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Review

Micro and Small Scale Enterprises (MSEs) in The Process of Developing National Economy (The Empirical Study of Micro and Small Scale Enterprises in Indonesia)

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The importance of MSEs in developing countries is often associated with problems of economic and social in those countries such as high poverty levels, the number of great unemployment especially from the low-educated society, the foreign debt crisis, balance of payments deficit, inequality of income distribution, uneven development process between urban and rural, and the problems of urbanization with all sorts of negative aspects. This means that, the development and growth of MSEs in developing country is very important and it should be given the vast space for doing activity, the existence of MSEs is expected to contribute significant positive against the efforts of tackling both economic and social issues above. Despite there are many problems encountered, both internal and external, with the earnest efforts of the government and related institutions, MSEs will still exist and thrive forth and later would become a strong foundation for the growth of the national economy. The MSEs growth in Indonesia will only happen for real if it can be guaranteed the existence of opportunities for MSEs to tap into the economic activities. The necessary support mainly improved skills help to gain access to markets, capital and technology developed through the bank or nonbank.

Keywords: Micro and Small Scale Enterprises (MSEs), National Economy, Economic Growth

INTRODUCTION

In post-crisis that took place in 1997, micro and small scale enterprises (MSEs) can prove that this sector can become center for national economy. This is because MSEs are able to survive compared to large businesses tend to experience a deterioration. This was proven by the more the increasing number of MSEs every year. In 2005 the number of MSEs units as much as 47.1 million

units with the proportion 99.9 per cent of the total business units that are in Indonesia, in 2013 the number of MSEs increased to as much as 57.8 million units. In line with the increase in the number of MSEs, then the number of labors who absorbed is also increased. In 2005, the amount of labor that is absorbed by MSEs as much as 83.2 million people then it increased by 2013

become as much as 110.2 million people. MSEs absorb 93.63 percent of the labours in Indonesia (Ministry of Cooperatives and MSEs, 2014). Even though it has not given the maximum contribution to the development of the overall national income, the position indicates that MSEs have the potential to become a container of community empowerment and economic driving force of the country, therefore the existence of MSEs should continually empowered.

The development and growth of MSEs is one of the crucial mover for development and growth of economy in many countries in the world. One of the characteristics of dynamics and good economic performance with a high GDP growth rate in the countries of East Asia and Southeast Asia which is known as Newly Industrializing Countries (NICs) like South Korea, Singapore and Taiwan are their MSEs performances which are very productive, efficient and have high global competitiveness. MSEs in those countries are very responsive to the policies of their government in developing private sector and increasing the export-oriented economic growth. In developing countries with medium and low income levels, the role of MSEs is being very important. In India, for example, MSEs and its medium businesses account for about 32 percent of the total value of exports, and 40 percent of the output value of the manufacturing industry sector in that country. In some countries of the African region, the development and growth of the MSEs is now recognized to increase aggregate output and employment opportunities (Tambunan, 2002).

In Indonesia, judging from the number of its business units in all sectors and considerable contribution towards the creation of employment opportunities from source of income, especially in the rural areas and for low-income households, it can not be overlooked how important company is. In addition, during this time, the business group also acts as one of mover for economic development and local community.

The importance of MSEs in developing countries is often associated with problems of economic and social in those countries such as high poverty levels, the number of great unemployment especially from the low-educated society, the foreign debt crisis, balance of payments deficit, inequality of income distribution, uneven development process between urban and rural, and the problems of urbanization with all sorts of negative aspects. This means that, the development and growth of MSEs in developing country is very important and it should be given the vast space for doing activity, the existence of MSEs is expected to contribute significant positive against the efforts of tackling both economic and social issues above.

The urgency of the importance of economic growth and development of the MSEs is based on two consideration. First, MSEs tend to have a more solid structure so that it

has greater survival. The second, MSEs tend labor intensive so that it gives double contribution i.e. in addition supports people's economic improvement through increased income per capita with a production process that provides added value, supports absorption of labor, and also have durability and better flexibility in facing the dynamics of the economic life of a country (Lumbanraja, 2011).

The reality of the economic crisis which caused considerable social cost indirectly indicates that defense to big companies are very prone, especially their dizziness in anticipation of the fluctuations in the global economy. In addition, This defence is not relevant in supporting the strong fundamentals of the internal. Many big companies are having trouble in in adapting to changes in technology and market, and an adjustment is done without a very high cost is rarely. In this condition MSEs are more flexible in adapting, and therefore it has greater expectations than a great business to survive (Panandiker, 1996).

