

Amartha Prosperity Index

Volume 1 of Grassroots
Entrepreneurs Report







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Entrepreneurs Report

Amartha Research Partner:
Katadata Insight Center (KIC)

Foreword

Micro, small, and medium enterprises (MSMEs) are one of the main pillars of the Indonesian economy. With a contribution of 61% to Indonesia's gross domestic product (GDP), MSMEs are in a very strategic position and are the key elements in accelerating economic recovery from the impact of the COVID-19 pandemic. Today, 98.7% of MSMEs are still dominated by micro and ultra-micro enterprises.

This figure underscores the importance of formulating strategies for these economic heroes to scale up. As such, an in-depth analysis is required to determine the right programs, policies, and interventions that can help optimize the potential of Indonesian MSMEs and to create new entrepreneurs in this country.

The Indonesia Grassroots Entrepreneurs Report captures the multiple dimensions of micro and ultra-micro enterprises through the financial inclusion aspect, their use of financial products, and their adoption of digital products.

I wholeheartedly appreciate the Indonesia Grassroots Entrepreneurs Report published by Amarta. I hope that this report will be used by various stakeholders towards working together and synergizing for the development of MSMEs in Indonesia.

Minister For Cooperatives And
Small And Medium Enterprises
Republic of Indonesia,

Teten Masduki



A Message From Our CEO

We started our journey as Amarthya from a humble village in Bogor, West Java, back in 2010. Our objective is to make financial services available to grassroots MSMEs. In 2016, we introduced the peer-to-peer (P2P) lending model as a solution to help women micropreneurs in rural areas access capital loans. Today, more than IDR6 trillion has been disbursed to women micro-entrepreneurs across more than 35,000 villages in Java, Sulawesi, and Sumatra.

This year, Amarthya has been operating for 12 years. And through these years, more than one million women-owned and women-led micro and ultra-micro enterprises have grown together with Amarthya. For more than a decade, MSMEs have remained and will always be in our hearts. Amarthya will continue to support more MSMEs in Indonesia to forward their growth and prosperity.

In the midst of the COVID-19 pandemic, we have learned that MSMEs in rural areas were severely affected. However, they remained resilient like no other. Our customers even managed to grow their income to more than 10.5% despite the challenges they were facing.

However, we also recognize that helping MSMEs achieve more equitable prosperity in Indonesia is not something we can do by ourselves. Collaboration and cooperation from various stakeholders will be necessary to accelerate growth and create a greater positive impact.

In line with Indonesia's presidency at G20 this year, Amarthya has been actively contributing as the Advocate for Women Empowerment at the G20 EMPOWER and by conducting foundational research and interventions to help accelerate inclusion of women and MSMEs into digital the ecosystem.

With that in mind, Amarthya, in partnership with the Katadata Insight Center (KIC), published the *Indonesia Grassroots Entrepreneurs Report* to provide an overview of the current state of MSMEs in Indonesia, particularly micro and ultra-micro enterprises. We hope that by publishing this research report, we will be able to provide insights and recommendations to relevant stakeholders on how we can work together to achieve financial and digital inclusions for MSMEs in Indonesia.

Andi Taufan Garuda Putra,
CEO Amarthya

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About Amartha

Founded in 2010, Amartha is an impact-driven microfinance marketplace providing capital access to underserved women micro-entrepreneurs in rural communities to help them achieve prosperity. The company is on a mission to empower women and individuals in Indonesian villages with capital to start and grow their own businesses and ultimately pursue their dreams. In 2016, Amartha transformed into a fintech company to reach millions of MSMEs in Indonesia. Amartha has reached a significant milestone by serving over one million women micro-entrepreneurs in over 35,000 villages across Java, Sumatra, and Sulawesi. With its vision of “Prosperity for Everyone”, Amartha has a goal of creating shared prosperity by implementing ethical lending practices, promoting sustainable finance, and supporting women's empowerment.

About The Report

As a microfinance marketplace platform, Amarthas operates in the ultra-micro and micro, small, and medium enterprises (MSMEs) segment, especially in rural and peri-urban areas where the market is not yet well-served by formal financial service providers such as banks and fintech companies. With millions of entrepreneurs, MSMEs contribute significantly to the national economy as well as create jobs for millions of Indonesian families.

Despite their potential, MSMEs face various challenges. With the Indonesia Grassroots Entrepreneurs Report, Amarthas aims to better understand this market by performing extensive research activities involving multiple stakeholders, including research partners such as the Katadata Insight Center (KIC), the J-PAL Poverty Action Lab, the World Bank, the United Nations (UN) Pulse Lab Jakarta, and local universities.

The ultimate goal of these studies is to improve the prosperity and well-being of Indonesia's MSMEs in rural villages and peri-urban areas, especially those owned and operated by women. Therefore, the studies have been designed to gather insights from the grassroots level on various aspects, aimed at developing innovative interventions by multiple stakeholders and providing recommendations to the public sector for better policy alignment and future development programs.

The Indonesia Grassroots Entrepreneurs Report will consist of at least three volumes. This inaugural volume will cover the Amarthas Prosperity Index, which consists of studies on financial and digital inclusion among Indonesia's MSMEs. Future research and publications will include a volume on the Amarthas Women Empowerment Index and a volume on the Amarthas Grassroots Resilience Index, both of which will be published and made available for public access.

About Grassroots Entrepreneurs

Meet Amanda. Amanda is a grassroots entrepreneur who lives in Amarthas service area. Amanda is a South Sumatra-based coconut sugar entrepreneur. Amanda and her husband did not have a steady income at first, so her husband followed his in-laws' lead and began tapping *nira*, a form of fresh liquor taken from the palm plant.

Initially, Amanda's husband obtained capital through a mobile informal loan service, becoming entangled with moneylenders. Amanda eventually escaped this trap and began using Amarthas financial products as capital to develop and expand her coconut sugar production. Amanda did not avail of banking services because the nearest bank was very far from where she lived.

Amanda is an example of millions of grassroots entrepreneurs in Indonesia.



Preface

The Role of Micro and Small Medium Enterprises (MSMEs) in Indonesia's Economy

In Indonesia, the legal status of micro and small enterprises (MSEs) is governed by the Law of the Republic of Indonesia No. 20 of 2008 on Micro, Small, and Medium Enterprises, also known as the “MSME Law”. Given the importance of MSEs to the economy, the establishment of the MSME Law proved critical. According to the MSME Law, micro and small enterprises are businesses that can expand employment opportunities and provide a wide range of economic services to the community. MSEs are also expected to contribute to the process of equity by increasing people's income, encouraging economic growth, and achieving national stability.

The MSME Law divides business scale into four categories, namely: micro, small, medium, and large enterprises. Micro-enterprises are defined as productive businesses owned by individuals and/or individual business entities that meet the micro-enterprise criteria of at most IDR300 million in annual revenue, while small enterprises are defined as businesses that have annual revenue of around IDR300 million to IDR2.5 billion.

MSEs account for approximately 99% of all businesses in Indonesia, 63.35 million of which are micro-businesses and 783,000 of which are small businesses. In total, the micro and small business sector have contributed as much as IDR7,028.47 trillion, or 47.37% of Indonesia's GDP (MoCSME, 2018). In addition, when compared to large businesses, MSMEs employ 97% of the national workforce.

Unfortunately, micro and small enterprises are one of the economic sectors severely affected by the ongoing COVID-19 pandemic. Based on data from the Ministry of Cooperatives and Small-Medium Enterprises, 56% of MSMEs experienced a decrease in sales, and 22% of them have had capital difficulties (MoCSME, 2020).

According to the Human Development Report 2020, the COVID-19 pandemic had a high negative impact on SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduced Inequalities). Indeed, the global public health crisis has increased the number of unemployed people, resulting in an increase in the number of poor people. As a result, a global economic crisis also occurred, where the welfare gap for vulnerable groups is also widening. Meanwhile, the COVID-19 pandemic had a mildly negative impact on SDG 5 (Gender Equality) and SDG 9 (Industry, Innovation, and Infrastructure).

Micro and small businesses play an important and strategic role in helping the national economy recover from the impacts of the COVID-19 Pandemic. There are 64.7 million micro-enterprises and 783,000 small enterprises in Indonesia. These business categories contributed a total of IDR626,763 billion, according to data from the Ministry of Cooperatives and Small-Medium Enterprises and Bank Indonesia. However, micro and small businesses continue to face difficulties in obtaining financing and expanding their operations.

In terms of business financing, Indonesian financial services are rapidly expanding alongside the rise of internet access and smartphone ownership. In Indonesia, there are 202.6 million active internet users. 48.9% of whom have an account with a financial institution, whether it is a traditional bank or a fintech company. In terms of fintech adoption, only 39.2% of Indonesians use digital financial services apps (We Are Social, 2021).

MSEs have the potential to stimulate job creation, innovation, and competition. Micro and small enterprises in Indonesia have the capacity to absorb up to 109.33 million workers, accounting for 97.03% of the national workforce: micro-enterprises absorb 92% of this, whereas small-scale enterprises absorb the remaining 5%.

Given the importance and the contributions of MSMEs to the national economy, the Indonesian government must take strategic steps to mitigate the negative impacts of the COVID-19 pandemic on MSMEs. Unfortunately, even in this digital age, data and information on the financial and digital behavior of Indonesia's micro and ultra-micro business actors remain very limited.

Amartha Prosperity Index

Amartha has a vision of shared prosperity among all Indonesian micro and small entrepreneurs, especially women. With this mission, Amarthas continuously promotes financial inclusion and financial literacy throughout its business activities. The research that resulted in the Amarthas Prosperity Index aims to explore and understand the deeper elements that contribute to the prosperity level of MSMEs in Indonesia.



Based on the findings from preliminary studies, review of related literature, and relevance to the intended interventions, it was determined that the scope of this study will include the dimensions of financial and digital inclusion, both of which have the most influence over the prosperity of MSMEs. These preliminary studies, however, do not include a qualitative assessment of the cultural, psychological, and other relevant dimensions outside of the financial and digital aspects, all of which may have an influence on the overall prosperity level of MSMEs.

Specifically, studies for the Amarta Prosperity Index aim to present the following conditions: (1) the profile and the current state of MSMEs; (2) their access to financial services and products; (3) their financial behavior; and (4) their digital behavior.



Data Collection Process

Amartha Prosperity Index is formulated through a primary data collection method which ensures the quality and credibility of the data.

Research Name

“Indonesia Grassroot Entrepreneur Report”

Data Collection

1 – 8 November 2021

Areas

South Sumatera, Lampung, West Java (Bodebek), Banten (Tangerang), Central Java, Yogyakarta, South Sulawesi

Characteristic of Area

Sub-urban

Survey Method

Face to face survey

Respondent Criteria

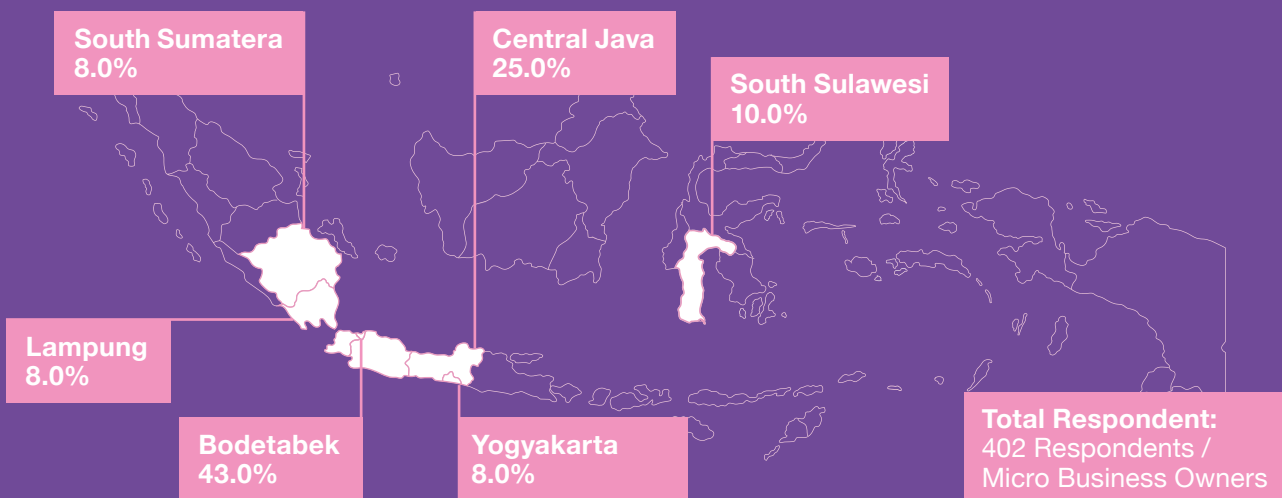
- 1. Over 17 years old
- 2. Owning a micro/ultra micro business
- 3. Business in the sector of agriculture, trade, services, or processing

Total Respondent

402 respondents

Margin of Error

+/- 4.90% with a 95% confidence

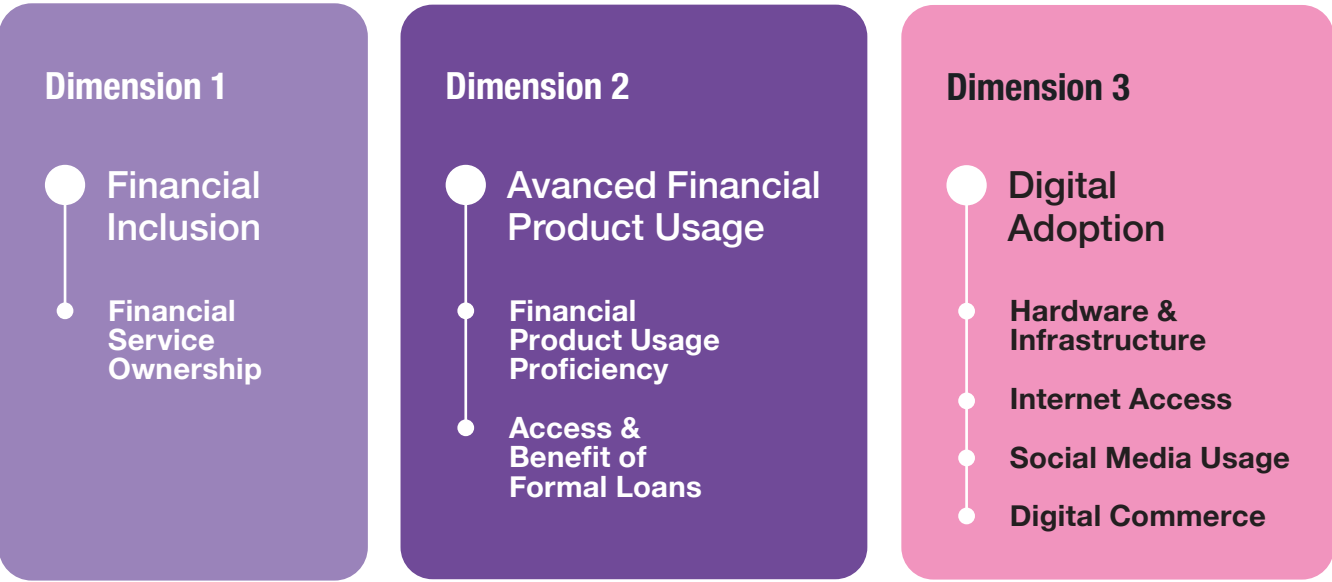


Designing Amartha Prosperity Index

The Amartha Prosperity Index is a composite index designed to better understand the current state of MSMEs and their prosperity level through the three-dimensional aspects of financial inclusion, advanced financial product usage, and digital adoption.

A statistical regression model that adopts the Analytic Hierarchy Process (AHP) method is used to determine the weight of each indicator that forms the overall score of the Amartha Prosperity Index. A proxy for the prosperity level of SMEs is defined by the amount of monthly revenue of the business.

The data gathered from the survey is then classified into the three dimensions of financial inclusion, advanced financial product usage, and digital adoption. The responses gathered from the survey are then re-coded and normalized to measure the result of the index.



Sub-Dimension of Financial Inclusion

This sub-dimension consists of one indicator: the use of any financial products in the micro and ultra-micro enterprises segment. This indicator follows the financial inclusion index of the Indonesian Financial Services Authority Body (Otoritas Jasa Keuangan).

