

## THE ROLE OF GOVERNMENT POLICY IN SMES FACILITATING INSTITUTIONS IN INDONESIA: A CASE STUDY ON BUSINESS DEVELOPMENT SERVICES PROVIDER

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### ABSTRACT

*Small and medium-sized enterprises (SMEs) play an important part in improving the Indonesia economy and, consequently, the government has a mandatory obligation to maintain their sustainability and development. The fact that government has a limitation in helping solve the problems the SMEs encounter, Business Development Service-Provider (BDS-P) can serve as an alternative partner in improving the performances and finding the solution for the problem faced by the SMEs. This research was conducted on BDS-P existing in Indonesia using the qualitative method to describe and to explore in-depth the role of government policy in BDS-P development in Indonesia. The primary data were collected through interviews and observations, while the secondary data were derived from the documentation, notes, and archives. From the data processing and data analysis, it could be concluded that the government policies concerning the development of BDS-P had resulted in the improvement of the ability and capacity of BDS-P in providing business services, dissemination of the BDS-P roles in developing SMEs, involvement of BDS-P in providing business service for SMEs, and the establishment of the standard on the competency certification for professional consultants/facilitators.*

**Keywords:** *BDS-P, business performances, government policy, SMEs*

### INTRODUCTION

The development of small and medium-sized enterprises (SMEs) is a strategic key in building the economy, coping with unemployment, and alleviating poverty rate in Indonesia. The existence of SMEs has proven itself to be the rigorous solution for the economic crisis in 1998 and driven the national economy to gain the strength back. Antara & Sumarniasih (2017) noted that these enterprises accounted for 99 percent of all enterprises, employed 89% of the private sector's workforce, and contributed 57% to the country's GDP. All these facts indicate the importance of SMEs as the backbone of the national economic strength.

Although the number of SMEs continues to grow, the development of their business is constrained by a number of factors. As the state organizer, the government is responsible to its people, including the sustainability and development of SMEs. Efforts have been made to promote, to empower and to protect the SMEs under a variety of programs. Currently, the government establishes a partnership with the existing Business Development Service Providers (BDS-P) to optimize their role as the consultants in providing professional guides and assistance to the SMEs, mainly for non-financial aspects. For this partnership, The Ministry of Cooperative and SME has a policy serving as the framework for BDS-Ps in implementing their services. The objective of this study was to observe the contribution of government policy to BDS-Ps in implementing their services.

## **RESEARCH METHOD**

This research employed a descriptive qualitative method to describe the constraints in the development of the SMEs, the government policies related to the sustainability and development of the SMEs, and the role of BDS-P in empowering the SMEs. The primary data were collected by interviews and observations. The secondary data were obtained from the documentation, notes, and archives. Data verification and validation were performed prior to interpretation.

## **RESULTS AND DISCUSSION**

### ***Government Policy***

The government has an authority of making many policies. The term *policy* is used more frequently and broadly in relation to governments' action and state's behavior in general. Jones (1984) defined a policy as permanent and repeated behavior in relation to the business existing in and through government in order to solve the public problem. Friedrich (2007) defined a policy is an action proposed by an individual, a group or a government in certain environment giving constraint and opportunity to the policy proposed to use and to deal with in the attempt of achieving an objective or realizing certain target or purpose. In addition, Lasswell and Kaplan (2013) regarded a policy as a projected program of goals, values, and practices.

Said (2004) recognized that a policy has three levels, namely (a) public policy, the one becoming guideline or implementation instruction, either positive or negative, involving all corresponding areas or institutions; (b) implementation policy, the one elaborating public policy, for central level, government regulation about the implementation of law; and (c) technical policy, the operational policy existing under the implementation policy. With respect to the sustainability and development of SMEs, the Government of Indonesia has published a number of policies, including:

1. SMEs Law Number 20 the Year 2008  
Article 15 and its explanation mention that "Business Development Service Provider is the institution providing consultation service and facilitation to develop micro-, small-, and medium-scale enterprises.
2. Regulation of the State Minister of Cooperatives and Small and Medium Enterprises Number 02 / Per / M.KUKM / I / 2008 Year 2008 about BDS-P Empowerment for Credit Development for SMEs in Article 1 clauses (1), (2), and (3) mention that:
  - a. BDS/LPB is an activity of providing business development service for improving the performance of SMEs credit.
  - b. BDS/LPB is the institution having competency and ability to conduct service activity of SMEs credit business development.
  - c. BDS/LPB is BDS-P considered as having more prominent performance in developing SMEs credit business.
3. Regulation of the Minister of Cooperatives and Small and Medium Enterprises Number 02 / Per / M.KUKM / I / 2008 Year 2008 Cooperative and SMEs Minister's Regulation Number 02/ Per / M.KUMKM/I/2008, in article 3 clause 2, mentions that:
  - a. Guiding and consultation of Business Development service
  - b. Business facilitation
  - c. Facilitating access to productive resources including capital, technology, management, and information.