Positive conditions above need to be done, given the MSEs in Indonesia plays an important role in absorbing the labors-especially from the low-educated society. At the moment the monetary crisis, inequality of income distribution, uneven development process between urban and rural, and supporting the improvement of household income, small enterprises have shown their active roles. Further, in the national economy the existence of MSEs will increase the commitment and its defense in national development (Rusdarti, 2010).

MSEs AND PROBLEMS

The improvement of Indonesian welfare as the top priority in the national development during the period of this current government, is done by developing the economy of the people supported a sustainable national economic growth, creating airy work space, encouraging the increase of income. MSEs' roles in the economy of Indonesia can be seen at the very least from: (1) its position as a major player in the economic activity in the various sectors, (2) the largest employment provider, (3) important players in the development of local economic activities and community empowerment, (4) the creators of the new markets and sources of innovation, (5) its contributions in maintaining the balance of payments through the export activities of the community thus reducing the level of poverty and others (Tedjasukmana, 2014).

The existence of MSEs as part of the whole national business entities is the real-life manifestation of the diverse economy in Indonesia. Therefore, the placement of the role of MSEs is one of the main pillars in developing a sustainable nation economy system. As one of the perpetrators of the national economy, the

development of MSEs in Indonesia is not in spite of the various problems. The level of intensity and the nature of the problem can be different, not only according to the type of products or markets that are served, but also a different region/location, intercultural center, or the types of activities and business units within the same activity. Nevertheless, there are some common problems faced by MSEs such as the limitation of working capital or investment capital, trouble getting raw material with good quality and reasonable price, the limitations of the technology, human resource with good quality (especially management and production technicians), information (particularly on the market), and the difficulty of marketing. In other words, the problems faced by many MSEs are multidimensional. In addition, naturally there are some problems that are more internal (the source within the company), while others are more external (source outside of the company, or outside the influence of the entrepreneur). Two external problems by many MSEs entrepreneurs are considered the most serious is the limitation of access to banks and market distortions (input or output) caused by wisdom or government regulations are not conducive, intentional or not more profitable large employers, including foreign investors (Tambunan, 2003).

The problems above are increasingly felt for entrepreneurs that cater to the open market or export, another case with the entrepreneurs who only serve local markets in a relatively isolated area. Therefore, on the open market they are dealing with similar products from large employers who are superior in many ways as well as competition from imported goods. Even in the export market, MSEs entrepreneurs of Indonesia have to deal with their partners as well as from the same business scale and more advanced than other countries. In this kind of market conditions, factors such as mastery of technology and information, enough capital, including to innovate in products and production processes, the renewal of machinery and means of production, and to conduct extensive and aggressive promotion activities, workers with high skills, and managers with a high level of skill and entrepreneurship in business management as well as having an extensive insight into the factors that are very important, to at least maintain the level of global competitiveness.

The Difficulty of Marketing

In business activity, fluency in product marketing is a very important thing, obstacles in marketing can lead to recent business activity overall. In the literature, marketing is often regarded as one of the critical constraints to the development of the company. Results from a cross-country study conducted by James and Akrasanee (1988) at a number of ASEAN countries indicate that marketing

is including growth constraints faced by many small and medium-sized entrepreneurs (this issue was found not too serious in Singapore). This study concluded that if MSEs do not do enough improvements in all aspects related to marketing such as product quality and promotional activities then it is difficult for MSEs to participate in the era of free trade.

The results of their study indicate that one of the aspects related to the common marketing problems faced by the company is the pressure of competition, either in the domestic market of similar products-made great effort and imports, as well as in export markets. In the Asian countries affected by financial crisis such as Indonesia, the problem of marketing can be more serious because as one of the effects of the crisis of access to bank credit became difficult (if not closed at all can be said), and domestic market demand declined due to a drop in the level of real income per capita. As a result it can be presumed that many MSEs do not have the resources sufficient production to at least maintain the production volume and improve the quality of their products and this means they are increasingly difficult to increase or maintain their level of competitiveness in the domestic market as well as international markets.

