

ENTREPRENEURSHIP AS A YOUTH JOB CREATION STRATEGY

A case study from Belu District, Indonesia

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Perkumpulan Prakarsa

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INDONESIA

126/148

JustJobs Index Ranking



68%
Labor Force
Participation



51%
Youth Labor Force
Participation



6.6%
Unemployment



21.6%
Youth
Unemployment

Source: These data are ILO modeled estimates provided by the World Bank. Individual authors may use national estimates.

Challenge

Facing the decline of its job-creating manufacturing sector, Indonesia must create more employment opportunities for youth in order to reap the rewards of its “demographic dividend.”

Strategy

The Indonesian government has rolled out the National Entrepreneurship Movement, which seeks to reduce youth unemployment through a collection of training and micro-finance programs.

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Entrepreneurship is sometimes presented as a panacea for curbing the global youth employment crisis, especially in the global South. The turn toward entrepreneurship is shaped, in part, by the failure of the manufacturing sector to support massive formal job creation in developing and emerging economies. In Indonesia, for instance, the informal economy still employs 60 percent of the workforce, playing a prominent role in sustaining economic growth and job creation.¹

The logic of promoting entrepreneurship as a job creation strategy is that the unemployed

become self-employed, and the most successful become employers and job creators themselves.

“This perception of entrepreneurship as a job creation strategy that requires limited government involvement is part of what makes it a favored strategy in countries like Indonesia where state capacity is limited.”

Moreover, entrepreneurship is sometimes perceived as an “easier” path to job creation and economic development – as it requires neither a public sector with the resources to employ people on a large scale nor a government with the capacity to create streamlined and reliable regulatory regimes.

This perception of entrepreneurship as a job creation strategy that requires limited government involvement – which this chapter will challenge – is part of what makes it a favored

strategy in countries like Indonesia where state capacity is limited. This is especially true when it comes to dealing with the growing crisis of youth unemployment.

This chapter explores how the Indonesian government and other stakeholders are promoting youth entrepreneurship to address the country's youth employment challenges, discussing specific policies and approaches. Then,

utilizing a case study from the Belu District in East Nusa Tenggara (NTT) province, the chapter examines how these policies translate on the ground, the type of stakeholder coordination and state capacity they require, and their effect on young people's employment outcomes. Finally, the chapter proposes ways forward in strengthening entrepreneurship policies in Indonesia and similar contexts.

The employment landscape in Indonesia

Although the Indonesian economy grew steadily in the years following the economic crisis – averaging 5.9 percent between 2008 and 2013, a better performance than emerging economies like Brazil – the growth could be described as “jobless.” Compared to GDP growth, employment growth was anemic, peaking at just over 4 percent in 2007 and falling gradually since then.ⁱ Employment even experienced negative growth in 2013.

Nonetheless, Indonesia's open unemployment rate is only moderate.

The rate has declined from nearly 10 percent in 2004 to 6.3 percent in 2013. The current labor

force participation rate, at 66.9 percent, has declined slightly from 67.5 percent in 2004.² These data fail to capture, however, the vast number of Indonesians who are underemployed or who are in low-quality informal sector jobs. Meanwhile, youth unemployment in Indonesia (ages 15-24) is 21.6 percent, higher than the global average

of 13.5 percent.³

And the percentage of Indonesia's unemployed that are youth stands at 52 percent,⁴ higher than the global average of 40 percent.⁵

