

## **Analysis On Micro And Small Scale Enterprise Assistance Program In Wetland Areas Of Siak District As A Regional Business Development Program**

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### **Abstract**

Siak is a District with adequate economic development despite the absence of oil and gas sector, reaching a growth rate of 3.12 in 2018 with a poverty rate of 5.44 which was better than the poverty rate of Riau Province. In Siak District, the service sector absorbs the largest number of worker, while the trade sector placed the second. The number of micro and small entrepreneurs in Siak District by the end of 2019 has exceeded 3001 business units registered in the regional government database. This study involved small and micro enterprises in Siak District as samples, particularly in Wetland areas in Sei Apit and Sei Mandau Sub-Districts. Business players in the Wetland area had a unique ability in developing their business. The empowerment of business players in Siak District is expected to integrate socio-cultural values of foreign cultures into the local ones. Considering the available resources, the strategies used to achieve the goals and objectives were proposed as follows: a. Strengthening, facilitating and connecting the community organizations and universities to strengthen the role of business actors in the economic sector at the central and regional levels; b. Increasing the knowledge, attitudes and skills of small and micro business managers; c. Improving and developing the partnerships and networking..

**Keywords:** CSR, Micro Small and Medium Enterprises (MSMEs), Strategy

**Korespondensi:** Nama lengkap penulis utama dengan gelar. Institusi asal penulis utama. Alamat institusi penulis utama lengkap dengan kode pos

### **1. Introduction**

The national development paradigm that emphasizes the principle of decentralization has designated district governments (pemekab) as autonomous regions in charge of carrying out their own regional developments. District governments are required to be capable of governing their regions through proper planning, implementation and supervision of certain goals and to administer precise regional development of local potentials. Local governments are also responsible for solving all problems in their regions and are expected to have adequate creativity in carrying out regional development for better welfare.

The era of globalization, particularly the Southeast Asian regional market era that will start to apply in 2015 should be well-anticipated by local governments to face regional, national and international competitions. Regions should develop strong regional competitiveness which enables them to create, produce and / or serve regional, national and even international trade products. Regional economic development should be strong enough to bring the regional economy to productive and efficient direction which will allow their products to compete in the market and increase the regional revenue/community welfare.

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Increasing business competitiveness can be done by carrying out a development process that aims at (1) developing regional economic potential; (2) strengthening the capabilities of human resources (HR) and science and technology; and (3) improving connectivity / logistic networks, transportation, and information and communication technology (ICT) between regions at regional, national and international levels. The development of regional economic potential must be supported by competent human resources and the use of technology should be accompanied by strong networks. Some developed countries / regions have proven that the development and use of technology accompanied with qualified human resources provided economic benefits. Therefore, regional competitiveness can be enhanced by developing the economic potential along with enhancement in the absorption, mastery and utilization of technology. Micro, Small and Medium Enterprises (SMALL AND MICRO ENTERPRISES) constitute the largest segment of national economic actors. SMALL AND MICRO ENTERPRISES are able to sustain during difficult economic situation when the economic crisis hit Indonesia. Even more, SMALL AND MICRO ENTERPRISES were able to contribute to the process of national economic recovery. Similarly, in the 3rd quarter of 2017 when the global price of fuel oil was expected to affect the Indonesian economy, the Central Statistics Agency (BPS) per October 2018 stated that as of September 2017 the number of poor people during the last 10 months has decreased to 2.3 million people. Likewise, the number of unemployed fell by 1.4 million people. This success was due to the effect of community-based economy promoted by the Indonesian government to address poverty and unemployment issues.

The data released by the Ministry of Cooperatives and SMEs of the Republic of Indonesia, SMALL AND MICRO ENTERPRISES in general have been well-developed over the years. In 2010, the total number of SMALL AND MICRO ENTERPRISES was 52,769,426 which then increased to 63 million currently. As published on [depkop.go.id](http://depkop.go.id) website, the number of SMALL AND MICRO ENTERPRISES in Indonesia has reached 99.9% of the total business units in Indonesia. It can be concluded that SMALL AND MICRO ENTERPRISES have a major role in contributing to economic growth of the nation. The Ministry of Cooperatives and SMALL AND MICRO ENTERPRISES in 2017 stated that SMALL AND MICRO ENTERPRISES were still the largest number of business actors, reaching 62.92 million business units or 99.99% of total business actors in Indonesia.