SUB-DIMENSION		
01. FINANCIAL SERVICES OWNERSHIP		
INDICATOR	VARIABLE	SCORE
Financial Service Usage	Use minimum of 1 financial service	100
	Not using any financial service	0

Sub-Dimension of Advanced Financial Product Usage

How micro and ultra-micro enterprises utilize financial services will be crucial for them to thrive in the digital economy and achieve prosperity. The second dimension, which pertains to advanced financial product usage, measures two sub-dimensions, namely: (1) access to formal loans and their benefits, and (2) fintech and cashless payment adoption within the MSME segment.

SUB-DIMENSION		
02. FINANCIAL PRODUCT USAGE PROFICIENCY		
INDICATOR	VARIABLE	SCORE
Business payment method	Fully cash	0
	Cash & non-cash	100
	Fully non-cash	100
Fintech usage (capital & loan)	Yes	100
	No	0
Barrier in using financial service	There is no problem	100
	Others	0

SUB-DIMENSION		
03. ACCESS & BENEFIT OF FORMAL LOANS		
INDICATOR	VARIABLE	SCORE
Loan application	Apply for loan	100
	Never apply for loan	0
Loan provider	Conventional bank	100
	Bank Perkreditan Rakyat	100
	Microfinance institution (PNM, BAV, Pegadaian, BMT)	100
	Cooperative	100
	Fintech/online loan application	100
	Loan sharks	0
	Family and Relatives	0
Planning to apply for a loan	Yes	100
	No, but need additional fund	50
	No & don't need additional fund	0
Use of credit funds	Used entirely for business	100
	Used for business and household needs	50
	Used entirely for household needs	0
Ease of credit process	Likert scale 1-10	10-100
Credit benefits	Likert scale 1-10	10-100

Sub-Dimension of Digital Adoption

To be able to thrive in the digital economy and to achieve prosperity, the inclusion of micro and ultra-micro enterprises within the digital services ecosystem will be highly crucial. This dimension, which pertains to digital adoption, measures four sub-dimensions, namely: (1) hardware and infrastructure, (2) internet access, (3) social media, and (4) digital commerce usage within the micro and ultra-micro enterprises segment.

SUB-DIMENSION		
04. HARDWARE & INFRA-STRUCTURE		
INDICATOR	VARIABLE	SCORE
Internet provider	No internet provider	0
	Min. 1 provider	100
Simcard usage	Single/multi simcard	100
	Don't use any	0
Gadget	Min. 1 type of gadget (connected to internet)	100
	Feature Phone	0
Gadget ownership	Don't have any	0
	Own a gadget	100
	Co-used with other family members	50
Credit Balance	<= Rp 50,000	25
	Rp 50,001 - Rp 100,000	75
	Rp 100,001 - Rp 150,000	100

SUB-DIMENSION		
05. INTERNET ACCESS		
INDICATOR	VARIABLE	SCORE
Internet usage	No	0
	Yes	100
Internet cost	<= Rp 50,000	20
	Rp 50,001 - Rp 100,000	40
	Rp 100,001 - Rp150,000	60
	Rp 150,001 - Rp 300,000	80
	> Rp 300,000	100
Challenges to use Internet	Network unstable, so the connection often lost	50
	Constrained by internet cost	0
	Gadget specification is too old	0
	Not very good at using gadget	0
	There is no blocker	100

SUB-DIMENSION

06. SOCIAL MEDIA USAGE

INDICATOR	VARIABLE	SCORE
Social media ownership	Don't have any	0
	Min. 1 type of social media	50
	> 1 type of social media	100
Ability to use	Can independently use social media	100
	Need assistance to use social media	0
Frequency	Everyday	100
	2-3 days a week	80
	Once a week	60
	Once in 2-3 week	40
	Once a month	20
	More than once a month	0
Usage purpose	Communication	50
	Accessing social media	50
	Gathering information about supplier	100
	Promoting the product through social media/marketplace/chat application	100
	Gathering information to develop the business	100
	Joining a community on social media	50

SUB-DIMENSION

07. DIGITAL COMMERCE

INDICATOR	VARIABLE	SCORE
Fintech usage (capital & loan)	Yes	100
	No	0
Selling method	Offline	0
	Online	100
	Both online & offline	100
Innovation	From fully offline to partially/fully online business	100
	Expanding the variety/type of online transaction tools/digital wallets	100
	Adjusting production according to market demand	50
	Switch to producing/selling other products/services	50
	Add variety of products/services	50
	Not doing anything	0



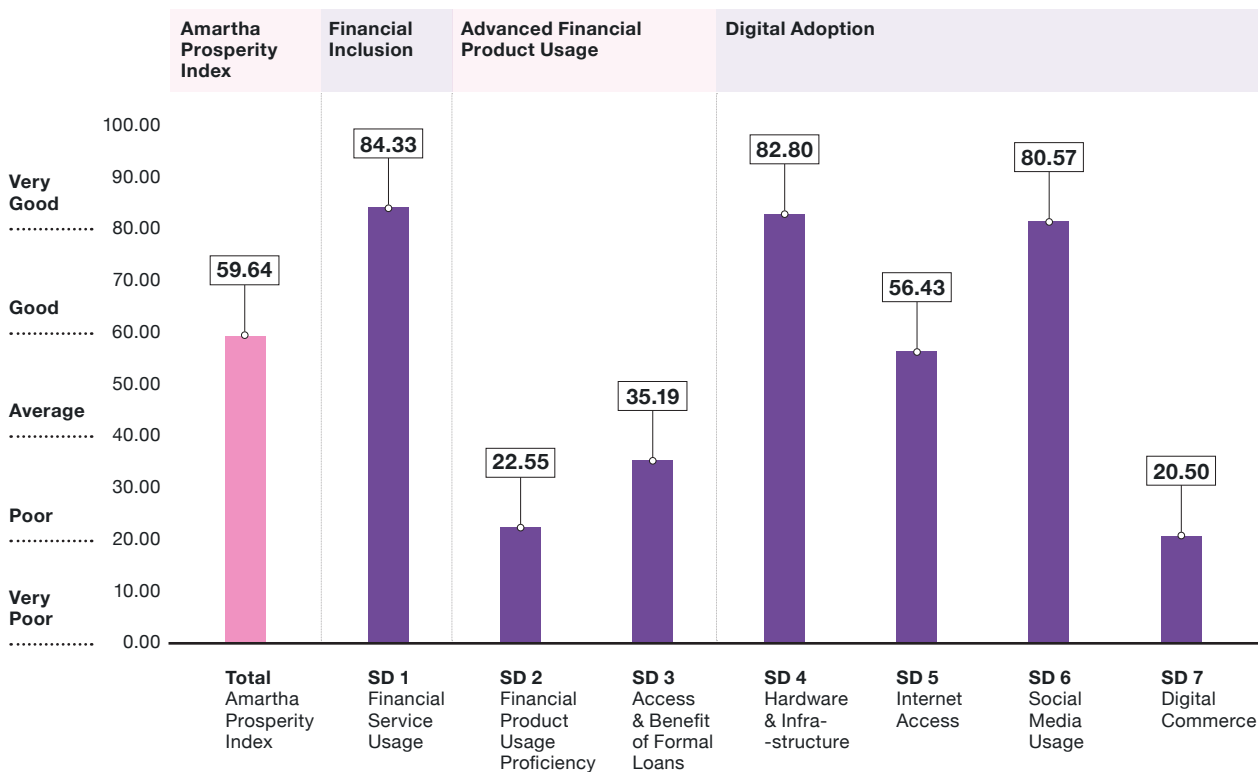
INDEX WEIGHTING PROCESS

The index is constructed from seven sub-dimensions, all of which have different levels of contribution to the overall score. The seven sub-dimensions are: (1) financial services usage; (2) financial product usage proficiency; (3) access to formal loans and their benefits; (4) hardware and infrastructure; (5) internet access; (6) social media usage; and (7) digital commerce. Depending on their relevance, each variable that forms the sub-dimension is given a weight based on a range of scores between 0 to 100 using a statistical regression model.

To understand the impact of each sub-dimensional derivative, a linear regression analysis was conducted, with monthly turnover as the dependent variable and the seven sub-dimensional derivatives as the independent variables. The coefficient of each sub-dimensional derivative is then recalculated and expressed as a percentage; the higher the weight, the greater the impact of these sub-dimensions on the prosperity of micro and ultra-micro enterprises.

SUB-DIMENSION	WEIGHT
SD1 FINANCIAL SERVICE OWNERSHIP	9.3%
SD2 FINANCIAL PRODUCT USAGE PROFICIENCY	9.3%
SD3 ACCESS & BENEFIT OF FORMAL LOANS	13.2%
SD4 HARDWARE & INFRASTRUCTURE	15.9%
SD5 INTERNET ACCESS	19.3%
SD6 SOCIAL MEDIA USAGE	23.7%
SD7 DIGITAL COMMERCE	9.3%
TOTAL	100.0%

Amartha Prosperity Index: Baseline Results



- With an overall score of 59.64, the prosperity index among MSMEs in Indonesia is relatively good. It is close to achieving 60.00 points, which is the benchmark for a good prosperity level. Based on this score, it can be interpreted that, on average, the adoption of financial services products and the ownership of digital devices in this segment are relatively high. However, the utilization and proficiency in using those financial and digital products remain low.
- Among the three sub-dimensions that contribute to the overall score of the prosperity index, the financial inclusion sub-dimension has the highest score at 84.33. This shows that MSMEs in Indonesia own at least one financial product, such as savings, loans, or other financial products from banks and non-bank financial services, even if they are not actively using them.
- When we go deeper into the utilization of financial products, however, the score remains very low. On the sub-dimension of financial product usage, which shows how actively MSMEs use various conventional bank and non-bank financial products and services to support their businesses, the score is only 22.55.
- Additionally, access to formal loans, both from banks and non-bank financial institutions, also shows a relatively low score of 35.19. These numbers emphasize that, for various reasons, MSMEs still have low proficiency and literacy in utilizing financial products to grow their businesses.
- Meanwhile, the scores for smartphone ownership (82.80), internet access (56.43), and access to social media accounts (80.57) are relatively good. These figures show how familiar MSMEs in Indonesia are with the digital world, especially with their active usage of messaging services such as WhatsApp and social media such as Instagram and TikTok. However, they do not yet use the internet for productive purposes, as indicated by the low score of only 20.50 for digital commerce utilization.

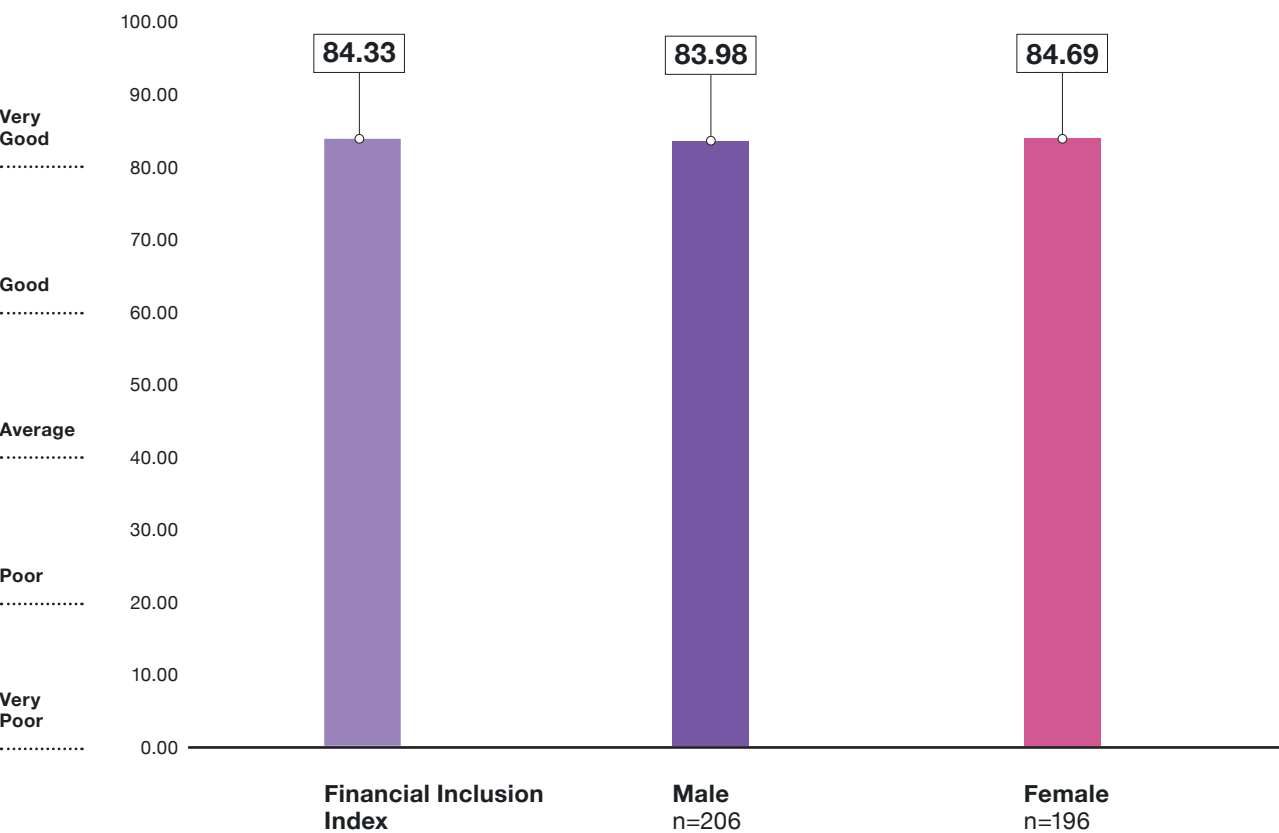
Financial Inclusion

Under the financial inclusion sub-dimension, we define inclusion as the ownership or access to at least one or more financial products, either provided by banks or other financial services (POJK 76/POJK.07/2016). When an MSME owns a bank account or an ATM card, even when it is not being actively used, it will still be considered financially included.



INDEX BY GENDER

n=402

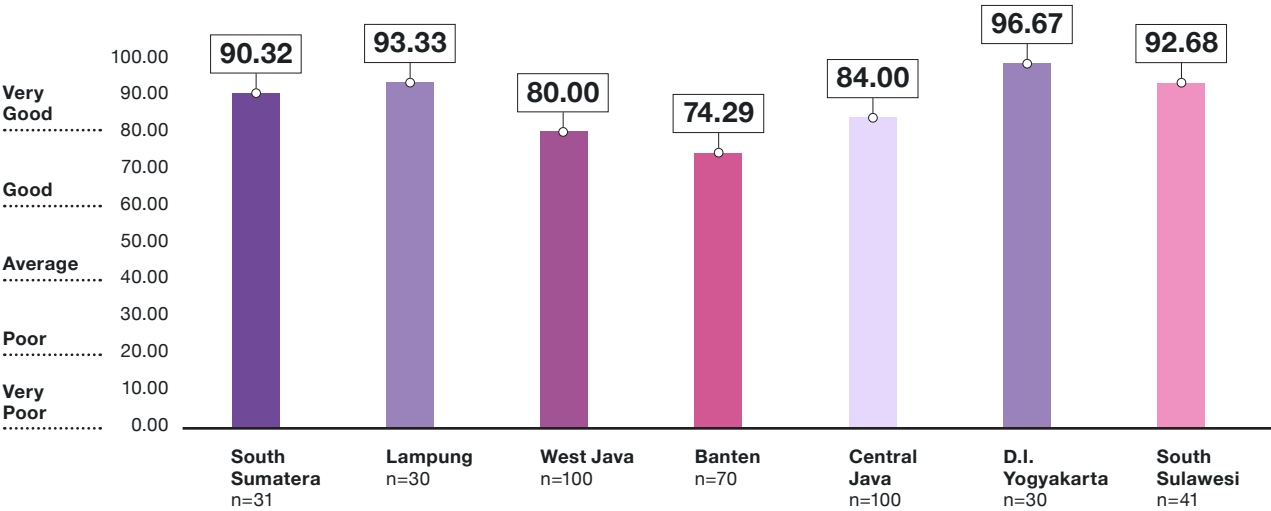


On the aggregate score of the financial inclusion index, it is apparent that most MSMEs in Indonesia own one or more financial products, even when they are not actively using them. Most of the products owned are ATM cards, debit cards, savings accounts, and digital wallets. Ownership of bank accounts and digital wallets are partially contributed by government-to-person (G2P) subsidies over the past years, which require bank accounts and non-cash transfers as the delivery method.