About 3.7 million

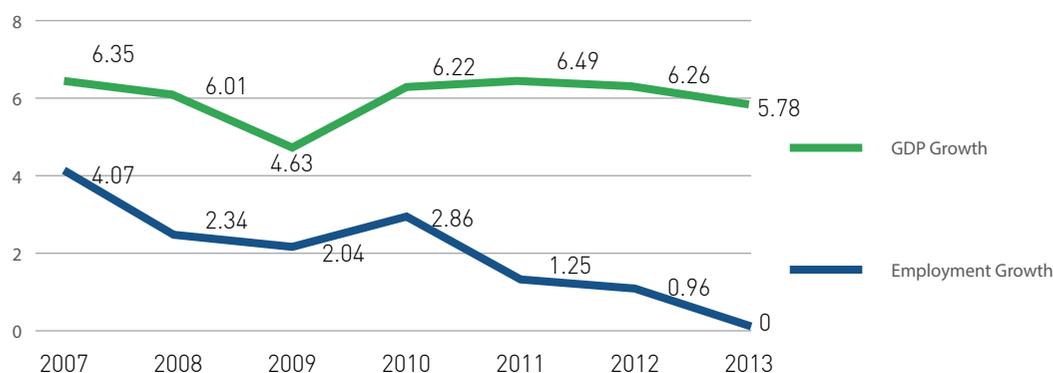
Indonesian youth are unable to find work.⁶

“Every year, about 1.7 million new people, mostly youth, enter the Indonesian workforce. Yet the capacity of medium and large industries to absorb them is diminishing.”

ⁱ Employment growth is defined as the percentage change in the employed population calculated with regard to the previous year.

Figure 01

Annual GDP vs Employment Growth (%)



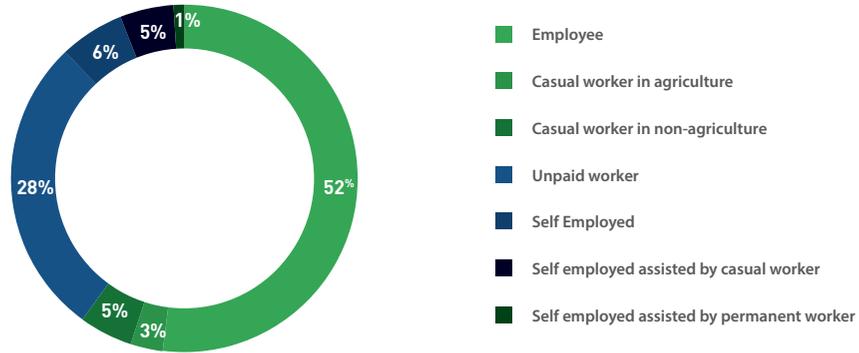
Source: World Indicator and BPS, 2014 (extracted)

The informal sectorⁱⁱ absorbs a majority of the Indonesian work force. Through 2013, the sector continued to employ 60 to 70 percent of the total number of working people (see **Figure 3**). A recent study⁷ found that Indonesia has the highest ratio of shadow economy businesses – those not authorized or legally registered, mostly identical with the informal sector – in the world, followed by India, the Philippines, and Pakistan. The ratio is 130 shadow economy businesses per one business that is registered. Compared to the general population, youth are less likely to work in the informal sector; just over half are formally employed, compared with about 40 percent of the general population. However, as **Figure 2** shows, an alarming percentage of youth are unpaid workers.

Every year, about 1.7 million new people, mostly youth, enter the Indonesian workforce.⁸ Yet the capacity of medium and large industries to absorb them is diminishing. Indonesia is experiencing the same phenomenon of premature deindustrialization as other emerging economies – where the manufacturing sector has begun its decline “prematurely,” before growing large enough to raise living standards through large-scale job creation.⁹ Between 2006 and 2010, over half (53 percent) of the total number of medium and large industries had negative growth in terms of number of people they employed. Medium and large industry shed 550,000 jobs in 2013.¹⁰ Micro and small enterprises were barely able to make up the difference, adding 600,000 positions.¹¹

