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Sustainability of Small and Medium Enterprises (SMEs) in Indonesia: A Framework of Analysis

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ABSTRACT

There is a lack of comprehensive literature on the sustainability of SMEs in Indonesia. This paper, therefore, aims at filling in this gap by analyzing barriers towards sustainability of Indonesian SMEs. Spurred by a regional economic integration, the growth of Indonesian economy depends largely in part on the success of SMEs development. However, lack of government intervention causes widespread concerns among small and medium business owners which, in turn, affect their ability to compete fairly in an open market economy. Based on this framework, the paper attempts to highlight areas of concern that inhibit the ability of SMEs to be competitive in a globalized world. The paper then recommends several strategies that need to be implemented by the government in order to address the internal and external factors affecting the competitive sustainable advantage of SMEs in Indonesia.

Keywords: Sustainability, Small and Medium Sized Enterprises, Indonesia

INTRODUCTION

The presence of Chinese products, even before the ASEAN-China Free Trade Area (ACFTA) in early 2010 significantly affects the level of competition among local entrepreneurs. In Central Java, for example, there are a lot of entrepreneurs who are unable to compete due to an overwhelming competition from Chinese products. Those who previously could produce, now prefer to be traders or distributors. Without the support or protection from government, local businesses continue to suffer .

Such conditions should not be allowed to continue and protracted, because it could affect the national economy. In fact Indonesia is targeting in 2016 per capita income of U.S. \$ 5,000 per year so it could be equal with countries of the world's middle class. The target of that size means an increase of nearly

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INTRODUCTION

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Such conditions should not be allowed to continue and protracted, because it could affect the national economy. In fact Indonesia is targeting in 2016 per capita income of U.S. \$ 5,000 per year so it could be equal with countries of the world's middle class. The target of that size means an increase of nearly

60% of per capita income which is now in the range of U.S. \$ 3,000 per year. This is certainly not easy, because the next five years the Indonesian economy is forecasted to grow about 6% -7%. Inevitably, the government must unravel the cause, and find a way out so that the phenomenon of decrease in the level of effort does not continue. Economic infrastructure must be improved and made available as needed. A conducive business environment is very important in order to encourage business growth among the local entrepreneurs. In addition to that, government should also take steps to negotiate with other countries so that the emerging free trade agreements do not threaten the sustainability of local businesses.

Small and Medium Enterprises (SMEs) have a strategic role in national economic development. During the last economic crisis, many business owners closed their business but Small and Medium Enterprises (SMEs) proved more resilient and were able to survive even with marginal profits. Unfortunately, government has not given much attention and help to the development of SMEs due to the perception that their products are in small scale and have not been able to compete with other multi national corporations. Therefore, in order to sustain the local economy, government policy in the future should focus more attention to grow and develop these SMEs.

CONDITION OF SMEs IN INDONESIA

The number of SMEs in Indonesia are very high considering the fact that most businesses in Indonesia are in the form of small and medium scale enterprises (SMEs). Further, in the amount of turnover and assets, the overall turnover and assets of SMEs in Indonesia together have surpassed even some of the biggest companies in Indonesia. These data indicate that SMEs are in fact important to the local economy. Besides maintaining a stable economy, SMEs offer employment, increase GDP, develop businesses, and increase revenues for state and local governments through taxation.

OBSTACLES FACED BY SMEs

SMEs have an important role in the development of business in Indonesia especially in Indragiri Hilir. SMEs are a catalyst for growth of big business. Almost all big businesses started from SMEs. Small and medium enterprises (SMEs) should be increased and active in order to advance and compete with larger companies. SMEs in Indragiri Hilir have shown a higher durability and a buffer of life. Most owners of SMEs are housewives who use the

extra income to support the family and enhance the well-beings of family members.

The responsibility to develop SMEs is not only confined to government. The government in essence has an obligation to help solve three classical problems that often hit the SME, i.e. market access, capital and technology which has often been the talk in seminars or conferences. Overall, there are several things that must be considered in conducting the development of SME's business units, including working conditions, promotion of new businesses, access to information, access to financing, market access, improving product quality and human resources, the availability of business development services, cluster development, network business, and competition. Meanwhile, with the help of private sector, SMEs can become a formidable force in the Indonesian economy. For example, the role of the banking sector is also very important in relation to all matters concerning finance, especially in terms of lending policy determination.

Thus, efforts to develop SMEs must be comprehensive. For example, strategies to develop SMEs must be integrated with national economic development plan and implemented on a continuing basis. Economic policies should be geared at creating strong linkages between large enterprises and SMEs. Currently, the Ministry of Cooperatives and Small and Medium Enterprises plans to create 20 million new small and medium businesses in 2020. 2020 is a promising future because so many opportunities will manifest as ASEAN becomes an economic community as stipulated in the Bali Concord II. This enhanced economic community will allow the circulation of unrestricted goods and among countries in ASEAN. The open market economy will be good for SMEs because of the the larger market segmentation for Indonesian products. However, before Indonesian SMEs are ready to compete with other companies from ASEAN, it is imperative that the government introduce measures to reduce the ongoing issues facing many SMEs. Besieged by a host of internal and external obstacles, Indonesian SMEs cannot become sustainable if these issues are not being addressed quickly.

