



A HORIZON SCAN

# THE FUTURES OF MSMEs IN INDONESIA



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# FOREWORD



**DR. IR. AHMAD DADING GUNADI, MA,**

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As Indonesia prepares for an uncertain decade ahead, we can anticipate many new developments and radical shifts in business and society. The global COVID-19 pandemic highlighted how swift and fundamental change can be. Rapid technological development and the current instability of the global economy due to the pandemic and geopolitical conflicts have opened our eyes to the urgency of helping MSMEs to anticipate, prevent, and prepare for future risks and opportunities.

Based on data from the Ministry of Cooperatives and SMEs, the number of MSMEs has reached 65.4 million with a contribution to the Indonesian GDP worth 9,580.76 trillion Rupiah in 2021. The large number of MSMEs in Indonesia cannot be separated from the challenges of future uncertainty, and as MSMEs are the drivers of Indonesia's growth, it is important to think about their future.

Bappenas has collaborated with UN Global Pulse (UNGP), more specifically with Pulse Lab Jakarta (PLJ) and Pulse Lab Finland (PLF), to provide tools and data to support the policy-making processes for future MSME development. One of the activities under the collaboration is a horizon scan on the futures of MSMEs in Indonesia. This activity is

also in line with the UN Global Pulse's futures and foresight agenda in encouraging policymakers to stimulate forward-thinking in achieving the Sustainable Development Goals (SDGs) and Our Common Agenda.

**Through the horizon scanning process, we detected potential emerging drivers and signals that could plausibly impact the futures of MSMEs in Indonesia. This foresight report is an essential part of the process of policy development to ensure a vibrant, thriving, and highly responsive MSMEs ecosystem. The results of the horizon scanning process will enrich our outlook and further shape the futures of Indonesia's MSMEs, which will be outlined in the preparation of Indonesia's National Long-Term Development Plan 2025–2045.**

I would like to express my sincere gratitude to all the team members for their utmost dedication in the preparation of this report. I hope it will serve as one of our main references in the preparation of Indonesia's National Long-Term Development Plan 2025–2045, and will encourage other counterparts in Bappenas to utilize this valuable method as part of their planning processes.

# FOREWORD

In Indonesia MSMEs provide 60% of the nation's gross domestic product,<sup>1</sup> significantly contributing to economic growth and providing job opportunities. Recent events, such as the COVID-19 outbreak and geopolitical conflicts, combined with climate change, have adversely impacted MSMEs, requiring government support and interventions to minimize the effects of current and future challenges. Over Rp.116 trillion (US\$7.5 billion) was allocated in the national economic recovery program launched in 2020. Given the increased complexity and unpredictability of natural and human-made crises, policy decision makers must be better equipped in order to implement anticipatory measures that effectively channel resources to support MSMEs.

Bappenas has collaborated with the UN Global Pulse through an analytic partnership to strengthen MSMEs and ensure inclusive and sustainable growth. As part of the collaboration, a foresight study was carried out to answer the following question: what will the future landscape of MSMEs look like, and what are the key emerging drivers shaping it? This horizon scanning exercise identified drivers and signals shaping the futures of MSMEs in Indonesia. The process provided the Bappenas team with additional tools to design policies that will help MSMEs leverage future opportunities, mitigate risks, and become more adaptable to future changes.

**As an analytical partner employing mixed method approaches, Pulse Lab Jakarta is happy to support**

**the use of foresight in the government's planning process. The methodology complements existing quantitative and qualitative planning instruments to provide a robust planning strategy. Not only are the foresight and horizon scanning exercises beneficial for assisting the Bappenas team in formulating a national development strategy, but they also help build the capacity of policymakers to be more adaptive and anticipatory towards future challenges. Therefore, our expectation is that the foresight work will continue beyond the publication of this report and into the near future, extending to other units in Bappenas and across different ministries in Indonesia.**

This partnership would not have been possible without the commitment of the Bappenas team, led by Pak Ahmad Dading Gunadi of the MSMEs and Cooperatives Development Directorate, as well as the scanning team from Pulse Lab Jakarta and the Pulse Lab Finland team for their technical guidance. We would also like to thank the Government of Australia for its generous support of Pulse Lab Jakarta and the Government of Finland for its support of Pulse Lab Finland.

We hope this research will generate ongoing discussion among government agencies, academia, practitioners, and the general public as we envision the futures of MSMEs in Indonesia, and how we can all contribute to their prosperity.



**PETRARCA KARETJI**

*Head of Pulse Lab Jakarta, UN Global Pulse*

# EXECUTIVE SUMMARY

## THE FUTURES OF MSMEs IN INDONESIA - CONTEXT AND OBJECTIVES

The Micro, Small, and Medium Enterprises (MSMEs) sector, consisting of more than 65 million enterprises – 64.5% of which are women-owned, represents over 60% of Indonesia's GDP. Crucially, MSMEs provide employment for 97% of the nation's total workforce – around 117 million workers. Hence, this sector is often considered the backbone of the Indonesian economy and a driver of future economic growth. MSMEs also play a vital role in addressing the needs of Indonesian consumers and businesses.

In times of rapid change, global crises, and high uncertainty, the government needs to prepare for the unexpected – particularly as it relates to MSMEs. This is of particular importance for the Ministry of National Development Planning (Bappenas), which is preparing Indonesia's Long-Term Development Plan (2025–2045). When thinking about the futures of MSMEs, key questions need to be addressed, such as:

### QUESTIONS →

**What could the future landscape of MSMEs in Indonesia look like?**

**What are the key emerging issues for the sector?**

**What could potentially alter or disrupt the future of MSMEs as we currently envision it?**

In order to help address these questions, UN Global Pulse and Bappenas conducted a foresight exercise on the futures of MSMEs in Indonesia. The core technique used was horizon scanning, with the work being conducted by a team of 12 scanners in Bappenas supported by UN Global Pulse. The specific objectives of the exercise were to understand what potential developments could affect the futures of MSMEs, build foresight capacity through learning-by-doing, and inform the development of robust policies and strategies.

## FORESIGHT APPROACH

Following initial training of the Bappenas and UN Global Pulse scanning teams, the horizon scan was conducted focusing on three key domains: political and legal, social and economic, and technology and the environmental landscape. The scanning and analysis were undertaken using three core techniques:

- Desk research based on a range of literature, internet searches, press, and social media
- Interviews and surveys with relevant experts and other stakeholders
- Focus group discussions and workshops to validate and sense-check the insights generated

The output of the horizon scanning activity was the identification of 112 key signals of emerging change under 40+ thematic areas. These signals were subsequently grouped under 15 major drivers of change, which were, in turn, further reduced to five primary drivers and ten secondary ones. These drivers were then documented, along with a summary of the most relevant underlying signals and their future implications.

The main drivers shaping the futures of MSMEs in Indonesia are:

1. **Climate change: the race against time.**

Climate change is affecting MSMEs, especially those that depend on the natural ecosystem, like fishing and farming, and on natural resources, such as manufacturing. As an impact of climate change, a shortage of production resources and an increase in inflationary commodities could cause instability in domestic and local markets.

improving living standards and lifespans. They influence consumer behavior and choices, which creates new sectors, economic opportunities, and business types.

2. **Increasing international sustainable economic partnerships.**

Indonesia's participation in sustainable economic partnerships is increasing, creating new opportunities for MSMEs to expand production by adopting more sustainable business models.

4. **Tech and business: New ways of working.**

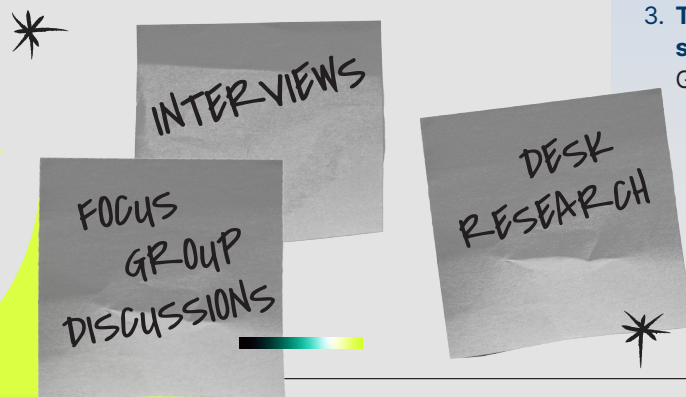
The COVID-19-accelerated digitalization process is already reshaping global work. Despite the benefits advanced technology delivers for MSMEs, the digital divide exists and exacerbates social and digital inequality.

3. **The rise of emerging sectors and shift in consumer preferences.**

Globalization and technology are

5. **Precarious work in the gig economy.**

Shifting employment models are driving the rise of the gig economy, providing flexibility for workers and companies. However, gig workers often face precarious working conditions, limited benefits, and low remuneration.





The horizon scanning exercise provides us with the key drivers and signals that are shaping the futures of Indonesian MSMEs, as well as the future implications that each driver brings. Moreover, the horizon scanning activity also reveals significant interconnectedness between the political, socioeconomic, and technological-environmental drivers and signals.

In addition to the five main drivers, we provide secondary drivers that are shaping the future of MSMEs in Indonesia (list of secondary drivers in annex pp.41-42). For example, the current rise in geopolitical uncertainties, shifting global power dynamics, and growing tension between major economies, all which could accelerate in the coming years. These secondary drivers are expected to magnify the challenges of a globalized world in which countries are interconnected and interdependent. This shifting landscape may have an impact on the drivers and signals presented in the report that are shaping the futures of MSMEs in Indonesia.

## WHAT'S NEXT? POSSIBLE FOLLOW-UP ACTIONS

The horizon scanning exercise is the initial phase of a strategic foresight journey and can help hone policymakers' ability to be more anticipatory towards future trends and challenges. Within the context of the Indonesian government, the horizon scanning process has helped us to better understand the added value of using foresight to plan ahead and shown us how these processes can be replicated across different units in Bappenas and ministries across Indonesia.

To build upon the findings of the horizon scanning activity, additional foresight tools can be utilized to shape drivers and signals into policy actions and sharpen Bappenas' policy-planning process (see page 31 of the report).