Based on the chart above, it can be interpreted that women entrepreneurs who own MSMEs have slightly better scores compared to men. This figure reflects the reality that, in rural and peri-urban areas, women are typically the ones in charge of household finances. When there is no separation between household and business finances, women are practically also in charge of managing the money of the family business.

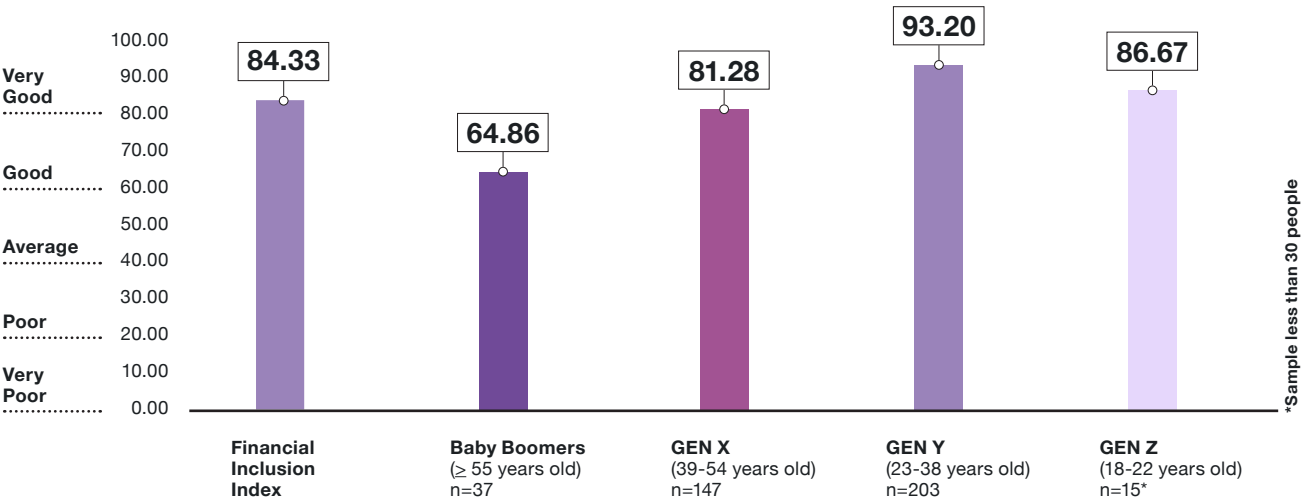
Dimension 1:

INDEX BY AREA



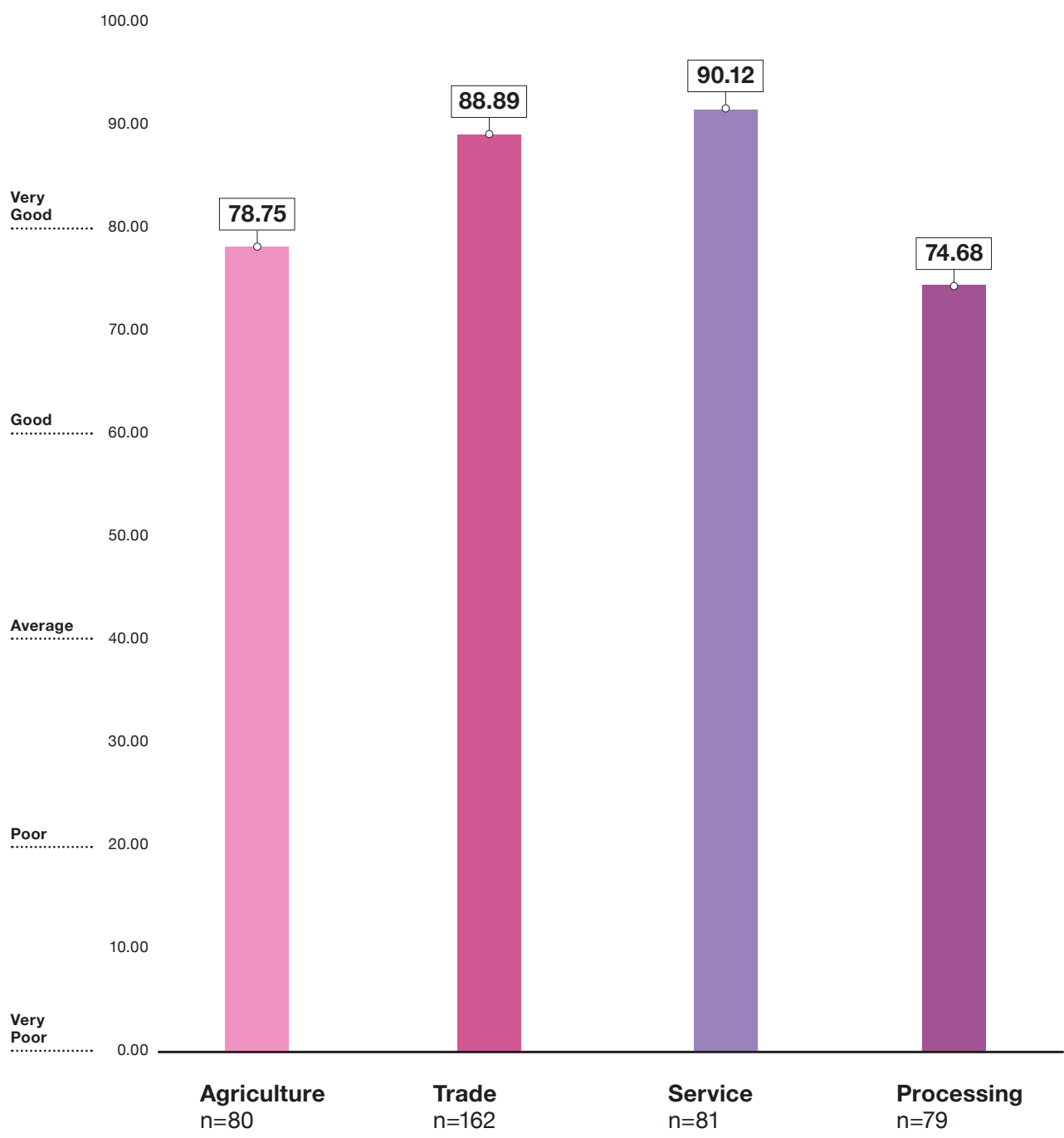
In terms of regions with the highest index score, Yogyakarta, Lampung, and South Sulawesi have the highest ratio of MSMEs who own at least one financial product, while Banten and West Java are the two regions with the lowest adoption of financial products. It would be interesting to explore further whether the educational level and cultural background of the users have a correlation to the adoption of financial products, as these may influence their openness to adopt new behavior in their daily lives.

INDEX BY AGE



In terms of age, it is apparent that financial product adoption among the younger generation is higher, with Generation Y (i.e., those between the ages of 23 to 38) having the highest score of 93.20, followed by Generation Z (i.e., those between the ages of 18 to 22). Older users (i.e., aged 55 and above), particularly in rural and peri-urban areas, have the lowest financial product adoption at only 64.86 points. This is primarily due to the unavailability of financial infrastructures in their vicinity, as well as their lack of understanding of the available financial products that suit their needs.

INDEX BY SECTOR



In terms of the business sectors operated by MSMEs, those who own businesses in the services industry, such as hair salons or motorbike workshops, tend to own bank accounts primarily due to requests from customers for non-cash payment options. Meanwhile, businesses in the agriculture and processing sectors (i.e., home industry) are the ones that are less likely to adopt financial products.

In-depth research on the behavior of users based on their demographic and sectoral backgrounds is highly recommended to provide a better intervention strategy that suits the persona of the respondents.

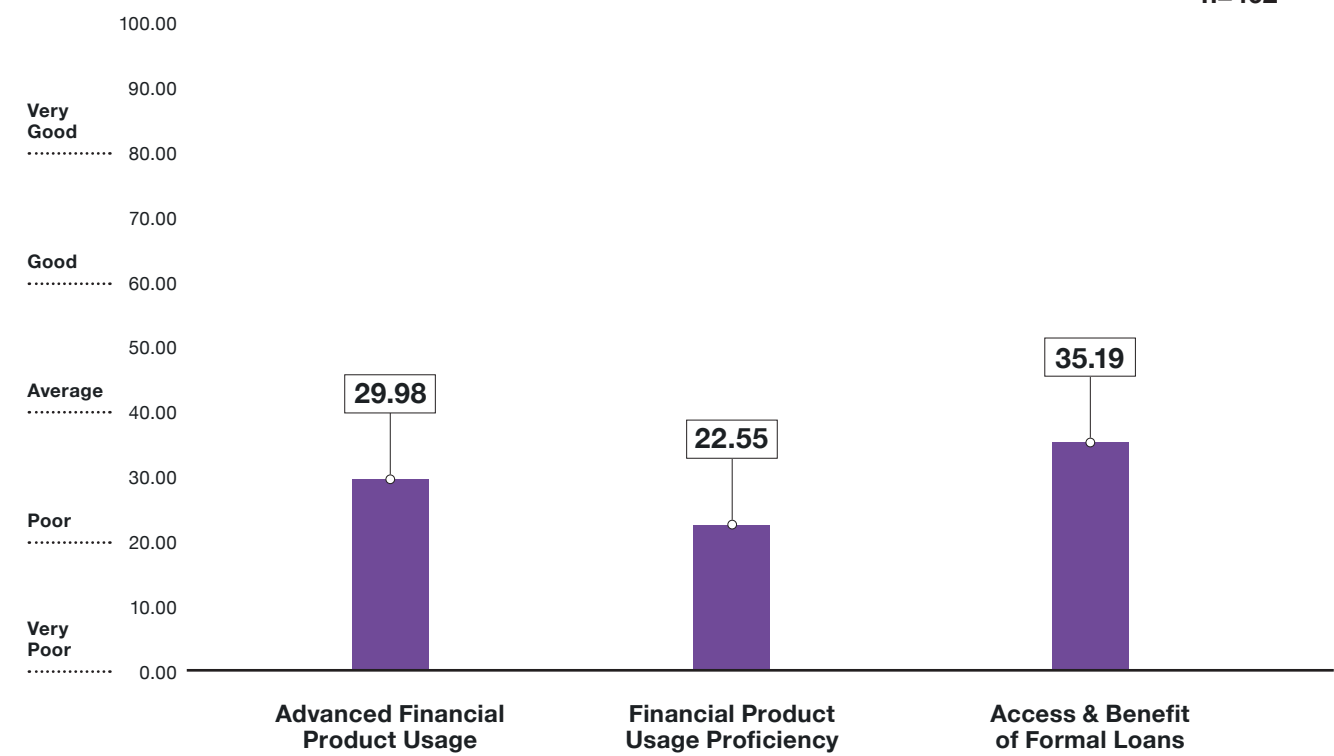
Advanced Financial Product Usage

Advanced financial product usage pertains to proficiency in using financial services, such as the active usage of formal loans, digital or non-cash payments, fintech access, and the respondent’s future plans in using various types of financial products.



INDEX TOTAL

n=402



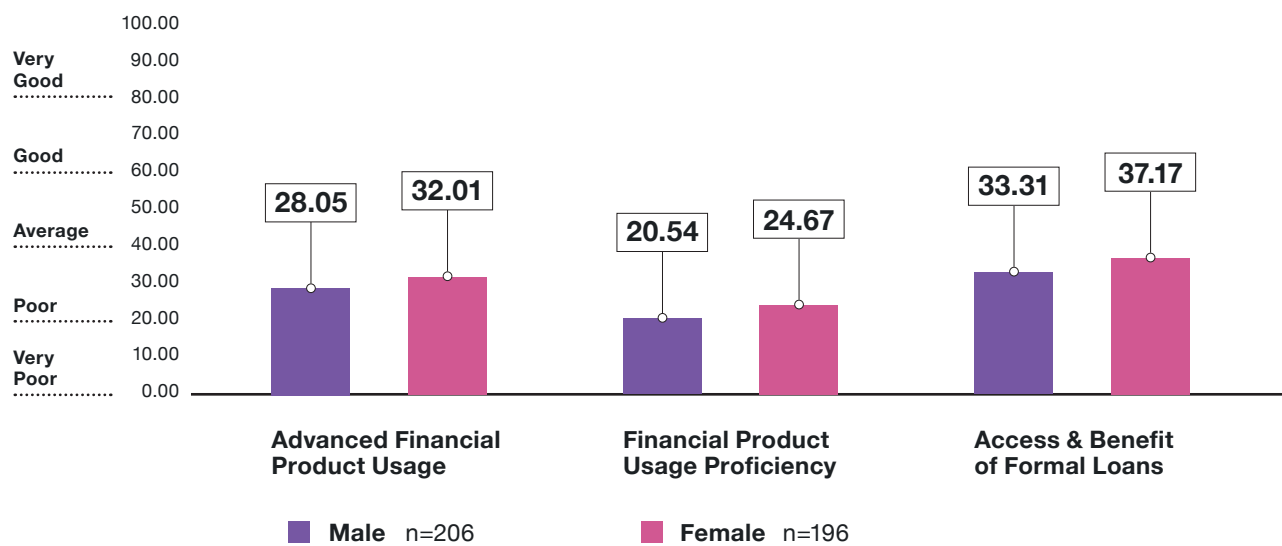
Even though micro and ultra-micro enterprises are considered financially included, they rarely utilize the advanced products or features from the financial services they adopted. This is reflected in the relatively low index score in this dimension, with a score of 29.98.

On the dimension of proficiency in using financial products, the score is very low at 22.55, which reflects that cash is still king. Most MSMEs are not actively using bank accounts, non-cash payments, fintech companies, and access to loans provided by banks and non-bank financial services.

Further, regarding access to formal loans and their benefits, most respondents have never applied for a loan, and they do not plan to apply for any loans to grow their business for various reasons. Therefore, access to formal loans and their benefits garnered a relatively low score of 35.19 points.

Dimension 2:

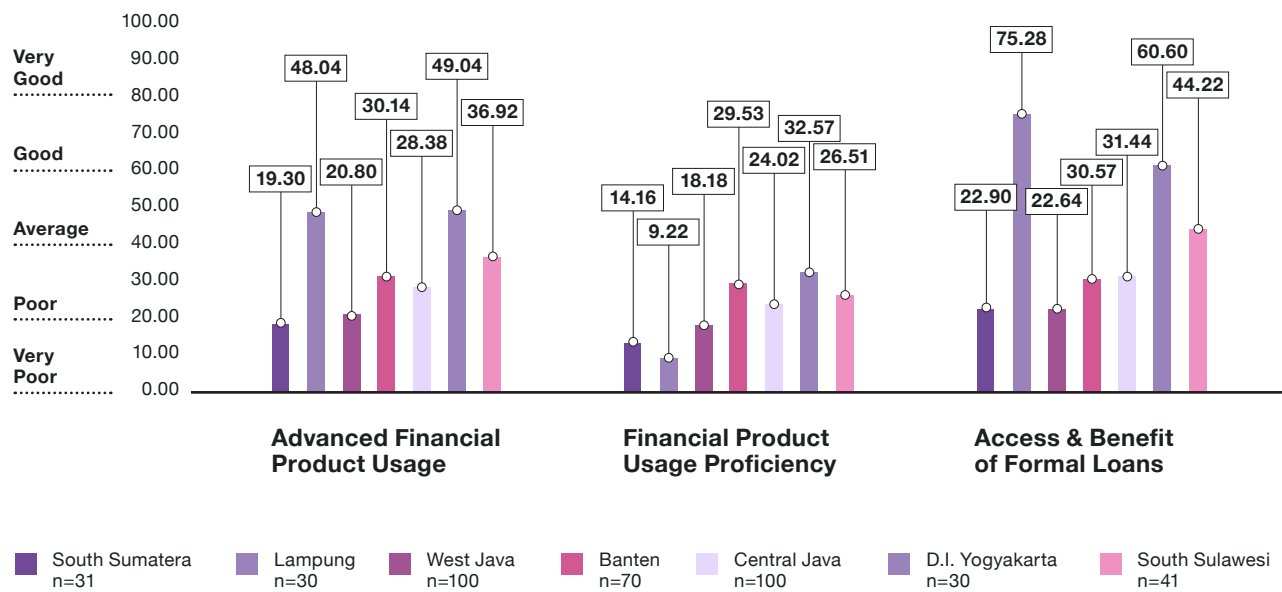
INDEX BY GENDER



On both dimensions of proficiency in using financial products and access to formal loans and their benefits, MSMEs owned and operated by women score slightly higher, which indicates the encouraging reality of equal access for both men and women in financial services.