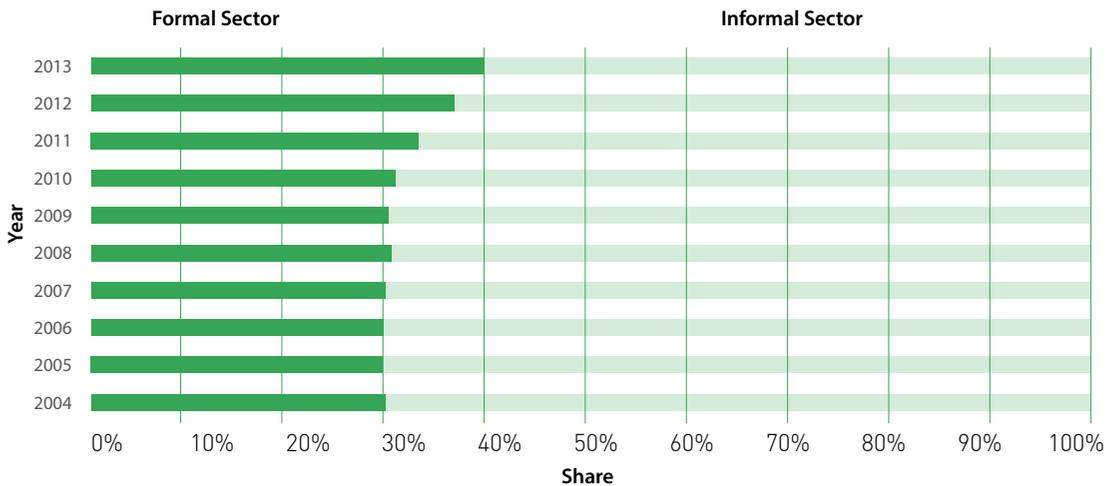
ⁱⁱ According to BPS (Statistics Indonesia), out of seven categories of main employment status, only two categories (employee and employer with permanent workers) are counted as formal sector. The other categories – self-employed, self-employed assisted by family members/with temporary help, casual employee in agriculture, casual employee in non-agriculture, and unpaid worker are considered informal sector.

Figure 02
Employment status of 15-24 years age group, 2013



Source: BPS, 2014 (extracted)

Figure 03
Contribution of formal and informal sector in Indonesian employment, 2004-2013



Source: BPS, 2014 (extracted)

On the supply side of the labor market, workforce quality – mainly skill mismatch and low levels of education – remains a huge challenge. A World Bank survey indicated that 50 percent of senior secondary and 15 percent of tertiary education graduates work in unskilled positions. Meanwhile, 70 percent of manufacturers say it is “very difficult” to fill skilled positions.¹² According

to the Global Talent Competitiveness Index 2013, Indonesia ranks 90 out of 103 countries in terms of employable skills, the worst performer among countries surveyed from the Association of Southeast Asian Nations (ASEAN).¹³ Nearly half (46.8 percent) of the total Indonesian labor force has completed only primary school or less.¹⁴

The entrepreneurship landscape in Indonesia

Ideally, entrepreneurs play three significant roles in any context: first, they diversify a country's economy by adding novel types of businesses; second, they provide fresh employment opportunities for job seekers; and third, they increase national output (GNP) per capita.¹⁵

Despite the potential positives, various indices show that entrepreneurship in Indonesia

lags behind other G20 economies. The Entrepreneurship Barometer 2013 compared G20 countries in terms of five pillars of entrepreneurship, and Indonesia performed worse than other emerging economies. In two aspects – entrepreneurship culture and education and training – Indonesia ranked nineteenth among the 20 countries (**Table 1**).¹⁶

Table 01
Pillars of entrepreneurship in six emerging economies of the G20

Countries	Ranking (out of 20 countries)				
	Access to Funding	Entrepreneurship Culture	Tax & Regulation	Education & Training	Coordinated Support
Brazil	9	12	17	10	3
China	3	18	16	18	6
India	11	11	19	20	5
Indonesia	10	19	12	19	4
Turkey	17	15	11	17	7
Mexico	18	17	14	15	2

Source: E&Y. Entrepreneurship Barometer 2013

The 2013 Global Entrepreneurship Monitor ranks Indonesia below the average of its peer countriesⁱⁱⁱ on five different indicators¹⁷: 1) entrepreneurship as a relevant economic issue; 2) taxes and regulation are either size-neutral^{iv} or encourage new SMEs; 3) government entrepreneurship programs; 4) entrepreneurship education at

primary and secondary school; and 5) research and development funding. According to data from the Ministry of Cooperatives and Small and Medium Enterprises, the ratio of entrepreneurs to total population is 1.9 percent in 2013, below the average of Indonesia’s neighbors.¹⁸

