

CHAPTER 1

INTRODUCTION

1.1 Background

1.1.1 Entrepreneurship in Indonesia

A year prior to the peak of the enormous economic crisis in 1998, Indonesia was doing decent by reducing the inflation about 5 percent in the middle of 1997 on which has averaged 9 percent since the early 1980s. In the first half of 1997, the capital investment grew by almost reaching 17 percent, output grew by 7.4 percent, and exports and imports rose by 3 and 10 percent respectively. South East Asia countries like Thailand and Malaysia began to suffer from the economic crisis in the second half of 1997; start in July both currencies dropped by a significant value. The crisis peak affected Indonesia in 1998 with the worst moment that was the Rupiah got inflation bombardment and suffered degradation value by 77.63%. The non-financial (economy) sector also endures the side-effect of the crisis, due to the decision of the government to issue counterproductive policies with hope reducing the terrible crisis impact and the massive revolt towards former President Suharto's regime. (Tambunan, 2000). However stated by E. Prasetyo (2008), there were two blunders of government policies before the 1998 crisis and worsen the crisis impact, following:

1. The government did not exploit domestic resources optimally, instead of relying so much upon world debt and imports. These had proven very vulnerable and placed the country into prolonged crisis.
2. The centralized governance approach failed in having a solid foundation of social-economic structure (social equity) and tended to produce a structure that dominated merely by large businesses.

In the time of the 1998 crisis, MSMEs were the only business forms that could survive. Data from Badan Pusat Statistik (in Putra, (2016)) the post crisis did not trim the number of MSMEs, in fact the number gradually increased and absorbed up to 107 million workers until the year of 2012. From the same year, MSMEs number had been reaching 56.5 million units (99.99%) and while the big enterprise was only 4,968 units (0.01%). According to Yuliani (2017), MSMEs in the year of 2017, reaching 59.2 million units and around 8% entrepreneurs evolved into e-commerce fostered by the government as much as 3.79 million units.

Entrepreneurship has always been motorizing the Indonesia economic-wheel after the crisis moment in 1998. Since then, the government realized that MSMEs are genuinely influencing the advancement of economics and begin to provide bigger chance towards entrepreneurs. The government's plan was creating a new policy named "Rancangan Pembangunan Jangka Menengah Nasional" (RPJMN) or "The National Development Plans for Medium Term" for five years period in 2004 that also plans MSMEs until 2009. The core objective is eradicating the fundamental problems of a developing country such as poverty, unemployment, inequality of income distribution, and excessive urbanization. The planned solutions were enhancing the quality of human resources with science and technology knowledge, focusing on the economic development, and the designation of MSMEs (microfinance introduction) and cooperative to become the medium of the national development policy (E. Prasetyo, 2008). MSMEs are playing a crucial role of economic thrive and employment, especially in the 2008-2009, they strengthened the country's economic resilience during the financial crisis. The crisis drives many entrepreneurs suffered from low productivity and restricting their role in boosting living standards. Mourougane (2012) proposed three methods to encourage productivity growth over the medium term, the following: promote the formalization of small enterprises, boost the investment towards the poor infrastructure, and improve the quality of human resources.

Since then, the government and parliament have shown full support for entrepreneurs by issuing Law number 20 of 2008 (LPPI, 2015) which consists of the regulation of MSMEs in Indonesia. Knowing entrepreneurship is thriving fast, The Ministry of Research, Technology, and Higher Education created a new program in harmony with RPJMN 2015-2019 policy by facilitating entrepreneurs in university-level to mold more creative and innovative technology-based startup companies that the products are ready to be introduced to the market, namely "*Program Insentif: Calon Perusahaan Pemula Berbasis Teknologi*" (CPPBT) or "Incentive Program for New Ventures Based on Technology". In 2019, around 800 proposals received and 132 of them passed the Directorate of Technology-Based Startups strict selection and have a privilege to join CPPBT Boot Camp 2019. The boot camp has goals to develop and enhance the knowledge and ability of CPPBT candidates to become top startups in the future (Yuliani, 2017).

Another support from government was the deduction of monthly income tax of MSMEs from 1% to 0.5% in Government Regulation number 23 of 2018 on which replaced the former Government Regulation number 46 of 2013. All the advantages have been provided by the country solely to push the entrepreneurship growth rate going up and reaching economic and social welfare simultaneously.

1.1.2 Micro-Business in Indonesia

Micro-business typically consists of 10 employees and an annual turnover of 300 million in maximum with valued assets limited to 50 million Rupiah (Institution of Indonesian Banking Development, 2015). There are two micro-enterprises types: formal and informal. As stated in Leino (2009), the distinguishable factor between formal and informal micro-enterprises is the urge for initiating the business; mostly as the alternative of employment opportunities. The most applicable micro-enterprise model in Indonesia is a street vendor, and in the majority, it would offer various fast-food and beverage to the customers. Out of 100% of total MSMEs in Indonesia, micro-enterprise is the highest number by 93.4%, followed by small enterprise by 5.1%, and finally medium enterprise by 1% (Merdeka, 2018).