Financial Limitations

MSEs in Indonesia face two major problems in the financial aspect: the initial value of the mobilization (start-up capital) and access to working capital and long-term financial investments which are indispensable for the sake of long-term output growth. Although at first the initial capital is sourced from the capital (savings) or informal sources, but the sources of capital are often not enough for production activities in particular for investments (expansion of the production capacity or replacing old machines). Meanwhile, expect the rest of the financial needs are fully financed by funds from banking is far from reality. Therefore, it is not surprising if up to now though so much credit skim from banking and support from State-Owned Enterprises, the funding sources of the informal sector remains dominant in financing of MSEs activities. This is due to a number of reasons, such as: the location of the bank too far for many entrepreneurs who live in an area that is relatively isolated, the terms too onerous, administrative affairs are too wordy, and lack of information about existing of skim and his acquisition procedures.

In terms of the type of ownership of capital, the number of businessmen who financed his business entirely with its own money or with its own capital and loans, more than the number of employers that use 100 percent of capital from other parties. Although the exact composition varies according to the great effort either in the small industry or household industry the majority of

employers with 100 percent private equity are in the food industry, beverages, and tobacco, the leather industry, industrial wood, bamboo and rattan as well as its products.

The Limitations of Human Resources

The limitations of human resources is also one of a serious obstacle for many MSEs in Indonesia, especially in the aspects of management, production engineering, product development, business organizations, accounting, engineering, marketing and market research. While all of these expertises are urgently needed to maintain or improve product quality, improve efficiency and productivity in production, expand market share and penetrate new markets.

Most MSEs have traditionally grown and they are family business hereditary. Limitations the quality of human resources in MSEs both in terms of formal education as well as knowledge and skills very influential towards the management of the management of his business, so the business is difficult to grow with optimum. In addition, with the limitations of the quality of human resources, the business unit is relatively difficult to adopt new technology development to improve the competitiveness of the products it produces.

It is often said that to tackle this human resource issues, provide direct training to entrepreneurs is very important and this is the only way that most effectively. Indeed as long as it's been a lot of training and guidance provided by the government to employers of MSEs, especially from the Ministry of Cooperatives and SMEs, Ministry of Industry and Trade, and Ministry of Labor. It's just that its effectiveness is still in doubt. Because many of the entrepreneurs who have attended training from the government complained that the trainings are often too theoretical, the time is too short, no follow-up, and often not suited to their needs.

The limitations of human resources is one of the serious threat to MSEs in Indonesia to be able to compete both in the domestic market as well as international markets in the era of free trade now; even at that time human resources together with the technology will become more important than capital as the main determinants of the MSEs' ability to increase its global competitiveness.

The Issue of Raw Materials

Limitations of raw materials (and other inputs) are often also become one of the serious obstacles to the growth of output or the continuity of the production for many companies in Indonesia. Especially in times of crisis, many SMEs centers in a number of subsector businesses

have trouble getting raw materials or other inputs or because the price in IDR is becoming very expensive due to the depression of the exchange rate of rupiah against USD. Not the least of them was forced to discontinue their business and move the profession into other economic activities, such as being a trader. Some examples of cases, e.g. in 2013 many entrepreneurs of tempe in Banjarnegara near the border of West Java and Central Java were forced to halt their production because the price of imported soybeans turned out to be very expensive. Many entrepreneurs of cigarettes in Central Java were also forced to halt their production because of the rise in the price of raw materials.

The Limitations of the Technology

In contrast to developed countries, MSEs in Indonesia are generally still use traditional technology in the form of old machines or tools of production which are manual. Retardation of this technology not only makes the low total factor productivity and efficiency in the production process, but also the poor quality of the products manufactured. The limitations of technology especially household businesses (micro), caused by many factors: including the limitation of investment capital to buy new machines or perfecting the production process, limitations information regarding development of technology or machinery and new production tools, and the limitations of human resources who can operate the new machines or make innovations in the product or production process. The low possession or mastery of modern technology also constitute a serious threat to the ability of MSEs in Indonesia to be able to compete in the era of free market later. But in that era, in contrast to 20 or 30 years ago, the factor of technology together with the factor of human resources will become more important than the factor of natural resources. In other words, the two factors of comparative advantage owned by Indonesia or MSEs in particular, namely the availability of a wide range of raw materials in the amount of the wage and labor were cheap will be increasingly not important in the future, replaced by two factors of competitive advantage (the technology and human resources).