Women entrepreneurs are more active in using financial services, as they also manage their household finances; they tend to not manage the business and household finances separately.

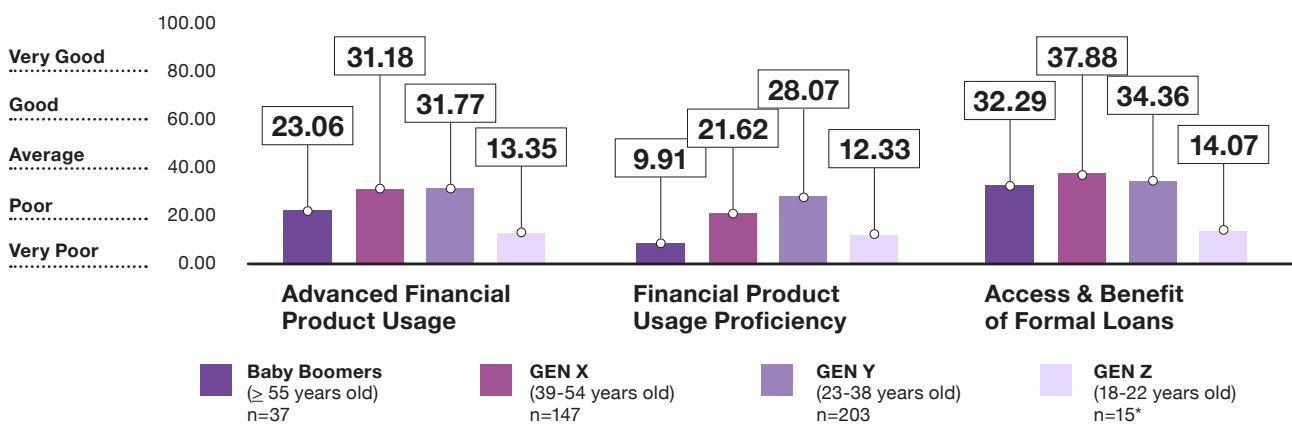
INDEX BY AREA



In terms of the use of financial services, Lampung and DI Yogyakarta have the highest scores. One of the primary drivers of the high usage of financial services in Lampung is the accessibility of formal loans and their benefits.

Dimension 2:

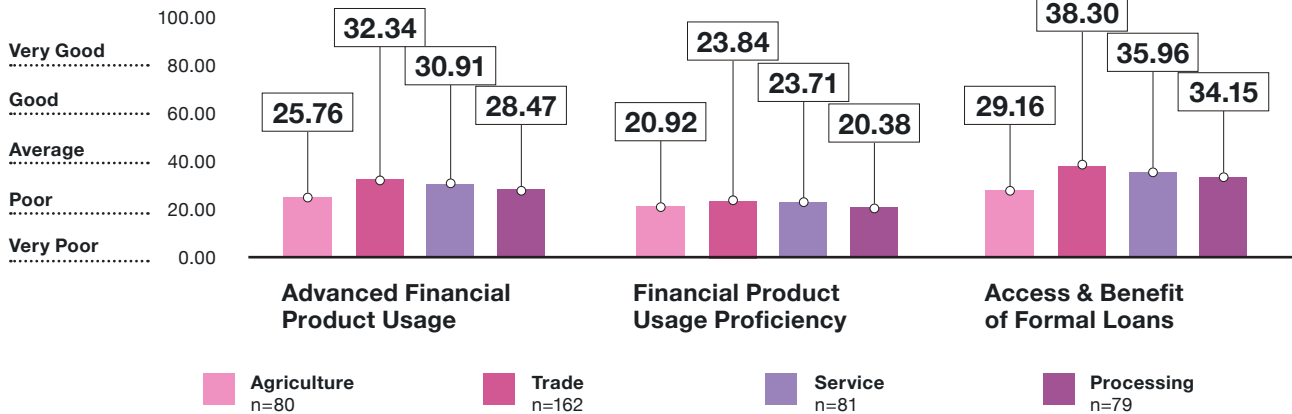
INDEX BY AGE



Businesses in the trade and services sector have the highest score in proficiency in using financial products and the adoption of formal loans and their benefits. It may be reflective of the creditworthiness and bankability of businesses in the trade and services sector compared to other sectors. Further, the adoption of financial products in the trade and services sector is also driven by demand from customers who use non-cash payment options.

While the overall score is still relatively low, there is an opportunity to hasten the adoption of financial products by providing a supportive ecosystem. High-quality digital infrastructure, combined with the availability of digital financial services providers in rural and peri-urban areas, will help MSMEs and their customers gradually shift into the digital ecosystem.

INDEX BY SECTOR



Trade and services have the highest score in proficiency and adoption of formal loans. It may be reflecting the creditworthiness of trade and services sectors to be higher or more bankable relative to other sectors. Further, trade and services adoption to financial products are also driven by the demand from their customers who are, partially, users of non-cash payment.

While the overall score is still relatively low, there is an opportunity that adoption could be faster when the surrounding ecosystem is supportive. High quality digital infrastructures, combined with the availability of digital financial service providers in rural and peri-urban areas will help MSMEs and their customers to gradually shift into digital society.

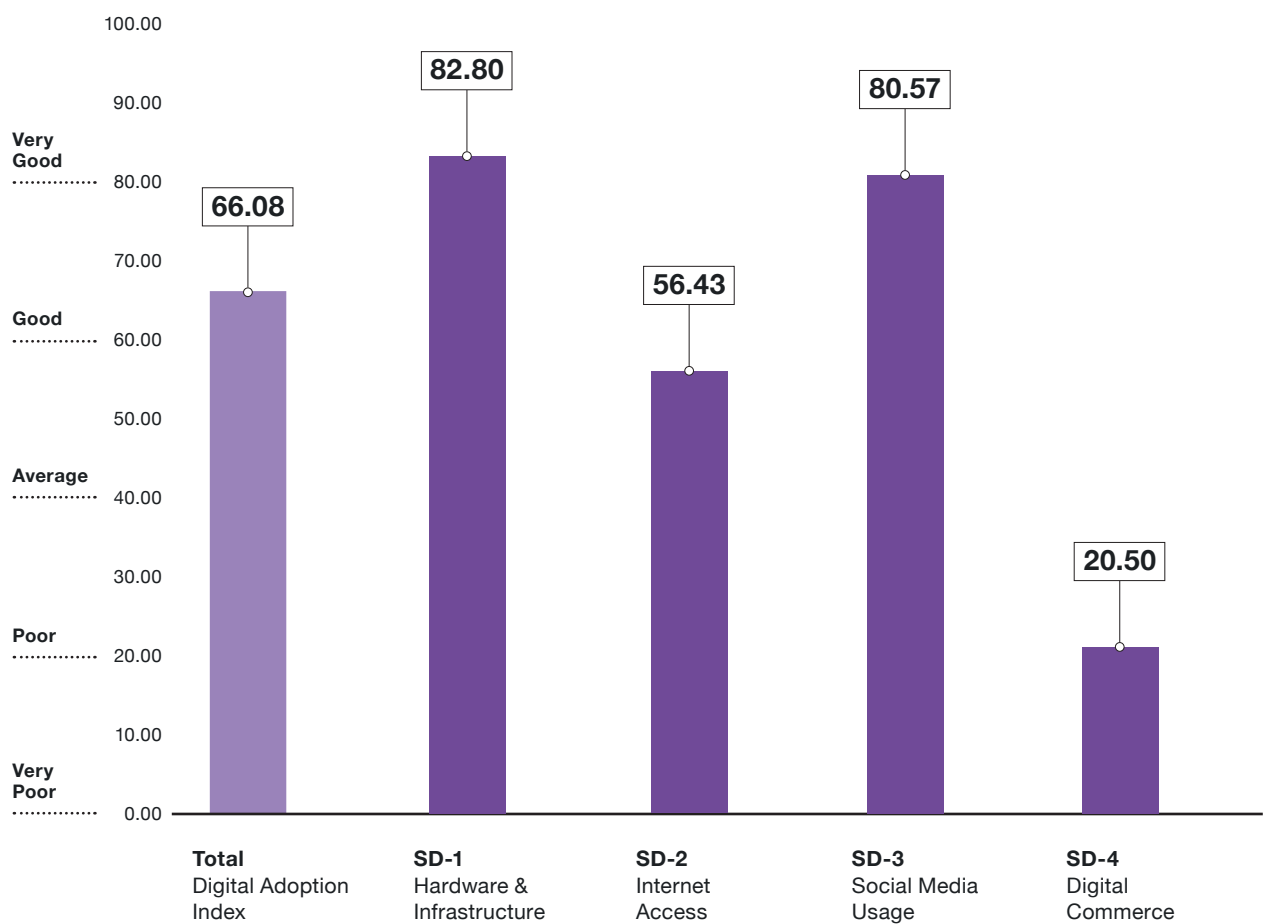


Digital Adoption

The dimension of digital adoption reflects the ownership and active use of digital devices for productive business activities. The sub-dimension includes the measurement of hardware or device ownership, infrastructure availability, usage of social media, and active usage of digital commerce and the internet to support the growth of MSMEs.

INDEX TOTAL

n=402

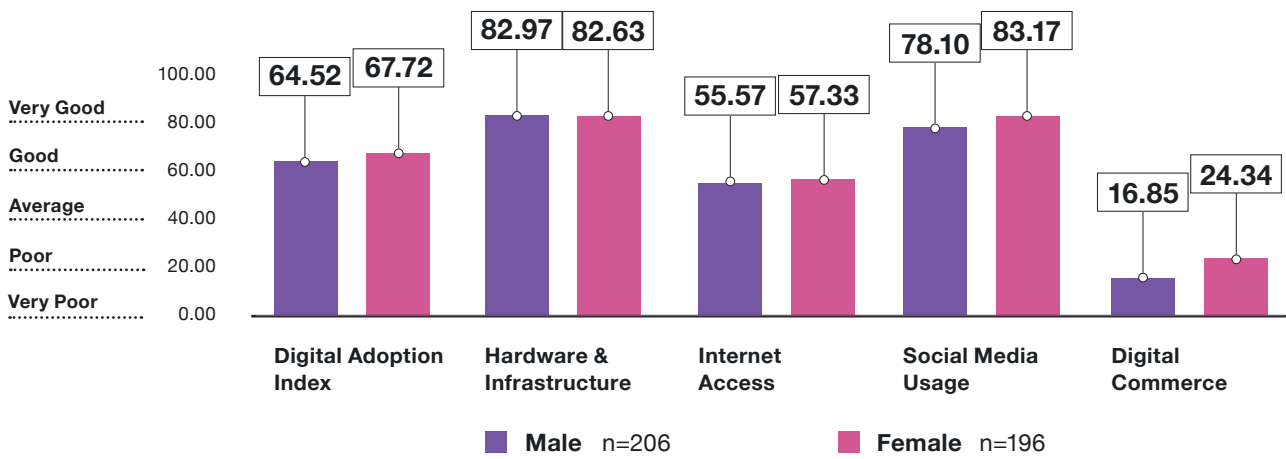


The use and adoption of digital technologies among micro and ultra-micro enterprises is classified as good, with an index score of 66.08. Dimensions with the highest scores are the availability of infrastructure and ownership of digital devices, as well as the use of social media. This means that the facilities available to MSMEs and their social media skills are quite good.

However, the adoption of digital commerce for businesses remains relatively low. This is more apparent in the low usage of fintech services, as well as the continued use of offline transactions and face-to-face sales methods.

Dimension 3:

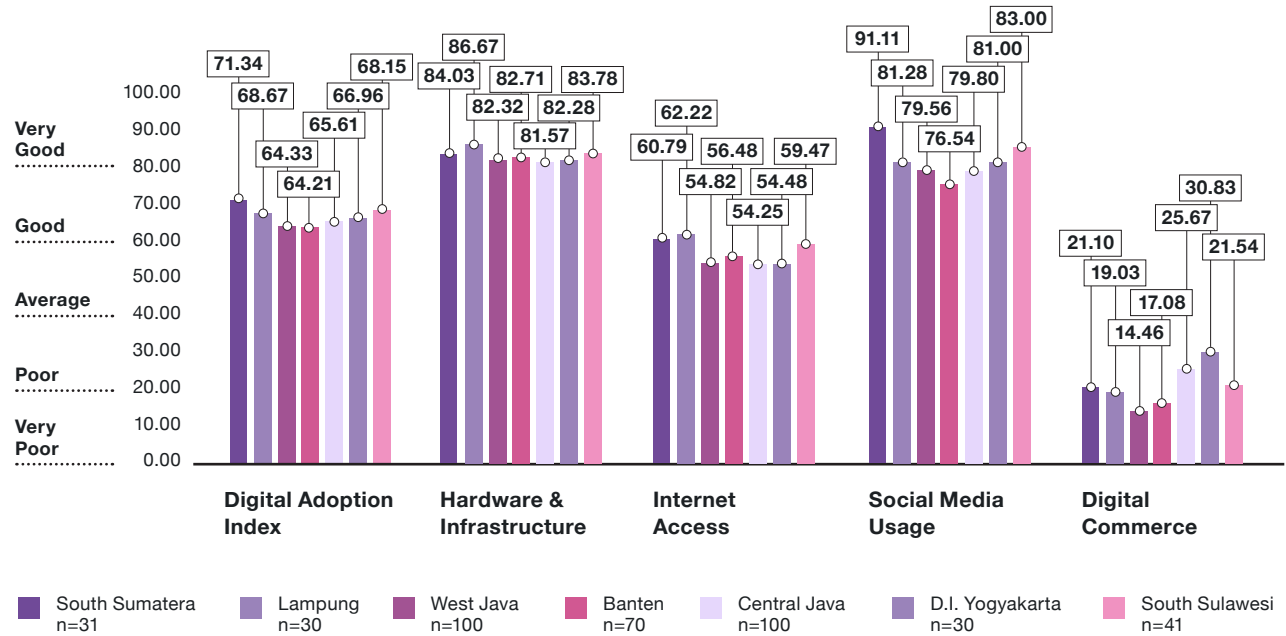
INDEX BY GENDER



Digital devices have been adopted equally by both men and women entrepreneurs, which reflects the encouraging reality that there is no significant gender gap in this area.

Further, on the sub-dimension of digital commerce usage, women entrepreneurs tend to be more active in using e-commerce platforms. This reveals an opportunity for further interventions, especially ones related to the expansion of market access through online channels, which can eventually promote the active utilization of non-cash payment options and improve revenue.

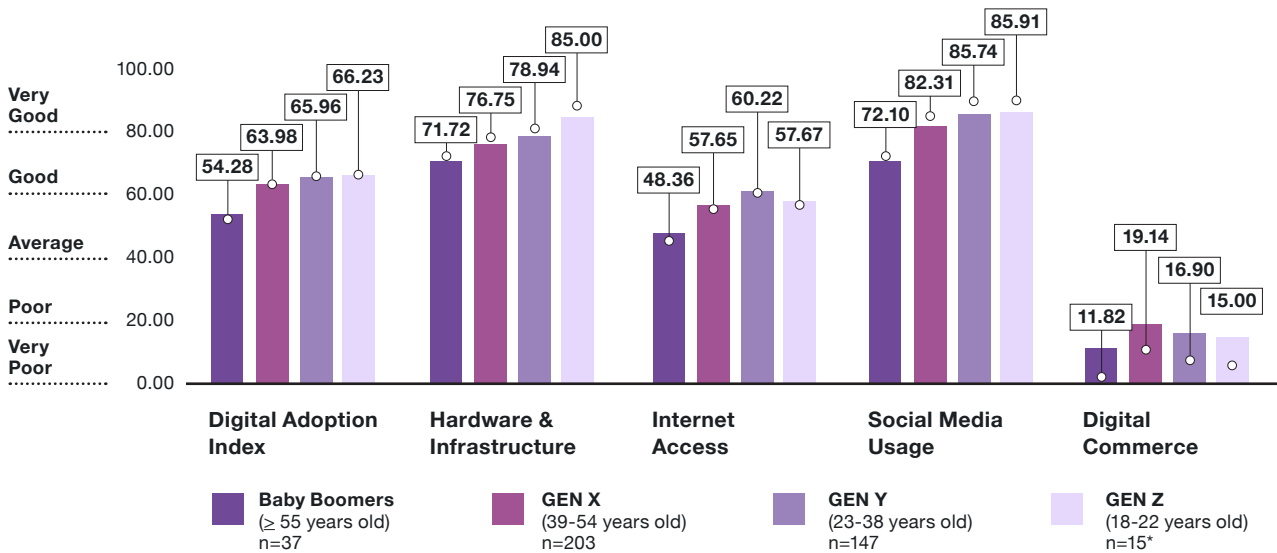
INDEX BY AREA



In terms of the adoption of digital services, there is no significant difference between the scores of the seven provinces.

