

Micro-businesses decline while big business blossoms.

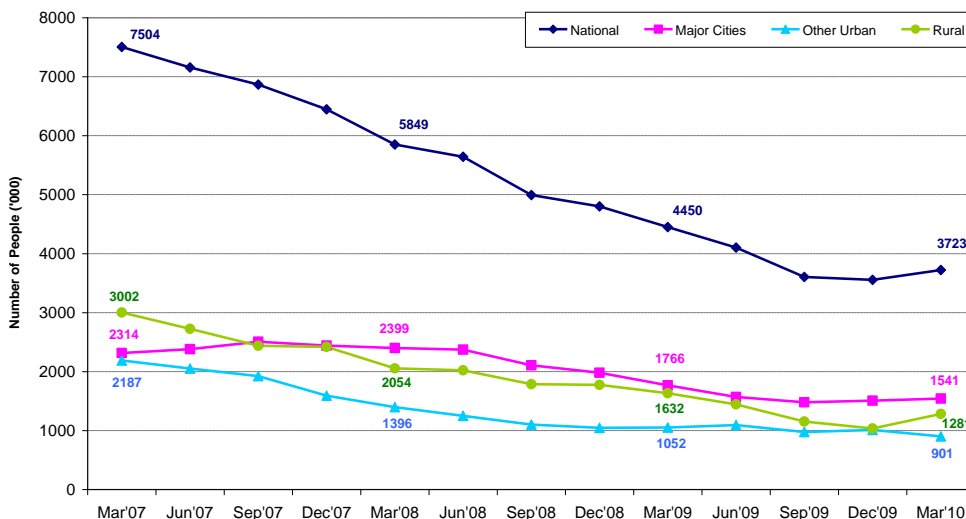
Right across the country, millions of self-employed entrepreneurs help keep the wheels of the consumer economy turning every day. Some of them employ a helper or two. Collectively, they are the single-largest group of employers in Indonesia as they are in most economies. But they are so small in terms of revenue, the banking sector defines them as ‘micro-businesses’, different from SMEs and corporations.

While Consumer Confidence has been riding high, the collective slide of these micro-businesses has continued unabated for three years now. As costs go up and more jobs become available, people make their choices. Many entrepreneurs have shut shop to successfully join the workforce, working for someone else. In the big cities especially, visible growth of job opportunities and income levels continue to stimulate the switch. But many have been left behind, on the fringe. Affecting the lower half of the country’s socio-economic strata, the toll on micro-businesses is particularly alarming. From the humble *kaki-lima* to the mom-and-pop grocery store, too many micro-business owners have been too hard-pressed to continue. These are the signs of our times, good news from one perspective and bad from another. The optimists will say that many of these underemployed-self-employed now have more stable lives as members of the workforce. The critics will point to decline and announce the slow death of the entrepreneurial spirit. I think the truth lies somewhere in between.

To be precise, almost 4 million business owners have shut down their modest little businesses in the last three years. The country’s big cities, towns and villages have all seen declines. Worst hit were the smaller cities and rural, though all three geographies have stabilised in the last six months. All of the populous Top 10 Provinces have witnessed declines, with the exception of Jawa Timur, Jawa Barat, Sumatra Utara and Riau swimming strongly against the tide. Among them, the fastest-growing socio-economic strata is household with monthly expenditure in the Rp1.25M to Rp.2.25M range.

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THE DECLINE OF SMALL AND MICRO-BUSINESSES



Perhaps more worrying than the decline in the number of businesses is the slide in the number of bank accounts closed or left inactive by small and micro-business owners. A year ago, 44 per cent of business owners had an active bank account. As at March 2010 that number had slipped to 38 per cent. Rising fees and minimum monthly balances have taken a visible toll, swelling the numbers of 'unbanked' Indonesians dramatically in just three years. In that sense, the country has gone backwards. Considering that small businesses, like small gears, collectively punch much harder than their individual weights, this is a setback of notable proportions.

The damage done cannot be measured accurately, as the yardsticks of success and failure vary. Any ability that the small-business owner may have had to borrow a small amount to grow his business, add a helper, and keep his bank account alive have disappeared. The multiplier-effect of small business growth has in that sense been damaged. But left standing are the more stable, less wobbly businesses that arguably have better prospects of growing, employing, and paying taxes one day. The fact that these declines have been most severe in the villages rather than anywhere else, supports the more positive of the two viewpoints. While household budgets have been under pressure universally, the ability of rural folk to buy goods and services has intensified in the last 12 months in particular. One bad harvest at this time and the consequent influx of villagers looking for jobs in the urban hinterland could create unusual levels of social stress.

The losses in the number of active bank accounts are proportionate to the size of the banks spread across the nation. The Big Four, with the biggest number of branches spread across the country's cities, towns and villages were the biggest losers, understandably. The second and third tiers of banks lost much less. While the Big Four may well be pleased to see many of these 'unprofitable' accounts disappear, the pressure to maintain and grow what's left will intensify from here onwards. Because what's left is valuable, the absolute numbers of account holders beginning to climb again. This is especially true of the more affluent members of Indonesia's burgeoning workforce.

The strengthening of this smaller but more affluent core of bank account-holders augurs well for the country's financial services sector. The first half of 2010 saw a renewed interest in Indonesia, with foreign direct investments registering a welcome spike once again. With the penetration of the entire gamut of wealth management services at very low levels, there is only one way to go for industries like insurance, personal loans, mortgages, credit cards and managed funds. As banks look to grow the base of savings account holders, cross-selling these relatively new services will ensure profitable growth. At the heart of success lies the bank's ability to become the account holder's 'main financial institution'.

The opinions are based on Roy Morgan Single Source, the country's largest syndicated consumer survey with over 25,000 respondents annually. Interviews are conducted face-to-face each week, continuously, with results released every quarter. The findings are projected to reflect over 85% of the population, 14 years of age and older.

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