DISCUSSION AND CONTENT ANALYSIS

MSEs are integral part of the national business world, and have the position, potential as well as an important and strategic role in expanding employment, the economic service in the community, encouraging the process of equalization, increased revenues, economic growth, and stability. But reality shows, MSEs are still facing many constraints and internal and external barriers, for example in the areas of production, processing,

marketing, human resources, capital, technology and business climate that does not yet support. Therefore, in an effort to develop the existence of MSEs in Indonesia some of the following steps may be worthy of note.

❖ **The Strategy of Business Climate**

Business climate is business conditions that allow MSEs carry out their business activity in convenient in obtaining certainty, equal opportunities, and support the existence of trying so that it evolves into a tough and independent businesses. A conducive business climate can be created through policies that set out the government, either through the ease with which deals with the issue of capital, marketing, bureaucratic procedures, partnerships, licensing, tax relief, and other policies that support. A conducive business climate in the form of protection on small businesses especially in the current economic conditions is very strategic because it expected to be able to generate sufficient added value because the number of its business units. With small businesses, will be absorbed much of the workforce through a labor-intensive business, and can expand the opportunity of trying and obtaining equitable national income that has been dominated by big companies that capital intensive (Kristiyanti, 2012).

Sriyana (2010) in his research also stressed that the development of small enterprises will be greatly determined by the least or no business climate that support. Repair a more conducive business climate by carrying out reform and deregulation of the licensing for small businesses is one of the proper strategy to develop small businesses. It takes an effort to facilitate the efficient business climate economically, healthy competition, and nondiskriminative for the sustainability and improvement of the performance of small businesses. In addition there needs to be action to perform the deletion of various inappropriate collection, cross-cutting policy alignment, as well as monitoring and defense of competition practices unhealthy efforts and supported the consummation of legislation and institutional development.

Support for the development of small businesses also occurs in developed country like the United States. The commitment of the United States Government in developing the small-business sector is seen in the establishment of the Small Business Administration by the Federal Government in 1953. The purpose of SBA is to be a maid and movers small business sector there. There are four kinds of effort given by the agency. First, in the financial field in the form of the grant funds. Second, in the form of grant or procurement in the licensing terms and conditions supplement the administrative needed to establish a business. Thirdly, in the field of management by way of grant management, both directly and through

training. Fourth, in the form of granting legal assistance or advocacy in search of justice relating to the business affairs of small businesses (Karjantoro, 2002).

Research results from Hu and Schive (1996) in Taiwan had been supporting the above facts. The role of the government which is a very pro active with its industrial policies which are very oriented towards global and consistent, which creates both a close business cooperation as well as an honest competition between small businesses with medium and large businesses as well as the provision of a wide range of facilities to support the development of the sector has led to small businesses flourished, both seen from the contributions of its export or output and diversification of its products with a high technological content. The government policy also gives a positive impact on the development of entrepreneurship, which is not in doubt and is very important for the development of small business (Lin, 1997). Similarly, the study of Adachi (1997) concluded that, the rapid advancement of small businesses in Japan not be separated from the support of the government through its industrial policy. Included in it is the policy of technology (research and development), finance, and training the workforce and managers (Tambunan, 2002).

The results of the research above shows one thing very important as an example for Indonesia, namely government policies that are effective and support very helpful efforts of increasing global competitiveness in the small business sector. In the face of free trade era, needed a new strategy in the development of small businesses that are more effective and market-oriented global, not to mention political and social orientation with the aim is solely to reduce the gap. This new strategy must contain the policies of small enterprise development that could put the business group's position as one of the backbone of national business world.

Legislation and wisdom for the business climate that is conducive to the development of MSEs can be:

1. **Funding aspect**, namely the provision of funds, terms, and procedures to meet the needs of the Fund for the development of MSEs with: a) expand funding, i.e. the various attempts to reproduce the type of and improve the allocation of funding that can be used, b) increase access to funding source i.e. a variety of efforts to simplify the procedures for obtaining funds; and c) provide ease in funding, namely the granting of relief requirements in the payment.

2. **Competition aspect**, namely the effort: a) enhance cooperation of fellow MSEs in the form of a cooperative, an association, a business group set to strengthen the bargaining position of the company in a business transaction with the other party, and while increasing the scale of its business; b) prevent the formation of market structures that can give birth to unusual competition in the form of build oligopoly, monopoly, and monopsoni to the detriment of MSEs,

namely in the form of deregulation, regulation of commerce, pricing, imposition of sanctions and the establishment of a commission of competition unless controlled by the state in the interest of the people much; and c) prevent the occurrence of market domination and the centralization of the business by the individual or entity to the detriment of MSEs.

