Supporting Social Enterprises in Indonesia

28 July 2021

Background

- Indonesia has just been part of upper-middle income country. Transformation of the economy required creating quality job opportunities, improving the investment climate, increasing entrepreneurship, and improving the competitiveness of business, including support for creative economy and social enterprises.
- Inclusive development has to be part of a broader strategy to address economic growth and social economic transformation. Creative and Social Enterprise is fundamental ingredients to expand labor market opportunities, improve human capital development, and tackle structural poverty and inequality. Inclusive development has to be part of a broader strategy to address economic growth.
(Bappenas presentation, DR Vivi Yulaswati).
- The development of the creative and social enterprises can enlarge opportunities for product and export diversification, build competitive advantages, give access to formal jobs for women, people with disabilities and other marginalised groups that currently is particularly low in Indonesia.

Background

- The creative economy supports entrepreneurship, innovation, and engages with the younger generation and women. creative economy is expected to become one of economic driver. Social enterprises can help create an economy that “leaves no one behind”, make a huge contribution by creating more inclusive jobs
- We don’t have the resources to solve everything, thus people with entrepreneurial skills and approach, solving SDGs challenges have been supporting us in achieving SDG goals.
- Indonesia government is hoping to help the sector realise its potential by strengthening its creative economy ecosystem in preparation for 2021, which the UN has declared as the International Year of Creative Economy for Sustainable Development.

Background

- Two complementary reports published by the British Council, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Asian Venture Philanthropy Network (AVPN) provide the necessary background to create a roadmap for how the Indonesian government and other actors in the creative and social enterprise ecosystem will move forwardin this significant year.
- Creative and Social Enterprise in Indonesia and Investing in Creative and Social Enterprise in Indonesia show that with more than 8 million creative businesses in the country, the sector makes a real and substantial contribution to the national economy.
- In 2017, the creative sector generated more than 7 percent of GDP – and employed around 15.9 million people. By 2020, we predict it will be worth around IDR 1.924 trillion (approx. USD 130 million). Social Enterprise sector is potentially contribute to 1.9% of GDP.
- Evidence is beginning to demonstrate the role that social enterprise and the creative industries can play in contributing to sustainable and inclusive growth. **Creative and social enterprises are creating more jobs for women, young people, people with disabilities, communities, compared to other enterprises in Indonesia or other businesses in Indonesia.**