In general, the problems faced by Small and Medium Enterprises (SMEs), among others, include:

A. Internal factors

1. Management of Small and Medium Enterprises Still Characteristically Generally Traditional
2. Lack of Limited Access to Capital and Financing
3. Untrained Human Resources (HR)

4. Access to information is weak. Small businesses are generally a family business unit, have a very limited business networks and low market penetration capabilities, plus the resulting product is very limited in number and have the qualities that are less competitive.
5. SME Entrepreneur Mentality. The spirit of entrepreneurship of the SMEs is lacking. For example, willingness to innovate, tenacious without surrender, be willing to sacrifice and to take risk.
6. Inadequate Formal Legality
7. Limited access to credit to financial institutions, particularly banks.
8. Lack of Limited Access to Capital and Financing

B. External Factors

1. Limited Infrastructures

Lack of information relating to the advancement of science and technology, leading facilities and infrastructure. In addition, SMEs often face difficulty in obtaining a place to run its business due to high rents or where there is less strategic.

2. Illegal Charges

Extortion becomes one of the obstacles for SMEs. This happens repeatedly, eg every week or every month.

3. Implications of Regional Autonomy

With the enactment of Law no. 22 of 1999 on Regional Government which was amended by Law no. 32 of 2004, local authorities have the autonomy to organize and manage the local community. These changes will have implications for small and medium-sized businesses in the form of new levies imposed on SMEs. If this condition is not addressed soon it will reduce the competitiveness of SMEs. In addition, the spirit of excessive regionalism, sometimes creating conditions that are less attractive to employers outside the region to expand its business in the area.

4. Implications of Free Trade

ACFTA which came into force in 2003 poses broad implications to small and medium enterprises to compete fairly. In this case, SMEs are required to be productive and efficient, and can produce products that correspond to the frequency of the global market with quality standards such as the issue of quality (ISO 9000), environmental (ISO 14,000), and the issue of Rights

(Human Rights) as well as employment issues. These issues are often used unfairly by the developed countries as an obstacle (Non Tariff Barrier for Trade). To that end, SMEs need to prepare themselves to compete both comparative advantage and competitive advantage.

5. Nature of Products

Most of the products of small industries have traits or characteristics as the products and crafts with a short resistance. In other words, the products produced by SMEs Indonesia are fragile and not durable.

6. Limited Market Access and Information

Limited market access inhibits the SMEs product to be marketed competitively in both the national and international markets. In addition to access to financing, SMEs also find it difficult in terms of access to information. The lack of information influences the ability of SMEs products to compete against other products. On the other hand, there are products or services that can potentially compete in the international market but are unable to do so because of limited opportunities.

7. Not Fully Conducive Business Climate

Efforts to empower small and medium enterprises (SMEs) from year to year are always monitored and evaluated in terms of its contribution to gross domestic product (GDP), employment, exports and the development of business actors. Overall macro-economic indicators are always used as a reference in policy making and the empowerment of SMEs to be an indicator of success.

STRATEGIES FOR THE DEVELOPMENT OF SMEs

From the description of the problems faced by SMEs in the above there are several steps that can be taken by the Government in order to cultivate future Small and Medium Enterprises:

1. Creation of a Conducive Business Climate

Governments need to pursue the creation of a conducive climate, among others, by striving for simplification of business licensing procedures, tax breaks and so forth.

2. Capital Assistance

The government needs to extend special credit scheme under the conditions that are not burdensome for SMEs, to help increase its capital, either through formal financial services sector, informal financial services sector, guarantee schemes, leasing and venture capital funds. Financing for SMEs should use the Micro Finance Institutions (MFIs) of existing and non-banks.

3. Business Protection

Certain types of businesses, especially the kind of traditional businesses that are economically weak, should get protection from the government, either through legislation or government regulation that is geared towards mutually beneficial (win-win solution).

4. Strategic Partnership

Government needs to develop partnerships of mutual help among SMEs, or between SMEs and large employers in the country and abroad, to avoid a monopoly in the business. In addition, also to expand market share and more efficient business management. Thus, SMEs will have the strength to compete with other business actors, both from within and abroad.

5. Training

Government needs to improve training for SMEs in both aspects of entrepreneurship, management, administration and knowledge and skills in business development. In addition, SMEs should be given opportunities to apply the results of training in the field to practice the theory through the development of pilot partnerships.

6. Establish Special Institutions

It is important that government tries to develop a specialized agency responsible for coordinating all activities related to SMEs cultivate efforts and also serve to find solutions in order to address both internal and external problems faced by SMEs.

7. Business Association

Associations that already exist need to be strengthened, to enhance its role in the development of networks among other business information that is needed for business development for its members.

8. Increased Promotion

To further speed up the process of partnership between SMEs and large enterprises, government needs special media in an effort to promote the products produced.

CONCLUSION

This exploratory research investigates the internal and external factors that inhibit the ability of SMEs in Indonesia to be sustainable in light of competition from Chinese products as well as products from ASEAN countries. The eminent threat of free trade agreements such as ACFTA and the establishment of ASEAN Economic Community pose an even greater challenge to the survival of SMEs. Therefore, it is imperative that government steps in to establish developmental programs that enhance and equip SMEs entrepreneurs to face these challenges. With the right intervention strategies, SMEs in Indonesia will be more resilient to face the competition and contribute to the national economy. On the other hand, if no concrete plans to help the SMEs are available, then SMEs will be unable to have a sustainable competitive advantage over foreign competitors.

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