Finally, to encourage further dialogue on the future landscape of MSMEs in Indonesia, we ask: What do the trends shaping the futures of Indonesian MSMEs mean? What should we be mindful of based on the drivers and signals?

More detailed explanations of foresight thinking, the scanning process, outputs, and lessons learned from the project are presented in the following sections.

# INTRODUCTION

## SHIFTING MINDSETS AND PROMOTING ANTICIPATORY THINKING



**Common  
Agenda**

Bappenas, supported by the United Nations Global Pulse offices in Jakarta and Finland, embarked on a shared foresight learning journey to explore the development of more anticipatory policy processes.

UNGP has been supporting the use of strategic foresight – alongside other methods such as data science and behavioural science – to achieve sustainable development, as promoted by the UN Secretary General in [Our Common Agenda](#). In the Indonesian context, the project was framed around developing policies to enhance future opportunities for MSMEs.

The COVID-19 pandemic, which severely impacted MSMEs in Indonesia, served as a wake-up call, underscoring that we cannot continue business as usual, including in supporting MSMEs to grow and be more sustainable. The crisis highlighted the need to proactively prepare ourselves for future disruptions before the risks materialize and to envision an optimal future for the sector to help define and step up key innovation efforts. We need to adopt different approaches and methods to create robust policies that prepare us not for one, but many ways the future may unfold. This is where strategic foresight can be useful, as it allows us to articulate policies that are truly forward-looking and resilient to future shocks.





The broader learning questions and objectives for this collaboration are:

#### QUESTIONS\_

**What could the future landscape of MSMEs in Indonesia look like?**

**What are the key emerging issues for the sector?**

**What could potentially alter or disrupt the future of MSMEs as we currently envision it?**

To answer these questions, UN Global Pulse, in collaboration with the Center of Data and Information for Development Planning (Pusdatinrenbang) and the Directorate of MSMEs and Cooperatives Development in Bappenas, established a horizon scanning pilot focused on the future of MSMEs in Indonesia - the process, results, and future objectives are explored in this document.

The specific objectives of this pilot were:

#### OBJECTIVES\_

**to understand what potential developments could affect the future of MSMEs**

**to build foresight capacity through learning-by-doing**

**to inform the development of robust policies and strategies**

A long-term objective of the collaboration is to explore and understand how we can use other foresight tools and approaches, in addition to the horizon scanning, to support Indonesia's policy-making process. These could help enhance anticipatory decision making from policymakers, inform both Indonesia's Medium-Term Development Plan (RPJMN) and Long-Term Development Plan (RPJPN), contribute to Indonesia Vision 2045<sup>2</sup> (a strategy document in which the development of MSMEs plays a key role), and support the realization of the Sustainable Development Goals.<sup>3</sup>



# KEY CONCEPTS OF STRATEGIC FORESIGHT AND THE HORIZON SCANNING PROCESS

Strategic Foresight is an approach for systematically thinking and acting in a long-term and anticipatory way. Over the last decades, strategic foresight has highlighted the need to engage with uncertainty about the future in an organized manner, and move towards the adoption of greater anticipatory skills. The central idea of foresight is not to make perfect predictions, but to:

- **explore a wide range of plausible future outcomes;**
- **engage a wide range of stakeholders through futures dialogue to tap into their collective intelligence; and**
- **develop activities and policies to support positive developments and mitigate the negative ones proactively.**

Strategic foresight is an approach that helps policymakers transition from being in a primarily reactive mode to a proactive and anticipatory mode. It fosters our ability to

envision the future as something we can shape and influence instead of something unalterable.

The strategic foresight process starts with the exploration of new emerging issues that could alter the future, and horizon scanning is often a core technique in this first phase. Horizon scanning is the process of identifying emerging trends and signals of change that can shape the future of a particular issue. A structured, qualitative, evidence-gathering process, that encourages policymakers to look beyond the issues that MSMEs are currently facing, providing a framework for early detection and assessment of key longer-term trends and developments

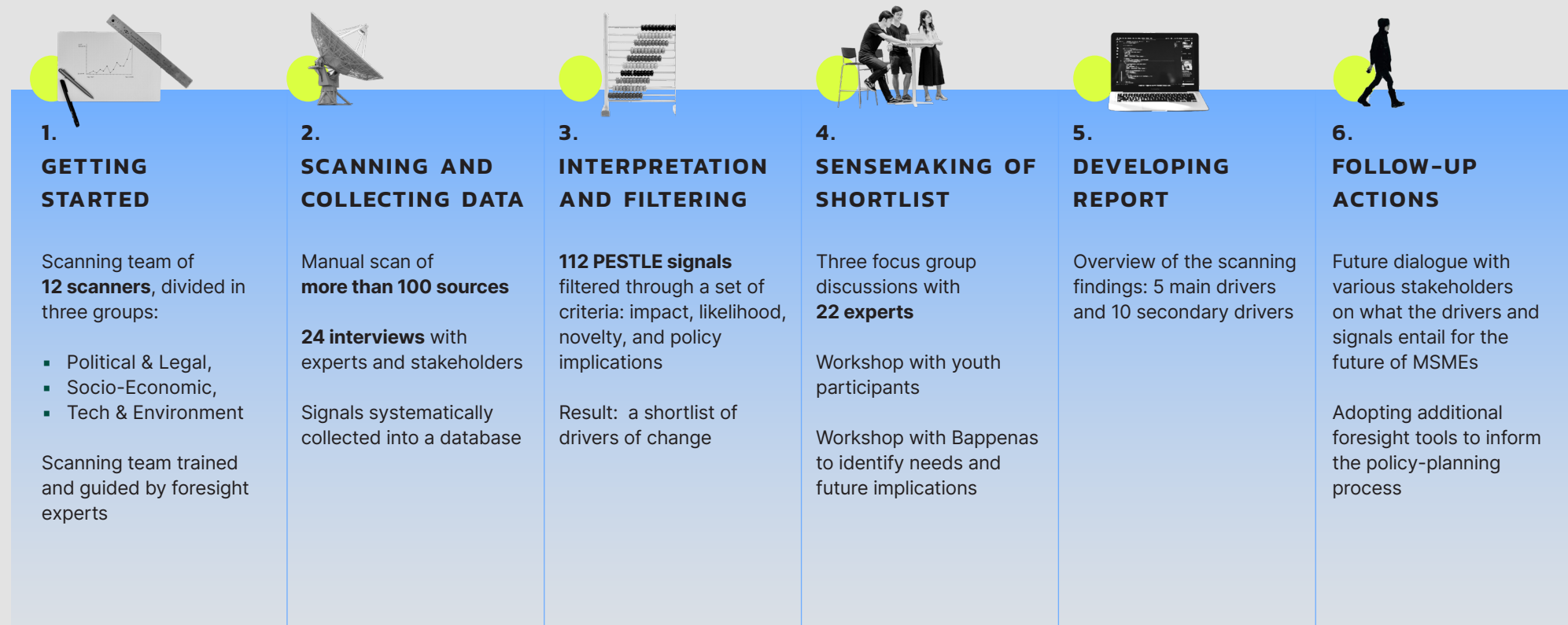
The scanning process is structured using a PESTLE framework (political, economic, socio-demographic, technological, legal, and environmental) to capture and analyze signals of change to ensure a broad scope of the scan.

## THE PESTLE ANALYSIS FRAMEWORK



## THE HORIZON SCANNING PROCESS

A dedicated team of twelve scanners from Bappenas and UNGP carried out the horizon scan, facilitated by foresight experts. The steps taken throughout this horizon scanning process are the following:



## METHODS USED IN THE HORIZON SCANNING PROCESS\_

In the horizon scanning exercise, we used three primary methods:

### WHAT

#### DESK RESEARCH

##### HOW

Manual scan of relevant sources: websites, blogs, podcasts, recent publications of institutes and organizations, specialized press, and (validated) social media feeds of experts

##### WHY

To collect information from a wide range of different sources

##### WHEN

#2 Scanning and collecting data phase

### WHAT

#### INTERVIEWS

##### HOW

Interviews with experts and other stakeholders conducted after a brief stakeholder mapping

##### WHY

To gain a deeper understanding of the changes emerging and the possible consequences of the signal in an MSME context

##### WHEN

#2 Scanning and collecting data phase

### WHAT

#### CONSULTATIONS

##### HOW

Focus group discussions with practitioners and youth, workshops, and participatory foresight sessions

##### WHY

To validate scanning results, reduce biases in our future thinking, and identify potential unseen areas

##### WHEN

#4 Sensemaking phase

# DRIVERS AND SIGNALS SHAPING THE FUTURE OF MSMEs IN INDONESIA



The following section provides a review of the primary drivers and signals of change that could shape the futures of Indonesian MSMEs, as well as the future implications that each driver brings. These findings may help a broad variety of stakeholders, from policymakers to individual businesses, better comprehend what lies ahead and plan for the futures of MSMEs in Indonesia.

## MAIN DRIVERS AND SIGNALS SHAPING THE FUTURES OF MSMEs IN INDONESIA

### 1 CLIMATE CHANGE: THE RACE AGAINST TIME

Climate change is affecting MSMEs, especially those that depend on the natural ecosystem, like fishing and farming, and on natural resources, such as manufacturing. As an impact of climate change, a shortage of production resources and an increase in inflationary commodities could cause instability in domestic and local markets.

#### SIGNALS

- Disproportionate impact on vulnerable populations
- Exponential increase in zoonotic diseases
- Circular economy: an alternative way of doing business to mitigate climate change
- Mandatory environmental certification for MSMEs to adapt to the future competitive landscape
- Rise of ecotax on large corporations

### 2 INCREASING INTERNATIONAL SUSTAINABLE ECONOMIC PARTNERSHIPS

Indonesia's participation in sustainable economic partnerships is increasing, creating new opportunities for MSMEs to expand production by adopting more sustainable business models.

#### SIGNALS

- New economic cooperation agreements on green infrastructure, water conservation, and energy transition
- Increasing dialogues between country leaders offering new market opportunities for MSMEs' market expansion

### 3 THE RISE OF EMERGING SECTORS AND SHIFT IN CONSUMER PREFERENCES

Globalization and technology are improving living standards and lifespans. They influence consumer behavior and choices, which creates new sectors, economic opportunities, and business types.