Background

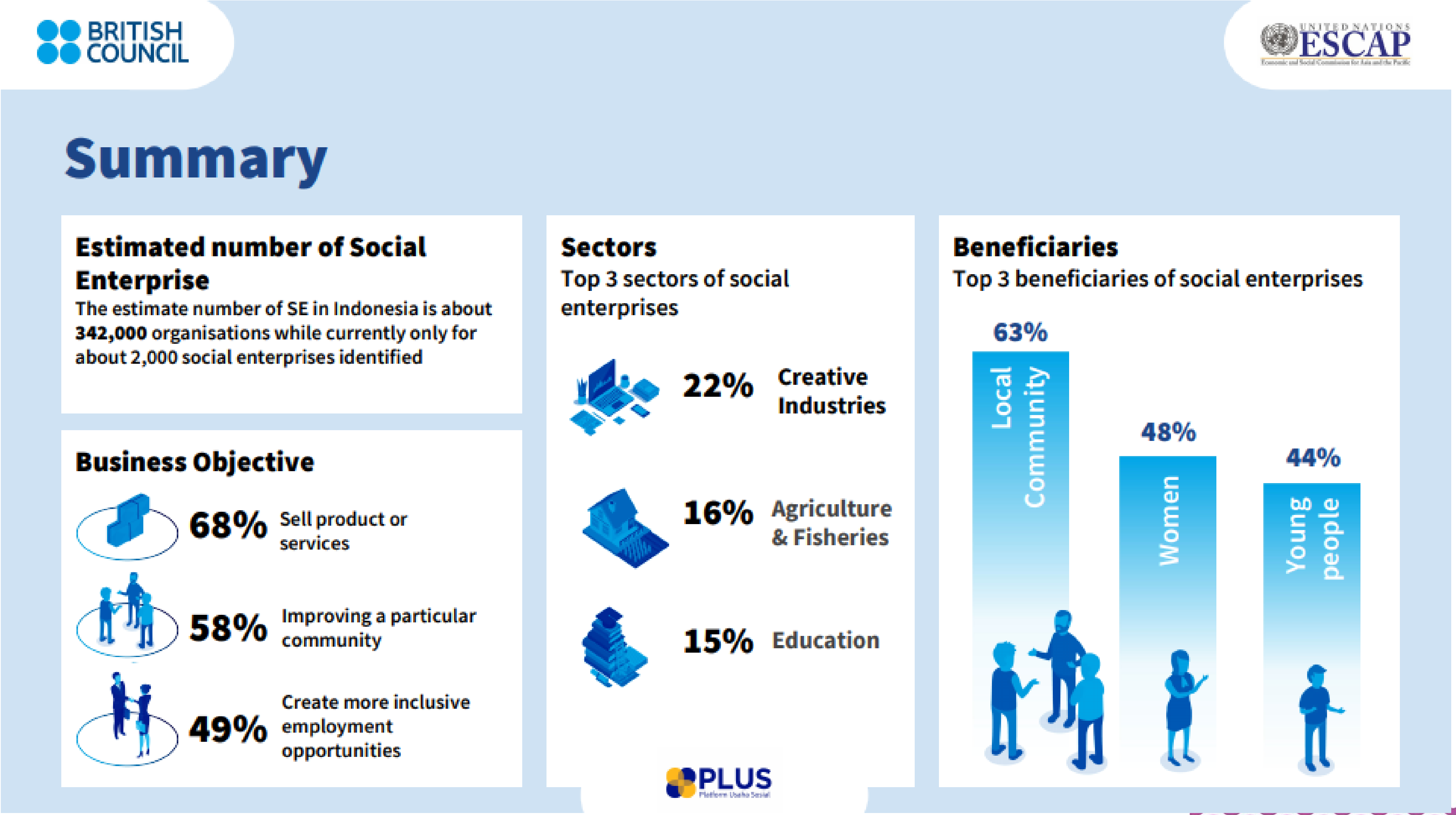
- The diversity of our culture is a core strength, as is the demographic bonus we enjoy. By 2030, we will have 180 million young people ready to join the workforce. Right now, there is a lot of enthusiasm among young people about the creative economy. Many are setting up start-ups and developing great creative content and creative events.

- Indonesia's millennials are leading a surge in the creation of businesses that are working to create positive social and environmental impact. The number of social enterprises being established in Indonesia started rising steadily in 2012 but has seen a sudden rise recently. Nearly half of the leaders of those social enterprises are aged 25-34. The rise of social enterprise in Indonesia is also good news for gender equality. The social enterprise workforce is estimated to be made up of 69% women.

The state of Social Enterprise in Indonesia

www.britishcouncil.org

Social Enterprise Landscape in Indonesia (2018)



