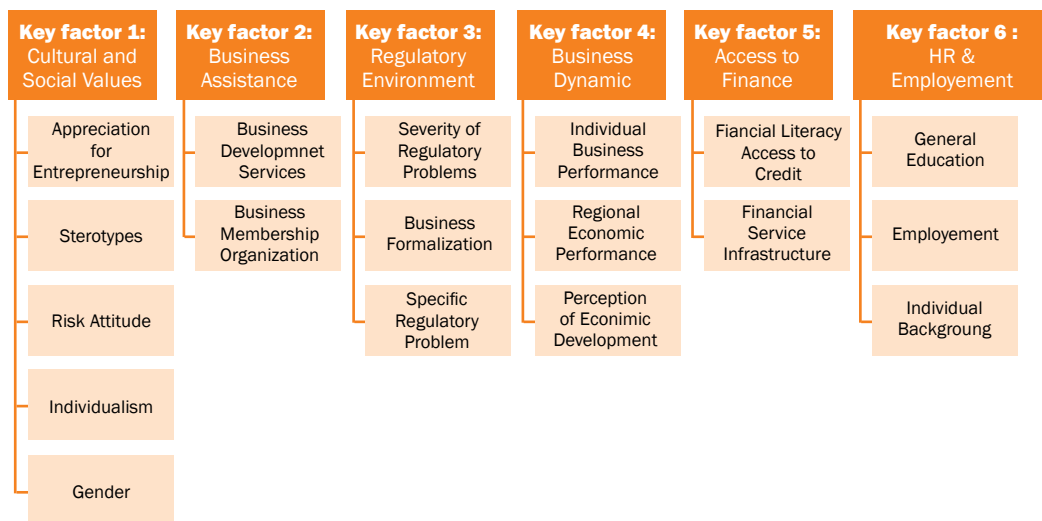
Survey / Institute	Methodology	Key findings for Indonesia
Enterprise Surveys (World Bank/IFC 2009)	Firm-level surveys of a representative sample of small, medium and large enterprises. A broad range of business environment topics including (a) access to finance, (b) corruption, (c) infrastructure, (d) crime, (e) competition, and (f) performance measures are covered. The standard survey design allows for comparisons across countries and regions.	The Enterprise Survey for Indonesia identified access to finance, political stability and infrastructure among the main obstacles to doing business as perceived by the private sector. These obstacles are particularly identified by small enterprises, while bigger enterprises also pointed to poor labour regulations and infrastructure.
GEDI Global Entrepreneurship and Development Institute (Acs, Z.; Szerb, L. 2011)	The Global Entrepreneurship and Development Index (GEDI) offers a measure of the quality and scale of the entrepreneurship process in 71 countries. The index is composed around three pillars: entrepreneurial attitudes, activity and aspirations. GEDI consists of individual (survey-based) and institutional variables.	GEDI 2011 ranked Indonesia 46th (out of 71 countries), indicating that entrepreneurial spirit and attitudes still need to be enhanced. In particular, entrepreneurial attitudes were identified as particularly weak (among the lowest of all countries included in the study).
Regional Autonomy Watch (The Asia Foundation 2010)	The Regional Autonomy Watch (KPPOD) conducts Local Economic Governance Surveys that focus on the implementation of regional autonomy in Indonesia since 2001. KPPOD aims at stimulating competition among local governments by ranking districts and provinces according to the local business environment and local governance.	Local Economic Governance surveys currently cover 267 districts and cities across 19 provinces in Indonesia. They indicate that business owners perceive improvement of infrastructure as the most important dimension to bolster regional business climate. In addition, business development programs – in particular for Micro, Small and Medium Enterprises (MSMEs) – are a priority of respondents.
Business Climate Survey (GTZ 2007)	GTZ has been supporting stakeholders in conducting and publishing enterprise surveys covering Central Java on a bi-annual basis since 2003, evaluating the business performance and the business environment.	The GTZ business climate survey for Central Java stresses that most dynamic sectors are hampered by regulatory weaknesses. Furthermore, the performance of private sector associations is rated as unsatisfying.
Global Competitiveness Report (World Economic Forum 2010)	A recent survey by the World Economic Forum compared obstacles to doing business in Indonesia.	In line with other studies mentioned above, the World Economic Forum report identified inefficient government services, low quality of infrastructure, inadequate access to financing, political instability and restrictive labour regulation as the most problematic factors.

To allow for comparisons it is important that the methodology used in measuring the business environment for YEs is transparent and complies with internationally accepted approaches. Therefore, a wide range of other approaches was considered, including national level indices such as the Doing Business Index from the World Bank/IFC as well as the sub-national Local Economic Governance index supported by the Asia Foundation.

### 2.3.2 Business Environment Key Factors for Young Entrepreneurs

In this study, the widely accepted concept of the “Business Enabling Environment” was adapted to form a set of key factors for the business environment for YEs. The key factors are: (1) Cultural and Social Values, (2) Business Assistance, (3) Regulatory Environment, (4) Business Dynamics, (5) Access to Finance and (6) Human Resources and Employment. Each consists of a number of sub-indices, which are in turn comprised of different indicators (see Figure 1). The key factors include both individual (internal) and institutional (external) variables and use perception-based data as well as regional statistics. They are the basis for the analysis presented in **Chapter 3**.

Figure 1: Key Factors for a Business Enabling Environment for Young Entrepreneurs



The key factors 2 to 6 are standard elements of most business surveys (see **Chapter 2.3.1**), which allow a comparison of the results with other surveys that are not specific to YEs. However, adjustments have been made to some of the indices to better accommodate the specific situation of YEs. This study introduces a specific key factor on cultural and social values, assuming that they are particularly relevant for the business environment of YEs. Furthermore, the focus of key factor 5, Access to Finance, was widened to include informal sources of finance. A thorough explanation of the different key factors, sub-indices and indicators can be found below.



### 2.3.2.1 Cultural and Social Values

The first key factor was introduced to reflect the cultural dimension affecting the business environment for YEs. It consists of five sub-indices and 13 indicators (see Table 4). The sub-indices are appreciation of entrepreneurship, stereotypes of YEs, risk attitudes, individualism and gender-related indicators.

**Table 4: Key Factor 1: Cultural and Social Values**

Sub-index 1	Entrepreneurship appreciation	
Indicator 1	Motivation for running a business	Perception
Indicator 2	Desired professions	Perception
Indicator 3	Respected role models	Perception
Sub-index 2	Stereotypes	
Indicator 4	Mistrust from customers	Perception
Indicator 5	Mistrust from suppliers	Perception
Indicator 6	Mistrust from finance providers	Perception
Sub-index 3	Risk Attitudes	
Indicator 7	Competition	Perception
Indicator 8	Work rules	Perception
Sub-index 4	Individualism	
Indicator 9	Security of employment	Perception
Indicator 10	Variety in job	Perception
Sub-index 5	Gender	
Indicator 11	Gap in schooling between women and men	Statistics
Indicator 12	Women's representation in parliament	Statistics
Indicator 13	Discrimination against YE because of sex	Perception

## Box 1: Assumptions behind key factor 1: Cultural and Social Values

The entrepreneurship appreciation sub-index provides information on YEs' motivation for becoming entrepreneurs. It assumes that different motivations for becoming entrepreneurs might have an impact on the success of the business. It also assumes that societies

with a high appreciation for entrepreneurship create an enabling environment for YEs.

The sub-index stereotype is based on the assumptions that YEs face difficulties in their interaction with customers, suppliers and

finance providers due to their age. High levels of mistrust may negatively influence the business environment for YEs.

The risk attitudes and individualism sub-indices have been adapted from Hofstede (1994) and indicate

the degree to which a society considers entrepreneurial attitudes as desirable. These values have an influence on the individual's needs and motives and therefore may positively or negatively influence entrepreneurial

behaviour and the decision to become an entrepreneur. The risk attitudes sub-index is based on evidence that fear of failure is one of the most important obstacles to start-ups (Caliendo et al., 2009).

Gender equality is assumed to positively influence the business environment for YEs as the potential of both male and female entrepreneurs can be better utilized.

### 2.3.2.2 Business Assistance

Sub-index 6 assesses awareness, use and satisfaction with business development services (BDS).<sup>4</sup> Both awareness and use of business services indicate the level of external support that is available to YEs.

Sub-index 7 assesses awareness of and membership in Business Membership Organizations (BMO) as potential providers of business development services and representation of their interests. All indicators in key factor 2 are perception-based (see Table 5).

**Table 5: Key factor 2: Business Assistance**

Sub-index 6	Business Development Services	
Indicator 18	Awareness of BDS	Perception
Indicator 19	Use of BDS	Perception
Indicator 20	Satisfaction with BDS	Perception
Indicator 21	Willingness to pay for BDS	Perception
Sub-index 7	Business Membership Organization	
Indicator 22	Awareness of BMO	Perception
Indicator 23	Membership in BMO	Perception

<sup>4</sup> Business Development Services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion (World Bank Group 2011)

## Box 2: Assumptions behind key factor 2: Business Assistance

Sub-index seven assumes that YEs are highly dependent on external help and that few entrepreneurs can establish or expand a business without access to some type of business development services, which may be provided by formal or informal sources

(ILO/UNDP 1999).

Membership in a BMO provides YEs with a platform for networking and representation of their interests and is therefore expected to have a positive impact on their venture. This is supported

by Shane and Cable, who suggest that entrepreneurs with networks can identify more viable opportunities, access better resources and, eventually, be more successful (Shane, Cable 2003).

### 2.3.2.3 Regulatory Environment

Sub-index 8 assesses the regulatory environment. Respondents were asked to choose from a list of ten issues, indicating the problems they face with regard to the regulatory environment and ranking them by severity. The list of regulatory issues was presented in the form of show cards.

Sub-index 9 looks into issues related to business formalization. Minimum compliance was defined as possessing at least one generic business license (Nuisance License / HO, Business Location License / SITU, License for Industrial Businesses / IUI, Business Trade License / SIUP, or Business Registration Certificate / TDP).

Table 6: Key factor 3: Regulatory Environment

Sub-index 8	Regulatory Problems	
Indicator 24	Overall severity of regulatory problems	Perception
Indicator 25	Frequency of business inspection	Perception
Indicator 26	Severity of legal and illegal charges	Perception
Sub-index 9	Business Formalization	
Indicator 28	Minimum compliance with business licenses	Perception
Indicator 29	Maximum compliance with business licenses	Perception
Indicator 30	Perception of business licenses as major obstacle	Perception

## Box 3: Assumptions behind key factor 3: Regulatory Environment

Key factor 3 is based on evidence that a sound regulatory framework is a fundamental pillar for a business enabling environment.<sup>5</sup> Based on that, perceptions

of YEs on business formalization and specific regulatory problems were assessed and compared across the different locations of this study. With the implementation of

regional autonomy in Indonesia, many regulatory issues are now the responsibility of local government authorities and are not consistent across the country.

### 2.3.2.4 Business Dynamics

Key factor 4, Business Dynamics, includes individual business performance and economic development, which are measured through perceptions on market position, change in turnover, degree of innovation and business expansion plans. Sub-index 11 on regional economic performance takes into account growth rates of Gross Regional Domestic Product (GRDP) and the level of open unemployment.

**Table 7: Key factor 4: Business Dynamics**

Sub-index 10	Individual Business Performance	
Indicator 31	Market position	Perception
Indicator 32	Change in turnover in the last year	Perception
Indicator 33	Innovation during the last year	Perception
Sub-index 11	Regional Economic Performance	
Indicator 34	Average GRDP growth 2006-08	Statistics
Indicator 35	Open unemployment 2008	Statistics
Sub-index 12	Perception of Economic Development	
Indicator 36	Economic development last year	Perception
Indicator 37	Economic development next year	Perception
Indicator 38	Plans to increase staff	Perception
Indicator 39	Plans for innovation	Perception
Indicator 40	Plans for business expansion	Perception

<sup>5</sup> For example Buckley et al., 2009

## Box 4: Assumptions behind key factor 4: Business Dynamics

Key factor 4 assumes that a dynamic local economy will also be beneficial for YEs. Regional economic data is conjoined with the percep-

tions of YEs on individual performance and economic development. This combination of sub-indices is important to verify whether

the sub-group of YEs has a share in the overall regional development.

### 2.3.2.5. Access to Finance

Key factor 5 assesses access to finance for YEs. It is widely recognized that access to finance is more difficult for YEs and start-up businesses than for well-established businesses (Schoof 2006). Access to finance is not limited to formal sources of finance, such as banks or other financial institutions, but may also include informal types of financing from family or friends.

The index consists of the sub-indices financial literacy, access to credit and financial service infrastructure. Financial literacy was, for instance, measured by asking whether YEs keep financial records. Access to credit is measured by perceptions on accessing external finance and the financial history of respondents. The sub-index on financial service infrastructure is based on statistical data.