Dimension 3:

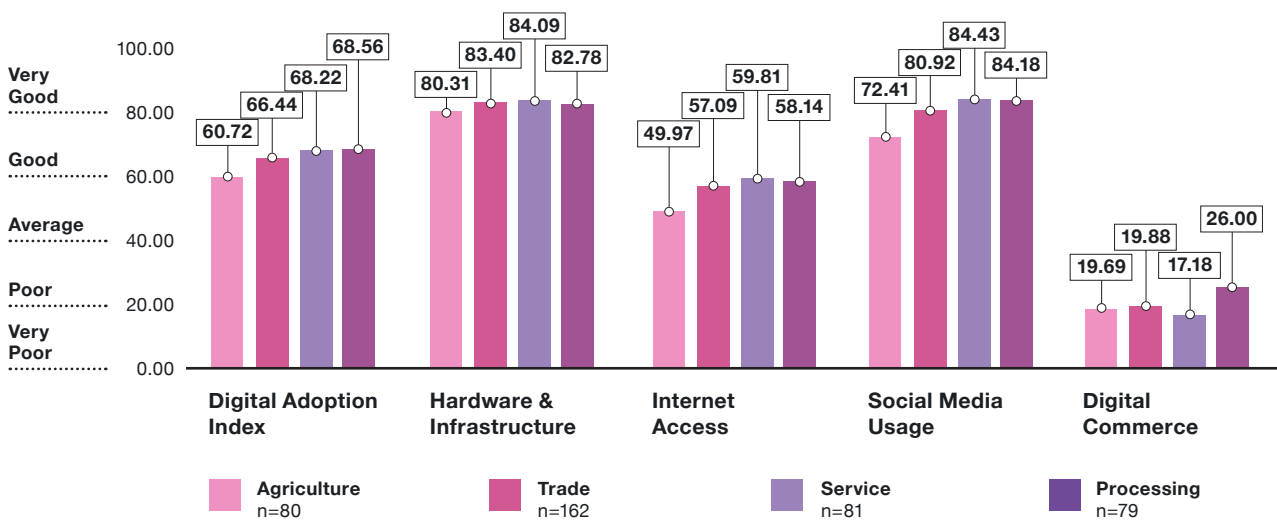
INDEX BY AGE



In terms of the adoption of digital services, there is no significant difference between micro and ultra-micro enterprises across generations.

From the four sub-indexes by age, it can be seen that the micro and ultra-micro enterprises owned and operated by Generation-X entrepreneurs are more likely to adopt digital commerce services.

INDEX BY SECTOR

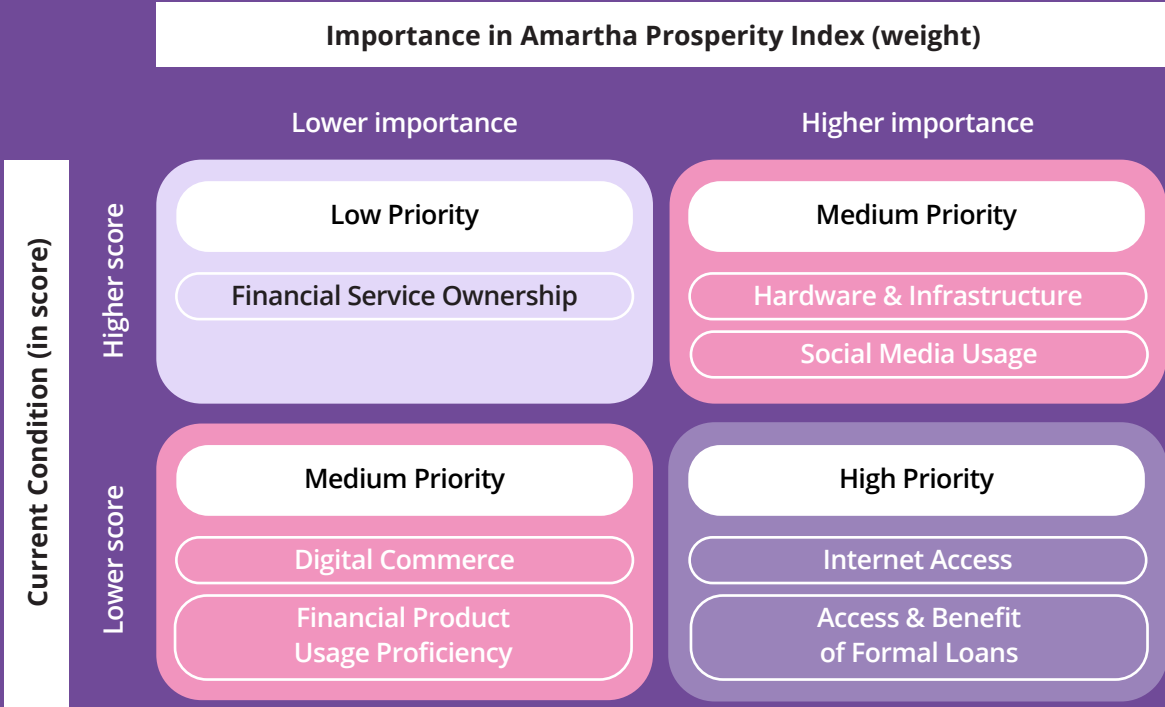


In terms of the utilization and active usage of digital devices for productive business activities, the agriculture sector is lagging behind other sectors, primarily on internet adoption.

While other sectors, especially those in trade and services, have customers who are relatively digital savvy, the agriculture sector may not have the same exposure or necessity to use non-cash payment options and digital commerce. Therefore, digital adoption in the agriculture sector remains comparatively lower.

Priority for Improvements

Based on the measurement results of Amarthya Prosperity Index and taking into consideration the weight of importance of each sub-dimension towards the prosperity improvement of our MSMEs, the following priority metric is developed. The quadrant below represents the order of priority for intervention, from high to low, that will help MSMEs achieve higher score on each sub-dimension that contributes to their overall prosperity level.



Quality of internet access network as the backbone of digital infrastructure and access to formal loan are apparently the sub-dimensions that needs immediate interventions. Driving digital transformation requires strong and equal access to digital infrastructure. Further, utilization and proficiency in using financial service and products, as well as access to working capital loan especially for women, need to be further promoted to upscale the MSMEs growth.

Insights and recommendations for specific dimension of Amarthya Prosperity Index is further elaborated on the following sections.



DIMENSION 1

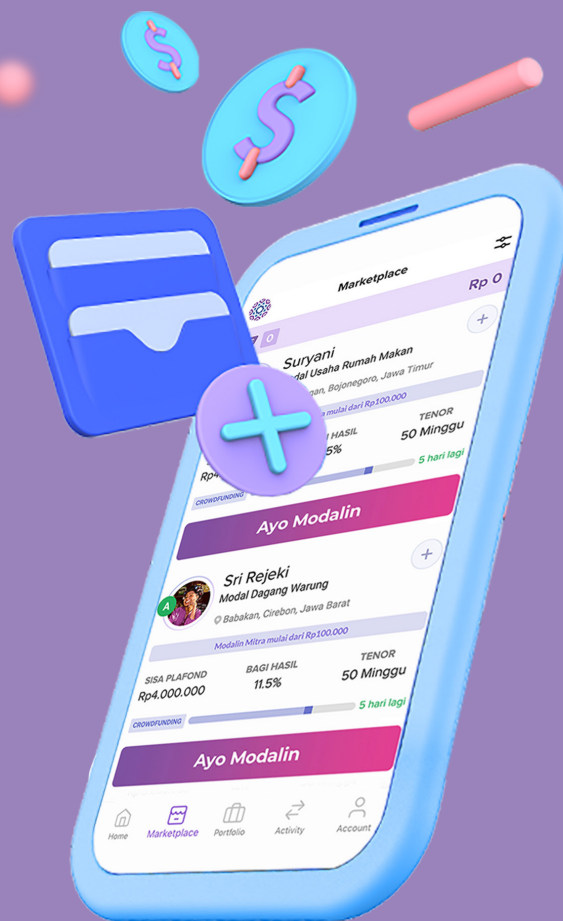
FINANCIAL INCLUSION



Meet Ibu Yuni

Yuni sells drinking water in the Sulawesi area because her community lacks clean water. She is one of the Amarthas borrowers who received government assistance in the form of PKH (Program Keluarga Harapan). To receive the assistance, Yuni was required to have a government bank account. Currently, the account is used not only to receive government assistance but also to save money.

Yuni is one of many grassroots entrepreneurs that is considered financially included.



Financial Service Ownership

On the financial inclusion aspect, we use the definition from the Financial Services Authority (OJK) to measure the level of ownership of one or more financial products by the respondents. In this dimension, the financial products can be conventional banking products such as savings and loans, or financial services offered by non-bank financial institutions such as digital wallets or e-money products.

With a score of 84.33, ownership of one or more financial products and services among MSMEs is on track to reach the national target of 90% by 2024.

Types of Financial Product

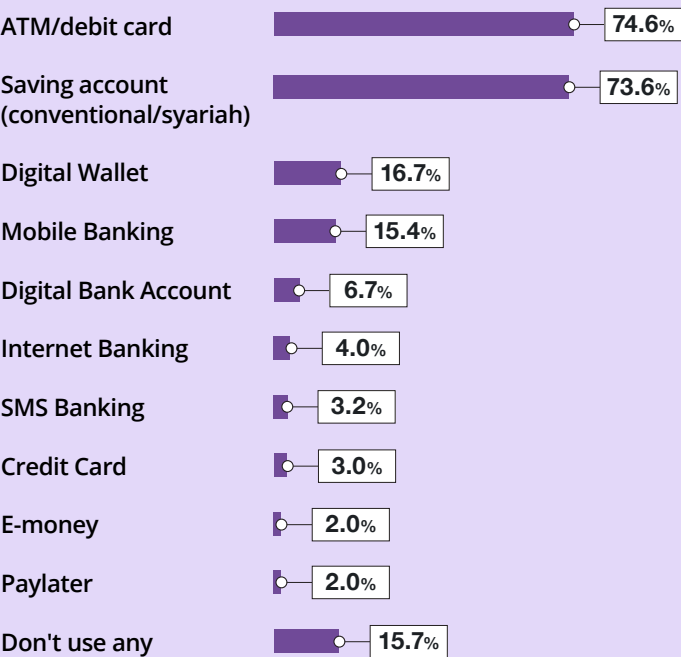
On average, each MSME owns two financial products, mainly a bank account and an ATM card or a debit card. The presence of banks in the peri-urban areas of Java, Sulawesi, and Sumatra has contributed to these achievements, with the network of bank branches reaching up to the district level (Kecamatan).

Savings accounts and ATM cards or debit cards have become the most popular financial products primarily due to the perception that they are safe and easy to use.

Younger generations seem to start adopting digital bank accounts, digital wallets, and e-money even when they are not actively using them. The fear of making mistakes and unfamiliarity with the features of digital financial services are among the major barriers to not adopting digital banking products.

FINANCIAL SERVICE USED

Basis: All Respondents (n=402)

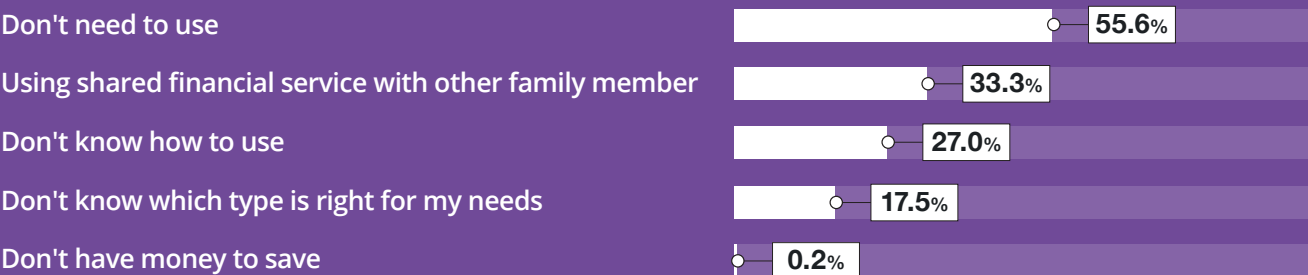


On Average 2 financial services per business owner

The survey also revealed that around 15.7% of MSMEs in Indonesia do not own or use any financial products. The main reason for this is the reality that their daily business activities can be fully transacted in cash, and there is no immediate need or demand from their customers to utilize non-cash payment options. The agriculture sector largely has not adopted financial products and services.

REASONS FOR NOT USING FINANCIAL SERVICE

Base: All Respondents (n=63)



Reasons for Adopting Various Financial Products

The survey also revealed an interesting finding: for those who have adopted internet banking or mobile banking services and digital wallets, their primary reason for doing so is convenience (i.e., they can perform several transactions easily at any given time). When this benefit can be communicated together with a safety guarantee, as well as proper guidance on how to access and navigate the features of the applications, there is an opportunity to encourage more people to adopt these digital banking products.

REASONS	ATM/ DEBIT CARD	SAVING ACCOUNT	DIGITAL WALLET	M BANKING	DIGITAL BANK ACCOUNT	INTERNET BANKING	SMS BANKING	CREDIT CARD	E-MONEY	PAYLATER
BASE OF RESPONDENT (n):	300	296	67	62	27*	16*	13*	12*	8*	8*
Easy to use	85.7%	84.8%	85.1%	82.3%	88.9%	93.8%	92.3%	91.7%	87.5%	75.0%
Feeling safe upon using it	51.0%	48.3%	53.7%	51.6%	44.4%	56.3%	69.2%	25.0%	37.5%	50.0%
Data security guaranteed	44.3%	45.3%	46.3%	45.2%	40.7%	12.5%	46.2%	100.0%	50.0%	50.0%
Easy registration process to open an account	43.0%	44.3%	47.8%	50.0%	37.0%	37.5%	46.2%	100.0%	75.0%	62.5%
Can do various kinds of transactions	36.3%	33.1%	58.2%	66.1%	33.3%	31.3%	76.9%	16.7%	62.5%	62.5%
Saving time	35.3%	31.8%	56.7%	72.6%	51.9%	50.0%	69.2%	25.0%	87.5%	75.0%
No need to queue	23.3%	21.6%	41.8%	45.2%	18.5%	31.3%	53.8%	16.7%	50.0%	37.5%
Practical/can be done anywhere & anytime	21.0%	19.6%	44.8%	56.5%	22.2%	37.5%	38.5%	16.7%	50.0%	50.0%
Reducing direct transactions due to Covid-19 Pandemic	15.7%	14.5%	32.8%	32.3%	25.9%	25.0%	53.8%	25.0%	50.0%	37.5%
Problems can be solved quickly	10.0%	9.1%	20.9%	29.0%	25.9%	18.8%	46.2%	16.7%	25.0%	37.5%
Lots of promotions/ discounts	6.3%	6.4%	25.4%	16.1%	11.1%	12.5%	30.8%	16.7%	25.0%	37.5%
Easier login/ authentication process	3.0%	3.4%	10.4%	12.9%	11.1%	12.5%	15.4%	16.7%	25.0%	37.5%
Can buy goods and pay later	3.3%	2.7%	9.0%	14.5%	3.7%	0.0%	7.7%	16.7%	12.5%	25.0%
No additional fees	2.3%	2.4%	6.0%	8.1%	0.0%	0.0%	7.7%	16.7%	25.0%	25.0%
Can buy goods with installment system	2.0%	2.0%	4.5%	9.7%	3.7%	6.3%	15.4%	16.7%	25.0%	37.5%
Better integration with other apps, devices, and websites	1.3%	1.4%	4.5%	6.5%	0.0%	0.0%	0.0%	16.7%	12.5%	25.0%



DIMENSION 2

ADVANCED FINANCIAL PRODUCT USAGE



Meet Ibu Rani

Rani is a successful entrepreneur in South Sumatra, and she has been an Amarth Mitra for the past two years. She and her husband started a cracker business from the ground up, and it continues to grow to this day. The expansion of Rani's cracker business is aided by capital obtained from various funding institutions.