3. **Business infrastructure aspect**, namely: a) public infrastructure held (transport, telecommunications, electricity, clean water, the location of the place of business, and the market) which is adequate and can encourage and develop MSEs' growth; and b) provide tariff relief infrastructure with tariff treatment in procurement of distinction directly or indirectly for MSEs.

4. **Business information aspect**, i.e. a) establish and make use of data banks and information networks of the business i.e. the various data center business and business information systems owned by the government or the private sector; and b) convene and spread information about the market, technology, design, and quality, to the homeland territory over so that MSEs can keep track of who comes from within and outside the country.

5. **Business partnerships aspect**, i.e. a) embody partnership, in the form of efforts to grow the business climate can encourage medium and large businesses do partnerships with MSEs, among others, in the form of a stimulant with no element of coercion so that the implementation of the technology transfer, management, and opportunity sought for MSEs can reasonably happen; b) prevent the occurrence of things that are detrimental to MSEs in the execution of business transactions with a medium or large business undertakings as a result of the delay of payment, transfer of risk in a unfair consignment and the imposition of the collections.

6. **Business licensing aspects**, namely the efforts: a) to simplify the procedures and types of licensing has been seeking the realization of one-stop service system and b) provide ease requirements to obtain licensing for MSEs, among other relief costs.

7. **Business protection aspects**, i.e. a) specify the allocation of places of business which includes the awarding of the locations in the markets, shops, business centers, the location of the farm folk, as well as other locations; b) back up the field and type of business activity that has the specificity of the process, are labor intensive, as well as art and culture has a value that is specific and hereditary; c) give priority to the use of MSEs' products through direct procurement from MSEs; d) arrange the procurement of goods or services and chartering of the working of the government, which is financed by the state budget, local budget, state-owned enterprises, and local-owned enterprises; and e) provide assistance to legal consultancy and advocacy.

❖ The Strategy of Establishment and Development

Empirical data show that one of the problems to weak competitiveness of small businesses in Indonesia is relatively entrepreneur mindset still traditional and tend to shut themselves against change and innovation, this is caused by low levels of formal education still owned. Indeed in one thing, still its dominating workers with low education and cheap wages means small businesses can maintain one of its traditional comparative advantages. But in the era of globalization that characterized the existence of free trade that will be more prominent factors is a competitive advantage, including the quality of human resources, ranging from workers or entrepreneurs. Low level of education will lead to low ability and quality of human resources entrepreneurs in understanding and anticipating the business activities both in the field of production management, marketing strategy, entrepreneurship, and technology ventures.

Where as the condition is very contrary to the concept of the formation of entrepreneurial soul who is very necessary for the corporate world that can bore dared to think creatively, and knowing how to develop internal resources (Suryana, 2001). In terms of education and this mindset, it is very clear that the creative mindset will bear expertise in all fields ranging from labor to entrepreneurs is definitively determines the success of a business (Hafsah, 2004). In contrast to other countries that small business is very strong like Taiwan, South Korea, Japan, the United States, and Western European countries, the level of education of most of the small entrepreneurs in Indonesia is still very low.

It is often said that to tackle the problem of these human resources, provide training directly to entrepreneurs is very important and this is the only way that most effectively. However, many small businesses, especially micro enterprises, not able to bear its own costs of training because of the limitations of the cost. The limitations of human resources is one of the serious threat for MSEs to be competitive in both the domestic and international market market. Strengthening is an important factor to change the economic backwardness and the ability and the motivation to go forward, then it is very important to improve the knowledge in the form of training to small business entrepreneurs (Yusi, 2014).

To develop advanced, establishment and development of human resources of small business needs to be done both in the aspects of entrepreneurship, administrative and knowledge as well as skills in business development (Hafsah, 2004). Further, research of Mongid and Notodihardjo (2011) about MSEs in Malaysia also stated that, for the fast-growing, knowledge and skills plays an important role for the development of MSEs. Training

contributes to the understanding of MSEs.

With the construction of sustainable business management needs, entrepreneurs can better understand what to do and being proactive in absorbing the opportunities and new opportunities. The importance of being proactive towards new opportunities support the ability of MSEs to create a product, not only a step ahead of competitors but also a step to understand consumer desires (Zhou, et. al., 2005).