As reported by the Bank of Indonesia (in Katadata, 2016), street vendors are contributing significantly to the employment absorption, 87% out of 97% of people in Indonesia either work as the owner or labor in the micro-enterprise (street vendor). In the economic sector, MSMEs contributed by 60.34% of the GDP alone in 2018. In the same year, the President of Indonesia, Joko Widodo, suggested the small and medium enterprises to follow the micro-enterprises' success trail (Merdeka, 2018).

1.1.3 Micro-Business Challenge in Jakarta

Micro-businesses in a developing country have a higher chance to fail (or have stagnant growth) compared to developed country (Arinaitwe, 2006). In Indonesia, the involvement of micro-enterprises towards economic development has been recognized, especially the contribution to more than half of the annual GDP in 2018 (Merdeka, 2018). On the contrary, the micro entrepreneurs are often facing barriers that inhibit their business growth and survivability. Jakarta, as the capital city of a developing country, has 59,143 (0.57%) micro entrepreneurs since 2017 and each of them faced similar problems in general (Pemprov DKI Jakarta, 2017). Data taken from past researches (Bowen, Morara, and Mureithi, 2011; Gunther and MacMillan, 2001; Haynie, Shepherd, Mosakowski, and Earley, 2010; Matlay, 1999; Maulina and Fordian, 2018; Narsa, Widodo, and Kurnianto, 2012; Okpara, 2011; Pramaishella and Cahyono, 2018; Tambunan, 2007) have shown that the general issues would inhibit the growth of micro-businesses, it may include the following factors, there are:

- 1) Lacking of Entrepreneurial Mindset (X1),
- 2) Lacking of Financial (X2),
- 3) Lacking of Business Management Experience (X3), and
- 4) Lacking of Government Support (X4).

1.2 Problem Formulation

There is very less research conducted particularly towards this topic to only focus on testing the inhibiting factors effect of micro-business growth. One of the studies was done by Yuwono and Ardianti (2007) that analyze the formal sector of micro and small enterprise constraining factors in East Java. While Adawiyah in 2013 created a study to focus on examining the MSMEs inhibiting growth factors in Banyumas Regency. By 2017, Suci researched terms of the growth of MSMEs in Indonesia. Other studies had done by Maulina and Fordian (2018), about the restricting factors of small and medium enterprises in Bandung, West Java. Although some researchers might have done with a similar topic about the micro-business inhibiting factors in Jakarta, apparently there is no publication been found yet from the literature search to date. The gaps exist concerning this particular topic. The presence of this topic is to test whether the four chosen factors are indeed inhibiting the growth of micro-business in Jakarta since micro-business plays a significant role in national development and poverty and unemployment reduction. Therefore, in short, by recognizing the obstacles facing micro-business growth in Jakarta is a vital initial step in managing and averting the downfall of micro-business prosperity.

1.3 Problem Statement

This research observes the whether inhibiting factors such as entrepreneurial mindset, financial, business management experience, and government support are really affecting the growth of micro-business in Jakarta. Inspired and adopted with some adjustments from a research conducted by Okpara (2011), with the title “Factors Constraining the Growth and Survival of SMEs in Nigeria: Implications for Poverty Alleviation” The problems identified are:

1. What is the effect of lack of entrepreneurial mindset towards the micro-business growth?
2. What is the effect of lack of financial towards the micro-business growth?
3. What is the effect of lack of business management experience towards the micro-business growth?
4. What is the effect of lack of government support towards the micro-business growth?

1.4 Research Objectives

- To determine the factors inhibiting the growth and development of micro-businesses in 5 Jakarta regions.
- To analyze and understand why the factors possible to affect the micro-businesses.
- To suggest solutions on how to deal with the factors inhibiting micro-business growth and development.

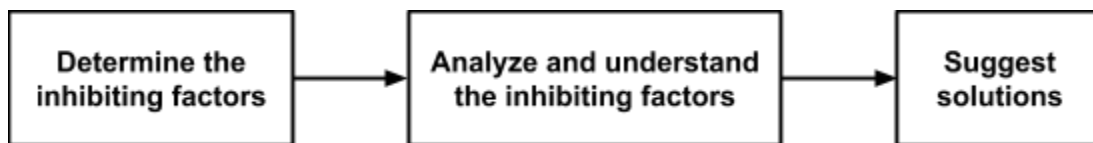


Figure 1.0 The Objectives Flowchart

1.5 Research Benefits

For the micro-business owner, this study can give a depiction on a variety of factors that can restrict their business expansion. Thus, the entrepreneurs capable of thinking on some strategies to tackle the future or existing problems. Also, this study will be benefiting the Jakarta government in supporting and improving the micro-business by minimizing the restricting growth factors.