#### SIGNALS

- New business opportunities around care work and the halal economy
- Increasing demand for ethical products
- Social enterprise as an emerging means of doing business
- Emerging alternative financing options to support MSMEs' transition towards new sectors

### 4 TECH AND BUSINESS: NEW WAYS OF WORKING

Accelerated by COVID-19, the digitalization process is already reshaping global work. Despite the benefits advanced technology delivers for MSMEs, the digital divide exists and exacerbates social and digital inequality.

#### SIGNALS

- Potential of advanced technologies in supporting MSMEs
- Playing catch-up: reactive regulatory framework
- Automation of the workforce

### 5 PRECARIOUS WORK IN THE GIG ECONOMY

Shifting employment models are driving the rise of the gig economy, providing flexibility for workers and companies. However, gig workers often face precarious working conditions, limited benefits, and low remuneration.

#### SIGNALS

- Increases work options, but also creates precarity amongst workers
- Decline in the number of permanent job vacancies
- Increased labor market competition
- Differences in generational preferences within the labor force

# ① CLIMATE CHANGE: THE RACE AGAINST TIME

Climate change triggers multiple adverse effects on the planet, putting all species, including humans, at risk. The increase in ocean acidification levels can have a disruptive effect on marine ecosystems, affecting fishing activities and fishing communities. Climate change is already affecting the natural water cycle in Indonesia, with increased rainfall causing floods while, at the same time, a decrease in rainfall is causing drought.<sup>4</sup> Climate change will have a strong impact on MSMEs, especially those highly dependent on the balance of the natural ecosystem, such as fisheries and agriculture, as well as businesses highly dependent on natural resources, such as manufacturing production.

As a consequence, the impact could lead to a shortage in production materials and could give rise to an increase in inflationary commodities, creating instability in the domestic and local markets.

The need for more sustainable resource usage is becoming an increasingly pressing challenge. In particular, the rising need for circular economy activities to address these forces creates new markets, niches, and entry points for Indonesian MSMEs to develop. This can both open up new opportunities for MSMEs and also make it harder for them to conduct business, potentially increasing existing inequalities.







## UNDERLYING SIGNALS

### DISPROPORTIONATE IMPACT ON VULNERABLE POPULATIONS

Climate change has a significant impact on indigenous communities and the populations of small and remote islands in Indonesia.<sup>5</sup> The livelihoods of these populations depend on a fragile ecosystem, but they lack access to support and technologies for climate change adaptation and mitigation. The impact of climate change can also extend to urban areas, affecting the most vulnerable members of society. Furthermore, climate change may cause a flow of migration. Often, migration destinations are not prepared to receive and accommodate incoming migrants,<sup>6</sup> potentially creating challenges in providing basic services and infrastructure, possible tensions between residents and climate migrants, increasing competition for livelihood opportunities, and impacting the MSMEs ecosystem.

### EXPONENTIAL INCREASE IN ZOOONOTIC DISEASES

Climate change may increase the likelihood of a global spread of zoonotic diseases and pandemics by altering wildlife habitats and increasing species interactions capable of swapping pathogens. At the same time, global human interactions increase the likelihood of future outbreaks.<sup>7</sup> As we saw during the COVID-19 pandemic, MSMEs are more likely to be affected by the negative shocks of the pandemic to their supply chain, labor supply, and demand for goods and services compared to big businesses. However, since MSMEs are diverse, the severity of impact caused by future pandemics may also vary.

## CIRCULAR ECONOMY: AN ALTERNATIVE WAY OF DOING BUSINESS TO MITIGATE CLIMATE CHANGE

Environmental degradation, increasing inequality, and technological growth have ignited a global appreciation of alternative, more sustainable ways of doing business. The circular economy is one important path to reducing the negative impact of climate change related to MSMEs in particular. It is a production and consumption model that promotes the reuse, repair, refurbishment, and recycling of existing resources and goods for as long as possible.<sup>8</sup> Major economic opportunities can be generated across industry supply chains through a focus on reduction, regeneration, and restorative concepts — as exemplified by the growing demand for waste and plastic upcycling innovations.

## MANDATORY ENVIRONMENTAL CERTIFICATION FOR MSMEs TO ADAPT TO THE FUTURE COMPETITIVE LANDSCAPE

The emerging discourse on the green economy is signaling changes in how MSMEs will conduct their business in the near future. The United Nations Environmental Program defines the green economy as an economy “*that results in improved human wellbeing and social equity, while significantly reducing environmental risks and ecological scarcities.*”<sup>9</sup> With this shift towards the green economy and increasing demand for sustainable products, MSMEs will be required to comply with several forms of environmental certification, starting with MSMEs working in the extractive and agriculture industries. Although the rise of legal certifications is good for reducing environmental risks and ecological scarcities, certain segments of MSMEs may face challenges in obtaining the certifications.

## THE RISE OF ECOTAX ON LARGE CORPORATIONS

Large corporations relying on coal-based energy will soon be taxed by the government.<sup>10</sup> The ecotax has so far been imposed on the most carbon-emitting industries, but has been delayed due to several factors, such as the COVID-19 pandemic and high energy prices. In the future, the trend could extend to other business entities in the country, including MSMEs. At the micro level, another form of ecotax is the requirement that consumers pay for plastic bags at the supermarket when needed.<sup>11</sup> Although an ecotax has the potential to increase responsibility for environmental damage, it also has the potential to increase wealth inequality by shifting the cost to lower-income customers and micro businesses rather than major corporations.<sup>12</sup>







## FUTURE IMPLICATIONS

### Reshaping the anticipatory crisis preparedness system for future climate crises

Recalibrating existing support for MSMEs to respond to future shocks and strengthen their resilience towards climate change-related impacts is essential. Reflecting on the COVID-19 response, during which the government offered a myriad of social assistance packages to MSMEs, will help design a more comprehensive anticipatory crisis response system to mitigate potential climate change impacts and inform policy discussions. A more anticipatory crisis response system may entail developing possible crisis scenarios along with the appropriate response, reconfiguring early warning systems, providing flexible financing options, and involving communities that could potentially be impacted by climate change.<sup>13</sup>

### Reconfiguring support for micro and small businesses to embrace environmentally-friendly business practices

Businesses of all sizes can play an essential role in combating climate change. While micro and small businesses are willing to adapt their business practices to comply with more environmentally-friendly operations, they often lack the knowledge, capacity, and budget to do so. Certification for businesses, particularly for the extractive and agriculture industries, could be a solution, although most certifications are currently built for medium to large businesses. To encourage the adoption of environmentally-friendly operations, a more viable approach such as offering tools, information, and financial incentives for greener business practices, could be an alternative, in addition to efforts in matching micro and small businesses with big companies.

## 2 INCREASING INTERNATIONAL SUSTAINABLE ECONOMIC PARTNERSHIPS

In response to the growing efforts to combat climate change at the global level, Indonesia builds partnerships that promote sustainable economic growth with a number of countries. These new partnerships not only redirect Indonesia's growth towards a greener economy, but also open up new economic opportunities for MSMEs to expand their offerings by making their business models more sustainable.



## UNDERLYING SIGNALS

### NEW ECONOMIC COOPERATION AGREEMENTS ON GREEN INFRASTRUCTURE, WATER CONSERVATION, AND ENERGY TRANSITION

Increasing global awareness of the need for a new sustainable economic model is driving the green economy discourse and shift towards more sustainable bilateral economic partnerships. Indonesia's ambition to become the world's fourth-largest economy by 2045,<sup>16</sup> is shaping new policy and international cooperation agreements to build a greener economic transformation model. The agreements encompass emissions reduction, green infrastructure, clean energy transition, and water conservation. For instance, Indonesia and Canada recently agreed to promote economic cooperation on a cleaner energy transition.<sup>17</sup>

### INCREASING DIALOGUES BETWEEN COUNTRY LEADERS OFFER NEW MARKET OPPORTUNITIES FOR MSMEs' MARKET EXPANSION

Dialogue or forums between governments can potentially pave the way for MSMEs to expand their businesses. From hosting G20 and other forums, Indonesian governments have been increasing their advocacy and promoting the export of local MSMEs products into other regions. Recently, a discussion between South Korean and government representatives, the Indonesian government, and MSMEs focused on boosting MSMEs' exports of food and beverage products to South Korea,<sup>14</sup> signaling that more MSMEs in this sector will have the opportunity to enter the South Korean market and forge the path for larger market expansion into East Asia. Moving beyond East Asia, Indonesian MSMEs are also preparing to enter the Middle Eastern market, leveraging Dubai as the entry point to other countries in the region to export food and beverage products.<sup>15</sup>

### FUTURE IMPLICATIONS

#### Envisioning a future-fit MSMEs ecosystem in increasing global opportunities

The increasing trend of global and sustainable economic cooperation agreements may pave the way for MSMEs' growth and expand their offerings. To support export-oriented MSMEs, policymakers need to ensure a future-fit ecosystem by growing market awareness, creating effective business support mechanisms, engaging private sectors, and streamlining regulatory and administrative procedures. Enabling micro and small enterprises to participate in the process and tap into the new markets will also require support as they transition from serving local markets to competing in worldwide markets with diverse languages, cultures, and business processes.

However, it is important to note that existing risks and unresolved contestation among member states within the economic cooperation agreements could hinder expanding economic prospects with other nations. The cooperation could have a negative impact if Indonesia is only seen as a market for foreign goods. To ensure that Indonesian MSMEs also have a stake in the export market, the implementation of strong trade, industrial, macroeconomic, and MSME policies would be necessary.

3

## THE RISE OF EMERGING SECTORS AND SHIFT IN CONSUMER PREFERENCES

Globalization and technological advancements have the ability to transform society, promoting higher living standards and longer lifespans. They also influence consumer decisions and behavior by altering individual perceptions. For instance, demand around care work and the halal economy is increasing and more consumers will turn to ecologically-friendly

and sustainable products in the future. This transition allows for the establishment of new sectors, economic opportunities, and new types of businesses. With the right support, more Indonesian MSMEs may be able to take advantage of these opportunities by providing services and products that meet the emerging needs of individuals, businesses, and governments.