**Table 8: Key factor 5: Access to Finance**

Sub-index 13	Financial Literacy	
Indicator 41	Has a bank account	Perception
Indicator 42	Financial record keeping	Perception
Indicator 43	Availability of legal documents for access to credit	Perception
Sub-index 14	Access to Credit	
Indicator 44	Severity of problem in finding access to finance	Perception
Indicator 45	Willingness to take credit	Perception
Indicator 46	Ever had external financing	Perception
Indicator 47	Never had external financing, but has previously applied	Perception

Sub-index 15	Financial services infrastructure	
Indicator 48	Average growth of outstanding loans 2004-2008 in BPR (Bank Perkreditan Rakyat, people's credit bank)	Statistics
Indicator 49	Average growth in outstanding loans 2008-2009 in commercial banks	Statistics
Indicator 50	NPL (Nonperforming Loan) growth rate 2007/2008 in BPR and Syariah Banks	Statistics
Indicator 51	NPL growth rate 2008/2009 in commercial banks	Statistics
Indicator 52	Number of BPR offices per capita, 2009	Statistics
Indicator 53	Number of commercial bank offices per capita, 2009	Statistics
Indicator 54	Number of cooperatives per capita, 2009	Statistics

## Box 5: Assumptions behind key factor 5: Access to Finance

Key factor 5 is based on the assumption that financial literacy (Sub-index 13) has a big impact on the capacity to access finance. In Indonesia this might constitute a seri-

ous hurdle for many YEs. As explained earlier, the index is not limited to formal sources of financing but uses a broader definition of financial services, including informal

sources (Sub-index 14). It is also assumed that access to finance is positively influenced by the level of financial infrastructure (Sub-index 15).

### 2.3.2.6 Human Resources and Employment

The last key factor assesses issues YEs face in connection with human resource development and employment. It consists of the general education level (statistical data), the availability of qualified workers and their employment situation.

**Table 9: Key factor 6: Human Resources and Employment**

Sub-index 16	General Education	
Indicator 55	Ratio SMA/SMK (senior/vocational high school) students	Statistics
Indicator 56	District Human Development Index	Statistics
Indicator 57	School enrolment rate 13-15	Statistics
Indicator 58	School enrolment rate 16-18	Statistics
Sub-index 17	Employment	
Indicator 59	Problems finding qualified workforce	Perception
Indicator 60	Problem with minimum wages	Perception
Indicator 61	Awareness of Jamsotek (social security program)	Perception
Indicator 62	Have work contracts	Perception
Sub-index 18	Individual Background	
Indicator 63	Last formal education	Perception
Indicator 64	Work experience	Perception
Indicator 65	Internet/computer use	Perception
Indicator 66	Need for skill development	Perception

## Box 6: Assumptions behind key factor 6: Human Resources and Employment

Key factor 6 presumes that both employment-related issues (Sub-index 17) and

the individual education and skills of YEs (Sub-index 18) have a stake in creating an

enabling business environment.

# Business Environment for Young Entrepreneurs

**THIS** chapter begins with a brief overview of the provinces covered in this study (section 3.1) and then presents the characteristics of Young Entrepreneurs (YEs) in those regions (Section 3.2). Understanding the key features of YEs is a necessary prerequisite to address policies that improve their business environment. It will also provide the reader with a clearer picture of how the business environment factors are affecting them.

Section 3.3 presents the core findings of the Business Environment Perception Survey (BEPS), supplemented with national and regional statistics and a review of secondary literature. The analysis examines how different factors within the six different business environment indices – which have been designed to cover the complex reality of YEs in Indonesia – are supporting or constricting them. Those six indices are: (1) Cultural and Social Values, (2) Business Assistance, (3) Regulatory Environment, (4) Business Dynamics, (5) Access to Finance and (6) Education and Human Resources. Major constraints faced by YEs should be brought to the attention of national and regional policy makers and contribute to the international discussion on business enabling environments for Young Entrepreneurs.



## 3.1 Overview of the Provinces

### 3.1.1 East Java

The province of East Java is located in the eastern part of Indonesia's most populated island, Java. With 37,794,003 inhabitants, this area has a high population density of 799 people per square kilometre. Economically, East Java is one of the strongest provinces of Indonesia with a GRDP per capita of USD 1,844<sup>6</sup>, yet 16.68 per cent of the population live below the poverty line. The Human Development Index (HDI) for East Java is 69.2, slightly below the average Indonesian HDI (73.4). The GRDP growth for East Java in 2008 was 5.9 per cent (see Table 10).

**Table 10: Key indicators for East Java**

Indicator	Surabaya	Jember	East Java
Geographic area (km <sup>2</sup> )	355	3,293.34	47,156
Density (persons per km <sup>2</sup> )	7,970	658	799
Population (2009)	2,829,486	2,168,732	37,794,003
Population (15-29 years old) (2009)	993,150	579,268	9,071,871
Female population (2009)	49.76%	51%	51.21%
GRDP growth (2007-2008)	6.26%	6.90%	5.90%
Open unemployment rate (2008)	7.19%	3.70%	5.87%
Adult literacy rate (2006)	99.81%	93.85%	87.13%
School enrolment rate for 7-18-year-olds (2008)	73.99%	65.29%	80.84%
Gender gap in school enrolment rate (men-women)	2.26%	2.26%	1.93%
Human Development Index (2006)	75.1	63.0	69.2

Source: BPS (2009)

The two districts chosen as the locations for this study in East Java are Surabaya and Jember. Surabaya is the capital of the province of East Java and is the second largest city in Indonesia, with a population of 2,829,486. Surabaya is the most important trading port of East Java and the gateway to the east. Jember is a rural district with a population of 2,168,732 and a population density of 7.9. Principal exports include sugar, tobacco, chocolate and coffee (BPS 2009).

<sup>6</sup> At current market prices in USD (average 2010)

### 3.1.2 South Sulawesi

South Sulawesi is located on the south-western peninsula of the island of Sulawesi, bordering the Makassar Strait to the west, the Bone Bay to the east and the Flores Sea to the south. South Sulawesi has a population of 7,805,024, and a population density of 170.55 people per square kilometre. The GRDP per capita is USD 1,210, less than East Java's GRDP, but with a lower proportion of people living below the poverty line (12.31 per cent). Around 8.74 per cent of the population in South Sulawesi is unemployed (BPS 2009). The GRDP growth of South Sulawesi in 2008 was 7.78 per cent (see Table 11).

**Table 11: Key indicators for South Sulawesi**

Statistical Indicator	Makassar	Barru	South Sulawesi
Geographic Area (km <sup>2</sup> )	175.77	1,174.72	45,764.53
Density (persons per km <sup>2</sup> )	7.29	136.57	170.55
Population (2009)	1,235,656	160,428	7,805,024
Population (15-29 years old) (2009)	363,159	18,818	1,873,206
Female population (2009)	52.79%	51.54%	51.79%
GRDP average growth (2005-2007)	8.10%	4.97%	6.52%
GRDP growth (2007-2008)	10.52%	6.98%	7.79%
Open unemployment rate (2008)	8.06%	0%	8.74%
Adult literacy rate (2006)	99.07%	5.87%	85.72%
School enrolment rate for 7-18-year-olds (2008)	68.63%	1.49%	75.22%
Gender gap in school enrolment rate (men-women)	0.001%	0.01%	-2.10%
Human Development Index (2006)	76.9	68.6	68.8

Source: BPS (2009)

The two districts chosen as locations for this study in South Sulawesi are Makassar and Barru. Makassar is the capital and largest city of South Sulawesi, with a population of 1,235,656 spread across 14 sub-districts. Makassar's main economic sectors are trade, accommodation and restaurants, followed by manufacturing, transportation and communications. Barru is a rural area situated on the west coast of South Sulawesi, with a population of 160,428 residents spread across seven sub-districts. In Barru more than 10 per cent of the population is unemployed. (BPS 2009).

### 3.1.3 East Nusa Tenggara

East Nusa Tenggara (NTT) consists of 550 islands that are located geographically in the southeast of Indonesia. The three largest islands in the province are Flores, Sumba and Timor. NTT has only about 4.5 million inhabitants, with a population

density of just 95.8 people per square kilometre. With GRDP per capita at USD 525, NTT is one of the poorest provinces (BPS 2009).

The local inhabitants' livelihoods are affected by harsh environmental conditions and limited natural resources. Not surprisingly, the Human Development Index (HDI) for this province is 64.8, lower than the Indonesian average (Table 12).

**Table 12: Key indicators for East Nusa Tenggara**

Indicator	Kupang	Sikka	NTT
Geographic area (km <sup>2</sup> )	160	1,371	47,349
Density (persons per km <sup>2</sup> )	1,827	161	96
Population (2009)	292,922	278,628	4,534,319
Population 15-29 years old (2009)	32,836	39,927	1,284,596
Female population (2009)	50.83%	51.62%	50.23%
GRDP growth (2007-2008)	7.45%	4.09%	4.81%
Open unemployment rate (2008)	11.99%	4.92%	2.78%
Adult literacy rate (2006)	99.36%	95.41%	86.5%
School enrolment rate for 7-18-year-olds (2008)	70.43%	66.85%	72.89%
Gender gap in school enrolment rate (men-women)	-2.07%	-2.07%	-0.67%
Human Development Index (2006)	74.7	65.90	64.8

Source: BPS (2009)

The two districts chosen as locations for this study in NTT are Kupang and Sikka. Kupang is the capital city of NTT and was an important trading port during the Dutch colonial era. Residents live mainly from trade, restaurants, accommodation (e.g. hotels) and other services. The other location for this study is Sikka. Sikka is a rural district with a population of 295,134. The district of Sikka has abundant cocoa, candlenut, and cashew crops and most residents work in the agricultural sector

### 3.1.4 Papua

The Indonesian province of Papua is situated in the western part of the island of New Guinea. The predominantly Christian population in this 2,342,804 square kilometre area is widely dispersed, with a population density of only 6.49 people per square kilometre and only 2 million inhabitants. The main ethnic groups are indigenous Papuans and transmigrated Javanese. Rich in natural resources, Papua's GRDP per capita is USD 2,941, one of the highest in Indonesia.

Papua is rich in natural resources (including oil, copper and gold but lags behind other provinces in Indonesia in terms of social indicators, with a poverty level

that by far exceeds the national average. For the majority of the population, agriculture provides a subsistence livelihood. In Papua only 75.41 per cent of the population can read and write, with literacy rates at around 78 and 67 per cent for men and women respectively. School attendance is only 6.5 years on average. Unsurprisingly, the Human Development Index (HDI) for Papua is also below the national level (see Table 13; BPS 2009).

**Table 13: Key indicators for Papua**

Indicators	Jayapura	Merauke	Papua
Geographic Area (km <sup>2</sup> )	940	45,071	317,062
Density (persons per km <sup>2</sup> )	252	4	6.49
Population (2009)	236,456	185,718	2,056,000
Population (15-29 years old) (2009)	68,974	54,397	584,300
Female population (2009)	46.97%	47.49%	48.14%
GRDP average growth (2005-2007)	12.58%	5.60%	7.87%
GRDP growth (2007-2008)	9%	8.02%	-1.48%
Open unemployment rate (2008)	12.32%	7.58%	4.13%
Adult literacy rate (2006)	99.4%	97.94%	75.43%
School enrolment rate for 7-18-year-olds (2008)	75.4%	71.85%	71.78%
Gender gap in school enrolment rate (men-women)	6.86%	6.86%	4.74%
Human Development Index (2006)	62.5	73.1	62.8

Source: BPS (2009)

The two locations chosen for this study in Papua are Jayapura and Merauke. Jayapura is not only the capital city of the province of Papua but is also the most developed city in the province. Jayapura has a population of 236,456, spread across five sub-districts (Table 13). The second city in Papua is Merauke. Merauke is the easternmost city in Indonesia, with 185,718 inhabitants, and is divided administratively into 20 sub-districts.

### 3.2 Characteristics of Young Entrepreneurs in Indonesia

Young Entrepreneurs (YEs) in the survey locations possess a set of specific characteristics that must be understood when attempting to improve the business environment they are operating in. The following paragraphs provide an overview of the key characteristics of YEs in the four locations of the study: East Java, South Sulawesi, East Nusa Tenggara and Papua.