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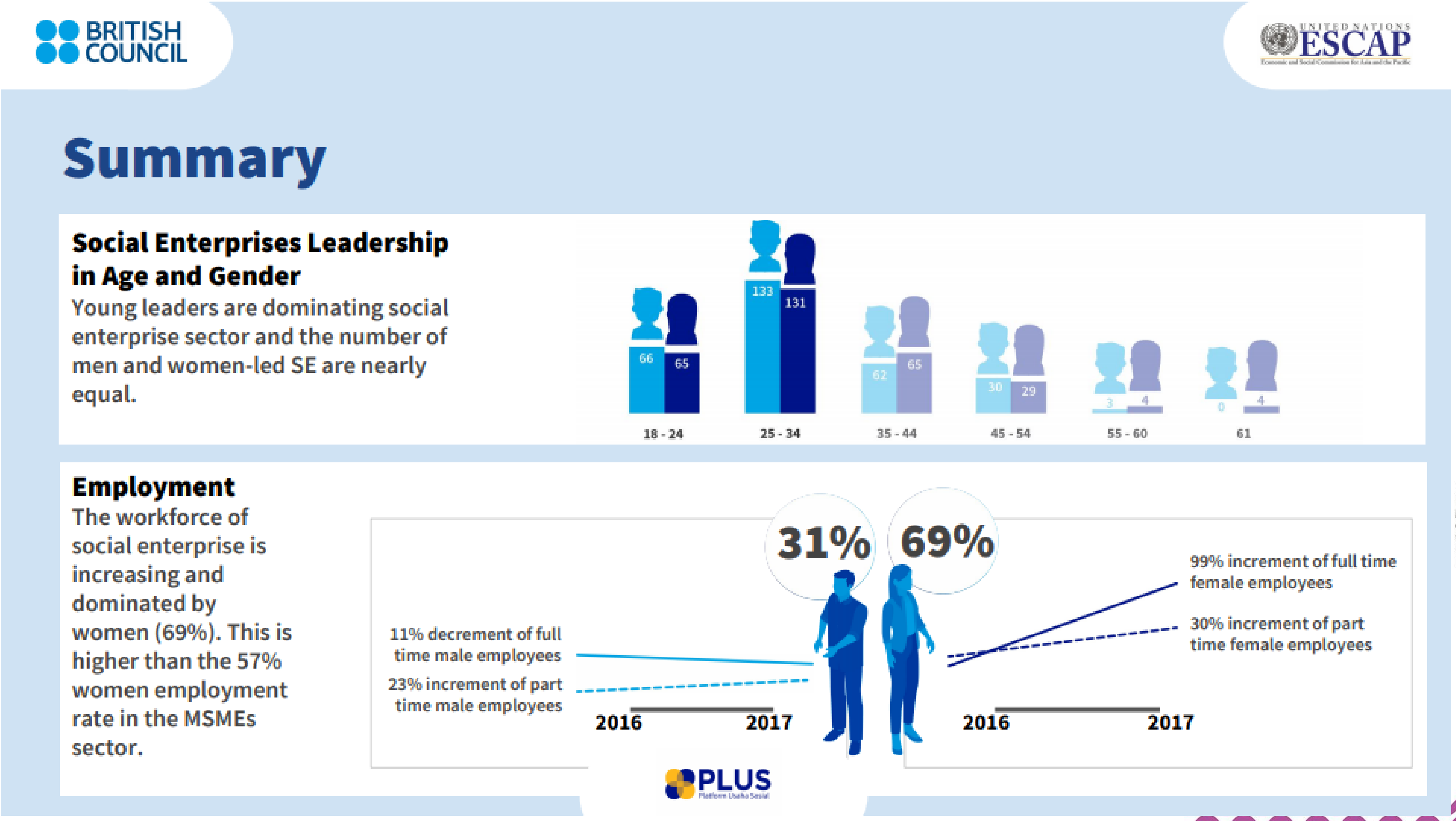

Social Enterprise Landscape in Indonesia (2018)

BRITISH COUNCIL

UNITED NATIONS ESCAP

Summary

Barriers to growth

Funding and human resources are the main challenges facing social enterprises

47% Lack of capital (debt/equity)

31% Difficulties obtaining grant funding

31% Shortage of managerial skills

Growth Plans

Social enterprise respondents plan to grow their business and impact by focusing on product and customers outreach

71% Develop and launch new product or service

64% Attract new customers or clients

62% Increase sales with existing customers

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Social Enterprise Landscape in Indonesia (2018)

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Business Size

64% of social enterprises respondents are micro business with $ 57K USD as average annual revenue of each enterprises

64%

of our respondents are micro business

1.9%

contribution to Indonesia GDP

$ 57 K USD

average annual revenue each social enterprise

$ 19.6 bio USD

estimated annual revenue of social enterprises

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Social Enterprise Landscape in Indonesia (2018)

