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# Regulatory Reforms to Increase Women Micro-Entrepreneurs Participation in E-Commerce

by Siti Alifah Dina & Thomas Dewaranu

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**Regulatory Reforms to Increase Women**  
**Micro-Entrepreneurs Participation in E-Commerce**

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# CONTENT

<b>Table of contents</b> .....	5
<b>List of Tables</b> .....	6
<b>List of Figures</b> .....	6
<b>Glossary</b> .....	7
<b>Executive Summary</b> .....	9
<b>Landscape of Women Micro-entrepreneurs in Indonesia</b> .....	11
Business Motivation for Women-Owned MIEs.....	12
Informality among Women-Owned MIEs.....	14
<b>Challenges for Women Micro-entrepreneurs</b> .....	15
Access to Financing.....	15
Gendered Division of Labor.....	16
Reduced Income due to Covid-19 Pandemic.....	16
<b>Sustaining Business through E-commerce</b> .....	17
<b>Analysis of Regulatory Framework for E-Commerce</b> .....	22
General Licenses for Business post-Omnibus Law: A Risk-Based Licensing Regime.....	22
License Requirements for Online Business.....	24
Inclusivity Issues in the OSS system.....	26
<b>Recommendations</b> .....	27
Improve gender-disaggregated MSMEs data.....	27
Adding coordinated gender-sensitive actions in national digital transformation roadmap and strategy.....	27
Revise MOTR 50/2020 to exempt MIEs from licensing barriers in participating in e-commerce.....	28
<b>References</b> .....	29

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## LIST OF TABLES

Table 1. Risk-based licensing.....	22
Table 2. Examples of risk-based licensing application.....	23

## LIST OF FIGURES

Figure 1. Laborers by sex and income.....	13
Figure 2. Women's participation in business based on size.....	13
Figure 3. Reasons for business to stay offline.....	19
Figure 4. Illiteracy rate of population aged 10 and above.....	20
Figure 5. Proportion of internet users (%) by gender.....	20
Figure 6. Computer and IT skills.....	20

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## GLOSSARY

### **BAKTI:**

Telecommunication and Information Accessibility Agency or *Badan Aksesibilitas Telekomunikasi dan Informasi*.

### **CMEA:**

Coordinating Ministry of Economic Affairs

### **EIT Law:**

Law No. 11 of 2008 on Electronic Information and Transaction and its No. 19/2016 revision

### **GR 5/2021:**

Government Regulation No. 5/2021 on the Implementation of Risk-Based Business Licenses

### **ILO:**

International Labour Organization

### **Job Creation Law:**

Law No. 11 of 2020 on Job Creation

### **MIEs:**

Micro enterprises

### **MOCI:**

Ministry of Communications and Informatics

### **MOCSME:**

Ministry of Cooperatives and Small and Medium Enterprises

### **MOI:**

Ministry of Industry

### **MOTR 50/2020:**

Minister of Trade Regulation No. 50 of 2020 on Provisions on Business Licensing, Advertising, Guidance and Supervision on Business Actors in Trading through Electronic Systems

### **MOWECP:**

Ministry of Women Empowerment and Child Protection

### **MSMEs:**

Micro, small, and medium enterprises

### **OECD:**

Organisation for Economic Co-operation and Development

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### SIUPMSE:

Online business license (*Surat Izin Usaha Perdagangan Melalui Sistem Elektronik*)

### SoFIA:

Survey on Financial Inclusion and Access

### Statistics Indonesia:

Central Bureau of Statistics or *Badan Pusat Statistik*

### Trade Law:

Law No. 7 of 2014 on Trade

### UN Women:

United Nations Women

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## EXECUTIVE SUMMARY

The Indonesian entrepreneurial landscape is dominated by micro-enterprises (MIEs), most of which operate informally with a high proportion of women as owners and/or workers. The majority of women micro-entrepreneurs are likely to be driven into entrepreneurship out of economic necessity. Their choice to be in the high-risk informal market stems in part from the perceived minimum benefits from licensing compliance versus its lengthy and costly process.

Traditional norms, gender roles, limited access to assets and formal education all disproportionately affect women micro-entrepreneurs. The Covid-19 pandemic exacerbated these vulnerabilities by both reducing female entrepreneur income and forcing them to disproportionately take up extra hours of domestic and care work as a result of lockdown and physical distancing measures.

The digital economy boom has the potential to benefit women entrepreneurs by reducing market entry barriers and streamlining supply chains. However, low educational attainment, low computer and IT literacy, and traditional gender norms work together to form structural barriers for female entrepreneurs to improve their businesses through e-commerce.

Unnecessary red tape in the digital economy also creates entry barriers for women-owned MIEs. In addition to regular business licenses, the Ministry of Trade (MOT) requires online sellers with their own website to obtain licenses through its Regulation No. 50/2020 (MOTR 50/2020) with administrative sanctions such as written warnings, blacklist, and service blocking for non-compliance. However, the majority of micro-businesses are unaware of the licensing obligation. Since micro-entrepreneurs perceive license compliance as a lengthy and costly process, this requirement may discourage them from joining the digital market or even push them onto less secure platforms, which works against government efforts to achieve 30 million digital MSMEs by 2023.

This paper proposes three reforms to foster and make sustainable female-owned MIEs through the digital boom:

1. MOCSME and Statistics Indonesia need to establish a gender-disaggregated MSME data as a basis for coordinated efforts among government ministries and agencies to design gender-sensitive interventions. Reliable data allows policymakers to channel resources to where they are needed the most and help design women empowerment programs that can generate the highest social returns.
2. There needs to be coordinated gender-sensitive digitalization efforts from government ministries and agencies that are formalized in the national-level strategies such as the Digital Economy Transformation Roadmap 2021–2024 and Digital Economy National Strategy—both being drafted by the government.

- 
3. MOT should amend the MOTR 50/2020 to drop administrative sanctions for informal online businesses and exempt MIEs with their own website from the SIUPMSE obligation that may prevent them from going online. Alternatively, SIUPMSE for MIEs can still be put in place but only as a non-mandatory license. MOT can, for example, provide incentive in the form of giving a registered or certified 'label' for MIEs that are willing to obtain SIUPMSE to help their digital branding.

These reforms would lead to more MIEs, particularly those that are women-owned, that are empowered to benefit from the digital economy.