## Box 7: Key Characteristics of YE respondents

- The first characteristic is that the majority of YEs are self-employed individuals (29 per cent) or running a micro business (65 per cent). Survey data show that only in exceptional cases do YEs have more than four employees (6 per cent).
  - Second, there is a high rate of family involvement in YEs' businesses. YEs commonly employ members of their direct or extended family. About half of the YE respondents also started their business together with a family member.
  - Third, the majority of YEs work in Wholesale Trade, Retail Trade, Restaurants and Hotels (Business Sector 6; according to BPS).
- YEs working in business sectors such as manufacturing, construction or the financial industry are, by contrast, very rare.
- Fourth, YEs do pay the majority of their employees directly (in cash) but payments in kind (indirect) are also very common. The majority of YEs work full-time in their business (65 per cent) while the remaining YEs have a secondary occupation or are still students.
  - Fifth, the majority of YE respondents have completed senior high school (SMA), followed by junior high school (SMP), senior vocational high school and university. YE respondents are thus more educated than the average worker in Indonesia, suggesting that successful entrepreneurship is not an alternative to education.
  - Sixth, the women entrepreneurs in this survey are slightly younger than their male colleagues. The composition of YEs shows no gap between women and men entrepreneurs by their position in the enterprise.
  - Seventh, YEs value their profession highly. YEs rank the profession of entrepreneur as the most appealing, followed by government employee and lecturer/teacher. This view is particular to entrepreneurs and contrasts with the general public perception in Indonesia.

### 3.2.1 Young Entrepreneurs by Business Sector

For a thorough analysis of the characteristics of YEs, the YEs were categorized according to business sector (Table 14).

**Table 14: YEs by Business Sector**

Category	Category Name	YEs' business percentage
3	Manufacturing Industry	12
	Building materials	2
	Manufacturing (Textiles, Metals)	2
	Food Products	6
	Furniture	2

5	Construction	1
	Building Contractor	1
6	Wholesale Trade, Retail Trade,	
	Restaurants & Hotels	57
	Clothing	2
	Spare parts	1
	Food	2
	Tobacco	5
	Staple Foods	5
	Sundries	13
	Stationery	1
	Pre-Paid Phone Vouchers	10
	Fuel Filling Station	1
	Cosmetic Accessories	3
	Electronic	2
	Hotel, restaurant	0
	Food kiosk	12
7	Transportation, Storage and	
	Communication	12
	Public transport provider	2
	Vehicle workshop	4
	Car rental	1
	Telecommunications kiosk	1
	Internet kiosk	3
8	Financing, Insurance, Real Estate and	
	Business Services	6
	House rental	2
	Equipment rental	1
	Games and Books	3
9	Community, Social and Personal	
	Services	13
	Health services	1
	Tailoring, Recreation, Computer course	3
	Printing	1
	Laundry	0
	Beauty Salon	2
	Private Services	6

Source: BPS (2009); BEPS (2010)

The majority (57 per cent) of YE respondents operate a business in Wholesale Trade, Retail Trade, Restaurants and Hotels (Sector 6). Within this sector, Pre-paid Phone vouchers and Food Kiosks as well as Sundries Shops are well-represented, at 10, 12 and 13 per cent respectively. This business sector ranks highest among both women and men.

The second most represented business sector is Community, Social and Personal Services (Sector 9), followed by Transportation, Warehousing and Communication (Sector 7) and Manufacturing Industry (Sector 3). Among YEs' businesses that have been active for less than three years, the most popular business sectors are Sector 6 and Sector 7, indicating that both may be the typical entry sectors for YEs. This is most likely linked to the lower requirements for start-up capital.

## Box 8: Distribution of YEs among Business Sectors

A closer look at the YE business sector distribution shows that the most represented sectors naturally have rather low entry barriers, demanding low levels of skills, technology and capital. Even though other business sectors have greater poten-

tial for innovation and value creation, the most popular sectors have a noteworthy stake in terms of GDP contribution for Indonesia. Sector 6 contributes more than 15 per cent to Indonesia's non-oil and gas GDP, while Sector 9 and Sector 7 account for

another 5 and 7 per cent, respectively (BPS 2010).

Encouraging youth entrepreneurship in other business sectors by supporting YEs to overstep entry barriers is a desirable goal.

### 3.2.2 Young Entrepreneurs by Age and Education

The YE respondents of this survey have been further divided into three age sub-groups: 15-19, 20-24 and 25-29 years. The oldest sub-group (25-29) accounts for 56 per cent of the respondents, followed by the second sub-group (20-24) with 33 per cent and the youngest sub-group (15-19) with 11 per cent. Overall, women entrepreneurs were slightly younger than their male counterparts. The percentage of women below 25 years of age was higher than men, while for the 25-29 age group the percentage was higher for men.

Most YE respondents (43 per cent) have completed senior high school (SMA), followed by junior high school (SMP) with 17 per cent, senior vocational high school (SMK) with 14 per cent and university with 12 per cent. The high proportion of SMA graduates among YEs is surprising as SMA education in general is aimed at preparing students for entry to further academic education (university).

## Box 9: Educational Background of YEs

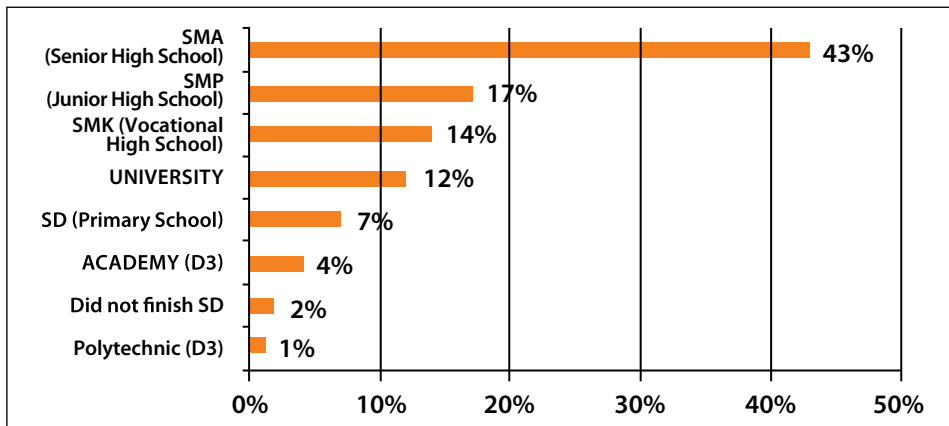
In contrast with other school types (e.g. SMKs), SMAs do not offer entrepreneurship training as part of their curriculum. However, a review of the figures on YEs' educational background presented

above suggests the need for systematic entrepreneurship preparation as part of the SMA curriculum.

Interestingly, the educational background of YE respond-

ents is higher than average for the Indonesian workforce. These data suggest that successful entrepreneurship is not an alternative to education.

**Figure 2: Highest Level of Formal Education (in per cent)**



Source: BEPS (2010)

Survey data reveal that a high proportion of university graduates run businesses in the building construction and health services sectors, while SMA graduates were dominant in almost all sectors (manufacturing, trading and retail, restaurants and catering, transportation and communication, rental services, community and household services). SMK graduates run business in the trading and retail, transportation and communications, restaurants and catering, manufacturing, and community services sectors.



### 3.2.3 Young Entrepreneurs by Position and Years in Business

The most common position of YE respondents in their business is owner/manager (63 per cent), followed by manager of a family business (16 per cent), part-owner (14 per cent) and co-manager with owner (6 per cent).

The majority (62 per cent) of YEs run one business as their sole occupation. Another 16 per cent have another occupation and 11 per cent are still studying. The composition of YEs in this survey shows no gap between women and men entrepreneurs by position of business. The survey data reveal no gap between women and men entrepreneurs.

The data indicate a correlation between the age of the entrepreneur and their commitment: the older the YE, the higher the number who run their business as their sole occupation (56 per cent in the 25-29 age sub-group, compared to 33 and 11 per cent, respectively, in the 20-24 and 15-19 age sub-groups). These data indicate that many YEs start their venture as a part-time operation that may become a full-time occupation depending on its success.

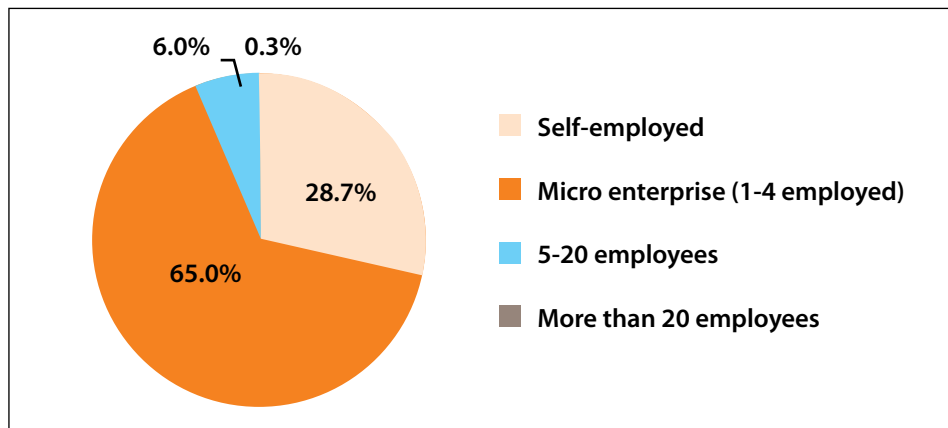
As the experience of YEs increases, their businesses employ more people. The percentage of businesses with one to five employees increases from 23 per cent for businesses that have been running for less than one year, to 30 per cent and 33 per cent for businesses that have been operating for between one and three years, and more than three years, respectively.

### 3.2.4 Young Entrepreneurs by Business Size and Employment

Almost 94 per cent of the YE respondents are self-employed or involved in a micro enterprise with one to four employees. This group is further divided into self-employed without employees (29 per cent) and YEs who are running a micro enterprise with one to four employees (65 per cent). Just 6 per cent of YEs have 5 to 20 employees, and only few YE enterprises have more than 20 employees (**Figure 3**).

Excluding YEs that are self-employed, about 91 per cent of YE businesses are micro enterprises. The composition of micro enterprises among YE respondents exceeds the national average by far, which according to the 2006 Economic Census, amounts to 83 per cent (Kuncoro 2009).

**Figure 3: Number of Employees in YE's Businesses**



Source: BEPS (2010)

A striking feature of YEs is the degree of family involvement in their businesses. The majority of respondents' employees (57 per cent) are direct and extended family members. In all locations (except for Surabaya and Barru) staff are recruited from among family members as a first priority. YEs in Surabaya seem to be more independent from their family; more than two-thirds of employees are non-family members.

Observations on payment patterns revealed that 55 per cent of YEs' employees are paid directly, while 45 per cent receive indirect payments. Direct payment refers to a regularly paid salary, while indirect payment refers to wages paid in the form of compensation (for example, through contributions to education, housing allowance, etc.). The high level of payment in the form of in-kind contributions involves the risk of labour exploitation, in particular if those contributions are vital for the receiver. Work might easily be considered as a "charity" by the employer and may not adhere to the labour standard of "Equal Pay for Work of Equal Value". As an example, informal apprenticeship schemes present opportunities for such abuse, particularly for women (Human Rights Watch 2004).

The majority of YEs and their employees work full time (on average 65 per cent). The highest ratio for full-time employees is in Makassar (80 per cent) and the lowest is in Barru (43 per cent).

### 3.2.5 Young Entrepreneurs by Family Support

Half of all YEs started their business together with their family (50 per cent). For men, the rate was lower (44 per cent) than for women (56 per cent). This stronger family support for women might be partly a result of the higher rate of informality of female YEs' businesses.

Forty per cent of YEs have started their business on their own. Starting a business together with a friend is rather uncommon (only 9 per cent of respondents). Some urban areas (e.g. Surabaya and Jayapura) tend to have a higher number of YE businesses that were started with friends (18 and 17 per cent respectively).

The greater the age, the more likely it seems that YEs will start a business on their own. Respondents in the youngest age category are most likely to start a business with their family (70 per cent) compared to only 41 per cent for the oldest age sub-group.

## 3.3 Business Environment Perception Survey of Young Entrepreneurs

### 3.3.1 Cultural and Social Values

## Box 10: Key findings on Cultural and Social Values

- There are two prevailing motivations for YEs to become entrepreneurs: to be independent and to earn more income. But the lack of alternatives on the job market is also a motivation that pushes youth into entrepreneurship. Given the prevailing oversupply of youth entering the Indonesian labour market, entrepreneurial activities are crucial to prevent youth unemployment. At the same time, for many, entrepreneurial activities constitute the labour market of last resort.
- YEs validate their profession as entrepreneurs highly, indicating the high level of self-fulfilment their profession provides them. At the same time, however, this survey indicates a lack of entrepreneur role models in Indonesia. The two findings are not contradictory; the high validation shows the level of individual satisfaction among YEs, while the lack of entrepreneur role models might indicate their low status in Indonesian society. This is further reflected in the finding that 'status' is almost non-existent as a motivational factor for YEs.
- Surprisingly few YEs in this survey experienced mistrust (from customers or suppliers) due to their age. Age-related mistrust in connection with access to finance, by contrast, is more complex. In general, obstacles to accessing finance seem to derive from business characteristics, such as the type of business and business life span, rather than just age. As the youngest entrepreneurs lack business experience, they are confronted with the biggest obstacles to accessing credit. This is directly linked to bank rules, which commonly re-

quire a lifespan of at least two years for business loan applicants.