BRITISH COUNCIL

UNITED NATIONS ESCAP

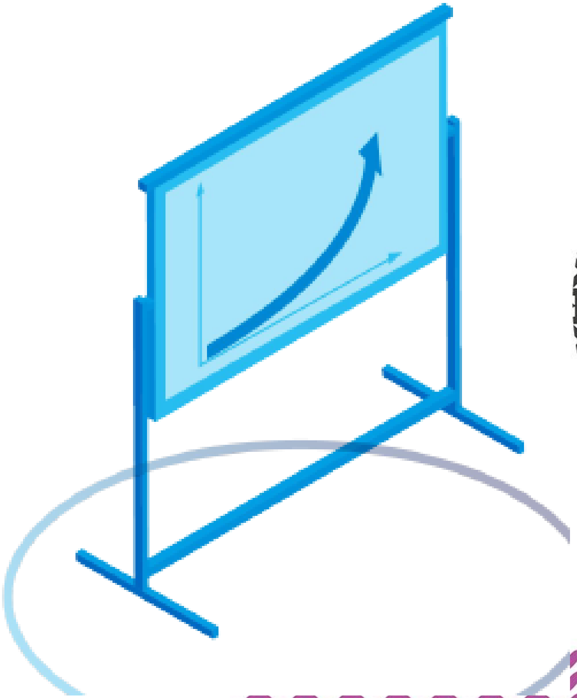
Profit Allocation

From 203 social enterprises generated profit, most profits were allocated for growth and development activities, cross subsidy, and rewards to staff.

72% Growth and development activities

29% Cross subsidising social mission with business activity

27% Rewards to staff



*Respondents can choose more than one option

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SE Policy Landscape in Indonesia

SE Policy Landscape in Indonesia 2020

The report, building on previous research into social enterprises in Indonesia, such as the State of Social Enterprise by the British Council and UNESCAP, offers a number of recommendations for the Government to further develop social enterprises and the contribution they can make to Indonesia's inclusive and sustainable development.

Challenges and Opportunities of SE

Challenges:

- Lack of capital and funding.
- Difficulties in sourcing managerial skills and recruiting staff.
- Lack of clarities and definition for social enterprise.

Opportunities:

- The first formal definition of social entrepreneurship in the draft of Entrepreneurship Bill.
- SE is formally recognized in the government Medium Term National Planning Document 2020-2024.
- NSPK –Kementrian Koperasi UKM-Kemenko

SE's problems and issues in Indonesia

- Recognition of work and impact
- Business support – in validating and testing their products to the market
- Private sector - offering market opportunities
- Legal framework – for creating a more social enterprise-friendly regulatory environment and distinguishing social enterprises from wider business;
- The support ecosystem - multi-sector collaboration, appropriate network and forums and more sustainable support; and
- Funding and finance - appropriate funding and finance for every stage of development.

Typology of Social Enterprises in Indonesia

- Social enterprises share common characteristics as organisations with an explicit social mission and operating with a business logic.
- Yet they have distinctive and diverse types and business models.
- Acknowledging this diversity is important to avoid a “one size fits all” policy approach

Typology of Social Enterprises in Indonesia

Growth-oriented

"Social Cooperative"
Emerges from mutual-interest organisations that show a greater concern towards general interests. e.g: Pancur Kasih

"Social Business"
social enterprises with a strong market orientation. E.g.: Javara

Non-Growth Oriented

"Entrepreneurial NPO"
Emerges from non-profit organisations with strong philanthropy tradition. E.g.: IBEKA

"Community Development Enterprise"
Originated from the community-based development programs. Focuses on local economic development in both rural and urban areas. E.g.: enterprises initiated under PNPM Mandiri Project

Pratono, Pramudija, Sutanti (2019)

Types of Social Enterprise and the Issues Faced

This policy review will employ this typology as it provides a useful framework for analysing different support required.

The three issue areas are:

- **Identity, recognition, and impact**
- **Access and Availability of Resources**
- **Finance**

Figure 2: typology of Indonesian social enterprise and the issues

Key Recommendation

Recognise the identity of social enterprise

- Government should clarify the identity of social enterprise in Indonesia, considering its special characteristics and diversity, to ease funding opportunities, attract customers and grow

Mainstream social enterprise into existing ecosystem

- As a business, social enterprise should be a part of the bigger business and entrepreneurship ecosystem to tap into the resources available inside the system.

Ensure access to a range of finance for all types of social enterprise

- Provide access to finance both non-growth oriented and growth-oriented social enterprise, especially for the middle-level SEs

Building market for social enterprise

- Help raise awareness and spread understanding of SE to create market space for SE among the public through awareness campaign activities

Policy Recommendation:

1.

