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The Growth of Southeast Asia's MSMEs

Funding winter presents opportunities to reboot for the future.

W

alk down most streets in Bangkok, Jakarta, or Manila and one will find the sidewalks teeming with

entrepreneurial activity. From food stalls to vendors selling clothes, bags and other items, the capital cities of Southeast Asia are a perfect illustration of the entrepreneurial drive and innovation of its peoples.

Micro, small, and medium-sized enterprises (MSMEs) are a vital source of income and employment in Southeast Asia. Whether they are start-ups or family-run stores, they play an outsized economic role especially in smaller cities and suburbs. And coupled with a growing urban middle-class, new opportunities will certainly emerge for young entrepreneurs.¹

by
Shoeb Kagda

There are at least 71 million MSMEs in Southeast Asia, based on 2020 data from the Asian Development Bank (ADB).² Such enterprises account for 97 percent of all businesses in the region and employ 67 percent of the working population. Many of these enterprises operate informally which means the numbers could be even higher. However, despite their huge numbers, MSMEs only contribute an average of 40.5 percent to their respective country's gross domestic product, as a result of their small size, lack of access to capital, and inability to innovate.

A large number of MSMEs are fully aware that in this new era, digitalising their operations will be critical for future growth. In terms of innovation, they are not focused just on developing new products and services but also on creating greater efficiencies in their operations. Transforming their business models in areas such as digitalisation, technology, sustainability, and talent development will therefore become as important as coming up with super apps in time to come.

SUPPORTING REGIONAL START-UPS

Indonesia, which alone has over 62 million MSMEs, is undergoing unprecedented change, propelled by a rising middle class and the adoption of digital technologies. The key challenge lies in helping these micro-enterprises to grow into larger companies, which will be critical to the country's future development. According to an ADB report, a third of young Indonesians, inspired by the founders of Gojek, Tokopedia, and Bukalapak, aspire to become successful entrepreneurs.³ These budding entrepreneurs need help and mentoring as well as access to capital, and the government is responding to these needs. The country's Ministry of Education, Culture, Research, and Technology has prepared a medium-term investment plan for higher education that promotes entrepreneurship at top universities and aims to accelerate innovation in new technologies.⁴

The rest of Southeast Asia is also putting down money to help build the next unicorn. Thailand has earmarked up to five billion baht (US\$138 million) to fund 10,000 start-ups by 2027, focusing on sectors such as agriculture, tourism, and electric vehicles.⁵ The Philippines has set up the DICT (Department of Information and Communications Technology) Startup

Grant Fund, handing out grants of up to a million Philippine pesos (approximately US\$17,000) to fast-track "proof of concept to prototype" and "prototype to the Minimum Viable Product (MVP)".⁶ Malaysia, which has been looking to augment its start-up ecosystem, recently announced 'Golden Passes' that promise venture capitalists (VCs) expedited clearance from the country's Security Commission, and also incentives for foreign start-ups that can prove they will attain unicorn status (i.e., reach US\$1 billion in valuation) by 2030.⁷

These efforts reflect Southeast Asia's rise as a hothouse for tech start-ups over the past decade. Led by the likes of Gojek in Indonesia and Grab in Singapore, many of the region's start-ups have enjoyed solid growth over the past 10 years. This has led to the emergence of a new breed of entrepreneurs in the region who are young, highly educated, and tech-savvy. Leveraging on technology and innovation, these firms have been driving change and disrupting established industries such as finance, health, retail and logistics, and education.

In 2021, 15 start-ups achieved unicorn status through investment rounds, including Vietnam-based Sky Mavis, a blockchain-based video game developer, and Advanced Intelligence Group, a Singapore-based AI (Artificial Intelligence) financial services provider that operates in 12 markets across Asia and Latin America.⁸

WINTER IS COMING

But as the global funding winter continues to drag on, a fundamental shift is underway within the start-up ecosystem in Southeast Asia. According to Jason Lee, co-founder of Jakarta-based BintanGO, a start-up that helps connect content creators with producers and publishers, the funding winter has forced start-ups to freeze hiring and scale down their operations. In fact, funding from VCs for the region fell by 65 percent in the first half of 2023 from the previous year to just US\$4 billion, noted Preqin, a global financial data provider on start-up investment and venture capital.⁹


"Investors are still cautious, and they are saving their funds for existing portfolio companies, rather than investing in new start-ups," Lee said. "In fact, many VCs are encouraging their start-ups to expand beyond just Indonesia to also invest in other Southeast Asian markets."

BintanGO raised US\$2.2 million in fresh funding in 2023 to help it expand its services to encompass live commerce platforms. The start-up offers content creators a suite of tools for productivity, monetisation, and financial solutions to enhance their endeavours.

Lee added that while the current mood may be depressed, investors are still positive about the long-term outlook for the region. With over 71 million MSMEs in Southeast Asia, entrepreneurship is the foundation of the economy, as well as an integral part of the social fabric. Owning and running a business is highly valued within society and a new generation of business leaders has arisen.

Indonesian entrepreneur Sirly Nasir is familiar with the challenges of running her own business. She founded SWN PR & Advisory, a full-service strategic public relations and communications advisory firm. As part of her work, Sirly advises start-ups on branding, and she actively participates in initiatives to empower women-led SMEs in Indonesia. "There are still many incubators and accelerators helping start-ups in Indonesia," she commented. "The enthusiasm is still there but there has been a reboot, and investors are re-educating the market on the fundamentals of running a business."

CONCLUSION

Despite these challenges, Southeast Asia continues to witness a steady rise in MSMEs, including start-ups, driven by resilience, government support, and a growing risk appetite among founders and investors. Identifying the right opportunities for budding entrepreneurs, however, will require a data-driven approach, in view of the increased adoption of technology, and more in-depth research to map and measure entrepreneurial behaviour in the region. 



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