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## LANDSCAPE OF WOMEN MICRO-ENTREPRENEURS IN INDONESIA

Micro enterprises (MIEs)<sup>1</sup> play a vital role in Indonesia's economic growth and poverty reduction through their contribution to Indonesia's gross domestic product (GDP), job creation, and consumption of goods and intermediate products. They are estimated to represent 64.6 million business units, making up 98% of the total businesses in Indonesia in 2019 (MOCSME, 2020). MIEs were responsible for the livelihoods of 109.8 million Indonesians in 2019, approximately 59% of the total productive-age population (15–64 years old) (MOCSME, 2020).<sup>2</sup> Despite their substantial contribution to the Indonesian economy, most MIEs operate informally and suffer from low productivity and limited access to capital.<sup>3</sup>

Limited gender-disaggregated data on MIEs in Indonesia makes it hard to determine the share of women who own or work in MIEs. Publicly available data from MOCSME does not provide gender-disaggregated numbers. Estimates from different studies, such as Japhta et al. (2016, p.7), Wei (2018, p.5), and Dea (2019, p.8) suggest that a large share of MIEs are women-owned<sup>4</sup> or have women working in them, but estimates vary quite significantly. Seno-Alday & Bourne (2017, p. 3) estimates that in 2015, there were 24.7 million of women-owned MIEs compared to 32.4 million men-owned MIEs. This differs from, for example, estimates from Ministry of Women Empowerment and Child Protection (MOWECP) that notes the number to be 13.3 million female-owned MIEs (World Bank, 2016). What is clear is that women's participation in MIEs is significant. This makes understanding the characteristics, challenges, and opportunities unique to women in MIEs important.

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<sup>1</sup> Government Regulation (GR) No. 7/2021 on Ease of Protection and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises defines micro enterprises (MIEs) as a business that fits at least one of the following criteria: (1) its maximum capital does not exceed IDR 1 billion (around USD 68,336.21) exclusive of lands and buildings; OR (2) its maximum annual revenue is no more than IDR 2 billion (around USD 136,672.44). Although this paper uses definition from GR No. 7/2021 for MIEs, many past studies and data mentioned herein refer to the tighter capital and revenue caps from the now-amended Law No. 20/2008. Consequently, a higher number of businesses now fall into the MIE category.

<sup>2</sup> The productive-age population refers to World Bank data. Accessible at <https://data.worldbank.org/indicator/SP.POP.1564.TO?locations=ID>

<sup>3</sup> Data from National Economic Census 2016 finds that only 4.3% of non-agricultural MIEs in Indonesia are registered (World Bank, 2021).

<sup>4</sup> Women-owned enterprise is defined as one where more than 50% of its ownership is owned by a woman or women; or at least 20% of its shares are owned by a woman/women and at least one woman is the CEO/COO; or where 30% of the board of directors are women (Japhta et al., 2016, p. 2).

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## Business Motivation for Women-Owned MIEs

MIEs can be categorized as either innovative or subsistence (Bhasin & Venkataramany, 2010, p. 97; Berner et al., 2012, p. 387–388; Valerio et al., 2014, p. 18–19; Tambunan, 2019, p. 3). The first group is of opportunity-driven entrepreneurs whose investments are dedicated to seizing market opportunity and accumulating capital through business expansion. The second group is often labelled “necessity” or “subsistence” entrepreneurs. They start a business to make ends meet. Subsistence entrepreneurs in Indonesia may include businesses such as a small kiosk or *warung* owner with daily gross revenue of around IDR 50,000 (around USD 3.50)—just enough to get by for a day. These two groups are engaging in fundamentally different endeavors and so face different challenges and require different interventions. Business supports work best for opportunity-driven entrepreneurs, while structural poverty is the problem that needs to be addressed for subsistence entrepreneurs (World Bank, 2016).

A survey of 65 countries, including Indonesia, by Global Entrepreneurship Monitor suggests that female entrepreneurs are 20% more likely than males to become entrepreneurs out of necessity (Kelley, et. al. 2016). The World Bank (2016, p. 15) also finds that a majority of women entrepreneurs in Indonesia are necessity-oriented.

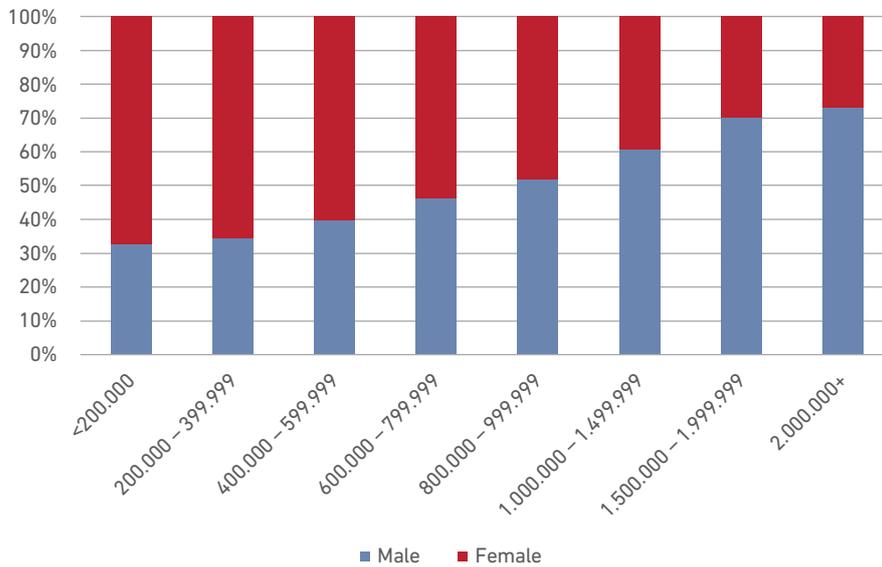
An important issue for women who become subsistence entrepreneurs is traditional social roles that prevent women from entering the formal job market and push them into self-employment

An important issue for women who become subsistence entrepreneurs is traditional social roles that prevent women from entering the formal job market and push them into self-employment (Hallward-Drimeier, 2013; World Bank 2016). Kercheval et al. (2013) argue that traditional roles in domestic work unnecessarily frame a formal career as incompatible with the role of a wife or mother. This may make those who choose to primarily fill the role of a wife or mother more likely to start a small business from home, which allows them to balance the roles more easily than if they were formally employed and required to commute to work.

Compared to the formal labor force, micro entrepreneurship has low barriers to entry. Certification and formal qualifications are not necessary to start a micro business. This makes it a more feasible alternative for vulnerable groups like low-income and low-educated women (Berner et al., 2012, p. 385; Tambunan, 2019, p. 4). This is true in Indonesia, where around 45% of women in micro, small, and medium entrepreneurs (MSMEs) are from low-income households and 44% have low educational attainment (Tambunan, 2017, p. 96).

Women are also concentrated in low-paying and underrepresented in higher income sectors, as illustrated in Figure 1. Since formal work is subject to labor regulations such as the minimum wage, formal work tends to pay more than informal work. The high concentration of women in lower wage brackets may indicate that women are more likely to work in the informal sector—including working in informal MIEs.