Siak District is a district with fairly good economic development even without oil and gas enterprises with a growth rate of 3.12 in 2018 and poverty rate of 5.44, which poverty rate is much better than the one of Riau Province. In Siak District, service sector absorbed the largest number of workers followed by the trade sector in second place. Low business productivity is caused by several factors, including: (1) inadequate knowledge of farmers in managing their gardens, (2) limited use of technology (3) low production quality (4) oligopsony market structure (5) lack of capital. The capital factor is the most challenging problem that farmers experienced, especially in rural areas. Low capital makes farmers unable to employ the advancement of technology for better production inputs, such as quality seeds, production facilities and etc. As the result, production remains low in term of quality and quantity, low selling price, low income, limited savings, limited reinvestment, and limited use of technology to increase productivity. This cycle is difficult to break, causing many farmers to get caught in poverty.

This cycle needs to be broken by providing capital aids to micro-entrepreneurs in a way that is more accessible and productive by utilizing capital resources from the government through the relevant ministries or by applying for loans from banks or other formal financial institutions. However, various studies revealed that fact that many small farmers applied for loans from non-formal financial institutions with high interest rates. In this situation, micro-entrepreneurs will experience losses and the average income they obtain will remain low.

Based on the advantages and obstacles experienced by SMIs as described above, the government as the policy maker needs to prepare plans to make IKMs independent and strongly competitive. IKM must be given the opportunity and guidance in the form of accurate information to develop their own business such as determining the right products to sell, the selling price and the target market of the products. With broader opportunities and guidance, it is expected that SMIs will have high competitiveness in both local, regional and international markets.

The excellence of Small and Medium Enterprises (IKM) in Siak District is developed by two main factors. First, high local content in the production input. High local content occurs as the raw materials are abundant there. Second, commodities are produced with local uniqueness which give added value to the product, making them more competitive in the market.

However, apart from those advantages, IKMs also experience some challenges including: First, the production of small and micro enterprises still relies on local markets and domestic demand as a source of turnover except for certain products. Not many IKM products, even those from medium-sized enterprises, are

capable of directly penetrating the export market. Second, the weak ability to innovate and easily-satisfied feeling with the current achievement are factors that hamper the ability to compete, resulting in less-competitive products. Starting from these conditions, an integrated and sustainable action plan for SMALL AND MICRO BUSINESS DEVELOPMENT is needed to support SMALL AND MICRO ENTERPRISES in Siak District as the pillar in the acceleration and expansion of the local economy, especially in Riau Province.

The problems explained above are common conditions that occur in Indonesia, including in Siak District. Therefore, strategic steps should be formulated in the form of Micro and Small Business Development Program in the Wetland Area of Siak Regency as attempt to enhance Regional Business Development.

## **2. Materials And Methods**

### **Setting**

This study took place in Wetland Area in Siak District as it is region set as the Regional Business Development Area of Riau Province. The areas are located in Sei Apit Sub-District and Sungai Mandau.

### **Determination of Sample Size (if necessary, adjustable)**

The subjects of this study were classified into respondents and informants. Respondents were micro and small business actors who completed the questionnaires amounting to thirty people and consisting of 15 micro and small entrepreneurs in Sei Mandau and 15 micro and small entrepreneurs in Sei Apit. All of respondents were assisted by the local government through assistance program in the last two years. Furthermore, 10 business institutions also participated in the IKM program.

The informants in this study consisted of business actors from small and related micro businesses, especially those who had the information about the IKM development program held by the government. The informants were purposively selected. The number of informants was not limited in order to obtain holistic picture about the program.

### **Data Analysis**

The qualitative data obtained in this study were analyzed in the form of description and interpretation about phenomena found in the field. The qualitative data included data on implementation of the IKM assistance program carried out by the Government. Other qualitative data were related to the benefits obtained by the IKM from participating in the program.