Indonesia’s approach to youth entrepreneurship

The Indonesian government sees entrepreneurship as an important strategy to address youth unemployment. As of now, only about 12 percent of working youth are entrepreneurs (across the three categories of self-employed shown in **Figure 2**).

for Youth (**Figure 4**). There are three main program clusters aimed at tackling youth unemployment – training, apprenticeship, empowerment and entrepreneurship – and one overarching program to increase access to information on job vacancies.¹⁹

The importance of entrepreneurship from the government’s perspective is reflected in its National Strategy for Creating Job Opportunities

A law passed in 2009 stipulated that national government, local government, youth organizations and communities must foster

Figure 04
Indonesian Government Youth Employment Strategy

YOUTH EMPLOYMENT JOB OPPORTUNITY CREATION STRATEGIES		
YOUTH POLICY : “Reducing the uneducated labor force”		
TRAINING	APPRENTICESHIP	EMPOWERMENT AND ENTREPRENEURSHIP
SKILL DEVELOPMENT	IMPROVING MARKET ALIGNMENT OF APPRENTICESHIPS	<ul style="list-style-type: none"> IMPROVE VULNERABLE YOUTHS’ ACCESS TO EMPLOYMENT OPPORTUNITIES IMPROVING OPPORTUNITIES FOR YOUTH TO BE ENTREPRENEURS
INCREASING ACCESS TO JOB VACANCY INFORMATION SERVICES		

Source: Maruli A. Hasoloan. 2013. Youth Employment in Indonesia. (Ministry of Manpower and Transmigration).

ⁱⁱⁱ Peer countries refers to the categories this index employs to differentiate between types of entrepreneurship. In Phase 1 countries, entrepreneurship is “factor-driven” – put otherwise, survival entrepreneurship. In Phase 2 countries – the category where Indonesia falls – entrepreneurship is largely “efficiency-driven”, and Phase 3 is defined by “innovation-driven” entrepreneurship.

^{iv} Size-neutral taxes and regulations are equally advantageous or disadvantageous to small and large businesses.

youth entrepreneurship through “training, internships, coaching, partnerships, promotion and assistance to access capital.”²⁰ This is to occur through developing a culture of youth entrepreneurship and innovation, and through setting up mechanisms to channel capital to young entrepreneurs.

The National Entrepreneurship Movement, or *Gerakan Kewirausahaan Nasional* (GKN), launched in 2011 by the Government of Indonesia, targets all age groups but places special emphasis on creating new young entrepreneurs. The expressed goal of the movement²¹ is to increase the ratio of entrepreneur to total population from 0.24 percent in 2011 to 2 percent in 2014.²¹ Dozens of ministries have signed a Memorandum of Understanding to assist in its implementation, including the Ministry of Manpower and Transmigration (MoMT), Ministry of Cooperatives and SMEs (MoCSME), Ministry of Tourism and Creative Industry (MoTCI), Ministry of Education and Culture (MoEC), Ministry of Youth and Sports (MoYS), Ministry of Industry (Mol), and Ministry of Marine Affairs and Fisheries (MoMF).

Given the breadth of involvement across different ministries, GKN demonstrates the fact that entrepreneurship is now a mainstreamed priority in Indonesian policymaking.

MoMT, for instance, has programs for fresh university graduates to become facilitators that support entrepreneurship in rural communities. The MoCSME collaborates with MoEC in running

a business incubator program in various public universities and developing an entrepreneurship curriculum for vocational high schools and colleges. MoYS implements a program to build *Kelompok Usaha Pemuda Produktif* (KUPP), or Productive Youth Enterprise Groups, the ground reality of which this paper will examine.