**Figure 1.**  
**Laborers by sex and income**

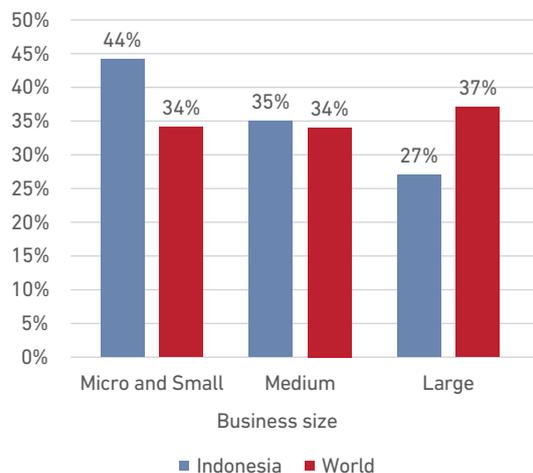


Source: Statistics Indonesia (2020b)

'Labor' covers employees, casual workers in agriculture and non-agriculture work, in the formal and informal sectors.

Female subsistence entrepreneurs face more challenges to income mobility and tend to remain on the same business trajectory (World Bank, 2016), unlikely to harbor aspirations of growth for their business. Japhta et al. (2016, p.32) find that while both male and female entrepreneurs in Indonesia engage in businesses mainly to generate income, only 13% of the women are driven by a motivation to 'have a successful career'—7 percentage points lower than the share of men (20%). In the long term, this may affect strategic decisions and business growth. The World Bank's Indonesia Enterprises Survey (2009) found that as firm sizes grow, the likelihood of a firm being female-owned falls (Figure 2). The untapped potential of these businesses could support not only female entrepreneurs but also the Indonesian economy.

**Figure 2.**  
**Women's participation in business based on size**



Source: World Bank Indonesia Enterprise Survey (2009)

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## Informality among Women-Owned MIEs

Data from the Economic Census 2016 finds that a large part of Indonesia's enterprises are informal (World Bank, 2021). Smaller businesses are less likely to be registered. Large- and medium-sized non-agricultural enterprises are predominantly registered (94% and 81%, respectively). In contrast, 17% of small and 4% of micro enterprises operate formally. MIEs owned by women are also largely informal (Berner et al., 2012, p. 387–388; Japhta et al., 2016, p. 12).

There are at least three models to explain why firms opt to stay informal (Rothenberg et al., 2016). The *exclusion model* suggests that burdensome regulations and compliance costs encourage informality, while the *rational exit model* argues that informality results when the costs incurred

by formalizing a business outweigh the benefits. The *dual economy model* emphasizes that the informal economy serves different markets and consumers than those served by formal businesses. Informal economy may also be an indicator of growing poverty. All three models apply in Indonesia's large informal sector. Japhta et al., (2016, p. 12) find that lack of incentive to register a business exacerbates the effects of a complex compliance process, discouraging businesses from filing for licenses.

“Informal MIEs are easy to start or join and may serve as a short-term solution in difficult times. However, in the long run they often suffer from low productivity and are unlikely to shift to a more profitable line of business.”

Informal MIEs are easy to start or join and may serve as a short-term solution in difficult times. However, in the long run they often suffer from low productivity and are unlikely to shift to a more profitable line of business. The low returns on graduating from a micro- to small- or medium-sized businesses also discourages growth and formalization.

MSEs are less likely than larger businesses to receive government assistance. During the Covid-19 pandemic, for instance, Indonesia's larger firms have been more likely to receive incentives and credit assistance from the government (World Bank, 2021).

In addition to challenges facing women as business owners, assistance to women generally has also experienced shortcomings. Certain types of social assistance (such as cash transfers), were more successful at reaching men than women (UN Women 2020, p. 14–16), despite the disproportionately negative effect on women of the pandemic. Women economic empowerment is crucial for post-Covid-19 economic recovery in Indonesia (UN Women, 2020a; World Bank, 2021), as is a regulatory framework that addresses the challenges and supports the needs of female entrepreneurs.

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## CHALLENGES FOR WOMEN MICRO-ENTREPRENEURS

Indonesian women in MIEs commonly face limited access to bank loans, below subsistence-level earnings, and a lack of social protection. These challenges are not exclusive to women, but they are exacerbated by restricted access to assets, low educational attainment, and cultural norms that disproportionately affect women.

### Access to Financing

For poor households, capital—needed to start and grow a business—requires access to financing. Unfortunately, access to financing for women can be limited. Lower educational attainment negatively affects female access to bank credit (SoFIA, 2017). Lenders assume that higher education predicts higher earnings. While banks may not outright disregard less educated potential borrowers, this assumption may limit access to credit.

Low education and limited understanding of bank credit also affects borrowers by potentially making accessing formal credit intimidating to borrowers. These borrowers may not understand how credit could help their business (SoFIA, 2017; Dea, 2019). This may help explain why approximately 60% of Indonesian MSMEs have not accessed bank financing (Bank Indonesia, 2015, p. 1). The majority of MSMEs rarely use their bank accounts—they associate bank savings with large, long-term deposits rather than smaller daily deposits that may be more achievable from their earnings.

Interviews by the authors with 95 women micro-businesses in Wonosobo, Central Java confirm that these factors are at play. Lack of access to working capital is the main challenge to sustaining or growing the business of 55% of respondents. Another common challenge was fear of debt to financial institutions.

The small size of MSMEs means that they lack collateral, which makes banks more reluctant to extend the credit needed to inject capital to MSMEs (Arsana & Alibhai, 2016, p.46; Tambunan, 2019, p. 11). This problem is worse for women, who own fewer assets as a result of traditional gender norms in Indonesia. A study by SoFIA (2017, pp. 13–15) in four Indonesian provinces (East Nusa Tenggara, West Nusa Tenggara, South Sulawesi, and East Java) found that most individuals with few assets are women. This is also true when looking specifically at land ownership—only 19% of women hold a land certificate under their own names, in contrast to 26% of men.

It is common for women to have assets registered under their husband's name (SoFIA, 2017, p. 15; Arsana & Alibhai, 2016, p. 32; Wei, 2018, p. 8). Even when land certificate is held in a woman's name, it does not follow that she has complete freedom in how the asset is used. Husbands are often the primary household economic decision-maker and their permission is required for decision involving fixed and valuable family assets (Wei, 2018, p.8; Japhta, 2016, p.63). Even when women play an active role and make economic contributions to the household, dominant gender norms that put men in charge of household earnings while expecting women to handle domestic labor prevail, disproportionately damaging women.

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## Gendered Division of Labor

Imbalanced household relationships also affect the sustainability of women-owned businesses. When women are expected to handle the majority of the housework regardless of their input to the household economy, they are often not left with enough time to grow their business. While

“Women have been disproportionately affected by the pandemic, as working from home means increased domestic and care work for household members—all these works are traditionally seen as women’s responsibilities.”

this is also true for opportunity-driven female entrepreneurs, it hurts subsistence businesswomen more because even without domestic responsibilities, they are less likely to grow their businesses. A study by Independent Research & Advisory Indonesia (IRAI) found that 42% of respondents started their business to complement their husband’s earnings and are content to remain micro and serve this purpose (Wei, 2018). They are typically reluctant to expand and would rather limit the business within the family.

