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Exploring The Role of Government Policy in Shaping the Startup Ecosystem in Indonesia: A Literature- Based Analysis

Silvy Astari [1]*

silvyastari@unbrah.ac.id
[1*]Management Departemen, Faculty of Economics and Business, Universitas Baiturahmah

*Correspondence

Abstract

The government has implemented policies to support the development of the startup ecosystem due to the significant contribution of this industry to Indonesia's economy. Therefore, it is necessary to further examine the growth of various types of government policies. This study is qualitative research in the form of a literature review. The data sources used are news, articles and reputable journals published between 2020 and 2025. The findings of this study show that the government has introduced various policy measures and has successfully increased the number of startup companies in Indonesia. However, given the intense global competition among startups, the government must enhance its support and introduce policies that strengthen the resilience of Indonesian startups in the future.

Keywords: government policy, startup company, startup ecosystem

INTRODUCTION

According to startup ranking in 2020 Indonesia is the fourth country with the highest amount of startup company in the world. The market is keep expanding and the government need to create policy that could attract venture capital local and international to invest on startup company-based Indonesia. According to Katabox, Indonesia ranked sixth globally in 2024 with 2,566 startup companies. The data indicate that Indonesia has emerged as one of the leading countries in terms of the number of startup companies. Moreover, there are significant increase of amount startup company, according to startup ranking 2020 the amount of startup company in Indonesia is 2195 however in 2025 the amount is increase 25% percent to 2758 startup company. The rise of startup companies could be derived from external and internal factors. The factors such as management team, innovation, funding, fit with the market, networking, government policy, etc.

Startups represent a modern business model characterized by exceptional growth potential and a lean workforce, which requires high operational efficiency. A defining feature of startups is their strong emphasis on innovation, which sets them apart from traditional firms and enables them to remain competitive in a dynamic market environment. Bagno et al (2020) argues that startup companies are early-stage companies, usually based on technology, innovative business models, low initial investment and have high growth potential with extreme uncertainty conditions. As the startup company has a strong relationship with innovation and creativity, The Ministry of Tourism

and Creative Economy (Kemenparekraf) mentioned that in the first semester of 2024, the creative economy had generated an added value of IDR 749.58 trillion, representing approximately 55.65% of the annual target of IDR 1,347 trillion.

To growth faster, capital is crucial in startup companies to develop. Capatina et al. (2023), Donaldson et al. (2024), Colombo and Grilli (2023), argue that startups at early-stage capital—especially from personal savings, government grants, or angel investors—demonstrate stronger innovative capacity and more likely to survive in the long-term. However, the used of capital should be monitored, Hossinger et al. (2023), Findings from Germany's EXIST initiative indicate that successful grant support requires alignment with a startup's developmental stage and unique needs, rather than simply offering financial aid.

Besides capital, Mueller (2024) assesses public funding programs and concludes that strategically targeted funding, particularly when combined with mentorship and networking opportunities, significantly improves startup performance outcomes. the internal factor that could be controlled by the startup company,

External factors such as government support are also essential in startup performance. Singapore that has increase significant amount of startup in the past 10 years. The main strategy is making strategic government policy to create stable startup ecosystems. Ranukadevi (2024) argues that financial support from government, regulations starting new business, novation policy and intellectual property rights, implementation challenges, tax incentive, global comparative study. These factors could strengthen the startup ecosystem because it could create new employment opportunities and economic development. With that support, Bernadus et al (2024) found that A combination of well-designed public policies, active business incubator support, and a sustainable entrepreneurial ecosystem structure is the key to fostering the growth and success of startups in Indonesia. Those papers imply that the government regulation can increase the amount of startup companies, drive the relationship between government, university and private industry to create an effective and efficient startup company environment.

That social capital can influence the success of the startup company Donaldson (2024) argue that Startup performance is not determined by a single variable but by a combination of social and innovative factors. Social capital plays a crucial role, especially when combined with social competence and innovation capability. Therefore, incubators and accelerators should not only focus on product innovation but also on developing networks and the soft skills of startup founders

Previous research found that there are many factors that impact the startup company, however the factor would have different impact depends on the startup company capital stage and country characteristic. By identifying the regulations made by government institutions and the collaboration between the government authority. Institution in Indonesia collaborate to create policy to boost the amount of startup company. By collaborating with government and private universities, it could foster creativity by providing incubators. These incubators made by university enhance the institution contribution to startups by facilitating idea generation, supporting execution, and accelerating growth—ultimately aligning innovations with customer needs and product loyalty.