In his research too (Absah, 2008) found that the competence of proactive human resources owned by the organization have a strong influence on performance of the company. The company which has a management team with optimal expertise and competitive method based on core competence will be able to achieve higher performance than companies that did not do so. Pace, et. al (2005) also found out that competency was difficult to emulate had relationship with a competitive advantage and performance. Same as Zhou, Brown and Dev (2009) discovering the existence of a positive and significant relationship between management skills-oriented entrepreneurs market against competitive advantage and performance.

From the above description, it explains that, the role of government, the business community, and the community have a significant influence in empowering human resources for small businesses. Without improvements to the quality of the human factor, there can be no progress, in connection with that education be something that needs to be (Jhingan, 2004). Education which is supported by experience is directly related to the ability of the entrepreneur; to establish the entrepreneurial souls must begin from recognize yourself in advance, i.e. knowing the potentialities and limitations, so that it can work hard in developing the potential and try to overcome the limitations that exist. The availability of human resources who have the expertise, skills, and high motivation, a positive growing organization resource, and physical resources that support the core competencies can be generated within the company. Core competence will generate competitive advantage.

Communities, businesses community, and government doing establishment and development MSEs in the following aspects:

1. **Aspects of production and marketing**, such as: a) improve management capabilities as well as production techniques and processing; b) enhance the capabilities of an engineering and architecture; c) provide ease in production facilities and infrastructure procurement and processing, raw materials, supporting materials, and packaging.
2. **Aspects of marketing**, both inside and outside the country with: a) carry out marketing research and studies; b) improve management capabilities and marketing techniques; c) provides a means and support of promotion as well as test markets; d) developing the

distribution network and marketing agencies; and e) help in marketing MSEs products.

3. **Aspects of human resources**, through the efforts of: a) promote and cultivate entrepreneurship, by implanting and developing soul, spirit, as well as entrepreneurial behavior i.e. willingness and ability to work independently, solve problems and make decisions systematically include the courage of taking risks, thinking, and acting in innovative and creative, working carefully and diligently, work productively and working in togetherness with based on a healthy business ethics; b) improve technical and managerial skills; c) establish and develop vocational education, training, and consulting MSEs, and d) provide extension officers and consultants in various fields required.

4. **Aspects of technology**, by: a) improving the ability in the field of production technology and quality control; b) research and development of new technology and design; c) providing incentives to MSEs that apply new technologies and preserving the environment; d) improving cooperation and technology transfer; e) developing rural dan technology research and development institutions for MSEs.

The establishment and development above include ordinances, weights, intensity, duration, and priorities, was carried out with regard for the classification and level of development of MSEs based on assets and net annual turnover. MSEs that have built into secondary business can still occupy the location of the business and conduct business activities that is reserved, and can still be given coaching and development for a period of not longer than three years as the process of consolidation.

❖ **The Strategy of Funding and Guaranting**

In some research about small business development efforts, the main problem is capital limitations faced by entrepreneurs. The capital is an important aspect or most important in life of business. With limited capital owned, efforts can be made in order to improve both the quality as well as productivity being impeded. While the support of capital can provide wider opportunities for entrepreneurs to develop his business. The capital is the principal driving force for enterprise development. Capital can: (1) assist small entrepreneurs in overcoming limitations of capital with relatively small interest and (2) reduce their dependence on moneylenders and middlemen traders (Ashari, 2009). The problems in the capital is also one of the main reasons for entrepreneurs to postpone the development of the business (Kaplan and Schoar, 2005). Therefore, the strategy of funding and guaranting is very urgent thing for development of MSEs.

The empirical facts show that the biggest part of the principal of economy in Indonesia is the low income

groups Indonesia, micro and small entrepreneurs as well as many that are not served by public bank services because the procedures are much too demanding requirements. Without access to banking services that remain on, almost all the group hung a financing on their own capabilities which are very limited, or on informal financial institutions (moneylenders, the middleman, moneylenders), which limits the ability of the group to participate in development activities (Krishnamurti, 2005). The lack of capital for MSEs because in general it is an individual business or company which is closed, which rely on capital belongs to the owner where that number is very limited. Therefore, funding for MSEs remains to be improved in the future, given the still large number of small businesses which could not get credit because they have not been bankable (Kuncoro, 2008). The results of the study of Susilo, et. al. (2008) also explains that the main problem faced by small entrepreneurs in Bantul, Central Java is the inability of financial obligations towards fulfilling the other party and limitations to add capital. Access to capital is often seen as the key to success in establishing and developing a business venture (Efrata and Herdinata, 2012). (Riniwati, 2011) stated that, the role of capital is essential, strategic, being one of the key factors in the process of economic development and very influential with the volume of business, business results (production), and an increase in the income of a business economy.