Women have been disproportionately affected by the pandemic, as working from home means increased domestic and care work for household members—all these works are traditionally seen as women’s responsibilities (Power, 2020, p. 68–69). Women micro entrepreneurs must cope with decreased earnings while simultaneously performing added caregiving work. Single mothers in MSEs reported that they were forced to cut expenses on food, clothing, and leisure because of the effects of the pandemic (UN Women, 2020b, p. 16).

## Reduced Income due to Covid-19 Pandemic

The Covid-19 pandemic has added further challenges for traditional micro-entrepreneurs and exposes vulnerabilities in the informal economy. As people spend most of their time at home due to pandemic restrictions, demand (hence revenue) for micro- and small- enterprises (MSEs) output decreases, making financing operational costs difficult (Statistics Indonesia, 2020b, p. 10). Statistics Indonesia (2020b, p. 8) surveyed 34,559 respondents in July and found that 84% MSEs experienced a decrease in their income. UN Women (2020b, p. 9) performed a survey of women MSEs that also supports this finding. The absence of employment benefits and social protection further worsen this situation.

Female informal entrepreneurs are also often excluded from means-tested government supports due to both outdated beneficiary databases and a lack of awareness of need. For example, government Covid-19 stimulus packages such as cash transfers, social protection, and working capital credit for micro and small businesses reported better success reaching men than women. A UN Women (2020, p. 14–16) survey of 1,865 MSEs found that 81% of women-owned informal MSEs have not benefitted from any of these programs. Only 11% of women received support through social protection programs—two percentage points lower than men reached. Anecdotal evidence from interviews by the authors illustrates some reasons this might be the case. While one entrepreneur claimed to be unaware of the program, another said that though she is aware of the program, she does not qualify—though based on her household income she should be considered eligible (see Box 1 and Box 2 in Section 3 and Section 4).

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## SUSTAINING WOMEN-OWNED BUSINESSES THROUGH E-COMMERCE

Digitalization of businesses or using the internet to sell and/or market products is popularly known as e-commerce activity and is one strategy for sustaining businesses in the pandemic. E-commerce excludes orders made by telephone calls, fax, or manually typed e-mail, but includes transactions in online marketplaces and social media.<sup>5</sup>

E-commerce can be especially beneficial for women entrepreneurs with limited capital and time (Theis & Rusconi, 2019, p. 4; UN Women, 2020b, p. 12). Online marketplaces provide timely access to a market that directly connects consumers and producers without requiring the capital to set up a brick-and-mortar store, while lowering transaction costs and reducing supply chain inefficiencies. Sellers can coordinate with suppliers and customers at any time and deliver their product using courier services. According to Statistics Indonesia (2020e, p. 15), four out of five entrepreneurs who market products online increase sales.

Women micro-entrepreneurs can receive feedback directly from customers and form online knowledge-sharing communities. In addition, e-commerce services usually come with digitalized administrative features (such as transaction records and online account balances) that reduce labor costs. Sellers can also operate from home, which is particularly important for female entrepreneurs who need this flexibility in order to keep working given expectations of their care responsibilities.

On the supply side, online platforms correct information asymmetries and eliminate the need for additional layers in the supply chain, lowering transaction costs. Small *warungs*, or kiosks selling fast-moving consumer goods, in Bekasi or the outskirts of Jakarta now have wider and better market access and can easily compare prices online (Adiwibowo et al., 2019, p. 610). These benefits of e-commerce allow *warungs* to compete with modern mini-market chain stores.

On the demand side, fast adoption of the internet by Indonesians goes hand in hand with their spending habits. E-commerce transactions in 2020 generated USD 32 billion of gross merchandise value, a 54% increase from 2019. There was also a 37% increase in digital consumers,<sup>6</sup> 97% of whom are expected to continue using digital services post-pandemic (Google et al., 2020, p. 15). Statistics Indonesia (2020d, p. 19) also found that 42% of Indonesian households engaged in more e-commerce transactions during March 2020. The USD 44 billion sector is expected to grow by a double-digit rate for the next few years—and micro businesses are set to gain from this.

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<sup>5</sup> Another type of e-commerce is “social commerce”, the blending of social media with e-commerce platforms, digital payment, and delivery service platforms (Theis & Rusconi, 2019, p. 4).

<sup>6</sup> New digital services users: consumers who were not already purchasing/signing up for/subscribing to digital services, but did so as a result of lockdowns. Total respondents are 2,762.

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**Box 1**  
**The Pandemic's Unexpected Positive Impact on Women-owned Microbusiness  
in Urban Areas**

Andini (2020) is in her late 20s and an online micro-entrepreneur based in Jakarta. She has been selling frozen meat for a year through an online marketplace and social media. Before becoming an entrepreneur, she was an employee of a private company. Now she is focusing on building her business while taking care of her family of three. Her husband is a formal employee and is not involved in her business.

When the physical distancing policy was first implemented, Andini's sales increased but have since returned to normal with rising competition. Overall, her sales have improved during the pandemic because people have shifted their preferences to shopping online and cooking at home. Andini plans to continue selling meat not only through online marketplaces but as a supplier for hotels or restaurants. She also dreams of having her own barbeque restaurant.

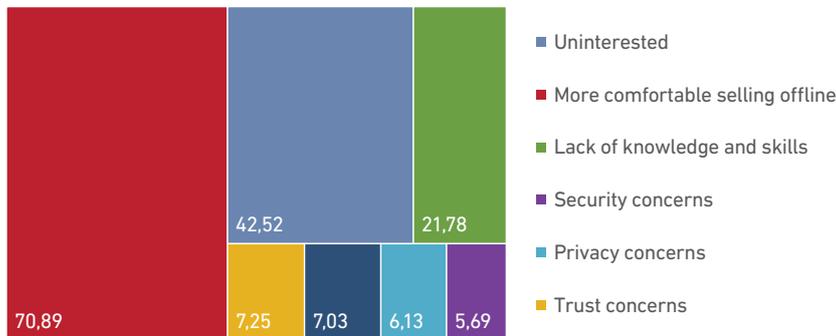
Through the Online Single Submission website, Andini obtained a SIUP micro license. Although she found that the process was simple, it required documents that need to be legalized by a notary cost her a substantial amount. She is aware of the importance of legality because she is selling food and she understands that it will ease her access to bank credit.

She did not know about any training or cash transfers program for micro-entrepreneurs by the government.

Source: Interview conducted by the authors.