Rani currently has loans from two institutions, including Amarth. She used the loans as additional capital for her cracker business to procure equipment and expand her business network. In the future, Rani plans to get a bank loan and then find another financial institution with a larger loan offer.

Rani is an example of a grassroots entrepreneur that utilizes advanced financial products.

In this dimension, the active usage and proficiency of the MSMEs towards the financial services available to them are also explored. This includes their access to formal loans and their benefits, as well as their use of digital financial platforms (e.g., fintech companies).

Based on the survey results, it is revealed that cash is still king. And for those who availed of loan products, conventional banks are still the main source of credit.

The usage behavior and barriers to accessing financial services across generations and sectors are also explored. The survey results revealed that, while younger generations have a better chance of adopting digital financial services, they have not utilized them for productive activities such as advancing their business through loans from fintech companies or marketing their products through digital commerce platforms.

For proficiency in financial product usage, three indicators are measured, namely: (1) payment methods used in business; (2) fintech product usage; and (3) obstacles to using financial products. Insights from this measurement will provide a better understanding of the actual barriers to access, as well as opportunities for interventions based on the behavior of the MSMEs and the geographical location of their business operations.



Challenges in Accessing Financial Product

Many MSMEs are still hesitant about using financial services. The primary barrier is the risk of potential financial losses when mistakes are made in the process of using certain financial products and services. As such, MSMEs need clearer guidance and assistance on how to use and navigate certain financial products and services. This way, they will gain better confidence and will be encouraged to use and adopt these financial products and services.

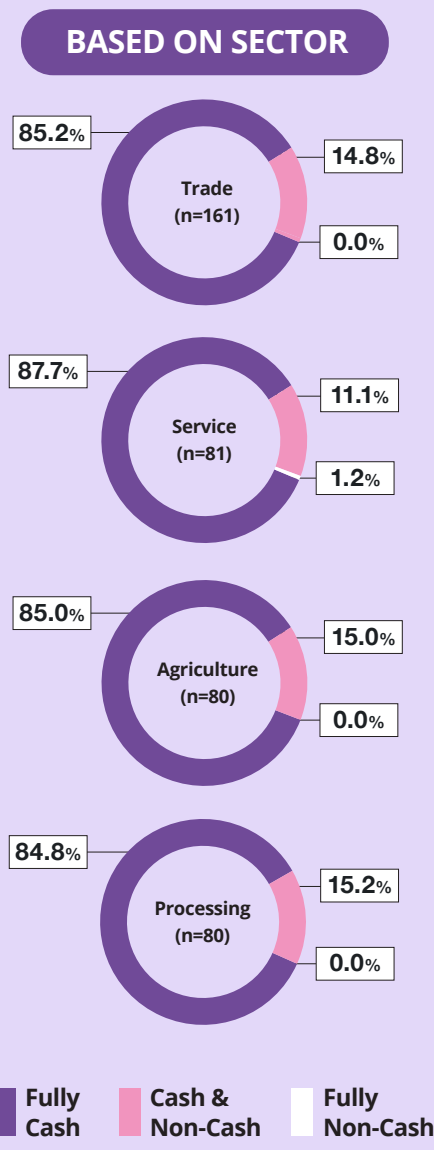
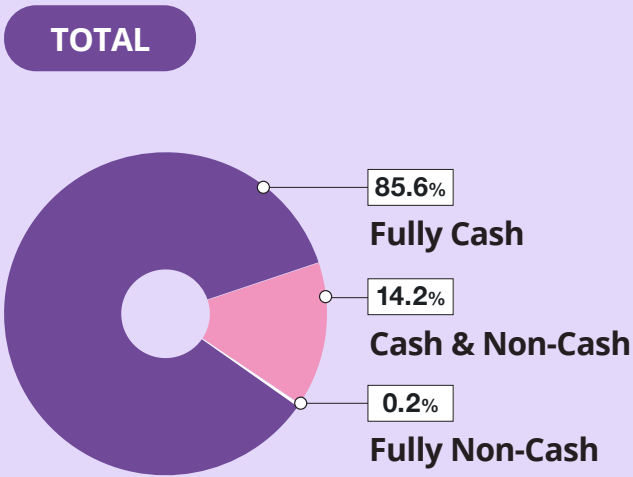
As revealed in previous research, female MSME owners tend to have “technophobia”, or the fear of using technology, including digital technologies. This is primarily due to their literacy level or their understanding of the features of the applications, which prevents them from adopting digital financial services. The proposed solution to this predicament is the hybrid approach, where a field agent or a technology ambassador can help facilitate the transaction while gradually training the female MSME owners to onboard into the digital ecosystem.

	ALL	MALE	FEMALE	BOOMERS	GEN X	GEN Y
Base Respondents (n):	399	173	166	24*	165	137
Afraid to be wrong	35.7%	38.2%	33.1%	50.0%	35.8%	32.8%
Lack of confidence to use it	16.2%	19.1%	13.3%	29.2%	17.0%	12.4%
Need assistance upon using it	10.9%	12.1%	9.6%	37.5%	10.3%	7.3%
Can only do certain types of transactions	10.6%	9.2%	12.0%	0.0%	11.5%	8.8%
Don't understand how to use it	8.3%	4.6%	12.0%	16.7%	8.5%	7.3%
Difficult to find ATM	0.9%	1.2%	0.6%	4.2%	0.6%	0.0%
Unstable connection	0.9%	1.7%	0.0%	0.0%	0.6%	1.5%
Worry that money not sent	0.6%	0.0%	1.2%	0.0%	0.6%	0.0%
There is no problem	41.9%	42.2%	41.6%	16.7%	42.4%	49.6%

Non-Cash Behavior

While MSMEs in the trade and service sectors mostly have a bank account, they are not actively using it. The use of non-cash transactions among all sectors is relatively the same, with an average of 85% of MSMEs still using cash for their daily transactions.

Of the 14.2% of the population who use both cash and non-cash payment methods, most non-cash transactions are performed by the younger generation and those coming from the higher socioeconomic status (SES), as represented by their monthly revenue.



Access to Formal Loans and their Benefits



Access to formal loans and their benefits contributes significantly to the overall prosperity of the MSMEs. Therefore, barriers to accessing loans from formal institutions like banks and fintech companies will also prevent MSMEs from scaling up.

This sub-dimension measures how MSMEs perceive their experience in accessing loan products from various providers, including the barriers and their perception of the benefits when access to the working capital loan products has been provided.

Experience in Applying for a Loan

Access to working capital loan products from formal financial service providers will unlock opportunities for MSMEs to scale up and prosper. However, there is a common misconception that applying for a loan is difficult, or even unnecessary.

Based on the research, more than 65% of the respondents have never applied for a loan, for various reasons. Only 30% of the respondents have applied for a loan and were successful, and some 3.7% of the respondents have applied for a loan but were rejected.

The most common reason for the rejected loan applications is their lack of administrative paperwork, especially for their tax registration number (NPWP), business license, and other collateral documents; as such, this may also be a primary barrier to their loan applications. This paperwork is mostly required by banks due to regulatory requirements, which opens up opportunities for non-bank financial institutions like fintech companies to serve this unbanked market.

EXPERIENCE IN APPLYING FOR A LOAN

Base: All Respondents (n=402)

Applied and accepted

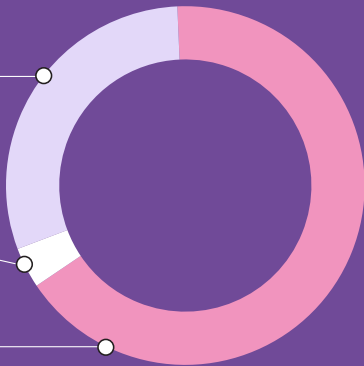
30.3%

Applied but rejected

3.7%

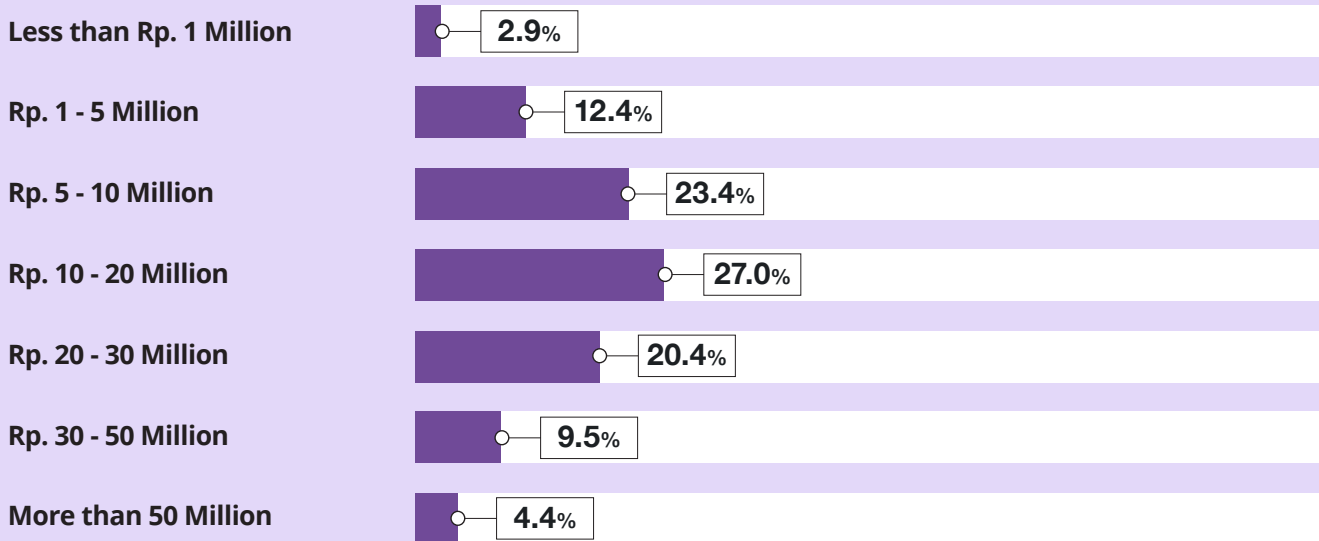
Never apply

65.9%



Amount of Working Capital Loan Needed

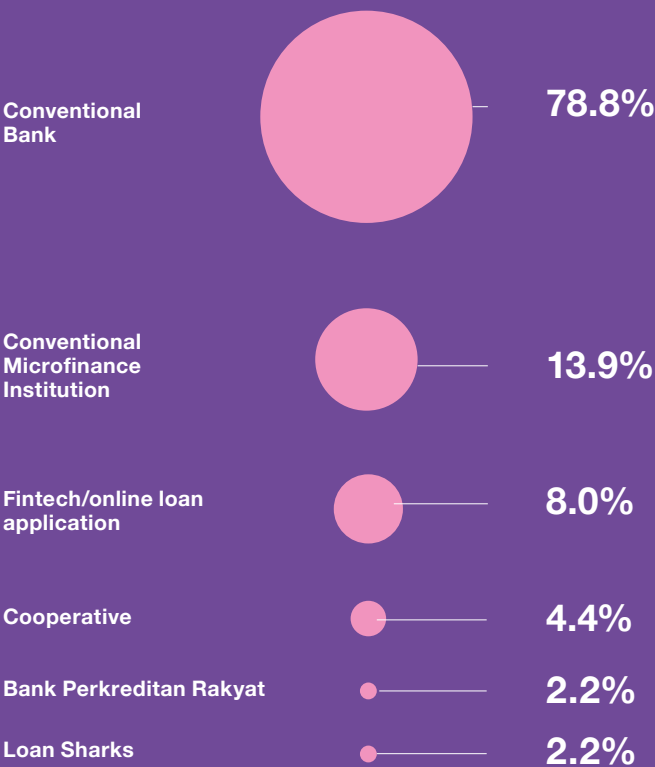
Base: Respondents who applied for loan (n=137)



Source of Working Capital Loan

Most MSMEs that have applied for loans prefer conventional banks (78.8%). This figure reflects the reality that the understanding of most entrepreneurs regarding financial products, other than those offered by banks, is still very limited. Therefore, when they are not eligible for bank loans, they have no idea where to go or what other options are available to them in the digital financial ecosystem.

Base: Respondents who applied for loan (n=137)





DIMENSION 3

DIGITAL ADOPTION



Meet Ibu Resti

Resti has owned a smartphone for seven years. She finally purchased a smartphone because she was having difficulty communicating with buyers or relatives who were out of town. When she is not busy with her business, she only uses her smartphone for one to two hours per day.

She not only uses her smartphone to communicate, but she also frequently watches YouTube videos to learn about different production tools and the evolution of her business environment. Other activities involving smartphones include socializing via social media, online shopping, and entertainment. She has a monthly spending quota of IDR50,000.

Ibu Resti is an example of a grassroots entrepreneur who is digitally included.



The digital inclusion dimension covers the behavior of MSMEs in terms of social media use, ownership of digital devices such as smartphones and other gadgets, access to the internet, and use of e-commerce websites and other online platforms.

The overall score of the digital inclusion index is relatively good at 66.08 points. However, similar to the quality of financial product usage, digital services have not been utilized to support the business productivity of MSMEs. For instance, although ownership of smartphones and the ability to access the internet are high, the use of digital commerce platforms to sell products online remains low, since most of their sales are still done offline through face-to-face transactions.



Hardware and Infrastructure

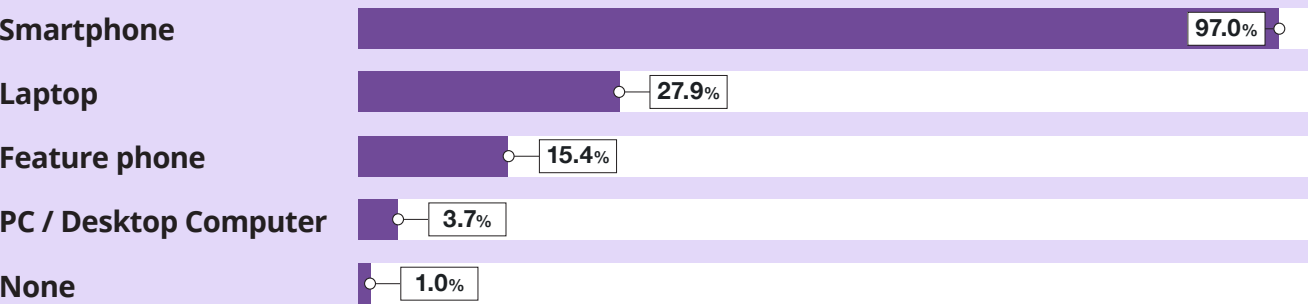
The sub-dimension of hardware and infrastructure covers the ownership of smartphones, electronic devices and other gadgets, as well as the use of SIM cards.

The ownership of digital devices and other gadgets among MSMEs is dominated by smartphones, which 97% of the respondents own. This shows a promising opportunity as it reveals that most people, even in rural villages, could afford smartphones, an important tool in their integration into a digital society.

Laptop ownership is also growing among MSMEs and their households. One in three respondents owns a laptop, even if the laptop is also shared with other family members in the household, such as the children for their schooling.