## **3. Results**

### **The Characteristics of SMALL AND MICRO ENTERPRISES Players**

In general, owners of SMALL AND MICRO ENTERPRISES in the wetland area of Siak District aged about 40 years old with an average business experience of 8 years. They were mostly high school graduates with total length of education of up to 10 years. The majority of the respondents had 3 family members. 43% of them were high school graduates and 26.67% of them were secondary school graduates. Only 20% of them were primary school graduates, and 10% of them had diploma degrees. It can be concluded that most respondents only attended secondary education, even none of them had bachelor's degree. This condition is alleged to be one of the factors inhibiting the progress of small and micro enterprises in wetland. Small and micro business owners with low and intermediate education are very lacking in the ability to apply advanced technology, while sales strategy has been performed using the latest technology and information which is the key to the business success in digital economy era.

In wetland, managing a business is not a favorite option. The community rather prefers working in the plantation and agricultural sectors as the main choice of sources of income to running an enterprise. Thus, most small and micro enterprises in the area were mostly managed by women and those with relatively low education.

This low education background greatly affected the productivity of small and micro enterprises which then made the amount of income low. Low productivity will lead low welfare.

Small and micro enterprises in the Wet Land area in Siak Regency are mostly engaged in retail trading in the form of grocery business and daily necessity supply. Such business supports agricultural sector which is a profitable business. Most of these agricultural businesses supply the needs of the agricultural and plantation sectors in Siak district, such as fertilizers, plant seeds, and gardening tools.

Most of respondents' enterprises were established using personal capital and using loans from other parties.

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96.67% of small and micro businesses in the Wet Land in Siak Regency are independent businesses owned by individuals and their family members. The table above presents the type of initial capital used by owners in establishing their business. Of the 30 samples surveyed, 96.67% of Small and Micro Enterprises used their own capital. Retail business is small in scale and relatively vulnerable, even small and micro business owners admitted that they experienced difficulties in obtaining capital aids. Hence, they could only depend on their own capital and helps from families to start their businesses. Consequently, they needed more time to raise capital to start a business.

Loans are needed by MSMEs to finance their operational activities and to develop their businesses. MSMEs with unstable financial capacity are easily affected by economic conditions. Therefore, loans are needed to support the sustainability of MSMEs. Of the total 30 samples, 83.33% had received loans from bank and non-bank financial institutions, while 16.67% had never applied for loans. MSME actors who applied for loans are generally those who have been running their business over 3 years, while newly-established MSMEs have not yet applied for loans.

The current condition showed that more than 50% MSMEs have completed their loans. Only 40% of them still had to pay their loans. The 13 MSMEs that have completed their loans are those that could sustain and develop their businesses using fund aids from banks and non-bank financial institutions. In another word, those MSMEs have succeeded in utilizing loans to run their businesses.

### Problems and Challenges in the Development of MSMSs in Wetland Area

Seen from the characteristics of MSMEs in Wetland, Siak Districts, problems and challenges are described as follows.

1. Lack of attention from local government in providing assistance and training for small and micro enterprises in Siak district. To the present, the local government of Siak District has only provided assistance to certain MSMEs that were considered potential. Whilst, all MSMEs actually need such attention and assistance from the local government. As the result, MSMEs which are actually potential did not have the chance to develop themselves.
2. The role of Village Empowerment Institutions was still inadequate in providing skills trainings as needed by the community. Village empowerment institutions were rather acting passive in exploring the village potentials, leaving the potentials unexplored.
3. High production costs made it difficult for MSMEs to make efficient production which then affected the amount of the net income and lower welfare for business owners.
4. Inadequate managerial knowledge of micro small business owners in running digital-based businesses. Business owners were not yet literate with the latest technology which could increase their business market share.
5. Manual financial accounting made errors often occur, making the accounting ineffective.
6. Low human resources skills made the enterprises unable to produce good quality and competitive products.
7. Ineffective product marketing strategy.
8. Small business loan platforms were not obtained from legal financial institutions that were safer and apply lower interest rates. Some owners obtained loans from moneylenders and they had to pay higher interest rates. In many cases, some MSMEs went bankrupt because they were unable to pay high interest rates.
9. Loans were often used for consumptive purposes instead of for the development of the business.
10. The amount of loans available for MSMEs was limited, even insufficient to fund strong business development. Funding issues should be taken into serious account to help develop MSMEs.