Statistics Indonesia (2020f) notes that the majority of online merchants in 2020 were informal and were businesses that had total annual revenue of less than IDR 300 million, which puts them in the MIE category. However, when the number of online merchants is compared to the total number of businesses, online businesses remain a small proportion of existing MIEs despite the benefits of e-commerce for this segment of the economy. Before the pandemic, Statistics Indonesia (2019b) notes that only 15% of businesses used online platforms to sell their product. Some of the reasons that the remaining businesses did not use e-commerce include responses of "uninterested" or "feel more comfortable selling offline", lack of knowledge and skills in e-commerce, and concerns over privacy, security, trust, and technical matters (Figure 5). Unfortunately, there is no gender-disaggregated data on e-commerce use by MIEs.

**Figure 3.**  
Reasons for businesses to stay offline



Source: Statistics Indonesia (2019b)

The question was asked to offline businesses. The percentage refers to what proportion of businesses asked offered each option as an answer.

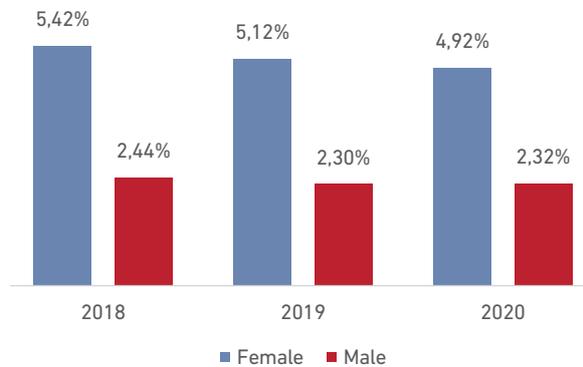
During the pandemic, more Indonesian MSEs realized the potential for their businesses of shifting to online marketplaces, often out of necessity due to mobility restrictions. From March–June 2020, there was a 41% increase in Go-jek’s<sup>7</sup> MSE’s partners<sup>8</sup> who use the platform to sell food and beverages online (Walandouw et al, 2020, p.5). A similar increase occurred with the use of Grab, another super app provider, which welcomed 350,000 new MSMEs in 2020 (Grab, 2020).

Despite the potential benefits of digitalization for women entrepreneurs, transitioning to e-commerce can be challenging. Capitalizing on the digital boom in Indonesia’s economy requires familiarity with and basic knowledge about the internet, which often correlates with educational background and literacy. There are more females (4%) than males (2%) aged 15 and above who have never attended school (Statistics Indonesia, 2019c). Formal education level is positively correlated with internet use in Indonesia. The ISEAS’s Indonesia National Survey Project 2017 highlighted that the internet is used by 84% of high education respondents, 43% of medium education respondents, and only 7% by the low education respondents (Azali, 2017). Women are also more likely than men to be illiterate (Figure 4), which limits their ability to use the internet and capitalize on the digital economy boom.

<sup>7</sup> Gojek is Indonesia’s leading on-demand, multi-service tech platform providing access to a wide range of digital services including transport, payments, food delivery, logistics, and more.

<sup>8</sup> Total sample: 8,249 respondents.

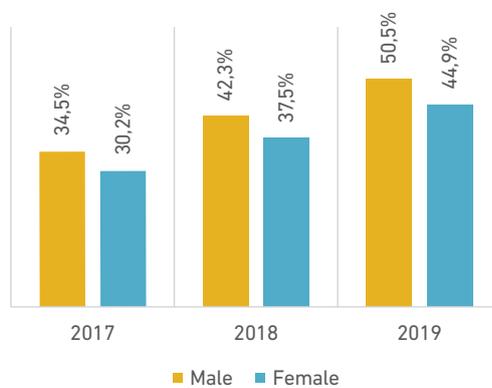
**Figure 4.**  
Illiteracy rate of population aged 10 and above



Source: Statistics Indonesia (2020c)

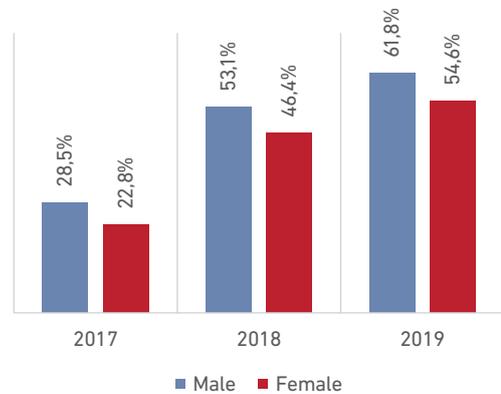
Unsurprisingly given these predictive statistics, the rate of internet adoption among women is lower than among men. From 2017 to 2019, internet use among women is consistently 4 to 6 percentage points lower than among men (Figure 5). Perhaps as a result of this, computer and information technology (IT) literacy in the productive age population is lower among females than their male counterparts (Figure 6). It is reasonable to question the idea that benefits from the digital boom are really gender neutral.

**Figure 5.**  
Proportion of internet users by gender



Source: Statistics Indonesia (2019c)

**Figure 6.**  
Computer and IT skills



Source: Statistics Indonesia (2020g)

The female illiteracy rate (Figure 4), internet use and IT skills (Figures 5 & 6), and the fact that technical skills continue to be one of the main reasons that businesses opt to stay offline (Figure 3) contribute to a structural gap between the ability of men and women to capitalize the digital economy. Technical knowledge and digital skills crucial for business owners who want to join the digital market are more out of reach for women. Gender inequality in access to basic education—as evidenced both by attainment and illiteracy rates—has long-term repercussions for women, not only forcing them to work in high-risk informal jobs, but hindering them from accessing bank loans and taking advantage of the digital economy. For the digital boom to be gender inclusive, Indonesian policymakers must design gender-sensitive interventions.

Interviews by the authors with 95 women micro entrepreneurs in Wonosobo, Central Java confirm the need for digital training of women entrepreneurs. When asked about the main challenges in using digital platforms, the lack of skills (45%) is the most common answer, followed by minimal marketing and promotion strategy (24%), and connectivity issues (e.g., bad signal, insufficient hardware) (14%). Connectivity issues may not be the top challenge in this sample because the respondents are located in Java, the most connected region in the country. However, in Papua or Nusa Tenggara, only around one of three people are connected to the internet. The benefits of e-commerce in these areas are therefore more limited (World Bank, 2021).

A majority of respondents expressed interest in exploring digital market opportunities but possess limited understanding of digital platform features and a lack of online marketing skills. As a result, many instead rely on selling through WhatsApp to their social networks. Only 15 of 95 interviewees have an account on an e-commerce platform. This suggests that some of these women are missing out from wider market opportunities in the digital platforms.