The government has a role in making a policy such as bridging programs for new startup companies with funding companies, creating a workshop, making a policy to attract foreign venture capital to invest, etc. This research focuses on government policy due to the lack of comprehensive studies that specifically analyze the evolution of such policies in Indonesia. As one of the leading countries in terms of the number of startup companies, Indonesia's startup growth cannot be separated from the influence of government initiatives aimed at encouraging the establishment of new entity. In this paper, we examine government policies from the past five years to trace and differentiate the progression and direction of these policy efforts. This research provides a reference indicating that the development of government policies may be utilized by various stakeholders to support the growth of startup ecosystems across different environments.

The objective of this study appears in Indonesia because it is one of the countries who have high number of startup company. As government policy and program is crucial then it need more understanding what program that have been made by Indonesia government. Even though other factors is important study the type of program could be beneficial to Indonesia government to evaluate the program that have been made and to other party in observing the effective policy to build strong startup ecosystem.

LITERATUR REVIEW

The ecosystem of startup companies is sufficient; this situation could derive with the support of government policy. Study from Bermen et l (2022) suggest that financial performance could be achieved by an innovative startup company by having social competence and ecosystem support. Cot et al (2023) argue that the government policies have been consistently highlighted as critical enablers for startup success. In Barcelona's local digital transformation strategy illustrates how municipal policies that provide shared infrastructure—such as co-working spaces and labs—create a fertile ecosystem for early-stage ventures, enhancing collaboration and market access for startups. It can be implied that ecosystem startup support by government policy and program can increase the amount of startup company. When the government policy is fixed and provides convenience to new established startup companies it could attract investors and encourage young talents to build the startup company.

The program such as incubator by collab with the university, bridging program with industry and workshop in developing new startup is prominent. A systematic review of IT startups by Santisteban and Mauricio (2017) found government support as a crucial external factor during the seed stage, particularly when combined with founders' experience, emphasizing the synergy between public backing and individual capabilities. Complementary findings in the policy literature show that nascent-stage ventures depend heavily on early public funding, such as competitive grants and technology access programs that bridge the gap between academic research and market-oriented development. Grants and funding from the government for startup companies in the first stage need to be developed by classifying the startup company.

Digital startup research further highlights that well-targeted policy interventions are essential. These include business model innovation support, e- procurement platforms, and public-private partnership promotion to sustain the growth of digital startups. Subrahmanya (2022) Additionally, ecosystem-focused literature emphasizes that factors such as access to finance, human resource quality, and mentoring—often shaped by public policy—are indispensably linked to the competitive health and survival of high-tech startups.

Public investment in government-backed venture capital (GVC) has been empirically shown to elevate startup productivity, sometimes outperforming purely private funding channels—highlighting the catalytic role of strategic state funding in driving startup scaling. Sustainability-focused startups also benefit from supportive public policy. A bibliometric review notes the relative under-exploration of government's role in sustainable startups, while pointing out that SDG-aligned public programs generate growth pathways for green innovation.

More broadly, network governance theory and the triple helix model outline how government policies that encourage institutional collaboration between academia, industry, and civil society cultivate innovative environments conducive to startup emergence and growth. Whetsell (2019) Studies from the semiconductor and strategic industry sectors reinforce this, demonstrating that government-sponsored network creation accelerates inter-firm ties and constructive clustering—factors closely tied to startup resilience. Non redundant policy made by the government needs to be guaranteed. This concern arises from the possibility that startups might repeatedly engage in similar programs that offer limited added value to their development. Hence, it is essential to establish a well-defined classification of policies."

Finally, Serio (2022) sustainable and green-tech ventures in Europe show higher survival rates when backed by environmental regulations and public incentives—consistent with Porter's hypothesis that well-designed regulation can drive innovation and competitive advantage. From previous research it can be concluded that the government policy has a high impact on the startup ecosystem. Government policies should be implemented in accordance with their respective sectors and remain consistent from year to year to ensure stability and security for entrepreneurs in establishing their businesses.

RESEARCH METHODOLOGY

This research is a qualitative method using news, articles and journals from reliable sources from 2020 to 2025. In this research we analyzed the Indonesian government policy and program that have been conducted to increase the amount of startup company and support the startup ecosystem. We analyzed government policy from 2020-2025. As the number of startups increases 25% in five years, it needs to analyze what type of policy that has supported the startup company industry.