### Development Model for Micro and Small Businesses in Wetlad Area, Siak District

To address the problems as mentioned previously, strategic environment factors should include:

1. Decentralization in the form of regional autonomy requires adequate space for the regions to regulate and manage their respective households. In this regard, the formulation of policies for the empowerment of small and micro business actors should remain within the framework of national development, while it should also consider various potential resources and local characteristics.
2. Globalization that is accelerated by the rapid advancement in information technology and transportation has led to more efficient distribution of information, goods, services and development resources regardless of national borders.

In regards to the characteristics, problems, and challenges experienced by business owners, the empowerment program for small enterprise development should be done through these strategic steps as follows:

1. Community-Based Empowerment Program

The obstacles, both the ones related to individuals and the implementation process in the field, will be more efficiently and effectively addressed if the small business empowerment program is carried out in group rather than individual empowerment. Therefore, each individual who becomes the target group is united in a productive business group based on certain criteria such as equality in business fields and geographic similarities. This mechanism is expected to promote cooperation based on the principle of partnership based on the spirit of kinship, togetherness, and mutual trust among each member of the business group. This productive business institution is fostered and developed gradually through several steps; formation, strengthening and then development. Strengthening refers to the attempts made to make institutions capable of carrying out its basic duties and functions properly. If the initial task has been able to be carried out properly, then institutional development will be carried out, both in terms of developing its functions and duties as well as developing the activity / business units of the institution..

2. The Empowerment Program needs to Specifically Address the Needs of the Target Group

The business problems faced by small and micro entrepreneurs occur due to different characteristics of business entities. For this reason, the content of the empowerment program must be in accordance with the characteristics of the conditions and problems faced by the target group. As a consequence, the content of the program cannot be generalized as it should be structured specifically based on the target group.

3. The Development of Financial Institutions for Micro Business at Local Level

As a consequence of adopting a revolving funding system, it is necessary to have an institution that manages the process in order to ensure the sustainability and accountability of the fund management. In accordance with the scope of the target group and the amount of funds being managed, the management institution can seek help from microfinance institutions at the local level. The management institution must be formed and adjusted to the culture and needs of the local community. At an advanced stage, this institution can be developed as an economic institution on a micro scale that can function as cooperatives, BMT, even BPR, UED-SP and BUMDES. In addition, this institution can also be a place for the community to consult for the betterment of their business, besides it accommodates and assists the product marketing as it is an intervening variable in the efforts to develop a wider marketing and partnership network.

4. Providing Initial Capital to Promote Productive Enterprises

In some target groups, initial capital aids may be needed to carry out productive economic business activities. Most target groups were considered lacking in terms of finance that they could not start their business activities (such as groups of agricultural laborers, etc.). This initial capital can be in the form of land / or production equipment. It is necessary to avoid the provision of initial capital in the form of cash.

5. Developing Sustainable Enterprises

This economic activity might be the outcome of business development previously performed.. Economic activities that are developed should be supported by adequate supply of raw materials and other materials needed. The products should be superior products in the region (comparative and competitive in nature), high in demand, and have good market.

6. Involving Family/Husbands of the Target Group

In certain target groups (such as those with families), the entrepreneurial empowerment program must also pay attention to the involvement of other family members. Families support the wife / family member who is the target group for the empowerment program through enhancing their motivation and the opportunity to do business that is economically profitable even though the business is relatively new. The family also needs to have comprehension of some crucial aspects, such as regarding the working capital assistance that they receive. They must understand that the assistance fund should be used as business capital instead of for consumptive necessities. The use of the fund is under the responsibility of the group and there is an obligation to return collateral.

