Semarang SME Resilience Profile

Semarang Batik Towards a Premium, Green Industry

CATALYZING CITY RESILIENCE SOLUTIONS FOR SMALL BUSINESS
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Introduction

Catalyzing City Resilience Solutions

In Semarang (Indonesia), the Resilient Cities Network (R-Cities) is running the Catalyzing City Resilience Solutions (CCRS) program with support from the Citi Foundation to help the local economy recover from the Covid-19 pandemic. This recovery will catalyze urban resilience by empowering and strengthening a selection of critical small and medium enterprises (SMEs) to develop locally relevant solutions.

Together with the local government in Semarang, R-Cities identified the opportunity to use the CCRS program to support the traditional textile community (the Batik community), one of the leading sectors in the city, in innovative ways. By co-creating interventions or solutions with the local government in Semarang and local SMEs as the main program beneficiaries, the program will emphasize the importance of the economic, environmental and social aspects of the Batik industry's business processes.

SME Resilience Profile

To ensure that all program activities respond to the city's needs and are grounded in the realities that the critical SMEs are facing, the CCRS program starts by assessing the challenges that the Batik industry is facing to understand the role, relationship and impact of the industry for the community.

This Semarang SME “resilience profile” summarizes the results of the assessment process carried out by the local implementation partners: the Initiative for Regional Development and Environmental Management (IRDEM) and the Center for Urban and Regional Resilience Research (CURE) at Universitas Diponegoro, in close coordination with the local government in Semarang.

Context

Batik SMEs as a new economic opportunity for Semarang

Semarang is the fifth largest city in Indonesia and is considered one of the country’s strategic hubs. The city is experiencing rapid urbanization as its population continues to grow, while unemployment remains high. Semarang needs to creatively explore additional economic opportunities to minimize the rate of unemployment.

The Semarang City Resilience Strategy, published in 2016 by the local government in Semarang, recognizes the development of SMEs as a new economic opportunity that has the potential to become a future generator of economic development and employment in Semarang.1 One of the leading SME sectors in Semarang is the Batik (traditional fabric) industry.2

On 2 October 2009, Indonesian Batik was designated by UNESCO as a Humanitarian Heritage for Oral and Non-Cultural Culture in terms of its technique, technology, patterns and culture.3 Batik from Semarang was further recognized when Kampong Batik (Batik villages)4 were declared a cultural heritage of Indonesia in 2011.5

The local government in Semarang has been supporting the Batik sector by training Batik producer groups and promoting Kampong Batik. The city encourages such Kampong Batik to become leading tourism attractions, increasing their economic activity.

However, efforts to pursue this new economic opportunity have been hampered by flooding, rob (tidal flooding) and the Covid-19 pandemic. The pandemic restricted activities and events, which led to a decrease in market demand for Batik, disruptions in production, business closures, and layoffs. Ultimately, the Batik sector, which had been expected to be a labor-absorbing sector, instead became a contributor to the increasing unemployment rate in Semarang during the pandemic.

1 The Semarang Resilience Strategy identified six pillar initiatives that would favour a resilient Semarang: sustainable water and energy; new economic opportunities; readiness for disaster and diseases; integrated mobility; transparent public information and governance; and competitive human resources (source: Semarang Resilience Strategy).
2 Batik is a dyeing technique using hot wax to resist coloring and requiring multiple repeats to get the desired pattern (source: UNESCO).
4 Kampong Batik, also known as centers of batik, are villages with a strong history of batik, and where batik artists/SMEs are located. There are several Kampong Batik in Semarang.
5 Stated in Semarang City Regulation No. 14/2011 regarding the Semarang Spatial Plan (source: Semarang City).
Understanding the SME Ecosystem

Introducing the Batik Ecosystem in Semarang

Batik businesses

There are around 300 batik SMEs in Semarang – 90 percent are categorized as micro-enterprises while the rest are small (8%) and medium (2%) enterprises.6

The Batik SMEs are grouped into four clusters based on their different themes and characteristics (see Figure 1). The clustering aims to create collective efficiency in business cooperation between SMEs. Currently, the Batik clusters play a role as a forum for dialogue as well as a platform for training and promoting Batik products.

The batik production process

The Batik production process takes place across four main stages: input, Batik making, output, and distribution. Batik SMEs in Semarang focus mainly on the Batik making and output stages. The input or raw materials for Batik, such as cotton or silk, wax, dyes, and tools, are obtained not only from Semarang, but also from suppliers in the neighboring cities including Solo, Yogyakarta, and Pekalongan.