In addition to the government’s cross-ministry effort, many other institutions promote programs and projects for new entrepreneurs to start and/or maintain their businesses. Among these are educational institutions – both formal (schools, universities, academies) and informal (unregistered private training centers) – as well as multilateral agencies such as the ILO (International Labor Organization) and Asian Productivity Organization (APO), and business associations like the *Asosiasi Pengusaha Indonesia* (Association of Indonesian Business Owners).

The following case study looks at how the promotion of entrepreneurship functions in practice, on the ground. The examination focuses on the KUPP Program, implemented by the Ministry of Youth and Sports in cooperation with the Ministry of Education and Culture, in an underdeveloped district in the East Nusa Tenggara (NTT) province. It will demonstrate the necessity of improving coordination and capacity among local stakeholders, particularly government, if the strategy of encouraging entrepreneurship is to succeed in creating productive employment for youth.

²¹ Note that data on entrepreneurship across ministries in Indonesia is conflicting. These data are included because they are used consistently with respect to the to *Gerakan Kewirausahaan Nasional*.

Belu District and the KUPP entrepreneurship program

Belu District, with a total population of approximately 400,000,²² is one of the poorest districts in the province of NTT, located in the less developed and poorly connected eastern part of Indonesia. Almost a quarter of the total population of Belu District is between 15 and 29 years of age.²³ However, lack of skills and education is a major constraint for this age cohort in accessing productive, high-quality employment. In fact, over 70 percent of the total labor force in the district has only completed primary school.²⁴ Most youth can only access low-skilled, low-paid, or even worse, unpaid work.

Atambua is the capital of Belu and the second largest city in the region. While the majority of people work in the agricultural sector, a growing services and trade sector is beginning to reshape the local economy. Most of the new businesses, however, are owned by migrants from outside the region or descendants of Chinese traders. In this socioeconomic context, entrepreneurship among the indigenous population is mostly “factor-driven” – driven by necessity – though the increase in economic activity could provide expanded opportunity for those building their own enterprise to achieve upward mobility.

The analysis here is based on qualitative fieldwork conducted at the time of program implementation in 2011. For primary data collection, semi-

structured interviews were conducted with the youth group leaders, vocational skill trainers, and government officials. Focus group discussions were held with youth group members. This case study also relies on secondary data collected from the local statistics office (BPS Belu District), *Belu Dinas PPO* (Office of Education, Youths and Sports),^{vi} and the ILO branch office in NTT province.

The Belu district is plagued by youth unemployment and underemployment that leads to social problems like criminality. To address the concomitant issues of youth unemployment and juvenile delinquency, the Belu Office of Education, Youths and Sports launched a grant scheme funded by the district budget in fiscal year 2010. The KUPP scheme provides start-up capital to youth groups to open a new business.

Vocational skills training and mapping of local business opportunities were not included in the government scheme. The ILO, therefore, linked up with the program to plug these gaps, agreeing to provide Community Employment Assessment training, vocational skills training, and “Start and Improve Your Business” training through a local partner.

A public event with local leaders introduced the KUPP program. Youth groups that expressed

^{vi} In decentralized Indonesia, local governments are allowed to have particular nomenclature for their own departmental offices. For instance, while the Ministry of Education and Culture and Ministry of Youth and Sports are two separate ministries in Jakarta, in Belu District, local government grouped them into one local Office of Education, Youth and Sports

interest submitted business and budget proposals to the local government office. Upon approval of their business plans, *Dinas PPO* disbursed funds (IDR 9 million – US\$ 766) in cash to 60 groups. While 32 groups received training in addition to the grant, it was concluded that the business

plans of the other 28 did not require vocational training (e.g. motorcycle washing).