7. Integrated Roles of All Stakeholders

The process of empowering small and micro business actors in the wetland area required integrated supports from relevant stakeholders including the government, society, NGOs, and the business world. At the government level, this process requires cross-sectoral support at the central, provincial and district / city levels

8. Provision of Easier Access to Capital Aids

In the empowerment of human resources capacity, the next stage it is necessary to provide capital for business groups to start running or developing productive economic activities. The provision and improvement access to capital aids are quite important for enterprises, especially new enterprises that need capital assistance (credit) from existing capital sources.

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Limited capital resource can disrupt the production process even make the businesses collapsed. Capital allows companies to fund various necessities including the procurement of raw materials, production processes, replacement of equipment and in order to increase human resources. For this reason, entrepreneurs need to develop financial institutions to gain community-based capital. Technical problems that arise due to limited capital can be seen in the problems of the provision of raw materials. This situation occurs when business owners do not have sufficient capital to buy raw materials. By utilizing social capital in the form of trust, the effect of social capital utilization in business development can be felt by the community through non-formal institutions.

Social capital in the form of trust can provide solutions to the fulfillment of raw materials effectively in the long terms. Social capital in the form of trust must be supported by proper planning to avoid any harm to both parties which eventually diminishes the value of the trust itself.

### 9. Improvement of Assistance System in Groups

This assistance system is independent and has been running well involving volunteers, NGOs, Higher Education or government officials. These companion officers are members of the community (infrastructure), NGOs, social organizations, foundations, kinship organizations, and others parties that have the knowledge and abilities accepted by the community. In general, the duties of a companion are as follows:

- a. Preparing the community to be ready for changes in economic, political, social and cultural conditions as an effort to facilitate the development of Prima Village.
- b. Assisting the officers in conducting observation, identification and data collection activities and tracking the objective needs of the targets
- c. Disseminating information to PPEP program targets in the village model.
- d. Preparing the plans and schedules for PPEP program activities at locations and mentoring activities.
- e. Achieving the goals of the PPEP program through Desa Prima program in managing its business, assisting with marketing, helping to manage profits and fund utilization
- f. Developing Prime Village business as an independent business that increases the family income and to increase the regional revenue in the end.
- g. Exploring the resources and potentials that exist in the region.

## 4. Conclusions And Suggestions

### Conclusions

Based on the data obtained in this study, conclusions were drawn as follows.

1. Small and micro business actors Wetland area had an average turnover of less than IDR 5 million per month, with averagely one workforce. Seen from the types of businesses, most respondents were engaged in retail trading and most of them are self-employed.
2. The general characteristics of small and micro business owners in Wetland are as follows.
  - a. Most enterprises were mostly informal and were not legally incorporated
  - b. The turnover and labor are fluctuating, depending on the demand, season and supply of raw materials.
  - c. Weak utilization of advanced technology
  - d. It is relatively easy for micro entrepreneurs to swift the types of businesses
  - e. Business capital is relatively small and does not require special skills
3. The major problems experienced by entrepreneurs in Wetland, Siak District were related to capital access, inadequate human resource, limited information access, limited organizational structure and network development, etc
4. The characteristics and problems showed that it was necessary to enhance the role of women in MSMEs through these following steps.
  - a. Applying institutional / group-based enhancement programs
  - b. The empowerment program must be specific to the needs of the target group
  - c. Developing local microfinance institutions
  - d. Providing initial capital to run a productive economic business
  - e. Promoting sustainable productive economic business development
  - f. Involving the target group's family / husband
  - g. Integrating the participation of all stakeholders
  - h. Making access to capital aids easier
  - i. Strengthening the assistance system to develop group independence

### Suggestions

Based on the facts and results of the data analysis, suggestions were proposed as follows.

1. Micro strategies are needed to support the empowerment program or regulation for broader opportunity, empowerment, capacity building and social insurance.
2. Strengthening, facilitating and abridging various empowerment institutions at various levels involving the government, NGOs, and higher education institutions.

Enhancing and promoting collaboration and networking in production and marketing processes..

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