## UNDERLYING SIGNALS

### NEW BUSINESS OPPORTUNITIES AROUND CARE WORK AND THE HALAL ECONOMY

Indonesia's population is aging, reflecting the global trend. Susenas 2019 reports that the number of elderly people aged 60 or over in Indonesia reached 25.7 million, or around 9.6 percent of the total population.<sup>18</sup> In addition, the World Economic Forum research on the occupations of tomorrow forecasts that the care industry will account for almost 40% of all expected employment possibilities in new professions between 2020 and 2023.<sup>19</sup>

Another emerging area is the halal economy. The shift in attitude towards halal goods from being certified products to a lifestyle choice, is driving industry growth with 1.9 billion Muslim consumers spending \$2 trillion in 2021.<sup>20</sup> Indonesia, which has the largest Muslim population in the world, could one day become a major service provider, producer and consumer in the halal economy.

### INCREASING DEMAND FOR ETHICAL PRODUCTS

Global trends suggest some consumer segments are starting to emphasize quality over cost as living standards rise. There is also a growing global focus on becoming better consumers, opting for more ethically-sound and sustainably-produced products - as evidenced by global pressure for a more sustainable fashion industry.<sup>21</sup> The availability of sustainable resources and skilled labor creates a great opportunity for Indonesia to be a leader in the ethical and sustainable production movement and generate further opportunities for MSMEs.

### SOCIAL ENTERPRISE AS AN EMERGING MEANS OF DOING BUSINESS

The British Council defines social enterprises as “businesses whose primary purpose is addressing a social or environmental challenge rather than [solely] creating profit for owners or shareholders.”<sup>22</sup> Social enterprise is becoming one of the avenues for MSMEs to address and contribute to alleviating environmental and social challenges in Indonesia. It has recently acquired favor among Indonesian youth and is more inclusive in terms of employment and job development, with women making up 69% of the social enterprise workforce surveyed.<sup>23</sup>

### EMERGING ALTERNATIVE FINANCING OPTION TO SUPPORT MSMEs TRANSITION TOWARDS EMERGING SECTORS

Most MSMEs face bureaucratic barriers to accessing financing options, hampering their access to emerging sectors and new business opportunities.<sup>24</sup> As a result, enterprises with better resources have a higher chance of accessing the finances to tap into new areas in the future. Blended finance, defined by the OECD as “the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries”,<sup>25</sup> is gaining traction as an alternative financing option for MSMEs transitioning towards emerging sectors. The model, which combines private sector financing and philanthropic funds and donors, is meant to reduce the risk of the investment.





## FUTURE IMPLICATIONS

### Preparing MSMEs to enter emerging sectors

Getting MSMEs to enter emerging sectors is not a simple undertaking as most businesses are unfamiliar with the path. Enterprises often face significant upfront costs, resulting in higher product and service charges and, as a result, fewer competitive advantages. These challenges mean that entering emerging sectors would better suit medium to large companies which have the necessary resources.

While incentives are widely used to help businesses transition to an emerging sector, their effectiveness should be carefully assessed as it will differ depending on the sector and size of the business. In addition, alternative financing solutions, such as blended finance, should be assessed as they could greatly benefit MSMEs entering new sectors.

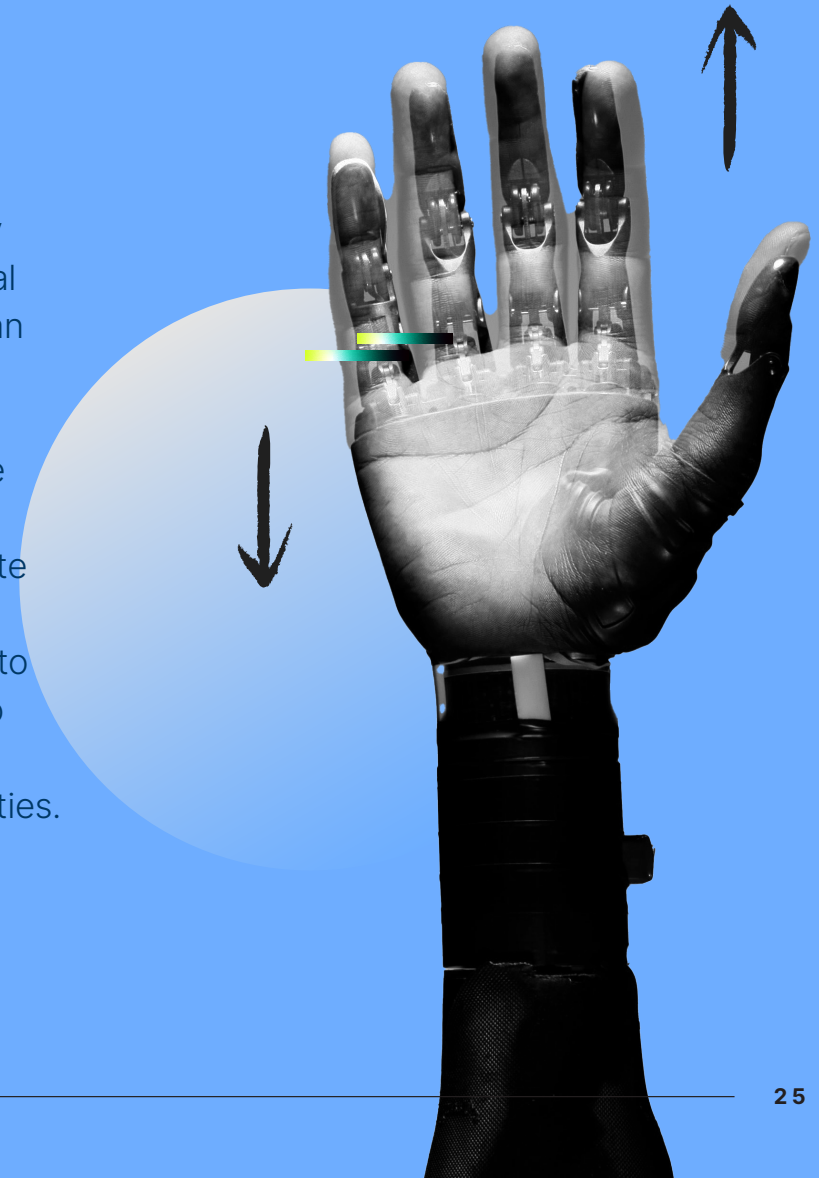
With the development of emerging sectors comes the need for MSMEs and their workers to acquire new skills. The growth of new industries may be particularly advantageous to youth, who can take advantage of potential opportunities while gaining essential abilities during their formative academic years. The government will play a critical role as a facilitator of the next generation capacitation process, making early investments in education and technical skill-building to prepare for evolving market demands.

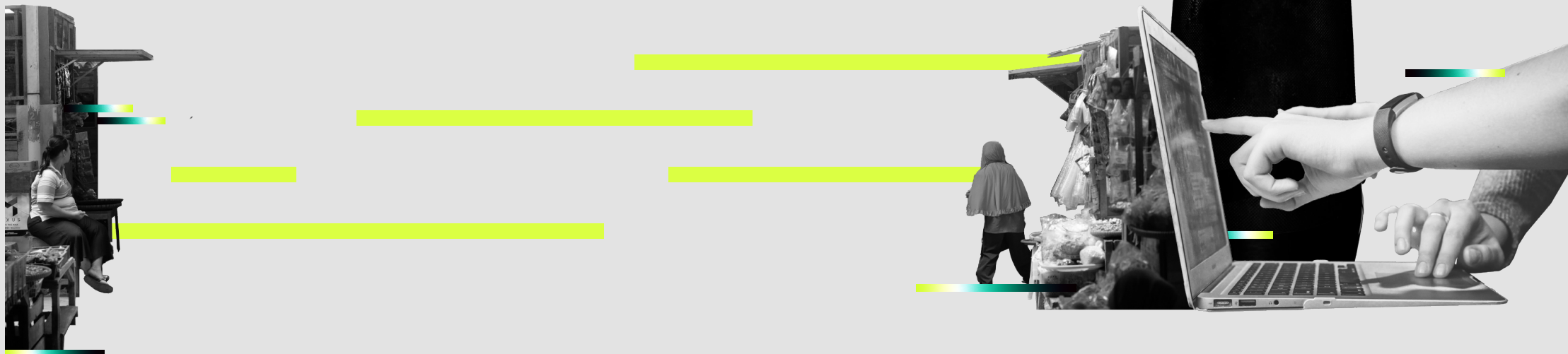


## TECH AND BUSINESS: NEW WAYS OF WORKING

Technological transformation and automation will lead to changes in business models and new ways of operating for MSMEs. The digitalization process, accelerated by COVID-19, is already transforming the way we work around the globe. In Indonesia, MSMEs have started to utilize technological advancements to boost their businesses, increasing their reach beyond local markets. Artificial Intelligence (AI) and

blockchain are examples of disruptive technologies. They can be used to create a digital virtual world where people can do business and host social activities, opening up new opportunities for MSMEs able to adapt to this new digital environment. However, despite the promising benefits that advanced technology brings to MSMEs, unequal access, also known as the digital divide,<sup>26</sup> exacerbates existing inequalities.





## UNDERLYING SIGNALS

### THE POTENTIAL OF ADVANCED TECHNOLOGIES IN SUPPORTING MSMEs

Advanced technologies, such as AI, blockchain, and the metaverse, provide opportunities for MSMEs to improve their businesses. For instance, the use of digital applications and software programs can help optimize MSMEs in running their businesses by broadening the companies' reach in different markets and supporting internal administrative operations. Although the full potential of these technologies may only be harnessed in the future, their impacts will profoundly shape how MSMEs operate.