- YEs in Indonesia seem to have a clear tendency towards risk aversion, which might hamper entrepreneurial activities. However, the youngest age

sub-group of YEs shows a greater willingness to take risks.

- Mistrust against female YEs is definitely an issue, although one with high regional discrepancies. Surprisingly, female respondents perceive

discrimination against women YEs less severely than their male counterparts. Possibly this difference in perception derives from the internalisation of coping mechanisms of women YEs against discriminative practices in their working life.

**1 - What is the motivation for YEs to become entrepreneurs?** This survey reveals that two motivations for becoming an entrepreneur clearly stand out. The most prevalent motivation is being independent (37 per cent), followed by earning more money (35 per cent).

Ranking third, 11 per cent of YEs stated that they became entrepreneurs because there were no other jobs available on the labour market. With the prevailing over-supply of youth entering the Indonesian labour market, entrepreneurial activities are crucial to prevent young people from being unemployed. The finding above further attests to this and shows the importance of fostering entrepreneurship among youth.

## Box 11: Motivation for YEs to become an Entrepreneur

“Lack of alternatives” as a motivation for becoming an entrepreneur implies clear risks. First, it is not a real motivation in itself, but rather, a temporary compulsion. It is therefore doubtful how sustainable this kind of en-

trepreneurial activity would be, or whether it would lead to innovation with further employment effects. Furthermore, if society tends to perceive entrepreneurial activities as labour of the last resort, the negative image of

entrepreneurs is reinforced. This is further confirmed by the survey finding that YEs rated status as the lowest possible motivation for becoming an entrepreneur.

**2 - Which professions are validated most/least by YEs?** The survey clearly indicates that YEs value their profession highly, as 76 per cent gave their profession the highest validation. This further indicates that in addition to economic gains, being an entrepreneur provides many YEs with self-fulfilment. This is in line with evidence from OECD countries that self-employed young women and men are unusually satisfied with their jobs (Blanchflower and Oswald 2007).

However, women possessed a slightly lower perception of their profession as entrepreneurs compared to men. Moreover, the younger age sub-groups value their profession slightly less than older YEs.

The profession with the second highest ranking is that of government official. This does not include politician, which is, together with farmer, among the professions least validated by YEs. Obviously, farmers are not recognized by YEs as being entrepreneurs. The aversion to the profession of farmer was particularly pronounced by the youngest sub-group (15-19 years).

**3 - Who are the role models of YEs?** To answer this question, respondents were provided with a list of prominent figures, representing different roles in society, including entrepreneurs, artists, philosophers, professional athletes, politicians and religious leaders. The categories and individuals had previously been defined in the Focus Group Discussions.

The survey shows that the role models with the highest acceptance among YEs are religious leaders (37 per cent) followed by philosophers (30 per cent) and athletes (27 per cent). The lowest recognition of role models among YEs are entrepreneurs, with only 6 per cent. Having learnt that YEs validate their profession as entrepreneurs highly, this finding seems quite surprising at first sight. However, the two findings are not contradictory. While the high validation of entrepreneur as a profession shows the high level of individual satisfaction YEs derive from their occupation, this finding, in contrast, indicates a lack of entrepreneur role models in Indonesian society. This is further reflected in the finding that status is almost nonexistent as a source of motivation for YEs.

Respondents from the youngest age sub-group (15-19 years) ranked athletes and artists highest and even assigned a negative rank to entrepreneurs as role models. The older age sub-groups at least attributed a positive ranking to entrepreneurs, although to a much smaller extent than to all other role models.

**4 - What level of mistrust from customers or suppliers do YEs face due to their age?** Surprisingly, mistrust from customers or suppliers due to their age is not a major issue for YEs, with 86 per cent sharing the impression that they have never faced age-related mistrust from their customers. Even more distinct is the low level of mistrust when dealing with suppliers, with 92 per cent of YEs stating that they have never encountered this kind of mistrust.

Both trends can be observed regardless of age sub-group or gender. However, YEs from rural areas perceive a higher degree of mistrust than their urban counterparts. In addition, YEs from the manufacturing sector perceive higher levels of mistrust due to their age. This could stem from tighter competition with larger and more experienced companies.

# Box 12: Age-related Mistrust against YEs

It should be taken into account that mistrust is a construct that may be perceived as being related to age, while in fact some

other factors are at play (e.g. size of business) or vice versa. The surprisingly low perception on age-related mistrust might also indicate

that YEs are providing, to a great extent, products and services for youth of a similar age group.

## **5 - What disadvantages do YEs face in accessing credit because of their age?**

While the key factor on access to finance (Section 3.3.5) explores constraints on accessing finance in general, this indicator reviews difficulties in accessing credit due to age. Only 39 per cent of YEs perceive their age as a problem when accessing credit, while the majority (61 per cent) does not feel discriminated against. This surprising perception is backed up by previous studies showing that micro-finance providers in Indonesia do not particularly discriminate against youths, attaching risks to the type of business, for instance, rather than age. This is not surprising, as youth in Indonesia have higher than average repayment rates (Shrader et al. 2006).

Nevertheless, the percentage of YEs that perceive difficulties in getting access to credit because of their age is higher (at 46 per cent) among the youngest age sub-group (15-19 years), compared to 42 and 35 per cent for the older age sub-groups. A higher degree of mistrust was also perceived by YEs with less business experience. This is directly linked to bank rules, which require a business lifespan of at least two years in order to access credit.

**6 - What is the attitude to risk among YEs in Indonesia?** As noted in Section 2.3.2.1, attitudes to risk (also referred to as uncertainty avoidance) are particularly relevant for start-up entrepreneurs, as starting a new venture involves high levels of uncertainty. Moreover, individuals that are willing to take risks have a higher need for achievement and greater chances to become successful as entrepreneurs. To assess the risk attitudes among Indonesian YEs, three indicators, which have been adapted from Hofstede, are assessed in the following paragraphs: acceptance of competitive behaviour, importance of job security and elements of variety and adventure at work.

The first indicator shows a rather competition-averse attitude among Indonesian YEs, as the majority (57 per cent) agree that competitive behaviour does more harm than good. The youngest age sub-group showed a slightly more favourable perception on competitive behaviour than their more experienced counterparts.

The second indicator reveals the importance of job security for YEs, as 81 per cent argue that it is of the utmost importance to them, again following the same trend as the first indicator. This finding explains the high validation of working for the government (ranked second), which provides probably the highest level of job security among all job categories available in Indonesia. In their profession as YEs, job security, by contrast, is very low or nonexistent.

The assumption behind the third indicator is that having an element of variation and adventure at work encourages proactiveness, a high need for achievement and the creation of ideas. At least 52 per cent of YEs consider this of utmost or high importance. Women YEs have a slightly lower perception of the importance of having an element of variety and adventure at work, suggesting that they might choose their business 'comfort zone' without feeling the necessity to seek variety at work. All four indicators indicate a rather risk-averse attitude among YEs, which might hamper entrepreneurship in Indonesia.

**7 - Are women YEs victims of gender-related mistrust and discrimination?** The majority of YEs (57 per cent) observe that women YEs experience mistrust due to their gender. Surprisingly, women YEs perceive this problem as less severe than their male counterparts. The survey data, however, indicate considerable regional discrepancies. YEs in Jayapura, for example, experience much higher levels of mistrust against women (77 per cent) than on average. Surabaya, in contrast, shows less severe levels of mistrust against women YEs. However, most of the indicators of this survey do not suggest gender discrimination. An exception seems to be access to finance (Chapter 3.3.5), where female YEs do face discrimination.

### 3.3.2 Business Assistance

The second key factor, Business Assistance, assesses awareness, membership and satisfaction with Business Development Services (BDS) and Business Membership Organizations (BMOs) among Young Entrepreneurs in Indonesia.

## Box 13: Key findings on Business Assistance

- Awareness and use of Business Development Services is very low among YEs, and a large majority do not seek external help. Interestingly, those YEs who make use of BDS are very satisfied and are also willing to pay for such services. The readiness to pay indicates the perceived value added for the respondent's business, and this should be a clear message to BDS providers to promote their services more effectively and offer services to a wider market, including YEs.
- The awareness of Business Membership Organizations is similarly low, and very few YEs are active members. Survey data indicate a strong male domination in Indonesian BMOs. This might imply as yet unexploited potential for BMOs to cater for the particular needs of female YEs. YEs from rural areas are very much underrepresented in BMOs.

**8 - Are YEs aware of organizations that provide business assistance?** Awareness of available business support, in particular Business Development Services, is generally very low among YE respondents. Only 23 per cent of all respondents are aware of the existence of BDS. This number was even lower for the youngest age sub-group (14 per cent), which might be more in need of business assistance than any other sub-group.

This low awareness of business services is not specific to YEs in the locations of this survey. A GTZ survey (2007) showed similar low awareness rates (between 5 and 17 per cent) for businesses in Central Java.

Based on the data from this survey, it cannot be concluded whether YEs are not aware of the existence and possibilities that BDS might offer to their businesses, or whether there is a lack of BDS providers that address the particular needs of YEs, who are overwhelmingly self-employed or running micro-businesses.



**9 - Do YEs make use of Business Services?** In line with the low awareness of BDS among YE respondents, the use and retention of such services is also very low. Only 40 per cent of YEs that are aware of BDS have made use of them. Unfortunately this survey did not reveal the reasons for this low level of usage.

From a gender perspective, women YEs use BDS even less than men. Moreover, the proportion of the youngest YEs who make use of BDS is again lower than for the older age sub-groups. Given the widely accepted assumption that YEs are highly dependent on external help and that few entrepreneurs can establish or expand a business without access to some form of formal or informal BDS (ILO/UNDP 1999), these findings are alarming.

**10 - Do Business Services help YEs to improve their business?** Although the proportion of YEs who make use of BDS is very small (9 per cent of all respondents), the great majority of those who do make use of them are very satisfied (64 per cent) or at least partly satisfied (35 per cent) with the service. Only a marginal number of respondents are not satisfied with their experience with BDS.

Moreover, YEs making use of BDS generally pay for them (69 per cent). The willingness to pay indicates the perceived added value for the respondent's business. The findings above suggest that even though few YEs have either made use of BDS or even know about their availability, those who have used them are highly satisfied and willing to pay for such services. This should send a clear message to potential BDS providers to either promote their services more effectively or offer them to a wider market, including YEs and rural entrepreneurs.

**11 - Are YEs aware of Business Membership Organizations?** Awareness of Business Membership Organizations (BMOs) among YEs is also very low. Only 20 per cent are aware of the existence of any BMO (which is slightly lower than awareness on BDS).

In the youngest age sub-group (15-19 years), awareness is particularly low (11 per cent), compared to the older age sub-groups (16 and 24 per cent). Also, the more business experience YEs have, the more they are aware of the existence of BMOs. Awareness tends to be lower in rural areas, indicating lower penetration levels of BMOs in those areas.

**12 - Do YEs make use of Business Membership Organizations?** Of those YEs that are aware of BMOs, only some become active members (37 per cent). The youngest age sub-group is again underrepresented in BMOs. Women show even lower enthusiasm for becoming members of BMOs than men (24 per cent compared to 42 per cent for male YEs). This clear gender difference indicates that many BMOs in Indonesia might be very male dominated. This implies as yet unexploited potential for BMOs to cater for the particular needs of female YEs.

## Box 14: Key findings on Regulatory Environment

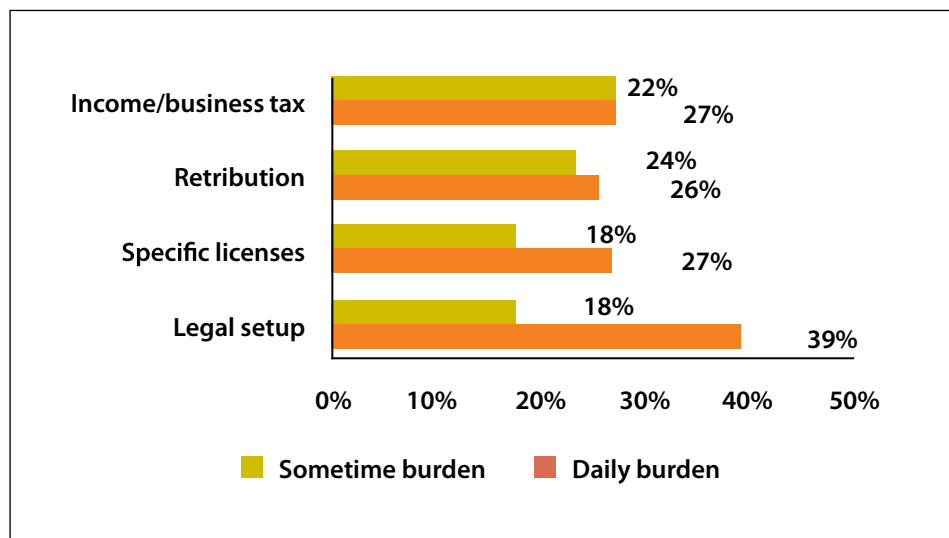
- The survey data clearly indicate a very high degree of informality among YEs in the locations of this study. The majority of respondents do not possess even one generic business license. Not surprisingly, there is a clear positive correlation between formalization and age as well as years of experience in business as the initial entry costs of formalization are outweighed by benefits over time. A comparison with previous studies reveals that the level of informality among YEs is similar to that of micro enterprises in Indonesia.
- The majority of YEs expressed that they do not see licensing and formalization as important factor for success. This trend is even more amplified in urban areas. The high level of informality might derive from a lack of perceived benefits as well as a lack of working mechanisms to enforce formalization.
- Data indicates that with more years in business, licensing is less perceived as an obstacle by Young Entrepreneurs. This calls for particularly supporting start-up enterprises in the formalization process. The major reasons why YE respondents perceive business licensing as an obstacle are that the process is too complicated, too time consuming and that they are lacking information.