GADGET OWNERSHIP

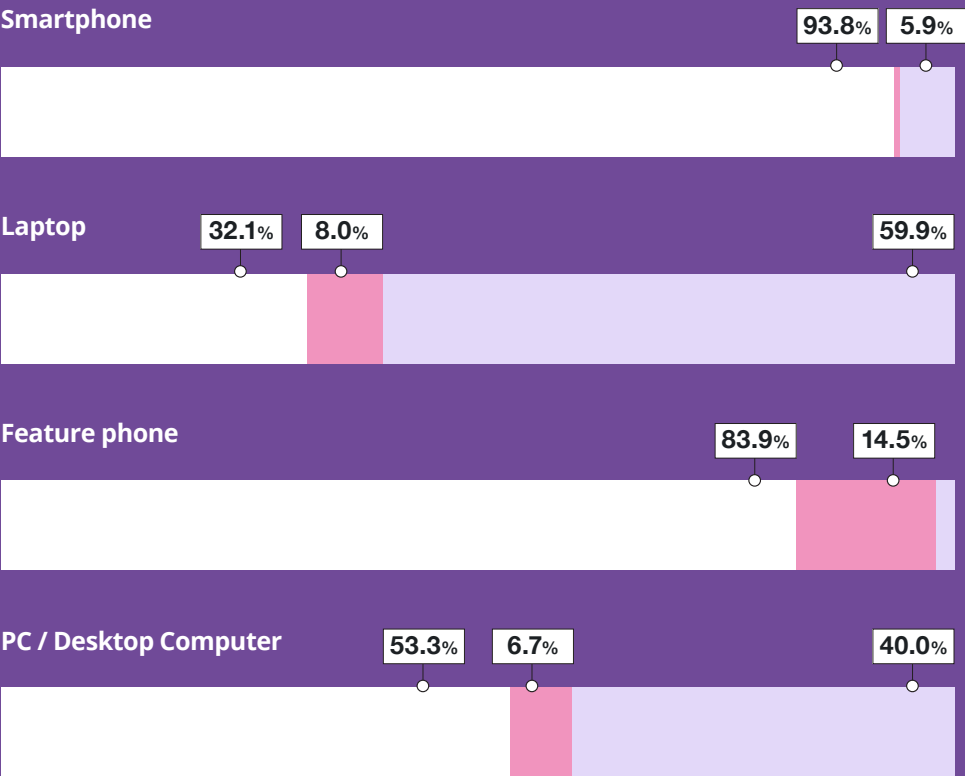
Base:
All respondents (n=402)



However, in terms of ownership status, not all the electronic devices and other gadgets owned are used individually by the MSME owners. In the case of smartphone ownership, amongst all micro and ultra-micro enterprises surveyed that own a smartphone, around 93.8% are using it for their own personal use. On the other hand, laptops are mostly shared with family members, with only 32.1% of micro and ultra-micro enterprises using them for their own personal use.

GADGET OWNERSHIP STATUS

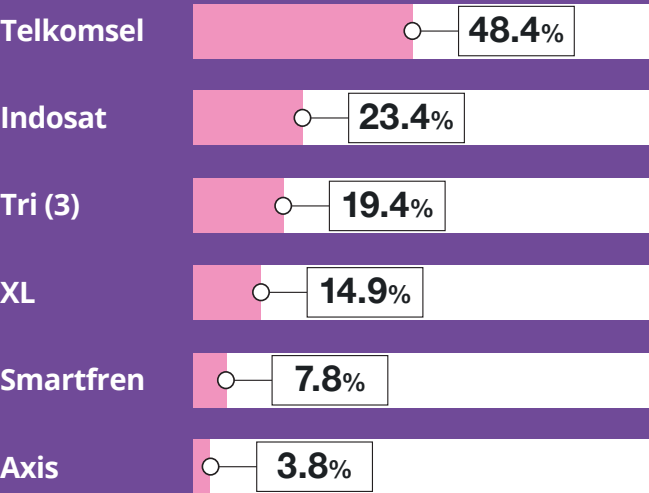
Base: Respondent who has gadgets



Due to their vast coverage in rural and peri-urban areas, Telkomsel is the most preferred SIM card among MSMEs, with 48.4% of the respondents using it, followed by Indosat and Tri (3). Telkomsel also has the highest user retention, where more than 33% of users change their SIM cards within a period of one to three years. In comparison, Indosat users change their SIM cards every six to 12 months, on average. Gimmicks, promotions, and the quality of the network influence the decisions of the users to change their SIM cards.

SIMCARD USED

Base: Smartphone user and/or feature phone (n=397)



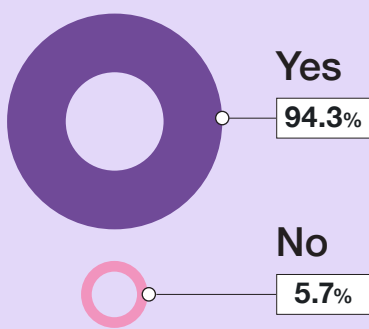
Internet Access

The sub-dimension of internet access covers internet usage, data spending per month, as well as barriers to accessing the internet.

Based on the results of his study, it is revealed that internet penetration in villages and peri-urban areas is surprisingly high, where 94.3% of the respondents actively use the internet on a daily basis. With the high ownership of smartphones among MSME owners, it is no surprise that 83.1% of the respondents access the internet through their smartphones.

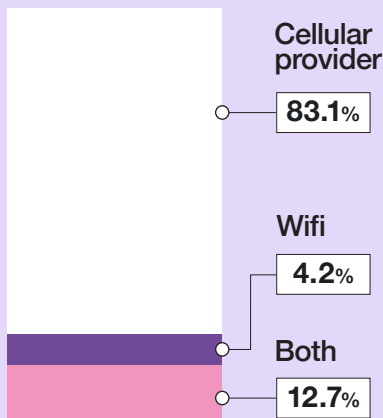
INTERNET ACCESS

Base:
All respondents
(n=402)



CONNECTION USED

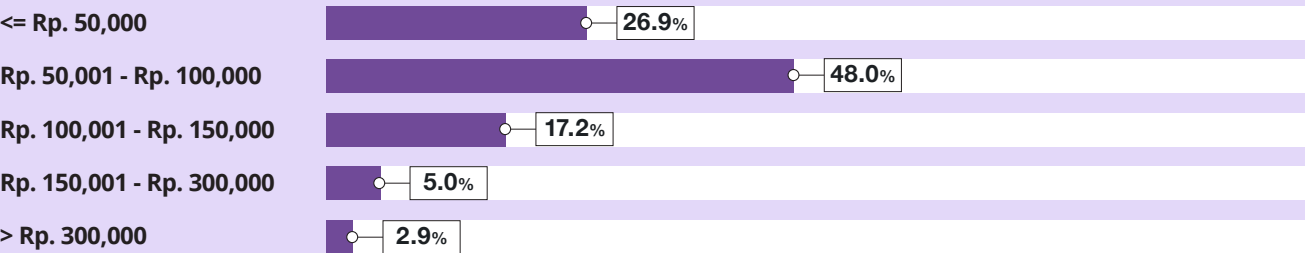
Base:
Internet user
(n=379)



Three out of four MSME owners surveyed spend less than IDR100,000 per month on their internet access, while only 2.9% of the respondents spend more than IDR300,000 per month on their internet access. As messaging applications are now capable of making voice and video calls over the internet, spending on phone credit for calls and texts (SMS) is significantly reduced; 96.3% of the respondents spend less than IDR50,000 a month on these services.

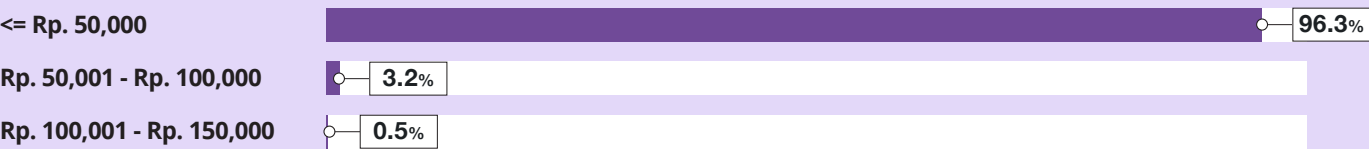
INTERNET COST

Basis: Internet user (n=397)



PHONE CREDIT

Basis: Internet user (n=397)



This study also explore the behavior of internet usage where most respondent mentioned that mostly internet is used for communicating (96%) and for accessing social media (74.1%). Internet usage that directly correlates to the business activities, such as gathering information of supplier, price of raw materials, distribution, or product promotions are still relatively low.

OBJECTIVES	ALL	MALE	FEMALE	BOOMERS	GEN X	GEN Y
Base Respondents (n)	379	189	190	28*	191	145
Communication	96.3%	97.4%	95.3%	96.4%	97.9%	94.5%
Accessing social media	74.1%	70.9%	77.4%	53.6%	72.3%	80.0%
Gathering information to develop business	35.1%	32.8%	37.4%	32.1%	37.7%	33.1%
Promote the product through social media/marketplace/chat application	31.1%	23.8%	38.4%	32.1%	40.8%	20.0%
Gathering information about supplier	30.1%	27.0%	33.2%	35.7%	33.5%	26.2%
Joining the community on social media	25.1%	21.7%	28.4%	17.9%	27.7%	24.1%



Ibu Irdah, Small Shop Owner
West Sumatera

For those who are not using the internet, the primary reason is network issues (86%), where their villages or locations are not covered by stable and reliable internet connections. While the internet coverage of telecommunication providers in Indonesia is high, quality is still an issue where “dead spots” and intermittent reception are still a very common occurrence, especially in the peri-urban, secondary, or third-tier cities.

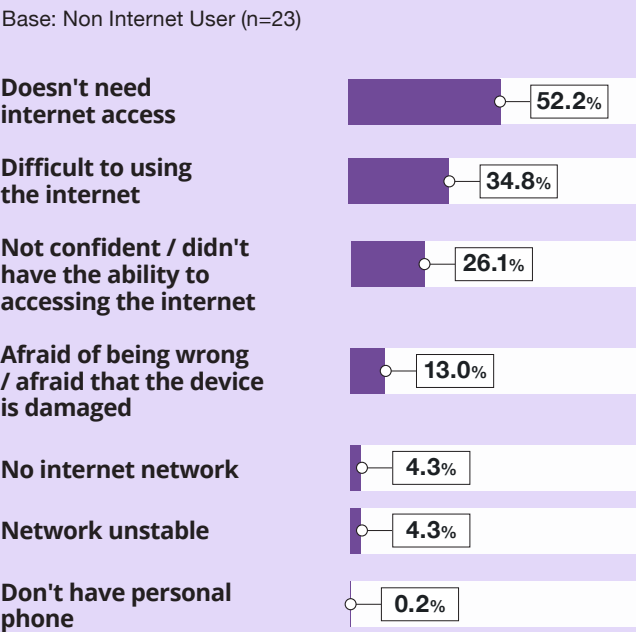
Interestingly, despite relatively cheaper internet costs in Indonesia compared to other countries, many people (29.8%) still perceive that internet cost is expensive. Therefore, gimmicks and promotions from telco providers are still the main selling point for adopting a particular SIM card as their internet provider.

BLOCKER	ALL	MALE	FEMALE	BOOMERS	GEN X	GEN Y
Base Respondents (n)	379	189	190	28*	191	145
Network unstable, so the connection often lost	86.0%	86.8%	85.3%	85.7%	87.4%	85.5%
Constrained by internet cost	29.8%	25.9%	33.7%	46.4%	26.2%	31.0%
Not very good at using gadget	8.2%	7.4%	8.9%	17.9%	8.9%	4.8%
Gadget specifications is too old	3.7%	2.1%	5.3%	10.7%	4.2%	2.1%
There's no blockers	1.3%	1.6%	1.1%	0.0%	1.0%	2.1%

Among non-internet users, the primary reason for not using the internet is the lack of relevance to their daily lives or their business; therefore, 52.2% of the MSME owners surveyed are still offline. These respondents are typically in the agriculture or trade sector, with the local communities as their primary customers and the local suppliers as their primary stakeholders.

Digital literacy is also the primary barrier to adopting the internet, as indicated by their lack of confidence (26.1%) and their difficulties in using and navigating features (34.8%). These major barriers may be removed by facilitating the usage of the internet through a field agent or a “tech ambassador” who can help educate MSME owners, especially the older generations, about the benefits and features of digital applications.

REASON FOR NOT USING



Social Media Usage

As an essential element in developing the Amarthya Prosperity Index, the sub-dimension of social media carries the most weight compared to the other sub-dimensions. This sub-dimension covers the utilization of social media by MSME owners, including the breakdown of their usage of each social media platform. For the MSME owners surveyed, social media and messaging applications are also their tools to share product information and initiate sales. Therefore, social media usage is not merely for recreational purposes, but for business-related activities as well.

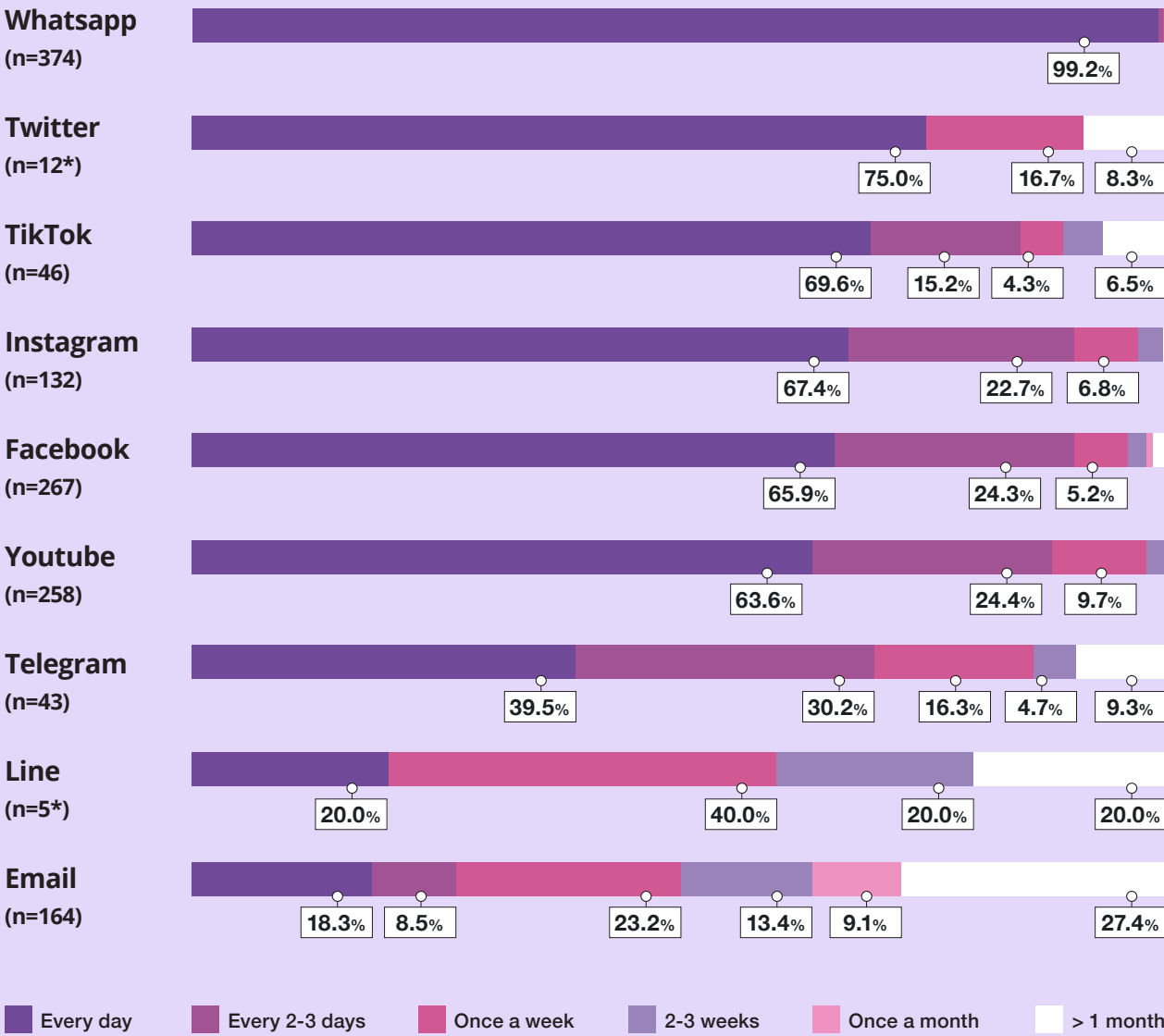
Based on the survey results, WhatsApp is the most widely used messaging application by MSME owners, with 98.7% of the respondents using it, followed by Facebook as the most popular social media, with 70.4% of the respondents actively using it.