Digital literacy improvement efforts by the government have seen lagged effects, especially for women. Programs such as training to use and manage online shops or digital marketing; providing an online learning repository for self-education; boot camp for small start-ups who helped digitize MIEs; online mentoring; and prioritization of domestic MSMEs to supply needs for government institutions have been launched by Ministry of Industry (MOI),<sup>9</sup> Ministry of Trade (MOT),<sup>10</sup> Ministry of Communications and Informatics (MOCI),<sup>11</sup> Ministry of Cooperatives and Small and Medium Enterprises (MOCSME),<sup>12</sup> Ministry of Manpower (MOM),<sup>13</sup> the National Procurement Board<sup>14</sup> (Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah or LKPP), and the Ministry of State Owned Enterprises (MOSOE). This patchwork approach results in part from the lack of a national strategy for improving digital literacy. The resulting fragmented agenda is likely part of the reason that these programs are not more successful when convincing women businesses to go online (CMEA & Prospera, 2020, pp. 1–2). Evaluations of the effectiveness of these programs are not performed, making it difficult to identify opportunities for improvement.

The National E-Commerce Roadmap 2017–2019 coordinated tasks between government ministries and agencies to support e-commerce activity, but omitted the gender gap from its considerations and thus failed to provide gender-sensitive interventions. The government is drafting the Digital Transformation Roadmap 2021–2024 and the Digital Economy National Strategy to coordinate nation-wide digitization efforts. These documents should not make the same mistake. The gender gap that prevents female entrepreneurs from benefiting from the digital economy must be considered and necessary support from relevant bodies and ministries arranged.

**The gender gap that prevents female entrepreneurs from benefiting from the digital economy must be considered and necessary support from relevant bodies and ministries arranged.**

<sup>9</sup> More details available at <https://www.kemenperin.go.id/artikel/21775/Bangkitkan-Semangat-Usaha-Pelaku-IKM,-Kemenperin-Gelar-Pelatihan-Digital>

<sup>10</sup> More details available at [http://ditjenpdn.kemendag.go.id/assets/sideslider/Kemendag\\_dan\\_Facebook.pdf](http://ditjenpdn.kemendag.go.id/assets/sideslider/Kemendag_dan_Facebook.pdf)

<sup>11</sup> More details available at [https://www.kominfo.go.id/content/detail/28026/kolaborasi-pemerintah-startup-dorong-digitalisasi-umkm-dan-ikm/0/berita\\_satker](https://www.kominfo.go.id/content/detail/28026/kolaborasi-pemerintah-startup-dorong-digitalisasi-umkm-dan-ikm/0/berita_satker) and [https://kominfo.go.id/content/detail/29893/siaran-pers-no-125hmkominfo102020-tentang-berdayakan-umkm-tanah-air-lewat-pelatihan-untuk-percepat-transformasi-digital-nasional/0/siaran\\_pers](https://kominfo.go.id/content/detail/29893/siaran-pers-no-125hmkominfo102020-tentang-berdayakan-umkm-tanah-air-lewat-pelatihan-untuk-percepat-transformasi-digital-nasional/0/siaran_pers)

<sup>12</sup> More details available at <http://www.depkop.go.id/read/30-inovator-terpilih-ikut-bootcamp-pahlawan-digital-umkm> and <http://www.depkop.go.id/read/kemenkop-ukm-percepat-umkm-go-digital>

<sup>13</sup> More details at <https://kemnaker.go.id/news/detail/kemnaker-kembangkan-talenta-muda-dengan-program-simpul-talenta>

<sup>14</sup> More details available at <http://www.lkpp.go.id/v3/public/read/5893>

## ANALYSIS OF REGULATORY FRAMEWORK FOR E-COMMERCE

E-commerce activities in Indonesia are regulated under two equally dynamic sectors—trade and digital. Each is governed by an umbrella law: Law No. 7 of 2014 on Trade (Law No. 7/2014 or Trade Law), and Law No. 11 of 2008 on Electronic Information and Transaction (EIT Law) and its No. 19/2016 revision. The Trade Law focuses on ensuring safe trading activities while facilitating national economic growth. It recognizes e-commerce as “trade through the electronic system” (*Perdagangan Melalui Sistem Elektronik*, or PMSE), and requires online business actors to provide essential information like the identity and the legality of business owner/producer, prices, payment methods, and shipping arrangements. The EIT Law regulates the general informatics system and management of online transactions.

### General Licenses for Business post-Omnibus Law: A Risk-Based Licensing Regime

The recent enactment of the Job Creation Law ushered in a new business licensing regime in Indonesia. This law simplifies many of the licensing requirements previously scattered over different regulations and legal products and creates a new risk-based licensing system. As an implementing rule of the law, Government Regulation No. 5/2021 on the Implementation of Risk-Based Business Licenses (GR 5/2021), details how the business licensing process varies based on the risk of business activities.<sup>15</sup> Lower risk businesses require fewer permits, while high-risk establishments will have to undergo stricter checks before conducting their business (Table 1).

**Table 1.**  
Risk-based licensing

No.	Risk level	Preparatory stage	Operational stage	Commercial activities	Note
1	Low risk	Business Registry Number ( <i>Nomor Induk Berusaha</i> or NIB)			NIB serves as business licenses, Indonesia National Standard (SNI), and self-declared statement of guaranteed halal product
2	Medium-low risk	NIB and Standard Certificate (unverified)*			
3	Medium-high risk	NIB and Standard Certificate (unverified)*	NIB and Standard Certificate (verified)*		
4	High risk	NIB	Business license and possibly Standard Certificate (verified)*		

\*Unverified standard certificate takes the form of self-assessment by businesses while a verified certificate must be assessed by government agency(ies), depending on the type of the activities.

<sup>15</sup> The risk level is assessed based on possible impacts on health, safety, environment, and the use and management of resources.

Government Regulation No. 7/2021 on Ease of Protection and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises (GR 7/2021) emphasizes that the new regulatory regime applies to micro and small businesses as well. Therefore, MIEs running their business in the conventional offline model should at least have an NIB even if their activities pose a minimal risk. The risk status of business activities is determined by the appendix of GR 7/2021, based on the Indonesian Standard Industrial Classification (KLBI). Below is the example how this would apply to MIEs in small retail and street vendors and to food processing industries:

**Table 2.**  
**Examples of risk-based licensing application**

Business line	Business scale	Risk level	License	Issuing authority
Retail for food product	All	Low	NIB	Governor or Regent/Mayor
Retail for textile product				
Street vendors				
Meat and bird meat processing industry	Small and medium	Medium-low	NIB and Standard Certificate	Governor or Regent/Mayor

Attempts to ease entry barriers to formalize MIEs can be seen in these examples. Most small-sized businesses, like retail for food and textiles or street vendors, need only an NIB to run their business. Under previous regulations, micro entrepreneurs needed to obtain an NIB and then a Micro- and Small-Enterprises License (*Izin Usaha Mikro dan Kecil* or IUMK) and/or Business License for Trading (*Surat Izin Usaha Perdagangan*, or SIUP). The costly and time consuming SIUP process originally applied to all types of business (Sane, 2020, p. 4). As a response, IUMK was launched in 2014 to provide an easy-to-access route to legal certainty for micro entrepreneurs. However, there is no information about whether IUMK replaces SIUP or whether they represent different aims of Ministry of Home Affairs Regulation No. 83/2014. Confusion is common among businesses and local governments. In practice, most MIEs opt to stay informal, while the minority who choose to apply prefer IUMK over SIUP (Putro, 2020; Saraswati, 2020).