This study adopts a qualitative research approach, specifically utilizing a structured literature review method to investigate the role of government policy in the success and development of startup companies. The literature review method is considered appropriate for this research as it allows for a comprehensive synthesis of existing scholarly findings, theoretical perspectives, and empirical evidence related to policy interventions and entrepreneurial growth. By reviewing and analyzing previous studies, this research seeks to identify key policy instruments, patterns, and factors that contribute to or hinder the success of startups across different contexts. The main objective of this methodological approach is not only to summarize past findings but also to critically evaluate the effectiveness of various government initiatives and how they interact with the broader entrepreneurial ecosystem.

The combination of thematic analysis and narrative synthesis enabled the researcher to develop a nuanced understanding of how public policy shapes startup ecosystems. It also allowed for an exploration of best practices, gaps in current policy implementation, and opportunities for future improvement. Although this study is limited to secondary data obtained from existing literature, the methodological rigor applied in the selection, evaluation, and synthesis of the journal articles provides a solid foundation for generating insights. Moreover, this approach supports the development of evidence-based recommendations for policymakers, practitioners, and academics interested in fostering innovation-driven entrepreneurship through well-designed public interventions.

RESULT AND DISCUSSION

Based on our review from program was made by Indonesian government to increase the amount of startup company is by making incubator, competition, workshop, mentoring held by Ministry of Communication and Information, Ministry of Tourism and Creative Economy, Ministry of Research and Technology, Ministry of Education, Ministry of SME, etc. The program has different names, but they have the same goals. Creating a startup ecosystem that enables development and long-term survival

The Ministry of Communication and Information has two main programs: National movement of 1000 startups and Startup studio with the same main goal is to develop startup digital ecosystem. Startup studio National movement of 1000 startups focusing on ideation stage is the early stage when the participant wants to develop their business which means the in this program the participant will get basic knowledge to create startup company and there is no specific discussion about funding. However, startup studio Indonesia is focus on the participant in early

stage. Means that after the participant follows the National movement of 1000 startup, they can join the startup studio. In this program the participants should have minimum viable products but still have lack or problem in finding their market fit, access to networking business and coaching the active founder of startup company.

The National movement of 1000 startups established 2016 until present. This program connects mentor, founder, and new startups to create startup digital ecosystem by sharing knowledge and experience. The program consists of ignition, workshop, hack sprint, bootcamp and hatch. However, Startup studio Indonesia established 2020 supports early-stage startup companies by focusing on accelerating product and team development, validating strategies, enhancing growth marketing, and assisting with technology advancement and business skills. Lal et al (2023) argue that Communication training and introduction strategy interventions proved to be more effective in building real mentoring relationships. Entrepreneurs who actively explored the platform and crafted more personalized messages had a significantly higher chance of receiving responses from mentors. The program that have been made, assist the startup company to growth in the future and able to execute the idea to become a product.

Both of this program completed each other, however the national movement of 1000 startup is conducted in 20 main cities with almost 50% of its activities concentrated in the java island. This geographic imbalance contributed to the fact that java not only has the largest population but also dominates the amount of startup in Indonesia. Beside the startup studio Indonesia program held in online sessions, certain information share in online meeting but only selected participant can join the program. By distinguishing the website and the advertisement of this program, several websites explain the activities cannot be open and this situation may limit its reach and visibility to aspiring entrepreneurs across the country. The advertisement should be more conducted, since online meetings could be followed by many participants.

This situation highlights the needs for the government to expand startup development effort outside java island, because the needs of other potential area. Fostering a startup ecosystem in other provinces is essential for achieving balanced economic growth and developing innovative opportunities from diver's local context.

Kedaireka etablished in 2021 is an initiative developed by the Indonesian Ministry of Education, Culture, Research, and Technology to strengthen collaboration between universities and industry in the development of innovative products. This is a program competition for university students to create innovative products and will be funding by government. This platform serves as a strategic bridge, enabling research output and innovations from academic institutions to be aligned with the practical needs of the industrial sector.

Through programs such as Matching Fund, link-and-match schemes with the real sector, and an integrated digital platform that connects lecturers' ideas with industrial demands, Kedaireka facilitates the commercialization and societal application of academic research. The initiative aims to overcome the long-standing issue in which many research outcomes remain underutilized domestically or are commercialized abroad due to a lack of local industry collaboration.