### PLAYING CATCH-UP: REACTIVE REGULATORY FRAMEWORK

Accelerating the digitalization of MSMEs has been part of the government's agenda. However, the pace of digitalization is not always accompanied by regulations to govern it,<sup>27</sup> which could result in negative consequences for MSMEs and consumers utilizing the technology.<sup>28</sup> Even if there are regulations in place,<sup>29</sup> they tend to overlap and require adjustments to achieve the best outcome. The recent release of the Indonesian personal data protection law, however, brings new hope for better protection in a rapidly changing technological era.<sup>30</sup>

### AUTOMATION OF THE WORKFORCE

In the future, despite creating new opportunities, automation will also eliminate many existing occupations and impact a significant fraction of the workforce overall.<sup>31</sup> To deal with this change, MSMEs will need to be prepared and will require support to adjust their strategy.



## FUTURE IMPLICATIONS

### **Bridging the digital divide**

Technology has become an enabler for MSMEs in running their businesses. However, the digital divide exists. In Indonesia, almost half of the adult population still lacks access to technological connectivity, and at the same time, the urban-rural digital divide has not narrowed.<sup>32</sup> In addition, implementing new technology requires investments in both hardware and knowledge-building. This could make it harder for microenterprises to benefit from the change in respect to larger companies.

Society may see a sharp increase in unemployment levels among individuals with no digital skills, and the lack of opportunity to develop such skills will further widen the gap. Consequently, the digital divide could exacerbate both existing social and technological inequalities. To counteract this effect, support must be extended to social and unemployment policies for those who cannot compete in the digital economy. Most importantly, the support should be designed to serve the most vulnerable groups.

The Universal Service Obligation commitment is an ongoing government effort to provide basic infrastructure and digital literacy training to communities in the rural areas of Indonesia.<sup>33</sup> While the initiative aims to ensure MSMEs can participate in the digital economy, the challenge of overcoming the digital divide in Indonesia goes beyond the equitable distribution of infrastructure in the outermost

regions. Workers must also be given the opportunity to develop their digital skills so they can strengthen their basic workforce abilities.

### **Prioritizing consumer protection and enabling public oversight in the face of technological advancements**

Technological breakthroughs are producing a radical shift in today's regulatory environment, posing huge challenges for regulators seeking to find a balance between encouraging innovation, protecting consumers, ensuring fair competition among MSMEs and big tech, and addressing the potential unintended consequences of disruption.

Technology companies' opaque operations are one of the main issues around technological advancements.<sup>34</sup> Understanding the negative impacts of technology is a necessary first step toward effectively governing technology. Furthermore, to make sure that new technologies serve the common good requires a diverse toolbox of solutions, including not only antitrust action and pro-competition regulation, but also privacy and data-use safeguards, improved content standards, and public oversight. By expanding the involvement of grassroots organizations, academics, and advocacy groups, the latter could play a critical role in ensuring that rapid technological advancements serve the common good.

5

# PRECARIOUS WORK IN THE GIG ECONOMY

According to the Department for Business, Energy & Industrial Strategy of the UK Government, the gig economy *“involves the exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers, on a short-term and payment by task basis.”*<sup>35</sup> Shifting employment models are driving the growth of a new generation of workers operating in the gig economy

who work for multiple employers on a more casual basis. For MSMEs, the gig economy offers access to a pool of workers and increased flexibility related to contracting labor to support their business. However, the downside is that even workers with high levels of expertise are vulnerable and can slip through the cracks of the conventional social security system, which lacks mechanisms to accommodate this new type of worker.<sup>36</sup>



## UNDERLYING SIGNALS

### GIG ECONOMY INCREASES WORK OPTIONS, BUT ALSO CREATES PRECARIETY AMONGST WORKERS

In the gig economy, workers connect with clients through digital platforms to provide short-term services or share assets. Some examples of the gig economy are ride-hailing apps, meal delivery apps, and apps that help find temporary accommodation.

Despite its popularity, gig workers are often subjected to precarious working conditions, low-to-no-employment benefits, and low remuneration as they are not considered company employees. Recently, the scheme has been in the spotlight for establishing unfair and unregulated partnership contracts.<sup>37</sup>

### A DECLINE IN THE NUMBER OF PERMANENT JOB VACANCIES

The gig economy is characterized by short-term or sessional/daily contracts. The use of such contracts is likely to increase with the anticipated decline in the number of permanent jobs, bringing a significant increase in demand for short-term employment opportunities with mechanisms such as zero-hour and sessional contracts as well as individual contractor agreements.

### INCREASED LABOR MARKET COMPETITION

The changing dynamics of the labor market will likely increase competition among workers. While the situation could be beneficial for MSMEs, workers will be placed in a difficult position, with more gig workers willing to perform jobs in the informal market or under precarious contractual conditions.<sup>38</sup> In addition, those who opt out could shift into the MSME sector by creating their own businesses, potentially increasing competition amongst MSMEs.

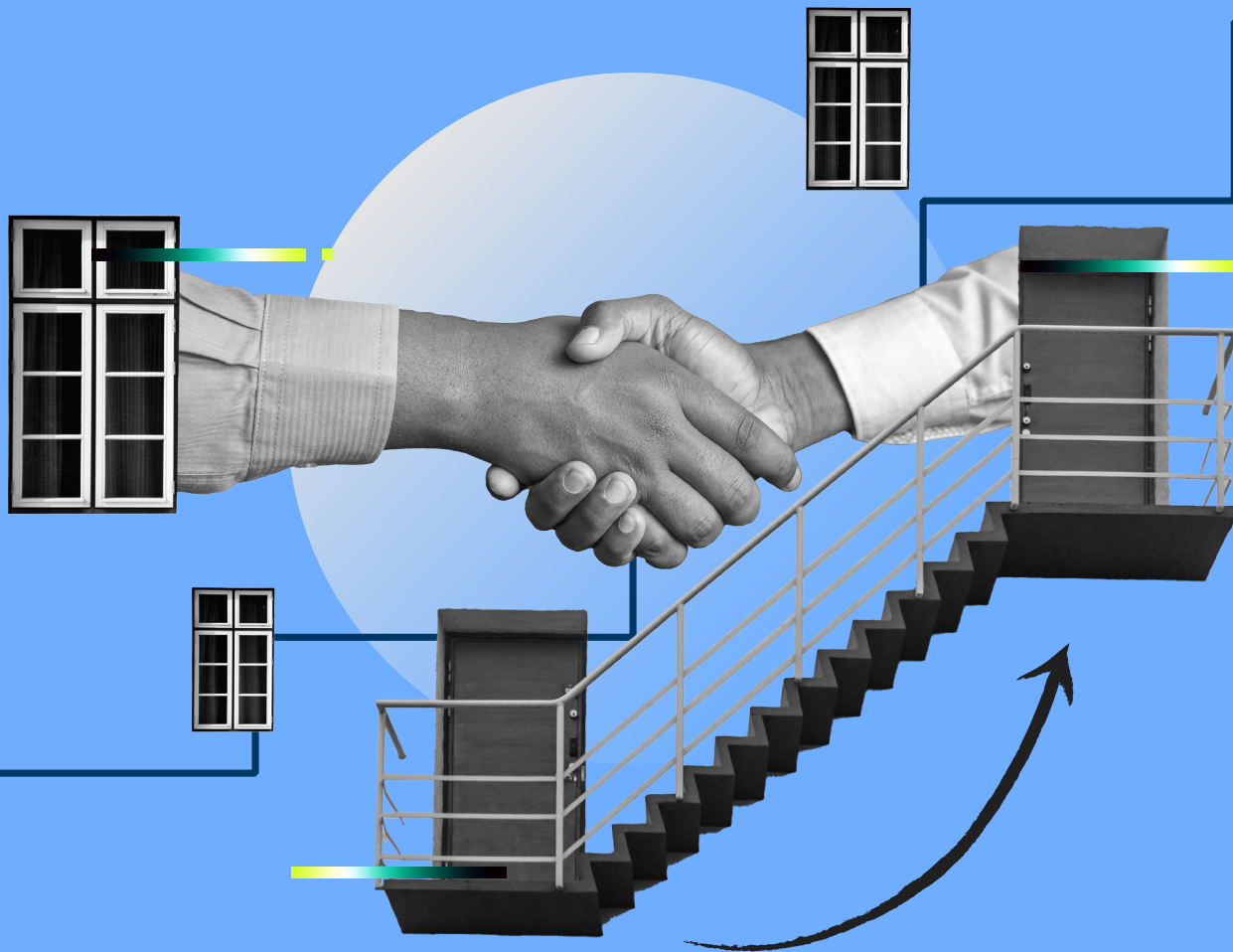
### DIFFERENCES IN GENERATIONAL PREFERENCES WITHIN THE LABOR FORCE

Recent years have seen a shift in career patterns amongst younger workers. A decline in permanent job opportunities has combined with a globalized trend of faster and more frequent change. Hence, younger generations are more likely to change jobs, and even professions, several times over the span of a decade. This could pose a staff retention challenge for MSMEs, particularly smaller enterprises whose models are not prepared for constant personnel turnover.

## FUTURE IMPLICATIONS

### Reimagining the labor market for the digital age

The gig economy is quickly becoming the norm in the digital era. To guarantee its future viability, measures to safeguard gig workers must be put in place. Fair rights, contracts, and protection for gig workers would allow them to make a greater contribution to MSMEs, resulting in enhanced production and value for the organization. In addition, MSMEs that treat gig workers fairly and respect their rights will establish a better reputation in the eyes of their customers, increasing their market viability. In the future, providing universal basic income and universal health coverage could be an option to support the informal labor and gig economy in the digital age.



# POTENTIAL NEXT STEPS IN STRATEGIC FORESIGHT

# POTENTIAL NEXT STEPS IN STRATEGIC FORESIGHT

The horizon scanning project has illustrated the added value of using foresight within the Indonesian governmental context and how these processes can be replicated across different units in Bappenas and ministries across Indonesia. To build on the findings and how they can feed into Bappenas' policy-planning process, in particular, the drafting of the Medium and Long-Term National Development Plan (RPJMN and RPJPN), this section outlines a few follow-up options.

It should be noted that, while foresight can help improve anticipatory governance, it is not a one-size-fits-all approach. Adjusting the process to the needs of each specific context is a continuous learning journey.