Unfortunately, the new risk-based regime leaves uncertainty about the extent to which MIEs can operate with only an NIB. Registration simulations conducted in the OSS system<sup>16</sup> show that a small *warung* in Kupang, East Nusa Tenggara would still need to have a Statement of Capability in Environmental Management and Monitoring (*Surat Pernyataan Kesanggupan Pengelolaan dan Pemantauan Lingkungan Hidup* or SPPL), license to distribute processed food (*Izin Edar*), certificate of good practices of processed food production (*Sertifikat Cara Produksi Pangan Olahan yang Baik* or CPPOB), and Registration Certificate of Distributors for Basic Needs-Goods (*Tanda Daftar Pelaku Usaha Distribusi BAPOK* or TDPUD). Similarly, a household-size food producer in Padeglag, Banten, would need a SPPL and Tourism Business Registration Certificate.

<sup>16</sup> The simulations were attempted by the authors on 30 April 2021

A top-down, comply-or-banned approach is likely to bring more damages than benefit. An attitude of facilitation rather than enforcement from officials is therefore worth considering to minimize the downsides of the regulation, especially considering the huge informal sector in Indonesia.

Formalizing the informal economy may generate positive outcomes for both the state and businesses. The state is able to widen its tax base and increase spending capacity, while formal businesses protect workers from below-minimum-wage earnings and creates access to public insurance and employment benefits. However, a top-down, comply-or-banned approach is likely to bring more damages than benefit. An attitude of facilitation rather than enforcement from officials is therefore worth considering to minimize the downsides of the regulation, especially considering the huge informal sector in Indonesia. This recognizes that failure to formalize a business is often a symptom of poverty, not intransigence. Efforts to increase formalization in this case require broad-based socioeconomic reforms.

## License Requirements for Online Business

Government Regulation No. 80 of 2019 on Trading through Electronic Systems (GR 80/2019) is the main technical regulation of e-commerce activities. It covers the growing scope of e-commerce and provides legal guidelines, including business responsibilities, electronic contract, data collection, electronic payment, shipping, and dispute settlements. It mandates the prioritization of domestic goods or services, efforts to improve of their competitiveness, and different supports for domestic products (Aprilianti, 2020, p. 13; Medina, 2020). This regulation also requires e-commerce businesses to comply with licensing instructions from other ministerial regulations.

As a follow-up on article 15 of GR 80/2019, the MOT issued MOT Regulation No. 50 of 2020 on Provisions on Business Licensing, Advertising, Guidance and Supervision on Business Actors in Trading through Electronic Systems (MOTR 50/2020), which gives details about licensing in e-commerce. MOTR 50/2020 classifies e-commerce business actors into three categories:

1. Merchants: Those who sell goods or services through electronic systems. The systems can be self-managed (e.g., store website) or managed through platform providers.
2. E-commerce organizers (*Penyelenggara Perdagangan Melalui Sistem Elektronik* or PPMSE): Providers of online marketplaces such as e-commerce platforms and sellers who sell online through their own website.
3. Intermediary service providers (*Penyelenggara Sarana Perantara* or PSP): businesses that provide electronic communication services, bridging senders and receivers through services like search engines, hosting, and caching.

MOTR 50/2020 emphasizes that online merchants need to have a business license as required by general laws and regulations of business licenses. Article 80 (2) of GR 80/2019 refers to noncompliance with licensing obligations. Noncompliance exposes online sellers to administrative sanctions ranging from written warnings to blacklisting. In addition to strengthening consumer protection, licenses for online sellers are meant to create a level ecosystem for online and offline merchants, as well as domestic and foreign producers (Andrianita, 2019; Ministry of Trade Representative, 2020).

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However, as Indonesian entrepreneurship, both online and offline, is predominantly informal and micro-sized, imposing administrative sanctions on informal online businesses risks causing economic harm to MIEs. It may even disincentive brick-and-mortar businesses from shifting online, preventing them from taking advantage of the digital boom when they need it most during the pandemic. Business formalization efforts through MOTR 50/2020 and GR 80/2019 should not interfere with market access for micro businesses.

Costly or punitive formalization efforts may also push sellers on e-commerce platforms to migrate to social media or other platforms with less established and less secure marketplace features. Big e-commerce platforms in Indonesia have recognized the importance of consumer-oriented service and added features like Online Customer Review, escrow accounts, and complaint and refund mechanisms (Primawan, 2020; Saputra & Singgih, 2019, p. 124–132; Farki, 2016, p. 5–7, 16–18). If business legalization efforts in MOTR 50/2020 trigger seller migration to less secure social media platforms, consumers will be put at risk.

In addition to regular business licenses, MOTR 50/2020 requires domestic online sellers to have self-managed websites, and for PPMSE and PSP to obtain an additional E-Commerce Trade Business License (*Surat Izin Usaha Perdagangan Melalui Sistem Elektronik* or SIUPMSE) for online activity.

Foreign merchants must possess valid business licenses from their country of origin, and register the licenses to the domestic PPMSE with which they have an affiliation. Failure to obtain a SIUPMSE exposes businesses to administrative sanctions: written warnings, given maximum three times; blacklist; and termination of business activities.

The number of MSMEs with self-managed websites in Indonesia is growing. A report from Niagahoster (2021), a web-hosting service provider, shows growing demand from MSMEs to create their own websites. Around 42% of surveyed business owners agree that a business website should be established as an early business activity. Mandating SIUPMSE could slow the online transition progress, especially given the low awareness of licensing benefits among MIEs. When sanctions such as blacklisting or termination are forced, necessity-driven MIEs with the lowest digital literacy and awareness of complex legal requirements that are harmed the most.

Awareness of licensing obligations among Indonesian MIEs, even for general licenses, is low. Findings from interviews of women micro entrepreneurs, facilitators of the business digitalization program, and local government officials revealed they are all unaware of or uninformed about the requirement that those who conduct only online business choose the new type of Indonesia Standard Industrial Classification (KBLI) (Wanudyaningrum, 2020; Tasse, 2020; Saraswati, 2020; Sunarto, 2020a). In rural areas, farmers and subsistence merchants alike often experience difficulties obtaining an ID card (*Kartu Tanda Penduduk* or KTP) (Bachtiar et al., 2020, p.40). Those who experience such difficulties with basic requirements are unlikely to understand their SIUPMSE obligation, let alone apply.

“When sanctions such as blacklisting or termination are forced, necessity-driven MIEs with the lowest digital literacy and awareness of complex legal requirements that are harmed the most.”