SOCIAL MEDIA	ALL	MALE	FEMALE	BOOMERS	GEN X	GEN Y
Base Respondents (n)	379	189	190	28*	191	145
Whatsapp	98.7%	98.9%	98.4%	96.4%	99.0%	98.6%
Facebook	70.4%	70.4%	70.5%	42.9%	64.9%	80.0%
Youtube	68.1%	68.8%	67.4%	57.1%	67.5%	69.0%
Email	43.3%	42.9%	43.7%	28.6%	45.0%	40.7%
Instagram	34.8%	34.4%	35.3%	10.7%	27.7%	44.8%
TikTok	12.1%	8.5%	15.8%	3.6%	10.5%	15.2%
Telegram	11.3%	7.9%	14.7%	0.0%	10.5%	14.5%
Twitter	3.2%	2.1%	4.2%	0.0%	3.7%	2.8%
Line	1.3%	0.5%	2.1%	0.0%	1.0%	1.4%

INTENSITY OF USING SOCIAL MEDIA

Base: Social media users



WhatsApp is apparently the most popular and frequently used messenger application, due to its practicality and efficiency in bridging the communications. WhatsApp is also perceived to be a social media platform where people can create a group and discuss common issues. In addition to that, the features of WhatsApp which can forward pictures, files and contacts are considered to be ideal in supporting the daily activities of the respondents, including for business purposes.



This study, as indicated by the table below, compares the digital behavior of MSME owners that sell their products online versus those that still sell their products offline. Selling products online correlates with a more active behavior on social media and more productive usage of the internet, such as for gathering information about suppliers and learning new skills to grow the business.

As social media is the most popular digital platform, promoting internet usage for productive business purposes may have a better chance of success when it is delivered through social media channels. This study, however, does not capture the role or the availability of a supporting ecosystem that promotes the usage of online channels for selling products, such as the availability of on-demand logistics or ride-hailing operators in their area, which can be further explored.

DIGITAL BEHAVIOR	SELL ONLINE	SELL OFFLINE
Smartphone Sharing (Basis: Smartphone user)	86	304
One's own	100.0%	92.1%
Phone owned by spouse	0.0%	0.3%
Phone owned by children	0.0%	7.6%
Social Media Usage (Basis: Social media user)	86	293
Whatsapp	100.0%	98.3%
Facebook	80.2%	67.6%
Youtube	77.9%	65.2%
Email	70.9%	35.2%
Instagram	55.8%	28.7%
TikTok	23.3%	8.9%
Telegram	32.6%	5.1%
Twitter	11.6%	0.7%
Line	5.8%	0.0%
Internet Usage Purpose (Basis: Internet user)	86	293
Communication	100.0%	95.2%
Accessing Social Media	83.7%	71.3%
Promote the product through social media/ marketplace/chat application	77.9%	17.4%
Gathering information about supplier	59.3%	21.5%
Gathering information to develop the business	54.7%	29.4%
Joining community on social media	40.7%	20.5%

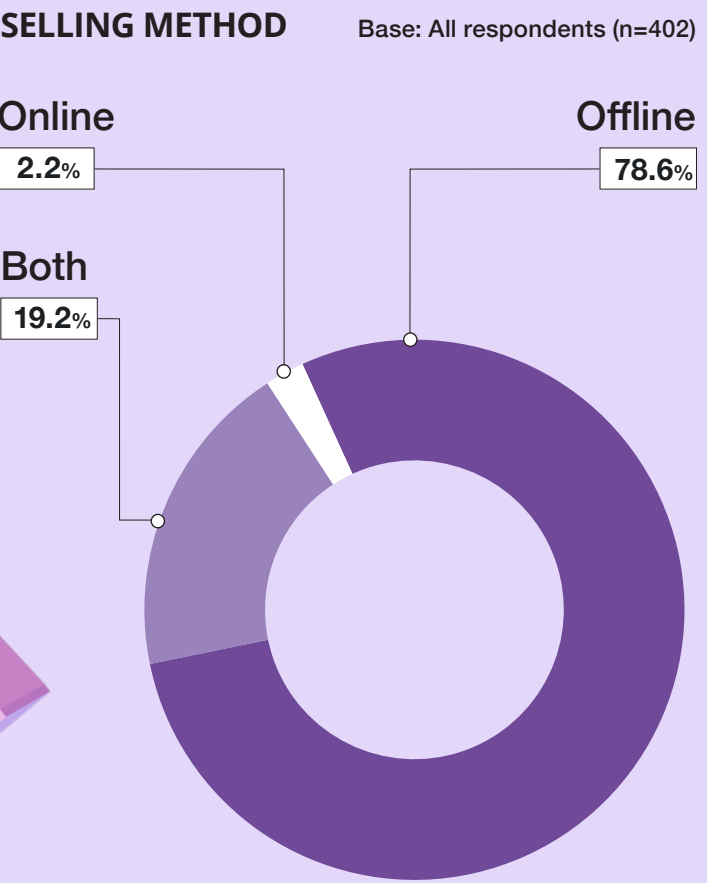
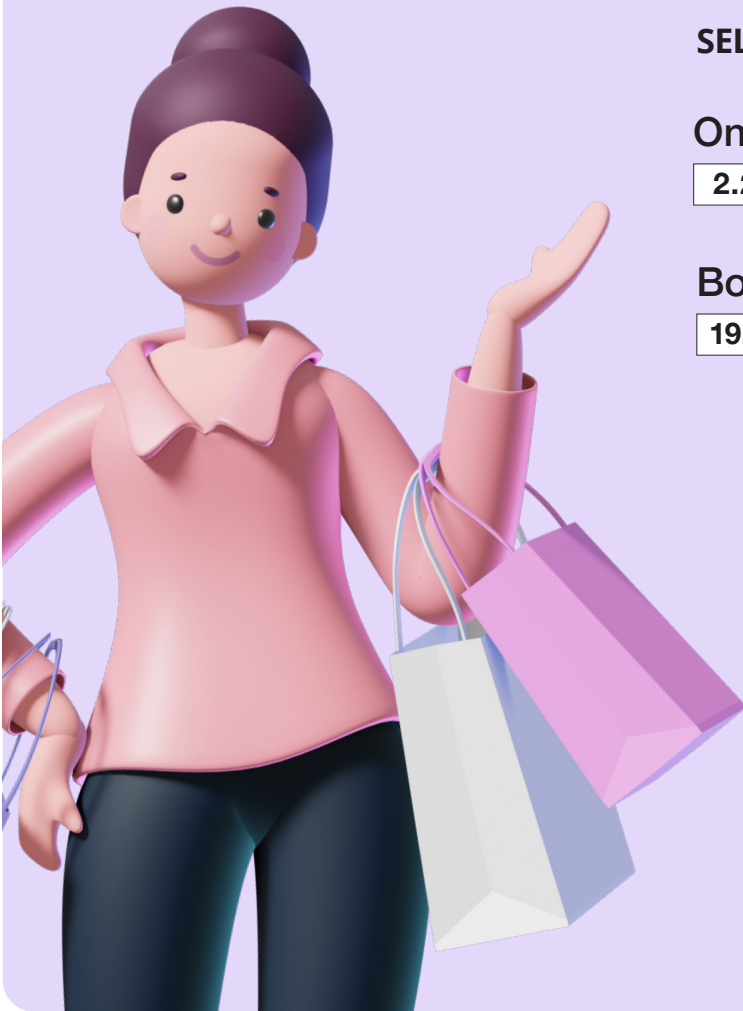
When formal online marketplaces or e-commerce platforms are not used, many MSME owners use social media and messaging applications such as WhatsApp as their online sales channel instead. In terms of innovation and creativity, YouTube is the primary source for MSME owners to gather information about how to do certain things, such as how to develop new products or how to grow their business.

Digital Commerce

Under the digital commerce sub-dimension, the behavior of MSME owners in selling their products, both through offline and online channels, is explored. For those that have adopted digital platforms, the study also took a deep dive to understand what digital channels are being used. And for those that are still fully offline, the study also tried to understand their barriers to not using digital commerce.

Currently, only 2.2% MSMEs being surveyed have marketed their products online. Majority (78.6%) are still selling their products fully offline. Interestingly, one in five MSMEs sometimes selling their products online, while their core channel is still offline, which shows an opportunity for interventions to promote digital marketing channels and understand better their obstacles to go fully online.

For those who have marketed their products online, social media and e-commerce marketplace are the top two channels being used. Meanwhile, MSMEs who are still fully offline expressed that lack of knowledge in using the digital platform becomes the primary issue (44.8%), followed by the limited customers who are interested to buy online (41.8%).



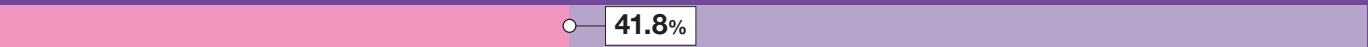
OBSTACLE TO GO ONLINE

Base: respondent that promoting products through internet

Lack of knowledge



Lack of interest



Target customers are offline



Lack of skill to operate



Digital infrastructure not ready



The digital commerce sub-dimension also explores the use of cashless payment systems in business transactions. We separated the results of the cashless payment system by gender and generation (gen X and gen Y).

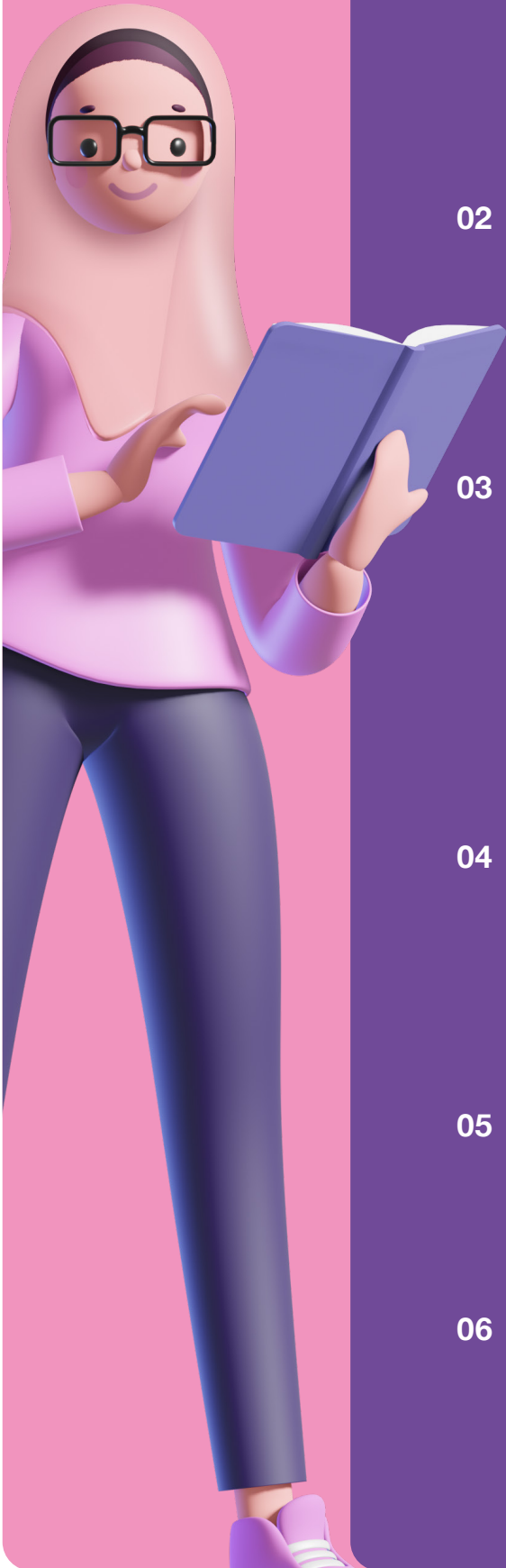
Overall, mobile & internet banking are the most widely used in non-cash payment systems (70.7%). Female business actors use digital wallets more than male business owners (43.8% versus 19.2%).

Non-cash Transaction Behavior

In terms of non-cash transaction behavior among the respondents, mobile and internet banking and digital wallets are relatively common products being used, in addition to the more conventional ATM cards, debit cards, wire transfers, and over-the-counter transactions. The multi-channel payment point system, such as through mini-markets, is starting to gain more popularity, especially for the lower-income populations who do not have access to mobile or internet banking.

CASHLESS PAYMENT SYSTEM	ALL	MALE	FEMALE	GEN X	GEN Y
Mobile & Internet Banking	70.7%	61.5%	78.1%	82.8%	62.5%
Debit Card	48.3%	34.6%	59.4%	48.3%	45.8%
Digital Wallet	32.8%	19.2%	43.8%	20.7%	45.8%
Transfer money via offline bank	31.0%	34.6%	28.1%	44.8%	16.7%
Credit card	5.2%	7.7%	3.1%	0.0%	8.3%
Payment via minimarket	5.2%	3.8%	6.3%	10.3%	0.0%

Recommendations



- 01** Since the entry barrier for the MSME segment to transform into a digital society remains high, a hybrid approach to transition assistance is required. The approach should begin with the development of relationships and trust. The use of field agents / assistants to assist with digital transformation is critical to success.
- 02** Promoting Women's Lending (working capital loan products for women). MSMEs, with women as the main actors, are more active in using financial services. Improved access to capital for MSMEs requires Non-Bank Financial Institutions (NBFIs) such as fintech to serve the micro and ultra-micro segments with loan products of up to Rp. 50 million.
- 03** Improving the quality and equity of digital infrastructure, as well as encouraging massive digital ecosystem implementation. There is still a digital infrastructure gap between urban and rural areas, as well as rural and peri-urban areas. It is necessary to improve the quality of the internet network, particularly in areas that have become the primary source of income for MSME actors, as well as to encourage the availability of digital ecosystems, such as e-commerce and on-demand logistics, in rural areas.
- 04** Provide assistance in the form of education to introduce the welfare framework, so that MSME actors can carry out the transformation towards prosperity in a systematic and purposeful manner, and by adopting appropriate service products, such as by reinvigorating the national saving movement or the national non-cash transaction movement.
- 05** Exemption from transaction fees (admin fees and transfer fees) for MSME actors with a monthly transaction volume of less than Rp. 10 million, thereby encouraging account usage and active financial product transactions.
- 06** OJK should allow banks to collaborate with fintechs that have regional networks to run the *Laku Pandai* program / branchless banking even if there are no banks in the area, in order to encourage the adoption of banking products and services finance in areas where there is no banking network.

CLOSING REMARKS

Amartha would like to thank everyone who has joined hands with Amarthha in promoting shared prosperity and empowering women MSMEs in Indonesia, particularly individuals and institutions who have helped us with the rollout of our inaugural research of the *Indonesia Grassroots Entrepreneurs Report*. Through this report, we introduce the Amarthha Prosperity Index, as a new benchmark of readiness of our MSMEs towards prosperity through the pathways of financial and digital inclusion.

According to the findings, micro and ultra-micro business actors already have a high level of financial inclusion, with a score of 84.33 on the Amarthha Prosperity Index. However, the digital adoption section only received a score of 22.55, which indicates that the productivity of digital usage is very low.

Through this study, we learned that the main reason for the low score in using digital channels to grow MSMEs businesses is a lack of adequate digital skills and unequal access to digital infrastructure, which at the same time opens up opportunities for interventions by multiple stakeholders.

As a fintech company and as the Advocate for Women Empowerment at G20 EMPOWER, Amarthha is leading the way to transform rural and women-led MSMEs into a digital society. It is our commitment to creating one million digital women micro-entrepreneurs by the end of 2022, and many more in the years to come. To help the transition, Amarthha has trained over 103,000 MSMEs in financial literacy and over 45,000 MSMEs in entrepreneurship within a year. As a result, more than 25% of Amarthha's borrowers have become accustomed to keeping financial records, allowing them to be more disciplined in saving and enabling them to accumulate new assets with their digital savings. Our mentoring and education program also aligns with the government mandate encouraging MSMEs to go digital.

However, Amarthha alone cannot make that happen. It requires collaboration and cooperation, from you. We are publishing this research, and further studies in the near future, in the hopes that more parties will join us in this endeavor. Amarthha believes that providing inclusive access to working capital and massive digital literacy education will lead to the growth and shared prosperity of MSMEs in Indonesia.

Aria Widyanto

**Chief Risk and Sustainability Officer,
Amartha**



Amartha Prosperity Index

Volume 1 of Grassroots
Entrepreneurs Report