To cope the capital problems which are faced by the small business over the role and presence of Microfinance Institutions is one solution. Referring to The Act No. 1 of 2013 about Microfinance Institutions, it is defined as a specialized financial institution established to provide business development services and empowerment of the community, whether through borrowing in a micro scale businesses to members of the public, the management of deposits, strengthening businesses, partnerships or granting of consulting services for the business development which does not merely seek profits. From this definition implies that the microfinance institution is an institution of the profit motive which is also purely social motive, which its activities more community development with nature without compromising his role as financial intermediation institutions (Baskara, 2013).

Microfinance Institutions carry out activities of the financial sector in the form of gathering together the funding and lending or financing in micro scale with a simple procedure to poor and low income community. Providing financial services to customers who have a medium-sized business scale down and tend to have never been in touch with the world of banking. It is also a container for empowerment of the people's potential based on the ability of the people with the approach of community as an integral part in strengthening the national economy (Mashudi, 2003).

Microfinance Institutions in practice more fitting among perpetrators of small businesses due to its more flexible, for example in terms of requirements and the number of loans that are not as tightly as the banking requirements as well as flexibility in the disbursement of credits. This is one indicator that the existence of a Microfinance Institution in accordance with the needs of the principals of small businesses, which generally requires appropriate financing the scale and nature of small businesses (Wijono, 2005). The result of the study above is in accordance with the findings of Vetrivel and Kumarmangalam (2010) where their research aims to know the role of Microfinance Institutions in rural micro enterprise development. Their findings, that Microfinance Institutions had major role in the development of the rural micro enterprises which provide additional capital.

Governments, businesses, and communities provide financing for MSEs include banking credit, loans from non banks financial institutions, venture capital funds, loans from the allowance most (1-5%) belonged to the state-owned enterprises operating income, grants, and other types of financing such as the funds donated from the community including a large effort from the private sector.

To increase the access of MSEs against such funding sources, needs to be done with: a) improve the ability in cultivating its own capital, compiling a feasibility study, and financial management; and b) cultivate and develop the institutions of a guarantor. The guarantor institution owned by the government or private which is formed on the basis of the applicable legislation, guaranteeing the financing of MSEs in the form of the granting of the banking credit financing, financing up to results, and other financing for example in the form of individual people and guarantee the warranty company. The procedures for financing and guarantee of MSEs are attempted with simple and easy as well as with the requirements of that light. The priority of funding and guaranting given to a group or layer of the great number of MSEs, while the funding period defined in accordance with the flexible feasibility of its business.

❖ **The Strategy of Partnership**

The partnership is an answer to improve MSEs opportunities for progress in the national economic scene while enhancing people's welfare as well as reducing social inequalities in a society. A formal conception of partnership had been listed in The Act No. 9 of 1995 concerning small enterprises which reads: "cooperation between medium-sized businesses with a small business or a big business with the accompanied coaching and ongoing development by observing the principle of mutual need, mutually reinforcing, and mutually beneficial". The true philosophy of partnership embodied in the act as meaning moral responsibility is togetherness

and equalization. Thus, the partnership will always be needed during the prosecution of equalization is not resolved. On the other hand, the partnership is a long-term process that change dynamically to meet the expectations and needs of the entire offender partnership. Later on the Government Regulation No. 44 of 1997 also stated that form the ideal partnership is mutually reinforcing, as well as mutually beneficial and mutually protect.

The partnership definition above contains meaning as a moral responsibility. Medium and large business to guide and nurture MSEs as partners in order to be able to develop its business so that it is capable of being a reliable partner in profit and prosperity together. This means each party which partnered should realize that they have differences, each has limitations, both in management, science and technology mastery midwife as well as the mastery of the resources, they should be able to co-exist and complement the deficiencies of each.