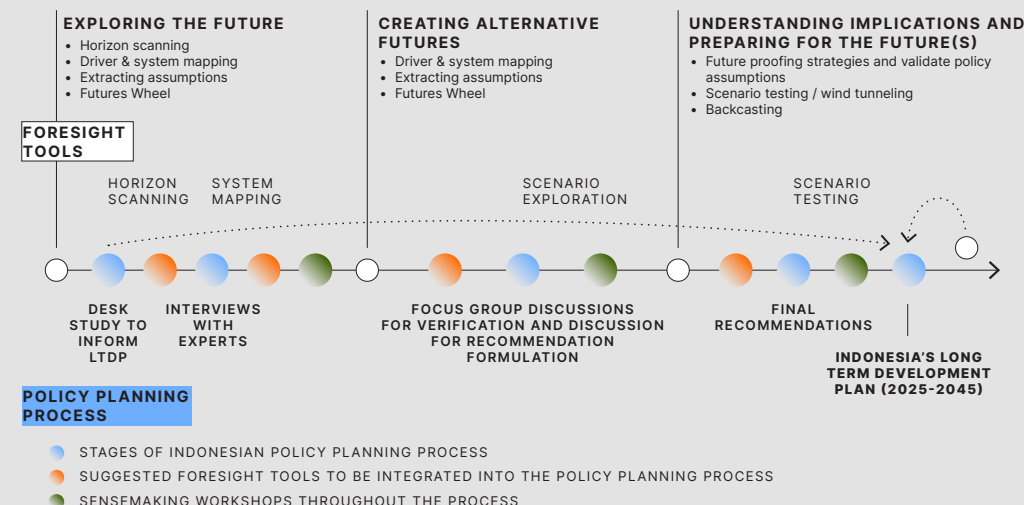
## FUTURE PHASES OF A FORESIGHT JOURNEY

A foresight process generally consists of three phases:

1. **exploring** the future environment and understanding its emerging issues and drivers of change;
2. **creating** alternative futures; and
3. **understanding** the implications of the plausible futures.

A wide variety of foresight tools and methods are available for each phase.

### PHASES OF A FORESIGHT JOURNEY

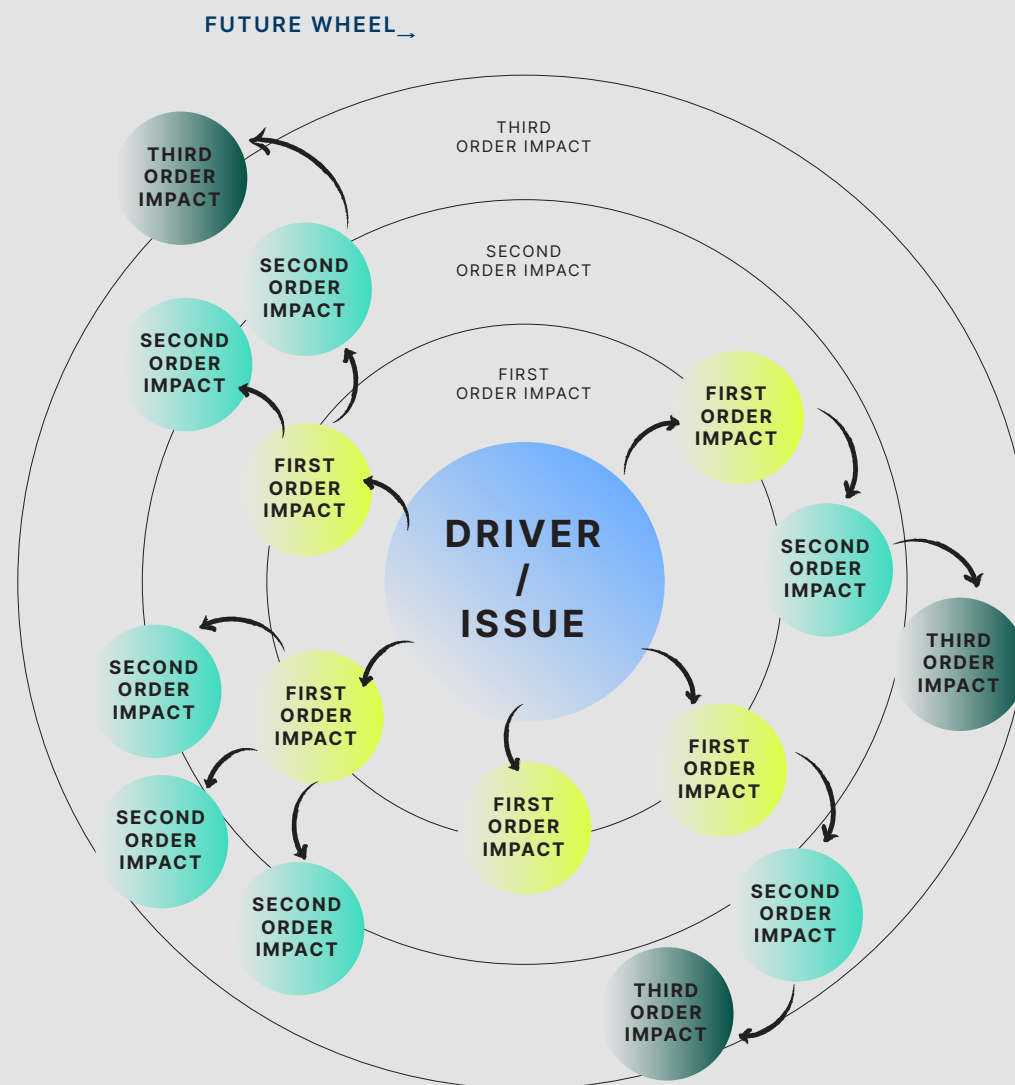


## PHASE I. EXPLORING THE FUTURE

Exploring the future is the starting point of any strategic foresight process and can be integrated into the beginning of the policy-making process. During this phase, policymakers will identify and analyze key drivers, issues, and uncertainties that will impact the future. The process supports policymakers in broadening their horizons to think beyond current issues that can be addressed in their policies.

**Horizon scanning** explores the future environment and serves as an agenda-setting tool, particularly during the initial phase of the long-term development plan (LTDP), as it complements desk studies and expert interviews. Throughout the policy-planning process, a continuous horizon scan can improve the detection of anticipatory signals and serve as an 'early warning system'. Through a series of **sensemaking workshops**, policymakers can start to explore how the identified signals may result in different contextual conditions, affecting their current and future policies and strategies. As a next step, **driver and system mapping** is a way to achieve a macro-view of the system by prioritizing and mapping the identified drivers of change. This is a particularly useful method for highlighting the most critical issues and understanding their complexity and interconnectedness.

A **Futures Wheel** exercise is a simple and productive way to engage policymakers in a futures-thinking workshop, and can be used to make sense of the signals that have been identified through horizon scanning. It focuses on a driver, specific issue, or event, which requires more consideration in regards to the potential second and third-order implications. A Futures Wheel exercise can be integrated into the LTDP and used during focus group discussions to explore direct or indirect risks and opportunities in the policy-planning process.