### 3.3.3 Regulatory Environment

**13 - Which regulatory problems are perceived as particularly severe by YEs?** Of all regulatory problems, the legal setup is perceived as most severe burden for YEs (39 per cent). Other issues related to income or business tax, specific licenses or levies are also all perceived as common burdens to a similar degree (see Figure 4).

Women YEs perceive the regulatory environment as less severe a burden compared to their male counterparts. Across different categories of years in business and age, there was no significant variation in terms of the severity of problems.

Figure 4: Overall Severity of Problems (in per cent)



Source: BEPS (2010)

**14 - What is the level of minimum/maximum compliance among YEs in Indonesia?** This survey defines business formalization based on the number and type of generic licenses that are needed for establishing a business. In contrast, other surveys (e.g. the Doing Business Survey, World Bank/IFC) measure the time and steps required to establish a limited company. As less than two per cent of businesses in Indonesia are registered as limited companies, this indicator diverged from that approach to better reflect the reality of YEs in Indonesia.

## Box 15: Business Compliance and Decentralization in Indonesia

Since the introduction of far-reaching decentralization in Indonesia in 2001, most responsibilities related to business licensing have shifted from the central government to the provinces and districts. This rapid transformation has not helped to improve the already complex, time-consuming and costly registration process, but has instead made it less transparent. The

hundreds of new regulations and local government licenses that have been introduced since decentralization, as well as the procedures of the different actors involved, also make the definition of formal and informal firms more difficult (McCulloch et al. 2010).

To fully register an enterprise, the YE must obtain a number

of sector-specific as well as generic licenses which are required by all businesses. The generic licenses include: HO (nuisance license), SITU/IUI (license for opening a business in a specific location/license for industrial businesses), SIUP (trade license, often used by financial institutions as a minimum requirement) and TDP (business registration).

As a first step, this survey measures minimum compliance, defined as possessing at least one generic business license. According to Indonesian law, every business should register in the trade register (TDP) as the final step after all other licenses have been processed. However, the policy is implemented inconsistently at the provincial level. This survey therefore applied two criteria to determine maximum compliance: first TDP as the official registration and second TDP or SIUP (trade license).

The indicator on minimum compliance reveals that only 45 per cent of YEs' businesses fulfilled the minimum compliance criterion. The data also indicate that minimum compliance correlates with age. In the youngest age sub-group, only 36 per cent have achieved minimum compliance, while the number rises to 48 per cent for oldest age sub-group. Not surprisingly, the same trend can be observed when comparing nascent enterprises with businesses that have been running for more than three years. This positive correlation between years in business and formalization of YEs' businesses is in line with prior findings and explained by Levenson and Maloney (1998).

## Box 16: Business Formalization

According to Levenson and Maloney, formalization takes place when the initial entry costs of formalization (e.g. reporting requirements, tax payments) are outweighed

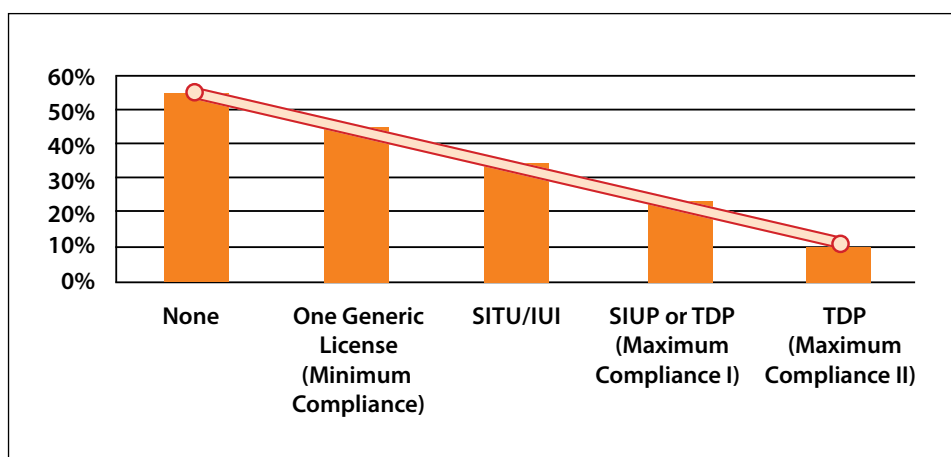
by the benefits, such as credibility, access to capital and enforceability of contracts. As the initial uncertainties of nascent enterprises will be resolved over time and suc-

cessful businesses will find it more beneficial to become formal, there is a positive correlation between years in business and formality.

Based on the TDP criterion, maximum compliance was very low, with only 9 per cent of all businesses stating possession of this registration. Applying the TDP or SIUP criteria, maximum compliance among YEs rises to 32 per cent (see Figure 5)

The business types showing the highest level of compliance (based on the criteria TDP or SIUP) include construction, wholesale and retail trade and health services. On the contrary, the transportation, telecommunication, housing and private services sectors showed the lowest levels of compliance. Sector-related discrepancies in data indicate different levels of incentives to formalization and/or enforcement.

**Figure 5: Compliance rates of Young Entrepreneurs**



Source: BEPS (2010)

When comparing the average level of compliance for all types of licenses in the locations of this survey (22 per cent average compliance rate) with the level for micro enterprises in Central Java, which are on average 20 per cent (GTZ 2007), it seems likely that YEs do not have significantly lower (or higher) compliance rates than other micro businesses in Indonesia.

### **15 - To what degree do YEs assess business licensing to be a factor for success?**

Fifty per cent of respondents do not regard business licensing as a factor for success. This number is even higher for urban areas like Surabaya and Makassar, rising to 68 per cent in both cities.

Two implications might be derived from those numbers. First, YEs don't seem to see a benefit in formalizing their business, or the benefit is considered less than the associated costs; and second, there are no working mechanisms in place to enforce business licensing and formalization. This is of course very problematic in terms of compliance. The remaining YEs regard business licenses as a problem. Of this group, 7 per cent state that they cannot handle the problem on their own, while 14 per cent consider it an obstacle they can handle.

There is a clear correlation between the perception on business licensing, age and business experience of a YE. The younger the entrepreneur is, the less business experience s/he has, and the more s/he perceives business licensing as an obstacle. This indicates that with more experience, YEs become better accustomed to deal with business licenses or perceive a greater benefit from formalization (**see also Box: 16**).

Three major reasons why business licensing is perceived as a burden clearly stand out. Most prominent are that YEs perceive the process as too complicated, or they lack information. The third reason is the very time-consuming process.

### 3.3.4 Business Dynamics

## Box 17: Key Findings on Business Dynamics

- The majority of YEs are operating in highly competitive markets, offering the same type of products or services as their competitors. A major obstacle for YEs to diversify their products and services seems to be a lack of capacity for innovation. YEs that operate in niche markets, on the other hand, present a more positive perception regarding the expansion of their business compared to those in competitive markets.
- The findings on business dynamics indicate rather innovation-averse behaviour among YEs in the provinces of this study. This trend is particularly distinct among the youngest entrepreneurs. Alarmingly, the survey data suggest that attitudes rather than external obstacles are preventing YEs from being innovative. A potential reason for the low innovation rate among YEs might be the lack of understanding of innovation as a market necessity for growth. To change this innovation-averse mindset, entrepreneurship education and training for Indonesian youths could be an important foundation for providing YEs with a better understanding of the concept of entrepreneurship and of innovation as precondition for competition.
- As innovation is a key indicator for business growth, it is not surprising that the more innovative businesses in this survey tend to be more prosperous and also employ more people.

**16 - In which types of market do YEs' businesses operate?** A business can either operate in a niche market with limited competition or in a mass market, competing with a large number of businesses that offer the same kind of products or service. YE respondents were asked to categorize their business based on that differentiation, which was then used to assess whether the market position has an impact on business dynamics and innovation.

Around 70 per cent of YEs perceive that they are operating in highly competitive markets, where they are one among many businesses offering the same products or services. There was no correlation between the market position of the respondents (niche or mass market) and the characteristics or maturity of business.

**17 - How do YEs self-assess their turnover?** The majority of YE respondents (70 per cent) report an increased turnover, 12 per cent a decreasing turnover and 18 per cent stable business compared to the previous year. However, the figures are very diverse across locations.

Those who had a sizeable increase in turnover last year are naturally also more optimistic about their economic future, expecting turnover to increase. None of the survey respondents expects a decreasing turnover. Businesses operating in niche markets present a more positive perception of business expansion compared to those in competitive markets.

**18 - What is the level of innovation among Indonesian YEs?** Innovation is a key element of competitiveness and is crucial for a business to secure future growth and market share. To assess the level of innovation among Indonesian YEs, respondents were asked whether they had introduced new products or services over the last year.

Barru and Jember present the highest numbers of innovative businesses (with about 50 and 40 per cent respectively) while Sikka accounts for the lowest number (only 19 per cent). The remaining regions all show similar low levels of innovation.

Not surprisingly, innovative enterprises tend to be more dynamic. Around 80 per cent of YEs who said they introduced new products or services last year claim to have increased their turnover over the same period as well (compared to 70 per cent of all YEs). They are also more positive about business growth in the coming year. With regard to the rate of innovation, the survey data show no differentiation between YEs operating in competitive and niche markets.

The survey not only enquired about innovations introduced in the past, but also whether YEs plan to introduce new products or services in the coming year. A comparison between past innovation and future innovation shows interesting results. At 31 per cent, the planned innovation rate of YE respondents is exactly the same as for the past year. The YEs who introduced an innovation in the past are overwhelmingly the same entrepreneurs that plan to innovate in the future. This indicates that the low level of innovation in the past is not just due to temporary limitations on realizing potential innovations, but rather reflects the general innovation-averse attitude of YE respondents. This alarming finding indicates that little innovation-related change can be expected in the future unless YEs in receive the needed support to foster an attitude shift.

## Box 18: Innovation-averse Behaviour among YEs in Indonesia

The findings challenge one of the hypotheses that motivated this study, namely the assumption that youth entrepreneurs are a source of innovation and competition for the economy. At the same time, it again reinforces the argument for more

entrepreneurial education and training for Indonesian youths. If an entrepreneur is opposed to introducing new products or services (or innovating through new production methods) he or she is, by definition, challenging his/her status as an

entrepreneur (see definition of entrepreneurs 2.2). Furthermore, business growth cannot be sustainable without innovation, in particular for YEs that most likely rely on their creative potential as their biggest competitive advantage.

The data show that among survey respondents, the level of innovation is clearly linked to age: the older the age sub-group, the higher the likelihood of innovation. This suggests that new entrepreneurs in particular do not understand innovation as a market necessity. As explained in the paragraph above, a likely reason might be the lack of entrepreneurship studies as part of the school curriculum (apart from SMKs).



**19 - What are the expectations regarding employment of new staff among Indonesian YEs?** The positive general economic outlook is reflected in expectations for recruiting new staff. Overall, 23 per cent of all respondents plan to employ new staff in the coming year, 47 per cent of YE respondents are undecided and around 30 per cent are sure that they will not employ new staff. Plans for increased employment rise to half of the businesses when only looking at those with a positive outlook for the future.

The high number of YEs who increased their turnover over the last year, however, does not translate in a high number of YEs planning to recruit new workers. More YEs would rather introduce new products or services, indicating that YE respondents do not feel the need for additional labour to promote business growth. It is possible that the need to recruit shows a time delay once plans for product innovations have materialized.

### 3.3.5 Access to Finance

Access to finance was stated by YEs as one of the most severe operational problems, and the survey revealed that half of the YE respondents face difficulties obtaining finance from external sources. The key findings of this chapter are summarized in the following paragraph.