As one of the strategies of empowerment, through the partnership's expected knowledge of managerial aspects will increase, especially in: first, small entrepreneurs are able to control or regulate the flow of cash money so capable in making planning and financial reports; second, employers are able to organize themselves and employees, so as to be clear division of labor and entrepreneurs are not working a double one man one show; third, worker productivity can be increased by means of improving the work motivation, discipline, responsibility, loyalty, understanding and work ethic (Yusi, 2014).

To be able to enter the global market, there is no other strategy should be prepared by MSEs but by preparing a high competitiveness. High competitiveness only exists if there is a link between that great with small, because only with inter-connection between production of fair, efficiency will be awakened. Therefore, through the partnership of each party will be empowered (Sriyana, 2010). With respect to the partnership in Singapore, Government formed a foundation called SPRING in order to help the development of small medium enterprises that work with its partners to help companies small medium enterprises in financing, development and management capabilities, technological innovation, and access to the market (Mongid and Notodihardjo, 2011).

Large and medium sized businesses implement partnership with MSEs which owns or which has no business linkages. The partnership was implemented with the accompanied establishment and development in one or more in the field of production and processing, marketing, human resources, capital, and technology. Referring to The Act No. 9 of 1995, the partnership consists of:

1. **The pattern of subcontracting**, is partnership relations where MSEs producing components required by medium or large businesses as part of its production.

2. **The pattern of franchise**, is the partnership relationship which the medium and large business as a franchise giver gives the right to use the trademark, license and distribution channels of the company to the recipient as a franchise with MSEs accompanied the aid management guidance.

3. **The pattern of the agency**, is the partnership relationship which MSEs were given special rights to market goods and services of medium or large businesses belonging to his partner.

4. **The patterns of other forms**, that are being developed but are not standardized yet or new patterns that will arise in the future.

The partnership relations above poured in the form of a written agreement at least set the shape and scope of the business activities of the partnership, rights, obligations of each party, in the form of establishment and development, time period and settlement of disputes and conversationally when not reached consensus, then said the dispute was resolved through the judiciary. Implementation of a successful business partnership relations followed up with stock ownership venture opportunity of medium or large by MSEs with reasonable prices, payments that are lightweight and will not adversely affect the development of MSEs.

In the implementation of partnership relations, medium or large businesses should not have and take control of the MSEs. Violation of this provision against inadvertently penalized administrasif form of revocation or other sanctions effort is governed by the Act.

CONCLUSION

Public issues about MSEs construction need serious attention, because most MSEs still have not gained power strengthens the resilience of the nation's economy in facing global competition. The development of MSEs is a strategic effort in connecting the reality of inequality and disparities, as well as build a new middle class. Even though its contribution to GDP is still not a maximum yet, the condition of MSEs is an integral part of the national effort, and having a position, the potential and strategic importance and role in extending employment, servicing a broad economic for society, encouraging the process of equalization, increased revenues, economic growth, and stability. Despite there are many problems encountered, both internal and external, with the earnest efforts of the government and related institutions, MSEs will still exist and thrive forth and later would become a strong foundation for the growth of the national economy.

SUGGESTION

The phenomenon of the global market and the

information and communication system shocks also be noteworthy when a tendency demonstration effect among the people is very important to be socialized. Be an entrepreneur spirit and self-reliance of communities will be the strength of its own in the face of competition that demands efficiency, in other words, all forms of protectionism and subsidies gradually be abandoned. The institutions of education and entrepreneurial training, owned by the government or the private sector, universities, community organizations, and others are expected to be a major contributor to the cultural transformation program in entrepreneurial behaviour. The effort which is the structural actions, for example the presence of the legislation on monopolies, anti cartels, anti trust, competition, trade, small businesses, and others will be able to customize the full economic charge according to the CONSTITUTION of 1945 article 33 specifically.

The development of MSEs that use derivatives products cover the whole field and nation life subsector should be held jointly by the public and the government. Community is major development actors, while the government has obligations to direct, guide, protect and cultivate a conducive atmosphere. Community and government should support each other, filling, and complement in development that was placed on MSEs sector along with the improvement of the quality of human resources, which is based on equitable distribution, growth, and stability. The MSEs growth in Indonesia will only happen for real if it can be guaranteed the existence of opportunities for MSEs to tap into the economic activities. The necessary support mainly improved skills help to gain access to markets, capital and technology developed through the banks or nonbank.

The involvement of business from large companies which have entered in international trade, should be governed by the policy of the government, namely, at least MSEs have employed as a partner. The existence of such collaboration will bring influence in many aspects on the development of the company as its partner.

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