## Inclusivity Issues in the OSS system

Indonesian businesses must log into the Online Single Submission (OSS) website,<sup>17</sup> an integrated licensing system, to apply for general trade licenses as well as for the SIUPMSE. OSS was launched in 2018 and is expected to reduce corruption by licensing officials and to encourage formalization of MSMEs. However, the OSS has yet to show significant progress in formalizing microenterprises. Some micro-entrepreneurs, especially those who are elderly, are not familiar with the online system<sup>18</sup> (Jaweng et al., 2019, p. 52). This may, again, stem from low digital literacy, and so forced compliance is an inappropriate solution. The lack of familiarity among these entrepreneurs may also create opportunities for illegal levies by local government officials for licenses that are meant not to have a financial cost (Sugiyanto et al., 2020, p. 289–290).

### Box 2

#### “What is E-Mail?”

Mrs. Tasse is a female micro-entrepreneur who lives in a village in Polewali Mandar District, West Sulawesi Indonesia. She is 60 years old and married with two children who are in junior high Islamic boarding school or *pesantren*. Their income barely meets their needs, and so Mrs. Tasse decided to sell something to supplement the income earned by her husband, who is a keeper of a small pond.

Mrs. Tasse used to sell women’s clothing at the market. The market closed due to Covid-19 and she shifted to selling yellow rice at the street corner near her house. She has been selling breakfast to locals for two months at IDR 5,000 (USD 40 cents) per portion. On a good day, she can sell 60 portions. She cooks the rice and manages her business without the help of her husband who keeps a small pond, though he sometimes helps her cut the vegetables. Mrs. Tasse never obtained any license for her business, as she does not think it is necessary since generates so little profit.

Despite sufficient internet access in her neighborhood, Mrs. Tasse has a very limited understanding of technology and even asked “What is e-mail?” when interviewed. She owns a mobile phone but uses it only for calls and text messaging. She never thought of using e-commerce, but she has heard of *WhatsApp* from her neighbors. She would like to receive food orders using *WhatsApp* but does not have a motorcycle and there is no instant courier service available to deliver mobile orders.

Mrs. Tasse is aware of the IDR 2.4 million cash support program despite the fact that she has not benefitted from it because her neighbor is a beneficiary. She has no intention to ask the local Cooperatives and SMEs Agency for more information about the support program as she believes her situation is the result of God’s will.

Source: Tasse, 2020. Interview conducted by the authors

<sup>17</sup> Accessible at <https://oss.go.id/portal/>

<sup>18</sup> Reported in the OSS Evaluation Report by the Regional Autonomy Watch (Komite Pemantauan Pelaksanaan Otonomi Daerah or KPPOD).

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## RECOMMENDATIONS

Given the characteristics of and challenges faced by women micro-entrepreneurs, this paper proposes three policy recommendations: (1) Improve gender-disaggregated MSME data; (2) Coordinate efforts for gender-sensitive interventions; and (3) Revise MOTR 50/2020 to remove administrative sanctions for informal online MIEs and exempt MIEs with a personal website from the SIUPMSE requirement.

### Improve gender-disaggregated MSME data

Effective, well-targeted policy starts with reliable data. MOCSME, in coordination with Statistics Indonesia, should establish regularly updated gender-disaggregated data on MSMEs in Indonesia. This database can form the basis for formulating effective support strategies for MIEs.

The data managed by the MOCSME<sup>19</sup> was insufficient through at least 2020. It is only published annually in the form of a single pdf document, not offered as a system or database. A transparent, comprehensive, gender-disaggregated, MSME database would help policymakers design the interventions necessary to help women-owned MIEs. When data is made available to the public, non-government stakeholders are also expected to take better-informed initiatives to support female-owned MIEs.

Reliable data enables policymakers to channel resources to where they are needed the most. In the context of providing interventions for women MIEs, gender-disaggregated data would help to evaluate past supports for MIEs that were unsuccessful at reaching female recipients, including social assistance programs during the Covid-19 pandemic in 2020 (UN Women 2020, p. 14–16).

Private stakeholders such as civil society organizations, grassroots communities, and companies will also be helped by access to reliable data, which can help them design women MIE empowerment programs with the highest social returns.

### Add coordinated, gender-sensitive actions in the national digital transformation roadmap and strategy

Digitalization efforts in Indonesia are fragmented across at least 12 government agencies, resulting in sub-optimal outcomes, especially for the unique challenges faced by women-owned MIEs. Coordinated, gender-sensitive digitization efforts must be made by government ministries and agencies and formalized in a national-level strategy such as the Digital Economy Transformation Roadmap 2021–2024 and the Digital Economy National Strategy—both are being drafted by the government.

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<sup>19</sup> Available at <http://www.depkop.go.id/data-umkm>

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The government has fallen short in past efforts at synchronized, gender-sensitive supports for MIEs across government ministries and institutions. MIEs are still considered a homogenous group, and so gender variables are often omitted in national frameworks and strategies. The National E-Commerce Roadmap 2017–2019, for example, did not include considerations of gender in its programs and desired targets.

Learning from this, both the Digital Economy Transformation Roadmap 2021–2024 and Digital Economy National Strategy should acknowledge the structural gender gap in digital technology for MIEs and include coordinated actions from CMEA, MOCSME, MOCI, MWECP, and OJK to address gaps in (but not limited to) low IT and computer skills, limited access to financial services, and low productivity. Coordinated training, assistance, and empowerment programs aimed at women from these institutions should be included in the documents.

Finally, the Digital Economy Transformation Roadmap 2021–2024 and Digital Economy National Strategy should be issued as presidential regulations (*Peraturan Presiden*) to ensure that they can be enforced across different ministries and agencies by the executive branch.

## Revise MOTR 50/2020 to exempt MIEs from licensing barriers when participating in e-commerce

MOT should revise MOTR 50/2020 to both drop administrative sanctions for informal online businesses and exempt online MIEs with their own business websites from the requirement for a SIUPMSE.

Punishing informal online business could disproportionately damage MIEs. It may prevent them from benefiting from the digital market. Online business formalization efforts through GR 5/2021, GR 5/2019 and MOTR 50/2021 must be carefully applied so that they do not result in sellers' migration to less secure platforms, such as selling through social media, that may put consumers at risk. Digital marketplaces have established features like rating systems, escrow accounts, refund and complaint mechanisms to protect consumers that are not provided by MSME entrepreneurs connected to clients through their social networks.

MIEs that run their own websites should not be required to obtain a SIUPMSE. Indonesian business owners increasingly find that managing their websites is an important part of managing and growing their business. Punishing those who fail to obtain a SIUPMSE would disproportionately damage MIEs, which typically demonstrate lower awareness of licensing obligations.

Alternatively, SIUPMSE for MIEs can be offered as a non-mandatory license. MOT can, for example, provide an incentive in the form of granting a registered or certified "label" or certificate for MIEs that are willing to obtain SIUPMSE to help their digital branding. This could be implemented similarly to the 'green label' certificate organized by the Ministry of Environment and Forestry in coordination with private certification institutions.

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