## Box 19: Key findings on Access to Finance

- The family is by far the most important source of initial capital for YEs in Indonesia. While it is crucial for nascent enterprises, family involvement seems to decrease with the maturity of the business.
- The younger and the less experienced entrepreneurs are, the more difficult it is for them to access external finance.
- Surprisingly, commercial banks are the single main source of external credit for YE respondents. This is certainly linked to the strategy of various commercial banks in Indonesia, which are aggressively promoting micofinance products. Most other sources of external finance, however, are of an informal nature.
- Female YEs seem to have even more difficulty in accessing finance than their male counterparts, and the proportion of women respondents that has received external credit is lower than

that of men. The survey data indicate, however, that more female than male YEs are financially literate, keeping financial records and possessing bank accounts. The

fact that they still face more difficult access to external finance is a clear indicator of discriminative practices against women.

- The level of general education seems to support financial literacy and lowers the entry barrier to accessing finance for YEs.

**20 - What are the initial sources of finance for YEs?** The survey shows two main sources of initial financing. First and foremost is the family, as 39 per cent of respondents receive all initial capital from that source and another 13 per cent receive a majority of initial capital from their family. These figures demonstrate the prominent role of families in providing initial financing for YEs. They also raise the question of whether this kind of family involvement implies a sense of ownership on the part of the family members that are involved in financing the YEs' ventures, and how this is reflected in profit sharing and decision making as well.

Second, 33 per cent of respondents started their business exclusively with equity capital. Furthermore, the survey data show that all other sources (such as friends) are not yet significant in financing YE start-ups and play a role only in exceptional cases.

The survey data show a correlation between age and main sources of capital. The older the YE, the less they rely on family capital and more on their own sources of funding. Across the different locations of this study, two districts stand out with regard to sources of financing. In Jember, family involvement is even more distinct than in any other survey location (65 per cent of YEs receive either all or the majority of their initial financing from the family). Surabaya, in contrast, presents the most diversified sources of financing, indicating easier access to finance there.

**21 - What is the level of bank account ownership among YEs?** One could assume that opening a bank account is the first step for someone to start a business. However, the survey data show a different picture, as only 64 per cent of YEs' businesses have a bank account, with slightly higher numbers for women compared to men. This figure is to be considered in relation to the size of the informal economy in Indonesia (see Chapter 3.3.4).

Not surprisingly, the data present a positive correlation between years in business as well as age and possession of a bank account. In terms of educational level, YEs with a higher education are more likely to have bank accounts compared to those with a lower level of education. This suggests that the level of general edu-

cation is contributing to financial literacy and lowering entry barriers to access to finance.

**22 - What is the level of financial bookkeeping among YEs?** 41 per cent of YEs regularly keep written financial records, 22 per cent sometimes do so and 37 per cent never do. There is a slight discrepancy with regard to gender, with the proportion of women keeping financial records being higher than for men.

The data also reveal high regional disparities. While YEs in Makassar and Surabaya present the highest rates of financial record keeping (85 and 83 per cent, respectively), the districts with the lowest rates, by contrast, are Sikka and Barru (43 and 51 per cent, respectively).

Interestingly, the survey data did not reveal a correlation between financial record keeping and the previous indicator on owning a bank account. This might indicate that YEs do not perceive the possession of a bank account as a means of automatic financial record keeping, but rather, as something separate from their financial record keeping.

**23 - What is the level of minimum compliance with legal documentation to access credit among YEs?** To access credit from formal financing institutions, a certain minimum compliance with legal documentation is required. Commercial banks usually ask for at least a trade license (SIUP) as proof of the legal establishment of a business. This is, therefore, defined as the minimum criterion for access to formal finance institutions.

As already observed in 3.3.3, only 23 per cent of YE respondents possess a trade license—a much lower figure compared to the findings of the GTZ (2007) survey in Central Java. The low compliance rates of the YE respondents in this survey automatically show that more than two-thirds of them are excluded from access to formal sources of finance. The lowest levels of compliance with legal documentation among the respondents of this survey are in East Java (Jember and Surabaya).

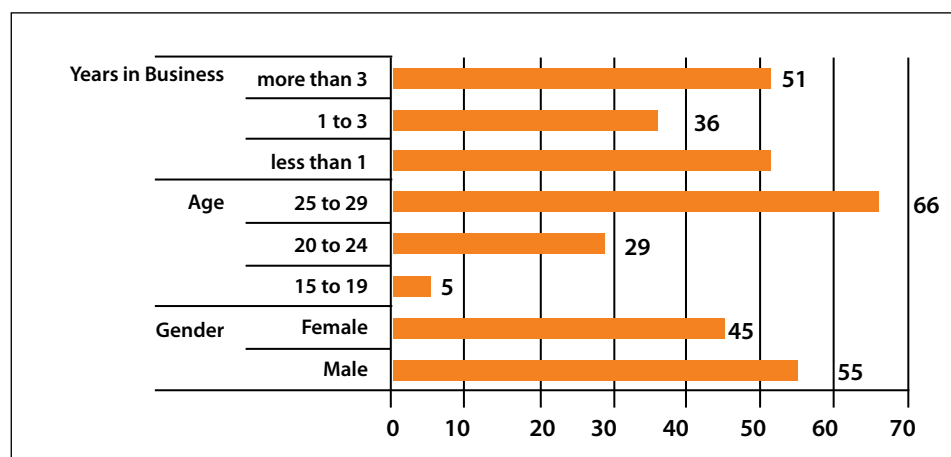
**24 - What is the credit behaviour and history of YEs?** This indicator assesses whether YEs are willing to seek credit if they identify a business opportunity that they cannot finance by themselves or with family support. An overwhelming majority (89 per cent) of respondents agree that they would look for capital from external sources.

At least 38 per cent of respondents have received external credit (from outside the family) in the past. It appears that a credit history does not correlate with the legal status of YEs' businesses. This might indicate that many sources of credit are informal and access to credit is not necessarily an incentive for formalization.

The survey data show that the share of YEs with a history of external financing increases proportionally with the number of years in business, suggesting that the more experienced a YE, the more likely it is that he or she has access to formal credit sources (see Figure 6). This can be partly explained by bank requirements that call for at least two years of business activity in lieu of collateral.

The proportion of male YEs who had received external credit at least once was higher than for female YEs (55 compared to 45 per cent), raising the question of whether young women might suffer from discrimination when trying to access external credit.

**Figure 6: Credit history by Business Experience, Age and Gender**

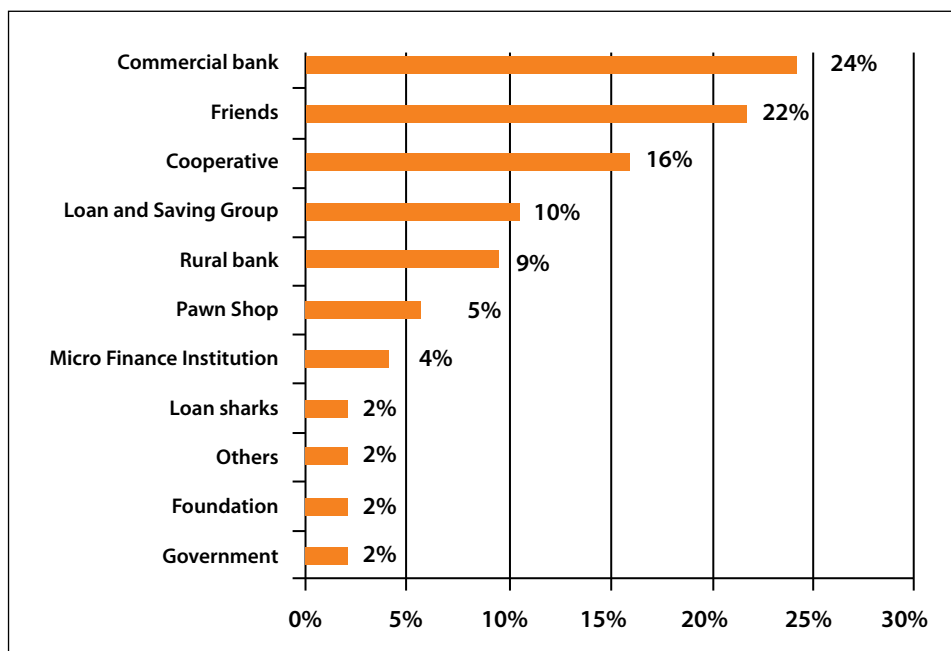


Source: BEPS (2010)

**25 - What are the main sources of credit for YEs that have received credit at least once?** Surprisingly, commercial banks are the main source of external credit for respondents that have received credit in the past (24 per cent), followed by friends, cooperatives, savings and loan groups and rural banks. Pawn shops, microfinance institutions, government and some other sources play only a minor role as sources of finance (see Figure 7).

The fact that commercial banks are the main source of external credit is a positive sign, indicating that commercial financial institutions in Indonesia acknowledge the potential of YEs. Friends are seen as second most important in terms of lending, showing that personal networks are highly relevant to YEs, even though only a small proportion started their business with friends.

**Figure 7: Sources of Credit (in per cent)**



Source: BEPS (2010)

Savings and loan groups can be considered as an intermediary step in linking businesses with commercial finance institutions. However, the survey results show that membership in savings and loan groups is not very common among YEs, except for Sikka (and the island of Flores in general), where more than 40 per cent of entrepreneurs are members of such groups. Sikka has a strong membership base of around 30,000 people organized in cooperatives, as savings and loan cooperatives are very popular among micro entrepreneurs, including YEs.

In the remaining areas of this survey, active membership was relatively low (7 per cent of respondents). An additional 7 per cent have been members of a savings and loan group in the past but are no longer active.

### 3.3.6 Human Resources and Employment

## Box 20: Key Findings on Human Resources and Employment

1. Many YE respondents lack prior working experience when starting their venture. The majority of those who possess working experience gained it with the businesses of their families, indicating that many YEs come from families with a business background. Simultaneously, there seems to be a lack of opportunities for Indonesian youth to gain valuable working experience as part of their education.
2. YEs perceive a strong need for further skills development. The areas of highest demand are financial management, marketing and specific technical skills. The need for further skills development is particularly pronounced among start-up entrepreneurs, who should be targeted specifically (e.g. by Business Development Services). The lack of specific technical skills seems to be derived from the composition of YE respondents, most of whom are graduates of Senior High Schools (SMAs) and have not received a vocational education.
3. Many Young Entrepreneurs consider it difficult to recruit qualified workers. At the same time, the survey results also showed that YEs predominantly employ family members. This combination might indicate the burden many YEs face as result of social pressure to employ family members, no matter how qualified they are.
4. The profile and size of YEs' businesses reinforces the assumption that while the promotion of YEs is important to prevent youth unemployment, YEs themselves are not substantial employers in the job market.
5. There is a very high level of informality among YEs' staff, which is certainly due to the high level of family involvement in their businesses. This high level of informality is reflected in the low compliance with regional minimum wages and social insurance. With regard to minimum wages, the survey data suggest that a lack of awareness is the biggest obstacle to greater compliance. The low compliance with social insurance (Jam-sostek) is at least partly compensated through other informal schemes that cover the medical costs of employees.

**26 - What level of working experience do YEs have prior to starting their business?** The majority of YEs already had some working experience prior to starting their business. This experience was either gained after graduation (40 percent) or during their formal education (16 per cent). The survey data indicate only very small regional disparities.

A large stake of such work experience is gained in the business of the respondents' families (40 per cent), which shows that a large proportion of YEs come from families with a business background. Only a few YEs have worked in a friend's business (14 per cent) or completely outside the sphere of their family or friends (20 per cent). More than 25 per cent of YEs have not gained any working experience before starting their venture.

Two findings might be derived from those figures: first, there is currently a lack of facilitation and opportunities for youth to gain organized and valuable working experience outside the sphere of their own family and friends (i.e. organized internships as part of their education), and second, many YEs come from families with a business background.

The level of female YEs with prior work experience was lower than their male counterparts (48 per cent as opposed to 61 per cent). Furthermore, women were even more likely to have gained experience with their family. This indicates that young women are in an even more difficult position in the labour market, as only a few have the chance to gain work experience outside the family business.

**27 - How do Young Entrepreneurs self-assess their need for further skills development?** The majority of respondents (63 per cent) feel a strong need for additional skills development in various business areas, and some YEs perceive a need to develop skills in one particular area. Only 16 per cent feel well-equipped to run their venture.