Figure 1: Batik clusters in Semarang

Figure 2: Value chain of the Batik industry in Semarang

6 The World Bank categorizes enterprises based on the number of employees. Micro-enterprises have fewer than 10 workers, small enterprises have 11-50 workers, and medium-sized enterprises have 51-300 workers.
Within Batik SMEs in Semarang, 80 percent of the craftspeople are women, 48 percent of whom are between the ages of 45 and 54. Most are educated to high-school or Bachelor’s degree level. Most of these women are housewives who use their spare time to create Batik products.

However, SMEs are not the only actor in the Batik industry; there are various actors involved including local government, the private sector, raw-material producers, designers and others. Each of these stakeholders has an essential role in carrying out different activities along the Batik value chain.
Shocks and Stresses

Challenges facing Batik SMEs, from the pandemic to pollution

**Shocks**
- Pandemic

**Stresses**
- Unemployment
- Inadequate wastewater treatment
- Water pollution
- High production cost
- Lack of business and marketing strategy

The Covid-19 pandemic has led to a decline in the Batik economy in Semarang. The biggest market for Batik is uniforms, especially for government agencies and educational institutions, as workers in Semarang often wear Batik uniform to the office. However, the change to work-from-home policies during the pandemic negatively impacted the use and demand for Batik products. Batik SMEs saw their sales drop by about 83 percent. There was also a significant decline in tourist visits.

In response to this, the SMEs had to reduce the volume of Batik production, lay off workers and transition their businesses to other activities. As a result, most Batik SMEs experienced a significant decrease in business, with 34.5 percent of them stopping their business.

However, even during times of business as usual, Batik production contributes to environmental issues that the city wants to address. Among over 300 Batik SMEs, only 24 percent of them use natural materials; the majority use synthetic materials or a combination of natural and synthetic materials in the dyeing process. Since only 19 percent of SMEs have or use a wastewater treatment plant before disposing of materials, there is a high risk of polluting the land and water bodies and, ultimately, threatening public health.

Although natural dyes have a lower environmental footprint, SMEs are hesitant to fully transform their processes to use all-natural coloring for several reasons: a) natural dyeing requires more clean water and complicated techniques to produce a single fabric; b) it takes a longer time to process at 5-7 days, while synthetic coloring only takes 2-3 days; c) there is smaller local demand for natural-colored Batik. All these reasons imply higher production costs and, therefore, a higher selling price.

Currently, Batik SMEs focus their efforts solely on the local market with synthetic-colored Batik, as it is cheaper to produce and easier to sell. While naturally colored Batik is quite attractive on the international market and for particular groups, such as collectors, the Batik SMEs in Semarang currently lack the business and marketing skills needed to promote Batik Semarang to a larger, global market.

To assess the resilience of Batik SMEs in Semarang, three categories were established:
- **Resilient SMEs** are defined as SMEs that can mitigate the impacts of a shock event and continue to carry out production activities as per normal.
- **Coping SMEs** continue to operate, albeit with more limited capacity – for example, they may need to reduce staff and/or production levels.
- **Vulnerable SMEs** lack the capacity and resources to survive shock events and most of them must close their business.

During the pandemic, only 8.2 percent of Batik SMEs, those categorized as resilient SMEs, could mitigate the economic impacts by having a clear business vision and a robust business model and by being able to enter the digital market and/or switch to producing premium Batik. More than 90 percent, which mostly consist of micro- and small businesses, were struggling to continue the business and most of them had to discontinue production, which was exacerbated by their lack of capacity to innovate or digitalize their business. This group is categorized as the coping and vulnerable SMEs.

Premium products include hand-drawn batik made of cotton or silk, or woven with motifs that have an exclusive impression with their natural colours and old-fashioned look.
Gaps and Opportunities for Resilient Recovery

Semarang City is working towards a resilient, green and premium Batik industry by continuing collaboration between relevant actors.

Semarang seeks to pivot the development of Batik towards more environmentally friendly and sustainable fashion by using natural coloring. This will require various capacity-building programs for the Batik SMEs to raise awareness of environmentally friendly methods and to provide guidance on how to transition their business processes to be greener and more sustainable. In addition, Batik SMEs must understand how to strategize and target different market segments; since naturally colored Batik is more expensive, they must strengthen their marketing of premium Batik to reach a more niche market.

Batik SMEs in Semarang need to build their confidence to follow this path and build their capacity to allow them to actively develop the market. As such, a collaboration between Batik stakeholders should be encouraged to strengthen the business ecosystem.