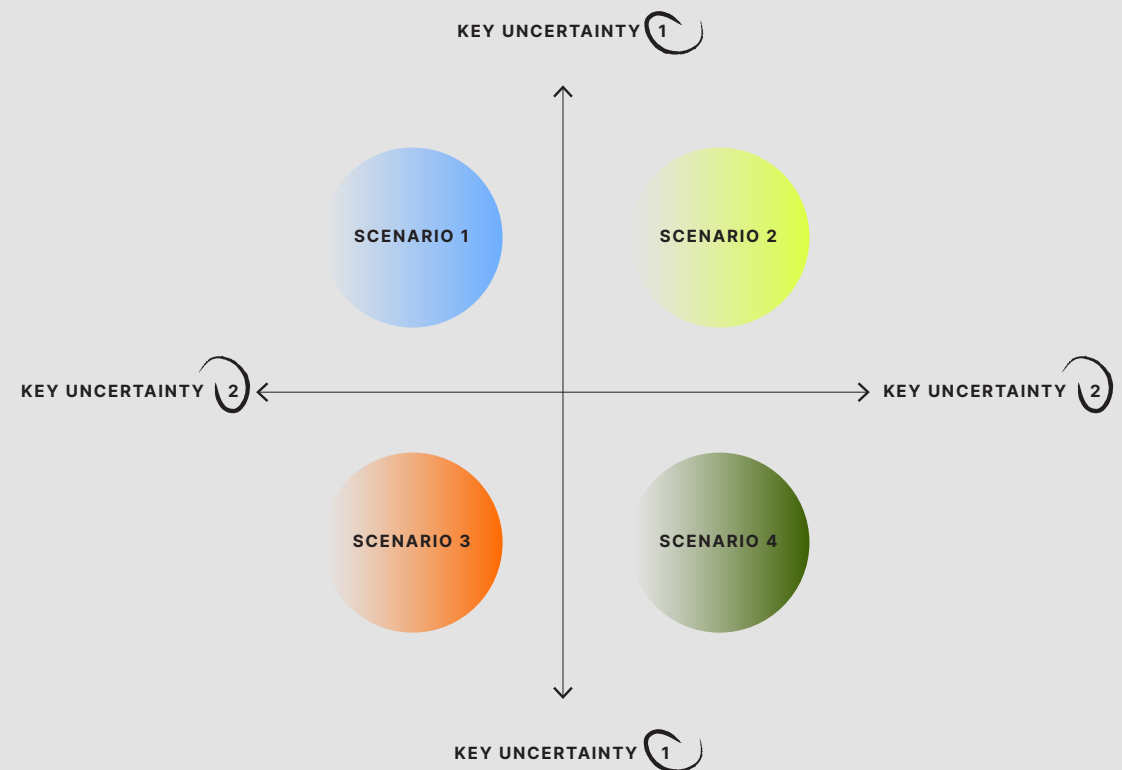


## SCENARIO MATRIX

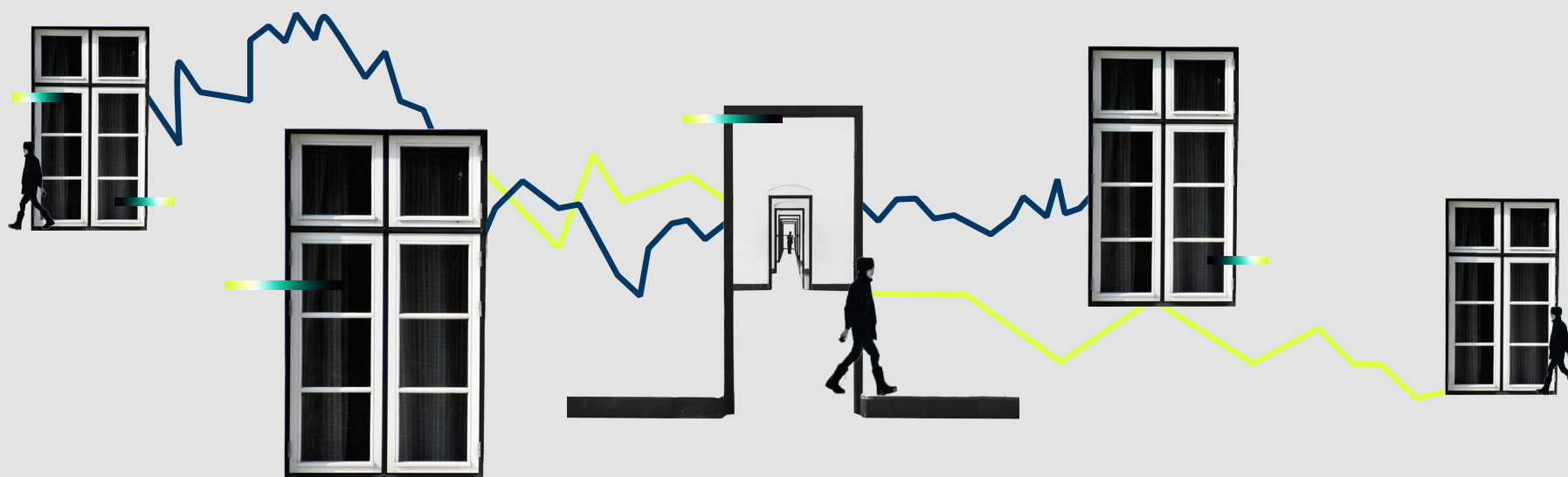
## PHASE II. CREATING ALTERNATIVE FUTURES

Creating alternative futures is the second phase of a strategic foresight process and supports policymakers in exploring what potential futures might emerge. When drafting Indonesia's national development plan, policymakers would need to consider how the future of MSMEs may unfold over the next 10-20 years. Creating alternative futures through a **participatory scenario exercise** would support this endeavour. Scenarios are speculative narratives that help to explore a broad scope of potential futures and allow us to prepare not for one, but for multiple ways the future might unfold. The scenarios are built upon the drivers of change identified through the horizon scanning process, as presented in this report.

The following key methods can help policymakers challenge their current policy assumptions and explore how policies and strategies might evolve in the future:







- A frequently used method to develop scenarios is the **2×2 matrix** or 'key uncertainties' method (see Figure on p.33). Two drivers of change, those deemed the most critical to the future, are selected and placed on the axis of a 2×2 matrix, resulting in four contrasting scenarios. In this case, a critical question for policymakers is: what are the two key driving forces influencing the future of MSMEs in Indonesia over the next 10-20 years? By considering two different outcomes for each driver, we ensure divergence between the different potential directions.
- An alternative method to developing scenarios is the **archetype method**, where four trajectories of the future (Continued growth, Collapse, Transformation and Discipline) are explored. This method is simple to apply and a great way to quickly create plausible images of the future, but it might lead to less comprehensive scenarios than the 2×2 method.

When a set of scenarios is drafted, they can serve as a common point of reference to talk about the future in a structured and systematic way, not only for policy planners in Bappenas but potentially for a larger audience within other ministries and beyond. These scenarios can be used to future-proof current and future policies and strategies (see 'understanding the implications' section below).

**Visioning** is a powerful tool that enables policymakers to create a **preferred future** and understand what steps are needed (strategies, policies etc.) to reach it. This method moves from exploring and understanding the various plausible scenarios to *transforming* the future. It generates consensus and helps outline a strategy on how to plan for the shared vision of the future. Visioning can be deployed in the final stages of drafting the LTDP process - once there is a clear shared understanding of the future environment and the various plausible future scenarios - to generate consensus among senior policymakers on which future to work towards. Including public voices and experts in this phase of creating alternative futures would significantly enhance the credibility and robustness of the scenarios and visions.



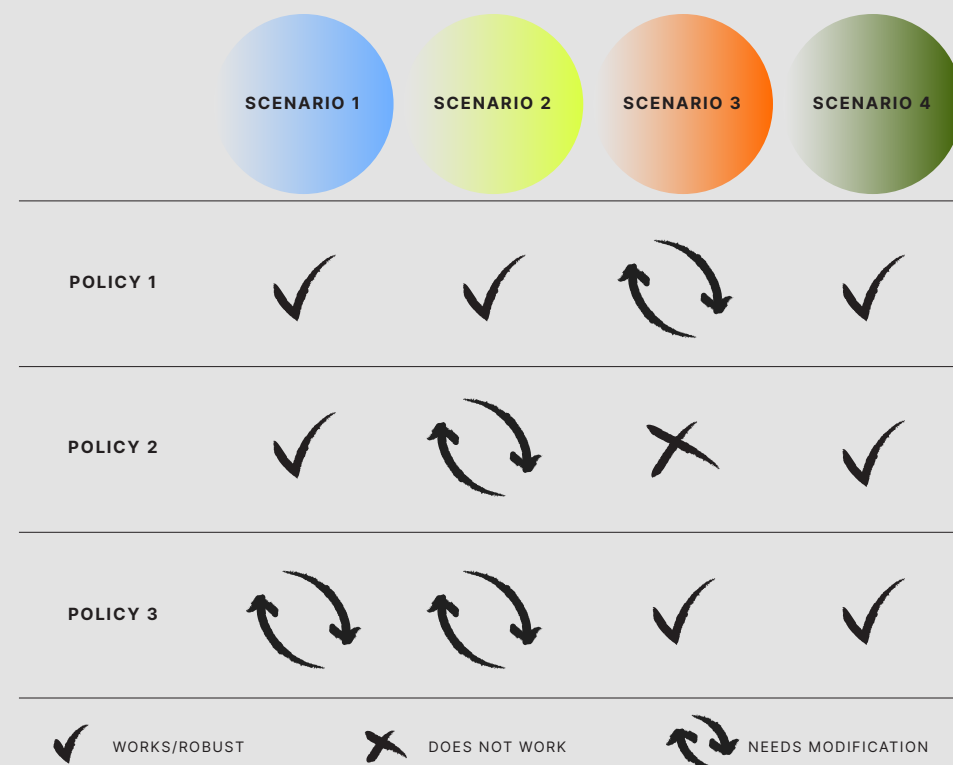
## WIND TUNNELLING

### PHASE III. UNDERSTANDING THE IMPLICATIONS OF THE PLAUSIBLE FUTURES

Understanding the implications of the plausible futures is the third phase of the strategic foresight process. In the case of this project, it can effectively support Bappenas in understanding the future implications for MSMEs, and help explore the strategic policy options Bappenas would have. During this phase, policymakers can engage in a series of futures dialogues or **scenario sensemaking workshops**.

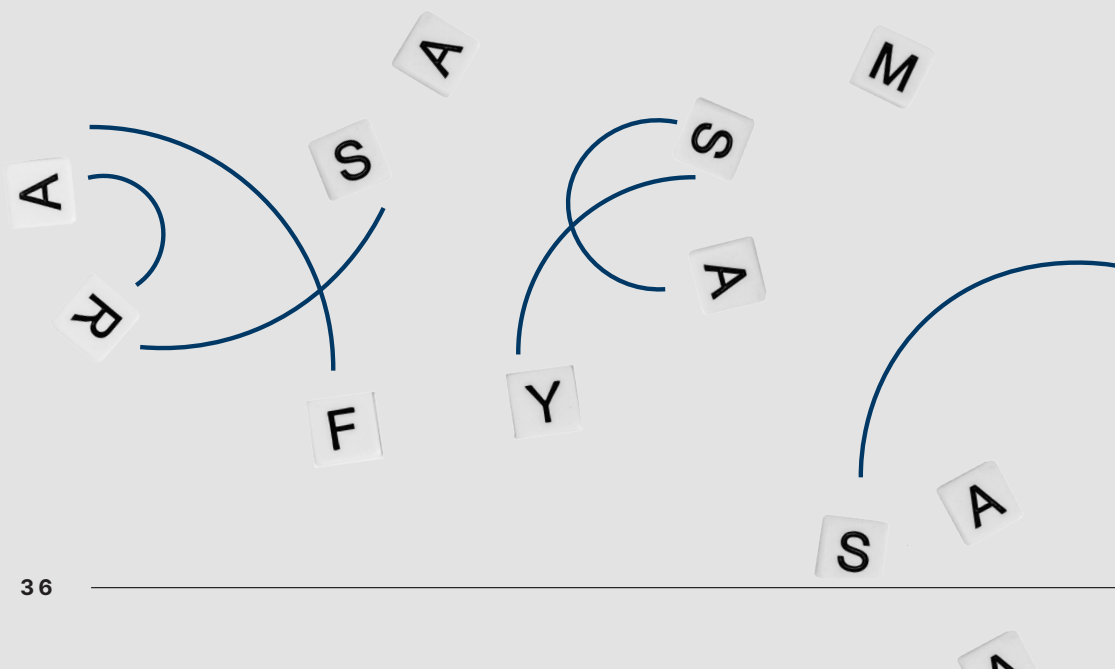
One of the methods used to support this stage is **Wind tunnelling** a structured process used to stress-test current policies, strategies and assumptions against a range of alternative scenarios. This process can also test the resilience of proposed policies in the LTDP.