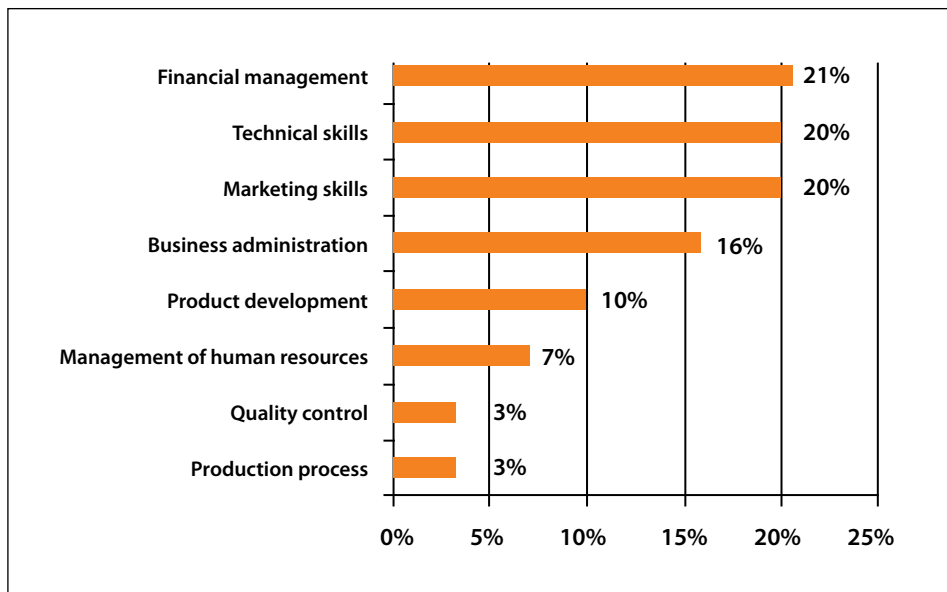
A significant regional exception is Sikka, where only 24 per cent of the respondents feel that they need to upgrade their skills. Yet simultaneously, YEs in Sikka present the lowest innovation rate among all locations, indicating that YE respondents in Sikka lack ambition with regard to their business aspirations and are not very critical when it comes to the self-assessment of their skills.

Both female and male respondents share the same need for capacity building. However, YE respondents with little business experience perceive a more distinct need for skills development than their more experienced counterparts. This would argue for capacity training and business development services that focus particularly on start-ups. The types of skills in greatest demand among YEs are presented in the next indicator.

**28 - What type of skills are in demand by YEs?** Respondents were asked to select one skill they would need to develop most. The highest demand is in the area of financial management, marketing and technical skills. Basic skills in the first two categories should be part of all entrepreneurship training/education. The high need for specific technical skills might derive from the educational background of YE respondents, as the majority graduated from senior high school (SMA) which prepares students for academic rather than technical work.

The need to develop skills in the areas of business administration, product development and human resource management followed, at 16, 10 and 7 per cent respectively (see Figure 8).

Figure 8: Demand for Skills Development (in per cent)



Source: BEPS (2010)

**29 - How easy/difficult is it for YEs to recruit qualified workers?** Around 30 per cent of all respondents find it difficult to find qualified staff, around 42 per cent sometimes consider it difficult and the remaining 28 per cent of respondents face no difficulties in finding qualified staff. The types of businesses with the biggest problems in finding qualified staff include building contractors, computer and telecommunication services, vehicle workshops and tailors.

As analyzed earlier (**Chapter 3.3.1**), a large proportion of YEs are either self-employed or employ only family members, which implies that they do not need to recruit on the job market and therefore have little to say about the qualifications of their staff. On average, the 1,600 businesses surveyed created jobs for 1.5 people each, which equals only around 2,500 jobs. Those figures underline the argument that the promotion of YEs can help to prevent youth unemployment but that the potential for further substantial employment effects have not yet been exploited.



30 - Do YEs employ their staff with written working contracts? Only 9 per cent of respondents with employees (from outside their family) employ their staff under written working contracts. This high level of informality likely has far-reaching implications for the following two indicators: minimum wage and social insurance compliance.

**31 - Are YEs complying with regional minimum wage regulations?** Nearly half of the respondents with at least one employee (from outside their family) are not even aware of the regional minimum wage and another 22 per cent do not comply because they perceive that the minimum wage is too high. Around one-third of respondents state that they follow the minimum wage regulations. Both the low level of compliance and the lack of awareness indicate the need for better and more transparent information policies. In a predominantly informal environment, the issue of awareness might be easier to tackle than enforcement.

The regional comparison presents different levels of compliance, with Surabaya and Merauke showing the best compliance rates (around 50 per cent), while Barru and Jember have the lowest compliance (8 per cent and 21 per cent, respectively).

**32 - Are YEs complying with social insurance payments?** Given the low level of formal contracts among YEs' employees, it is not surprising that only 5 per cent of the YEs that employ non-family members contribute to the social insurance fund Jamsostek. However, the survey did not indicate whether all of the employees reached the necessary minimum income to be eligible for mandatory insurance. In any case, the figures clearly demonstrate that the large majority of YEs' employees are not yet insured by Jamsostek.

Even though only a small minority of the YEs insure their employees with Jamsostek, this does not imply that employees are not insured at all. Twenty-two per cent of respondents state that they fully cover the medical costs of their employees in case of sickness and another 38 per cent partly cover medical costs.

# Policy Recommendations

**SEVERAL** issues have to be addressed to improve the business environment for Young Entrepreneurs. Various key findings, presented in Chapter 3.3, call for action among provincial and national decision makers. The most prominent recommendations that derive from those findings are listed in the following paragraphs.

- I. Most Young Entrepreneurs are concentrated in few business sectors, namely in Wholesale Trade, Retail Trade, Restaurants and Hotels. This concentration is very much due to the low entry barriers (capital, technology, skills) of those business sectors. In line with the new economic policy of six economic corridors, a sector based approach can be applied to *lower the entry barriers related to capital and skills for priority sectors*, and encourage the creation of youth businesses related to specific value chains.
  
- II. Most Young Entrepreneurs had a higher educational background than the Indonesian average workforce, showing that entrepreneurship is not an alternative to education. The biggest stake of them graduated from a Senior High School (SMA). In contrast with vocational senior high schools (SMK), SMA do not offer entrepreneurship training as part of the curricula, and respondents expressed the need for entrepreneurship skills trainings (on financial management, marketing). This lack of entrepreneurial preparation is further reflected in the attitude of survey respondents who demonstrated risk- and innovation adverse behaviour. Investing in *systematic entrepreneurship training as part of SMA education* would increase the capacity of young people to forecast market opportunities and can play a role in their potential to innovate and in the sustainability and profitability of their enterprises.

- III. Given the limited capacities of the Indonesian formal economy to absorb youth entering the labour market, fostering entrepreneurship among youth is an important measure to prevent them from entering underemployment (e.g. through the inclusion of entrepreneurship training in curricula or outside curricula activities). However, the status of entrepreneurs in the Indonesian society is very low and there is an important lack of entrepreneur role models. National and provincial political leaders would need to *systematically promote through the media the success stories and role models* that can inspire the youth to become entrepreneurs, and contribute to change the society image of entrepreneurship as a job of last resort. In this regard, especially information sharing on the world of work at an early stage would have an impact on the fact-based decisions of young people wanting to become entrepreneurs.
  
- IV. Most Young Entrepreneurs had not used and were not aware of the existence of Business Development Services (BDS), in spite of the fact that those who did, appreciated their support. BDS providers have a responsibility to better promote their services and offer services to a wider market, including Young Entrepreneurs in the respective regions. Government agencies should consider the *use of commercial Business Development Service providers as part of programmes of support for youth enterprises*. A system of vouchers for Young Entrepreneurs, valid with accredited BDS providers, would positively impact (a) the sustainability of the youth businesses, (b) the BDS market.
  
- V. Almost none of female entrepreneurs, of the youngest entrepreneurs, and of entrepreneurs in rural areas are represented in Business Membership Organizations (BMOs). *BMOs have a responsibility to increase their outreach to women entrepreneurs, younger entrepreneurs and Young Entrepreneurs in rural areas*, to ensure these groups get a voice to represent their interests.
  
- VI. Formalization is a gradual process: the more years in business the less licensing is perceived as an obstacle. There is scope for increasing the access of new businesses to licensing by *(a) speeding up the licensing process and reducing red tape, (b) making it more transparent, (c) reviewing the system of incentives related to access to finance, access to inputs, markets and support services that will assist and encourage new businesses to get licensed*.

- VII. Young Entrepreneurs with limited business experience face the biggest difficulties to access finance, and rely mainly on family funds. This results in (a) a concentration of business start-up in sectors with low capital requirements and limited development potentials, (b) a lack of true “ownership” by the entrepreneur of his/her business and further claims from the extended family (e.g. on employment decisions). In order to unlock the potential of Young Entrepreneurs with nascent enterprises of less than two years, *innovative solutions to increase their access to finance should be found*. These innovative solutions may include for instance (a) recognition of a national entrepreneurship certificate by commercial banks to lower the requirement of two years business experience, (b) micro-leasing where the leased equipment is the guarantee for the lease, (c) micro-franchising arrangements according to which a franchisor’s coaching and support may act as a guarantee for the new Young Entrepreneur. The financial sector rather than the Government should take the lead in financial product innovations.
- VIII. Financial services should have a specific focus for women enterprises that experience greater difficulties to access finance, in spite of the fact that female respondents demonstrated greater financial literacy skills. Specific arrangements should be made in *Government support programmes with a minimum share of women businesses to be supported, and women officers to review and discuss women proposals*.
- IX. The low compliance of minimum wages, suggests little awareness about rights at work among Young Entrepreneurs, even when their businesses grow. *There is a need to disseminate the contents of the labour law and regulations among Young Entrepreneurs*.
- X. Most survey respondents had none or very few chances to gain relevant working experience prior to starting their venture. This lack of opportunities for valuable working experience should be addressed by *offering (a) internship opportunities, and (b) school enterprises*.

- XI. *BMOs can play an active role in regularly reviewing the business environment in which Young Entrepreneurs operate, and in advocating for its improvement at provincial and national levels.* While this advocacy has resulted in a strong sector-based national economic plan, more efforts need to be put in ensuring that the joint efforts of the Government and of the private sector are sustained.

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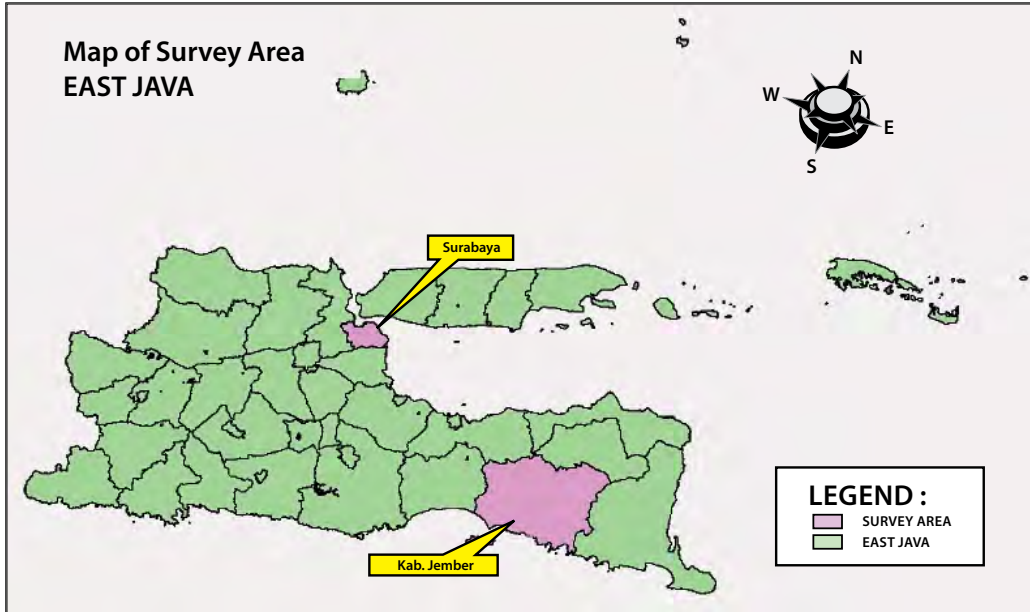