Unfortunately, the trainings meant to help youth assess the potential for different types of local businesses, acquire the appropriate skills, and

Former gang leader leads poultry-raising youth enterprise

Octovianus, or Octo, used to be a gang leader in the Fatukbot village of northern Belu. Now he runs the Tirta Kencana poultry group, a youth enterprise group established through the KUPP program. The idea of starting a chicken-rearing business came from observing the rise of warungs – or small roadside stalls – in Atambua, in addition to the increasing demand for meat at celebrations and ceremonies. Upon hearing about the government scheme, Octo formed a group and submitted a proposal, receiving IDR 9 million (US\$ 766) in start-up capital. Most of his team members were previously unemployed or drove rented motorbike taxis.

Octo's group teamed up with another youth enterprise group to share the cost of building a chicken cage, constructing a barrier in the middle to separate their livestock. Starting their business has been a process of learning by doing. Octo said he has realized that "continuity of supply rather than large quantity is the key to sustaining this business." The groups learned that demand peaks during holidays, so ensuring that stock is available during this time will enable higher profits. As he explained, "we fattened 400 chickens in October and all sold out before Christmas. Demand was still high though, and the price of a chicken went up from IDR 30,000 to IDR 40,000" (approximately US\$ 2.50 to US\$ 3.50).

Octo's partner group believes the skills training would have been more helpful if timed differently. They had already been running their business for four months before the ILO partner organization conducted the training, at which point they learned that they had built their chicken coop incorrectly.

The group led by Octo has managed to streamline its management and financial processes. For instance, they calculate their profit at the end of every month and put half toward business savings and half toward wages. Recently, when a strong storm damaged their coop, they were able to use some of their savings pool to repair it. Wages are not high yet, but they hope with improved business practices and enough capital to continue growing the business, their earnings will increase.

Octo's initial group of seven members (three women and four men) has remained relatively stable. Only two members have left. He is optimistic that the business will continue to grow, since demand is still higher than supply in Atambua. Once the poultry business is stable, he said enthusiastically, they will expand to raising pigs, which he hopes will provide more employment opportunities for youth in the village.

start their enterprises were all given after the receipt of business plans and the disbursement of grants. The trainers, however, did visit the youth groups on an ongoing basis to monitor their progress.

The groups encountered many problems during the first months of their businesses. Despite their demonstrated interest, lack of experience became a major obstacle. Because of the time gap between capital disbursement and skills training, they initially had to improvise and learn by doing. Those who raised poultry, for instance, received the start-up capital assistance before they knew how to build a barn. Those raising pigs lost much of their initial capital investment when their piglets were struck by disease, as they lacked the knowledge to identify and treat the illness.

Some groups were more successful in their attempts to learn by doing. The young people used their own social networks to identify appropriate markets for their goods and services. Those raising animals sought out information on upcoming ceremonies or feasts where there would be demand for meat. The group making bricks conducted informal market assessments to understand how to distinguish their product and found out about upcoming construction projects.

Businesses involving lower capital investment and fewer skills, such as motorbike washing,

were the most likely to fail – perhaps because of a lower potential for growth. Many members of these groups found little difference between the new business and their previous forms of employment, returning to occupations like *ojek* – or motorcycle taxi drivers.

Most businesses have an equal profit-sharing model. Although it was premature at the time research was conducted (2011) to understand the sustainability of these businesses, the groups recognized that with good bookkeeping, they would be able to access micro-finance for additional capital in the future. However, most said that they would avoid loans in the first year, citing a reluctance to take on liabilities.

Despite varying levels of success, these activities have provided young people with livelihood activities that keep them occupied and away from other non-productive or even delinquent activities. One of the group leaders pointed out that he used to be a gang leader but now has the ambition to expand his animal husbandry business.

Understanding the Belu case study

Several insights can be gleaned from this case study. The program in Atambua contains several successful strategies. First, it links youth entrepreneurial groups to start-up capital. In relatively remote areas like Atambua, economic development has historically relied heavily on government-sponsored activities. Economic dynamism is increasing, especially in the service sector, and there is growing potential for entrepreneurs. But marginalized groups in communities like Atambua can only capitalize on this situation and start their own businesses if they have access to affordable micro-finance.