**Backcasting** also builds upon scenarios and generates a shared understanding of what needs to happen for a desired future to emerge. It enables policymakers to identify possible pathways to transformation, grounded in long-term thinking. A possible outcome of a backcasting exercise could be a set of indicators that allow policymakers to monitor emerging scenarios.



# KEY LESSONS LEARNED IN THIS FORESIGHT JOURNEY

This horizon scanning project was an iterative process and a continuous learning exercise. Throughout the process, we learned several following lessons:



1. **Contextualization is key.** To apply any form of foresight activity effectively, it needs to take into account the policy, political, cultural, and socio-economic contexts of the questions being addressed. For example, conducting horizon scanning requires a fair understanding of the broader environmental context (in this case, the MSMEs landscape in Indonesia), in order to be able to envisage the types of changes that might occur. Moreover, we need an understanding of the policy-making process, the actors involved in the MSMEs ecosystem, and the way stakeholders think about the future.
2. **Foresight helps by challenging our assumptions about the future.** Assumptions, either explicit or implicit, shape our current policy dialogues and actions. This horizon scanning process highlighted some of the assumptions policymakers have about their role in supporting MSMEs. For example, that standardization, certification, and formalization can only be pursued through public authorities, or that the state can only provide social protection to formal workers and not to informal ones. Additional foresight work would enable policymakers to increase their futures literacy and understand how to use the future in the present, thereby developing new assumptions about what is relevant for Indonesian MSMEs today and tomorrow. For instance, the Indonesian government could consider the option of using non-state actors for specific certification or market assessment activities, and think about how it might provide social protection for workers in the gig economy.
3. **Foresight improves our understanding of the interconnectedness of issues and the need for a cross-sectoral approach.** This horizon scanning analysis reveals significant overlaps between political, socioeconomic, and tech-environmental factors. As such, it highlights the interconnectedness and interdependencies between the emerging issues that will affect MSMEs in the future. For example, climate change may disproportionately affect the poorest and most marginalized rural



communities (including MSMEs), holding implications for poverty, inequality, and migration. To address emerging issues from a holistic perspective, acknowledging and understanding how they are connected and influence one another is a pivotal step for policymakers. To do so requires a willingness to overcome the traditional silos of policymaking. For this, foresight can help transcend organizational structures by providing the space for ongoing discussions about the future.

4. **Foresight requires a mindset shift.** Strategic foresight is a powerful approach that expands the boundaries of thinking and increases future preparedness. It also empowers organizations to perceive the future as something they can influence, taking the “driver’s seat” and pushing for actions today that will lead to tomorrow’s desired futures.
5. **Including the voices of diverse groups in participative future dialogues is essential.** Involving youth representatives and MSMEs from different regions could help enhance the contextualizing of the scanning results. As part of our horizon scanning exercise, we involved youth from civil society organizations (CSOs), communities who are advocating for inclusivity for people with disabilities, and environmental activist groups. The experience provided a unique perspective, helping to understand how the different drivers might play out in practice, and fostering discussion on the potential needs of MSMEs that could emerge in the future.

# AN INVITATION FOR FUTURE DIALOGUE

In times of rapid change and high uncertainty, governments need to prepare for the unexpected. Even more importantly, we must move away from doing business as usual and break out of the traditional silos of policymaking. Addressing complex issues necessitates a thorough understanding of the problems' driving forces, which can be aided by the foresight approach.

Strategic foresight does not predict what lies ahead, but allows us to prepare for plausible futures. Through the horizon scanning exercise, we identified the key drivers and signals that could impact the futures of Indonesian MSMEs, as well as the future implications that each driver and signal bring. The horizon scanning activity also revealed significant interconnectedness between the political, socioeconomic, and technological-environmental spheres.

Based on the drivers and signals presented, we extend an invitation for dialogue on the future of MSMEs in Indonesia to numerous government agencies, academia, MSME practitioners, and the general public. To instigate the dialogue, we ask: What do the trends shaping the futures of Indonesian MSMEs mean? What should we be mindful of based on the drivers and signals?





# ANNEXES



# GLOSSARY

## CARE WORK\_

Refers to labor activities involving caring for other people, including children, adults, or the elderly. Care work includes direct (feeding a baby or caring for ill partners) or indirect activities (cooking and cleaning).

## CIRCULAR ECONOMY\_

A model of production and consumption that strives to keep products, materials, and services in circulation for as long as possible. It involves sharing, leasing, reusing, repairing, refurbishing, and recycling processes.

## CLIMATE CHANGE\_

Long-term shifts in temperatures and weather patterns. The shifts may be natural, but human activities, such as burning fossil fuels, have been the main contributor of climate change since the 1800s. The shifts are noticeable through changing water patterns, rising sea levels, and extreme weather events and affect countries across the globe as well as national economies.

## DIGITAL DIVIDE\_

The gap between individuals, households, businesses and geographic areas at different socio-economic levels with regard to both their opportunities to access information and communication technologies (ICTs) and their use of the internet for a wide variety of activities.

## DRIVERS OF CHANGE\_

Key forces of change that can shape a landscape (system).

## ECOTAX\_

Tax intended to contribute to positive environmental impact. It usually includes energy taxes, transport taxes, and taxes on pollution and resources. Ecotax is also commonly known as environmental tax.

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INVESTING\_

An investment strategy that takes into account both financial and non-financial criteria in investment decisions. The non-financial criteria is usually related to a company's impact on helping address pressing societal challenges, including environmental and social issues. ESG also takes into account the company's workplace policies.

## ETHICAL PRODUCT\_

A product that, along each point of a supply chain, does not cause harm to the environment and its users.

## EXTRACTIVE INDUSTRIES\_

Processes that involve extracting raw materials, including oil, metals, minerals, and aggregates, from the earth. The processes also include drilling and pumping, quarrying, and mining.

## GIG ECONOMY\_

A way of working that involves the exchange of labor for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers on a short-term and payment-by-task basis.

## GREEN ECONOMY\_

The Green Economy results in improved human wellbeing and social equity, while significantly reducing environmental risks and ecological scarcities. It is low carbon, resource efficient, and socially inclusive (UNEP).

## HALAL ECONOMY\_

Sectors with core products and services based on Islamic law. The core principle of the halal economy is to ensure that all transactions are based on real assets or projects.

## HORIZON SCANNING\_

A structured process that identifies potential signals of change and emerging issues that could profoundly alter the future landscape.

## MEGATRENDS\_

Trends that have an effect on a global or large scale.

## PESTLE\_

Stands for: political, economic, social, technological, legal and environmental. It is an analytical tool to help explore a broad environment.

## SCENARIOS\_

Descriptions of plausible future environments.

## SIGNALS OF CHANGE\_

A first indicator that change might be underway. Sometimes referred to as early signals or weak signals. Signals might become stronger over time when the related risk or opportunity is closer to manifesting itself.

## STRATEGIC FORESIGHT\_

Strategic Foresight is an organized and systematic approach to thinking about the future to inform decision-making. It helps us deal with increasing uncertainty and complexity regarding the future.

## TREND\_

A trend is a general tendency or something that's gradually happening; an already established direction of where change is heading.

## UNIVERSAL SERVICE OBLIGATION\_

An obligation to ensure that people have access to basic telecommunication and information services at affordable and reasonable prices, especially those who live in rural, remote, disadvantaged, and outermost areas.

## ZERO HOUR CONTRACT\_

Work that is based on an agreement between employers and employees whereby the employers are not obliged to specify a minimum number of working hours. Under this agreement, employees are only paid when actually working, despite being required to be on site and available for work.

# SELECTED SECONDARY DRIVERS

The horizon scanning process resulted in the identification of 112 signals. These signals were then classified as 15 major drivers of change, which were subsequently narrowed to five primary drivers. The following section identifies selected secondary drivers and signals that could also shape the future of MSMEs in Indonesia.



## ECONOMIC AND SOCIAL DOMAIN

### INCREASING URBAN AND RURAL DISPARITY

- **Lack of human resources in the agriculture sector.** With limited opportunities in rural areas, youth will be encouraged to migrate to cities, creating a gap in the rural workforce.
- **Deteriorating social development in rural areas.** Migration of young people will reshape rural regions by expanding the elderly rural population, which will struggle to keep up with socioeconomic progress.
- **High competition among youth for job opportunities in the city.** Youth will have a more difficult time finding employment options and the majority may turn to the informal economy.

## ENVIRONMENT AND TECHNOLOGY DOMAIN

### THE TWO SIDES OF CYBER SURVEILLANCE

- **Digital surveillance to fight misinformation.** Digital surveillance can be used to fight misinformation and increase cybersecurity, leading to a safer digital environment that could enhance robustness and a wider adoption of digital technology by MSMEs.
- **Increasing threats to personal data and privacy.** An increase in cyber surveillance might lead to a concern about digital trust and threats to personal data and privacy, limiting civic freedom.





## POLITICAL AND LEGAL DOMAIN

## RESILIENCE AND PREPAREDNESS FOR GEOPOLITICAL UNCERTAINTIES

- **Protracted conflicts and wars create negative spillover effects on the region and domestic economy.** In recent years, wars and conflicts worldwide have undoubtedly caused geopolitical uncertainties and cascading economic fallouts in many countries.
- **The rise of China as a global economic power.** Indonesia has benefited from a good relationship with China and managed to leverage a huge economic opportunity, becoming the government's partner for infrastructure development and knowledge transfer.
- **The rise of non-state actors influencing geopolitical dynamics.** The new global political environment is not only influenced by state actors through their foreign and domestic policies, but also by non-state actors such as business entities and civil society that have recently reshaped geopolitical dynamics.

## INCREASING ACCESS FOR BUSINESS EXPANSION THROUGH NEW MECHANISMS

- **The use of Intellectual Property Rights (IPR) as loan collateral.** Accepting IPR as a form of collateral will provide an alternative mechanism for new MSMEs to get funds through bank loans.
- **Access to e-catalogue and e-procurement.** While these platforms offer a wide range of opportunities for MSMEs to expand their market in the public sector, they might be more suitable for medium and large enterprises which have more advanced digital capabilities.

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