By encouraging synergy between academia and industry, Kedaireka enhances the potential for high-impact innovations, supporting the development of knowledge-based industries. It also addresses the increasing demand for industrial competitiveness, where innovation is a key driver of value creation. Universities, through research and scientific capacity, can play a vital role in supporting companies to innovate, adapt, and grow within the national and global market landscape. Schiuma (2018) argue the universities play a vital role as producers and disseminators of knowledge within local innovation ecosystems. Effective collaboration requires a systemic approach, supportive organizational structures, and an evaluation framework based on both quantitative and qualitative indicators.

The government has amended regulations to reduce bureaucracy in establishing startup companies as The Job Creation Law (UU Cipta Kerja). Introducing a risk-based Online Single Submission (OSS) system. This system categorizes new businesses into low, medium, and high-

risk groups. For low-risk businesses, obtaining permission is simplified through the issuance of a Business Identification Number (NIB). In addition to easing licensing procedures, the government also supports research and innovation by promoting collaboration between research institutions and industries, while providing incentives to foster innovation.

There are several challenges in the implementation of the OSS system. One major issue is the lack of outreach and socialization in remote areas, which limits awareness and access for potential entrepreneurs. Additionally, the readiness of human resources and digital infrastructure at the local level remains inadequate, creating obstacles for smooth system adoption. Moreover, many business actors, particularly small-scale entrepreneurs, still face difficulties in understanding and navigating the online system, which hampers the effectiveness of the policy in promoting inclusive and widespread business formalization.

Research Mingkid et al (2023) found that The Job Creation Law (UU Cipta Kerja) has been proven to drive significant transformation in business regulations, accelerating the process of financing and business licensing for MSMEs, and creating a more competitive business environment. Its impact extends beyond legal structural aspects to economic and social dimensions, including job creation and the improvement of public welfare. Government policies have been well formulated; however, effective monitoring of on-the-ground implementation is essential. This aims to prevent irregularities and ensure that regulations are applied fairly and consistently to all parties intending to establish a business.

CONCLUSION

Startup companies in Indonesia have demonstrated progressive growth over the years, contributing significantly to the nation's economic development. One of the key driving forces behind this growth is government policy, which has played a crucial role in fostering the establishment and development of startups. This paper focuses on the policies enacted by Indonesian authorities to support the startup ecosystem.

Multiple government institutions are actively involved in shaping a stable investment and innovation environment, including the National Research and Innovation Agency (BRIN), the Ministry of Education, Culture, Research, and Technology, the Ministry of Tourism and Creative Economy, the Ministry of Communication and Information Technology, and the Financial Services Authority (OJK). Each institution formulates and implements policies within its scope of responsibility, contributing to different facets of startup development.

However, based on our findings, a disproportionate concentration of startup-related programs and activities is observed in Java Island, which currently hosts approximately 60% of Indonesia's startups. Jakarta located in Java Island, has become the city with the highest number of startups in the world. This geographic imbalance may hinder the identification and nurturing of innovative potential in peripheral and rural regions. Moreover, it may contribute to socioeconomic disparities, such as urban migration from suburban and rural areas to major cities, resulting in increased population density and uneven economic development.

Another challenge identified is the limited awareness among startup founders regarding government-initiated programs. This indicates a need for improved promotion and outreach strategies to ensure that these initiatives reach their intended beneficiaries. Enhancing participation could also be facilitated by engaging experts from the startup ecosystem and increasing the visibility of support programs through targeted communication strategies.

Furthermore, effective support mechanisms, including mentorship, monitoring, and resource provision—require stronger collaboration between government institutions and academic stakeholders. University-affiliated incubators, for example, are widely acknowledged as critical in helping startups navigate early-stage challenges and avoid failure during the initial phases of their lifecycle.

Our analysis also reveals a lack of inter-agency coordination. Many government bodies appear to implement programs independently, without strategic alignment or collaboration. Establishing cross-institutional partnerships could enhance the efficiency, reach, and sustainability of startup development efforts.

On a positive note, the involvement of domain experts as program facilitators and the consistency of annual activities reflects a commitment to long-term ecosystem building. the Indonesian government has made commendable efforts in formulating various policies to support the startup ecosystem. However, it would be more effective if these efforts were guided by a long-term strategic plan that serves as a foundation for policymaking, ensuring that future policies evolve in alignment with clearly defined directions.

The primary limitation of this study lies in its reliance on secondary data sources, including news reports, academic literature, and policy documents. A more comprehensive understanding could be achieved by incorporating primary data through interviews with government officials to gain insight into the policy-making process. Additionally, future research should include the perspectives of startup founders to evaluate whether they perceive existing government support as adequate and impactful for their business growth. And comparison between government policy from different countries it is advisable to be done.

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