Recognise the identity of social enterprise

Rationale:

Only 53% social enterprises were registered:

- 40% as limited liability
- 27% as foundations
- 21% as limited partnership
- 5% as cooperative
- 1% have multiple legal entity types

Registration process is complex and expensive

No recognition of their specific business models

Unclear tax and legal obligation

Policy Recommendation

Recognise the identity of social enterprise

Recommendation:
Two paths that government can take to enable greater recognitions

1. **Establish a new and distinct legal form for social enterprises:**
   - Provide distinctive legal identity for social enterprise
   - Enable special schemes and incentives for their contribution in solving social problem

2. **Ensure the definition and the characteristics of social enterprise are embedded in the Government's Entrepreneurship Development Technical Document:**
   - Coordinating Ministry of Economic Affairs is currently drafting a technical document as a guideline for the government to develop the entrepreneurship sector.
   - Government can use this opportunity to establish a broad-based stakeholder engagement process – especially because as a technical document it should resonate with the day-to-day practices.

Policy Recommendations

2.

Ensure access to a range of finance for different types of social enterprise

Rationale:

Current funding and finance policies for MSMEs cannot give sufficient data of equal access for social enterprise

Government funding for MSMEs available to social enterprises are small-scale (micro-credits)

Significant (medium-to-large) private funding mainly targeting mature social enterprises only and many were done by foreign investors

The "missing middle" phenomena: no clear opportunity for middle-sized social enterprise

Policy Recommendations

Ensure access to a range of finance for different types of social enterprise

Recommendations:

1. **Encourage social enterprise to tap into existing available funding schemes:**
   - Expand access to funding beyond bootstrapping and angel-funding, for example, the government microcredit programme

2. **Facilitate clearer policies for impact investment:**
   - Clarifying the definition of impact investment.
   - Allow social enterprises to attract domestic and international funding.
   - Clarify and ease the process of foreign impact investment.
   - Reduce the requirement of foreign investment of minimum USD 700,000 to enable funding for mid-sized social enterprise.

Policy Recommendations

3.

Mainstream social enterprise into the entrepreneurship ecosystem

Rationale:

Estimation that social enterprises in contribute approximately 1.9% of Indonesian GDP.

Government recognition of potential contribution of social enterprise to solve social problem through the Government's National Development Plan 2020-2024.

Government expectation of social enterprise 25% growth in 2024 in Presidential Decree No. 18/2020 on the National Development Plan 2020-2024.

Government-supported PNPM Mandiri Project that aims to reduce poverty through community empowerment programmes.

State-owned-enterprises are obliged to support the development of small entrepreneurs, co-operatives, and community.

Local, regional, and national level policy instruments to support entrepreneurs.

Policy Recommendations

3. Mainstream social enterprise into the entrepreneurship ecosystem

Recommendations:

1. **Create clear guidelines on how current policies and support programs can help social enterprise:**
   - Policies and support programs for entrepreneurs should be accessible to social entrepreneurs

2. **Further mainstream social enterprise into the existing entrepreneurship process:**
   - Elaborate the requirement and process of policies and support program to include social enterprise
   - Include social entrepreneurs in the category of entrepreneurs formally in government categorisation, especially in departments taking care of entrepreneurship monitoring

Policy Recommendations

4.

Build markets for social enterprise

Rationale:

In other countries, the government played a significant role in building awareness of social business and social marketing

Successful campaigns such as “Buy Social” in UK and “Buy for Impact” in Malaysia were initiated and enforced by their respective government.

Indonesian government has successfully launched “100% Cinta Indonesia” to support local product. Similar campaign is needed for social enterprise to grow their market.

Policy Recommendations

Build markets for social enterprise

Recommendations:

1. **Create public campaign that build awareness towards social impact and social business:**
   - Adopt or adapt successful social impact campaign elsewhere such as the UK's "Buy Social" or Malaysia's "Buy for Impact".

2. **Create public campaign that build awareness towards social impact and social business:**
   - Take affirmative action towards social enterprise.
   - Include indicators of social impact in sustainability aspects of government procurement.
   - Clarify the mechanism of partnership between MSMEs and other business entities.

Link to Download the Reports

Social Enterprise Landscape in Indonesia

https://www.britishcouncil.org/society/social-enterprise/reports/state-social-enterprise

Creative and Social Enterprise Landscape in Indonesia

https://www.britishcouncil.org/programmes/dice/reports

Thank You

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