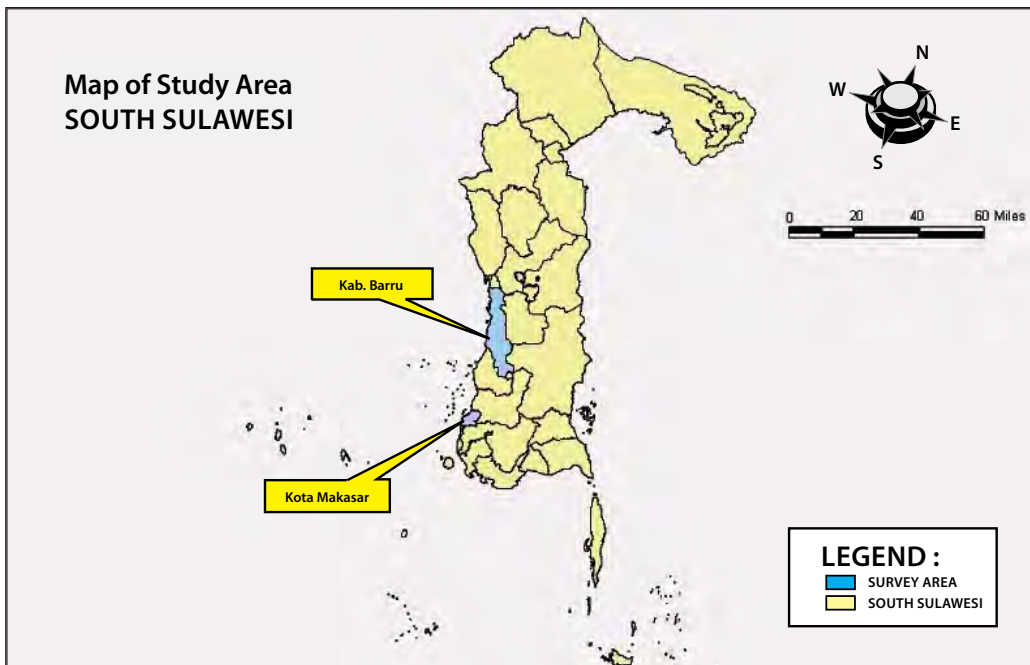
# Annexes

# Annex 1: Maps of the survey regions

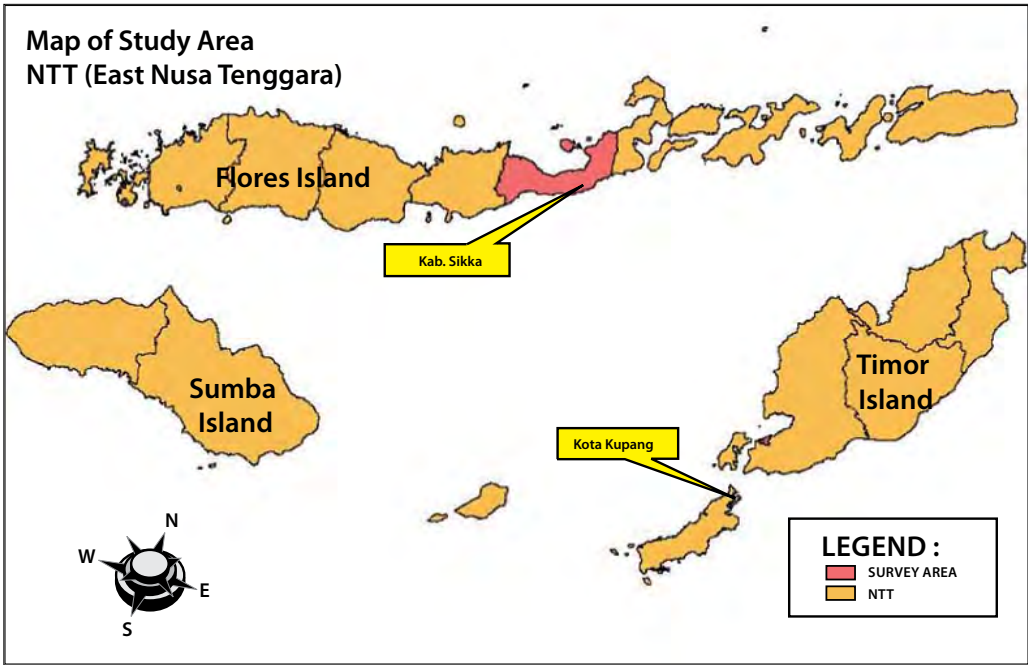
## Map of East Java



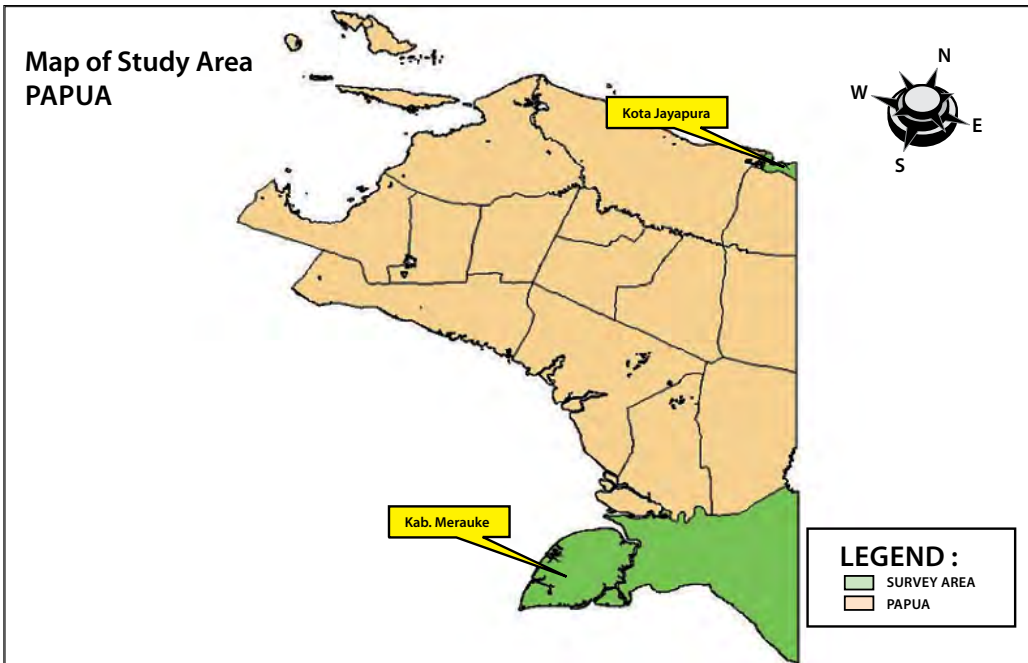
## Map of South Sulawesi



**Map of East Nusa Tenggara**



**Map of Papua**



## 1.1 Annex 2: List of Local Partners

### Papua

**Field Coordinator:** Denny Imbiri (HIPMI Papua)  
**Surveyor Coordinator, Jayapura:** Edwar Fitri  
**Data Entry, Jayapura:** Herlinda Rahman  
**Surveyors, Jayapura:** Amijaya, Syamsudin Usman, Muhammad Nurjaya, Taufan Pamungkas MJ, Nasrul, Marthen Luther Sesa, Jamaludin Bugis, Lopes Waromi

**Surveyor Coordinator, Merauke:** Jago Bukit  
**Data Entry, Merauke:** Kosie Kabuan Ogie  
**Surveyors, Merauke:** Zakarias Kellyum, Sirilus Sii, Maria Nemo, Lusia Karunggui, Carolina Merlina, Didik Ramadhan, Robert

### East Nusa Tenggara

**Field Coordinator:** Rudy G. Nalle (HIPMI NTT)  
**Surveyor Coordinator, Kupang:** Frits Oscar Fanggidae  
**Data Entry, Kupang:** Conny Tiluata  
**Surveyor, Kupang:** Jusuf Aboladaka, Ronald P.C Fanggidae, Djifta Mooy, OmiMaromi M. Mbate, Zet Etna, Marthen Makaborang

**Surveyor Coordinator, Sikka:** Umar Utina  
**Data Entry, Sikka:** Nona Paulina  
**Surveyors, Sikka:** Dominikus Duminggus, Eka Wirajaya, Ika Rhyan Anjhani, Kristina Sofia Diana Wungkung, Modesta Yunitami Ratu Redo, Tikrivina Isnani Safiani

South Sulawesi

**Field Coordinator:** Firdaus Deppu

(HIPMI Sulawesi Selatan)

**Surveyor Coordinator, Makassar:** Ahriana Buhari

**Data Entry, Makassar:** Ikram Wahyudi

**Surveyors, Makassar:** Chairil Anwar, Jemma,

Ekanto Putro Yahya, Ihsan, Amri Irhamsyah

Surveyor Coordinator, Barru: Ilham Iskandar

**Data Entry, Barru:** Yanuar Bumulo

**Surveyors, Barru:** Muhammad Nadir, Erwin Natsir,

Agus Rais, Muhammad Yunus

East Java

**Field Coordinator:** Tri Prakoso (HIPMI Jatim)

Surveyor Coordinator, Surabaya: Muhammad Tasrifin

**Data Entry, Surabaya:** Nur Fatimah Mediawati

**Surveyors, Surabaya:** Fifantin Eliza, Tomy Tri Widodo,

Dedi Darmawan, Eric Yonantha, Nurvida Shanti

**Surveyor Coordinator, Jember:** Rahmad Cahyadi

**Data Entry, Jember:** Sandya Adiguna

**Surveyors, Jember:** Pandu Tyagita, Ferdian Rohman,

Jamal, Muhammad Bahanan, Fachtar Rozi,

Dwi Siswanto

## Annex 3: Survey Instructions

### Survei Iklim Usaha Bagi Wirausaha Muda

**SURVEI DAN PENGISIAN DATA, HASIL DAN PENYIMPANAN**

Kami meminta kesediaan Anda untuk berpartisipasi dalam survei ini.  
Survei ini akan membantu kita memahami masalah dan masalah yang dihadapi oleh wirausaha muda.  
Hasil survei akan menjadi dasar untuk mendukung wirausaha muda lebih lanjut.

Informasi data yang diisi di dalam survei ini adalah kerahasiaannya.  
Data pribadi Anda akan tidak dipublikasikan kepada pihak lain. Data akan disimpan secara elektronik oleh tim pengumpul data berdasarkan Anda.

Kota/Kabupaten:	Isilah dengan nama Kota/Kabupaten lokasi survei!
Kecamatan:	Isilah dengan nama Kecamatan lokasi survei!
Kode R:	Kode Responden telah ditetapkan oleh Koordinator Survei
Nama Pewawancara:	Isilah dengan nama pewawancara
Tanggal Wawancara:	Isilah dengan tanggal wawancara dilakukan
Koordinator Survei:	Isilah dengan nama Koordinator Survei
Data Entry oleh:	Isilah dengan nama pelaksana Data Entry
Data Cleaning oleh:	Isilah dengan nama pelaksana Data Cleaning
Data Process oleh:	Tidak perlu diisi

#### Panduan Umum Wawancara

Wawancara hanya menggunakan waktu kurang dari 1 jam.  
Dokonasi bersama responden di tempat yang nyaman dan baik lighting.  
Jika responden sedang sibuk, tentukan waktu untuk bertemu pada jadwal yang pasti.  
Usahakan tersedia meja atau permukaan yang bisa untuk penggunaan Kartu Panduan.  
Beritahukan kepada responden mengenai tujuan survei ini, seperti yang disebutkan pada halaman depan.  
Beritahukan bahwa identitas responden dan informasinya dijaga kerahasiaannya.  
Pastikan bahwa Kartu Panduan sudah dirapikan dengan baik (seperti telah diisi dan nomor sesuai nomor kuisioner).

#### Penjelasan untuk Penggunaan Lembar Kuisioner

Item	Carakan	Skala	Kode	Urutan
1. Bagaimana pendapat Anda tentang pernyataan berikut ini?	1. Sangat Tidak Setuju	1	1.1	101
	2. Tidak Setuju	2	1.2	101
	3. Cukup	3	1.3	101
	4. Setuju	4	1.4	101
	5. Sangat Setuju	5	1.5	101

1. Untuk pernyataan tertentu, kami menuliskan kembali di bagian ini.  
2. Pada pernyataan tertentu, Anda juga harus mengisikan jawaban responden di awal dan. Perhatikan dengan teliti pada lembar "Instruksi untuk Entry Jawaban".

Bagian ini menunjukkan apakah pernyataan menunjukkan jawaban terapan atau ganda. Di bagian/bagian terapan, NAMA SURVEI pilihan yang telah dihapus. Misalnya (jika ada, UMR SURVEI) pilihan yang telah dihapus. Perhatikan juga bahwa (2) dan (3) M (2) dan (3) M (2).

Isilah hanya pada bagian yang ditandai dengan tanda (\*) jika Anda mengisi sesuai dengan instruksi.

#### Jawaban yang Tidak Sah

Pilihan jawaban "Jawaban tidak sah" tidak digunakan.  
Jika ada ketidakhadiran atau mengabaikan setiap jawaban dengan pilihan jawaban yang tersedia.

- "Jawaban tidak sah" hanya diisi jika:
- Anda menganggap responden tidak mengisi pernyataan yang diajukan, meskipun Anda telah mempersiapkannya terlebih dulu.
  - Tidak ada pilihan jawaban yang benar atau menjawab pernyataan Anda.
  - Responden hanya menjawab beberapa jawaban yang tidak sah (jika memungkinkan, kami akan menuliskan tidak ada menjawab pernyataan).
  - Setiap pilihan "Jawaban tidak sah" tidak akan dicatat di dalam analisis dan analisis data.

#### Kode Responden

Koordinator Survei akan memberikan nomor kode yang akan Anda gunakan untuk kode responden (kode R).  
Setiap responden mendapatkan nomor yang berbeda yang kode tersebut dari lokasi nomor yang telah ditetapkan oleh Koordinator Survei.  
Pastikan kode responden (kode R) tidak ditulis pada SURVEI lembar kuisioner.