Second, the program has encouraged more young people to consider the opportunity of starting a small business. On a related note, the intervention appears to have contributed to a reduction juvenile delinquency in the town. One can speculate that an increase in the amount of time young people spend productively has reduced idle time that can lead to delinquent activities. Additionally, young people for whom the program has promoted new aspirations now have more reason to stay out of trouble.

Finally, the program illustrates coordinated support between a government agency and a multilateral organization. Cooperation helped both agencies to fill the gaps in their program models, and the different types of assistance proved useful for the new entrepreneurs.

On the other hand, this case study reveals several challenges that must be overcome for an entrepreneurship program to have a meaningful and sustainable impact on young people. Coordination issues were apparent – both in terms of Indonesian ministries failing to fulfill their mandate, and in terms of the timing of complementary interventions.

Youth groups would have benefited from skills training prior to setting up their businesses, which could have been provided by the Office of Manpower and Transmigration or the Office of Cooperation and SMEs. At the national level, the Ministry of Home Affairs (MoHA), MoCSME and MoMT are responsible for mapping business prospects nationwide to supply the information for the GKN. In this case, the responsible ministries did not deliver and the task was passed on to the ILO. Reliance on assistance from multilateral agencies calls into question the sustainability of an initiative like the GKN.

Sequencing of programs during this intervention was a further challenge. Skills training was provided to young people in Atambua after the Start and Improve Your Business (SIYB) training. The mapping of business opportunities was undertaken after proposal writing, while it should have been carried out first so that youth could base their ideas on an understanding of untapped opportunities. As a result of these sequencing problems, some of the groups started businesses

without the proper skills and/or pursued a business idea with less viability.

Moreover, this entrepreneurship program highlights the need to better understand young people's aspirations and the environments that give rise to, or hinder, entrepreneurial ventures. While this chapter has focused on the Indonesian government's role in executing

an entrepreneurship program, other factors – including social and cultural particularities and differences in young people's aspirations – likely influenced the level of success these youth enterprises achieved. Understanding these factors is critical, as they can help policymakers develop entrepreneurship programs and training curricula most likely to benefit young people.

Conclusion

Entrepreneurship policies require strong, coordinated government institutions for effective implementation. Contrary to the notion that promoting entrepreneurship can stimulate job creation in environments where state capacity is weak, the program studied here could have had a much greater impact if the implementing agencies were more empowered and coordinated. Translating policy into effective implementation remains weak in Indonesia, due partly to its decentralized structure of government. For instance, MoHA and the other ministries responsible for mapping prospective business did not coordinate well with Dinas PPO, the local implementing agency. International agencies may fill some of these governance gaps, but this model raises questions of sustainability.

Entrepreneurship policies only work as part of a larger enabling framework. Skills training programs will do little to launch successful enterprises if they are not linked to start-up capital. Similarly, funding channels cannot be separated from education, training, and facilitated mapping of untapped business opportunities. A successful entrepreneurship strategy depends on an ecosystem of complementary interventions.

Support in the initial start-up phase must be prioritized. New entrepreneurs face great challenges in the first three months to one year after starting their businesses. During this critical period, they require coaching, mentoring, and guidance. Maintaining closer relationships with new entrepreneurs also enables better

monitoring and evaluation, critical to ensuring that initial training and follow-up guidance are relevant to the hurdles these start-up enterprises face. Government and multilateral organizations are investing in these entrepreneurs, so it is their interest to see that they succeed and create businesses that drive local economic development and job creation.

Policymakers require a better understanding of youth aspirations. Youth job creation policies must originate in an understanding of young people's aspirations and their environments.

Entrepreneurship programs will be most successful if they are targeted specifically to young people who aspire to own their own business. A more intentionally designed entrepreneurship policy will also help countries like Indonesia move the dial from "factor-driven" entrepreneurship to "innovation-driven" entrepreneurship, which tends to be higher-productivity. Further, understanding the types of young people not likely to benefit from the program described here can help policymakers evolve other strategies to improve the employment outcomes of these youth.

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