### ***Micro, small, and medium-sized enterprises (SMEs)***

Law Number 20 the Year 2008 classified the SMEs into micro, small, and medium enterprises based on the criteria of assets and turnover. Micro enter prise is productive business owned by individual and/or individual business entity fulfilling the criteria of Micro Business as regulated in this Law with the maximum asset up to IDR 50 million and maximum up to IDR 300 million. Small enterprise is a stand-alone productive economic enterprise, conducted by an individual or a business entity that is not a subsidiary or not a branch

of a company owned, controlled, or becomes part of the direct or indirect business of a medium-sized or large-scale business that meets the small business criteria with the asset ranged from IDR 50 million to IDR 500 million and turn over ranged from 300 million to IDR 2.5 billion. Where as medium enterprise is a stand-alone productive economic enterprise, conducted by an individual or business entity that is not a subsidiary or a branch of a company owned, controlled, or becomes part directly or indirectly with a small business or a large business with the asset ranged IDR 500 million to 10 billion and turnover higher than IDR 2.5 billion up to IDR 50 billion.

Although the number of SMEs has significantly increased from year to year, there are some inherent problems in their sustainability and development. This study revealed that the most common problems encountered by the SMEs were:

1. Management problem
  - a. Business management
  - b. Capital structure
  - c. Personnel capacity
  - d. Marketing ability
2. Technical problem
  - a. No good financial administration and management system is available due to the ownership and management of company not separated from family.
  - b. The difficulty of writing a good proposal and conducting a feasibility study to obtain a loan from Bank and venture capital.
  - c. The difficulty of developing business plan due to high competition for the market.
  - d. Limited access to technology, particularly when the market is dominated by certain company/business group and ever-changing consumer taste.
  - e. The difficulty of obtaining raw material particularly due to tight competition in obtaining raw material, low-quality raw material, and high-cost raw material.
  - f. The problem of innovation and improving product quality and efficiency.

These findings were in accordance to the report made by Kuncoro (2009) that the SMEs still encounter technical constraint hindering their business activities such as ability level (competency), skill, expertise, human resource management, entrepreneurship, marketing, and financial. Similarly, PT. Sempurna Nilai Sukses (2017) also reported that the SMEs has limited access to financial loan, lack of infrastructure knowledge for SMEs, lack of technology use, limited raw material, and lack of qualified human resources.

### ***Business Development Services Providers (BDS-P)***

The term Business Development Services (BDS) was introduced in the 90's by the Committee of Donor Agencies for Small Enterprise Development (CDASED) to replace the term 'non-financial services'. CDASED (2001) emphasized that the definition of BDS includes a wide array of non-financial business services, in term of strategic and operational. BDS is focused to serve individual businesses, instead of the larger business community. Similarly, according to International Center for Research on Women (ICRW, 2001), the definition of "BDS consists of a wide range of non-financial services critical to the entry, survival, productivity, competitiveness, and growth of micro and small enterprises. In general, the services provided by the Business Development Services Provider (BDS-P) to SME are aimed at the improvement of the enterprise performances, access to markets, and ability to compete.

The development of BDS-P in Indonesia has been pioneered by the establishment of consultation center involving college in 1993, and Business Consultation Clinic (BCC) and Community Economic Center (CEC) in 1998. Currently BDS-Ps have to help Indonesian SMEs in (1) Facilitating access to markets; (2) improving the availability of less expensive or higher quality inputs; (3) Introducing new or improved technologies and products; (4) Improving management and technical skills; (5) Ameliorating or eliminating policy constraints; and (6) Helping enterprises access appropriate financing mechanisms. In return of providing services, BDS-P can acquire a number of benefits from the government, including the improvement on the ability and capacity of BDS-P, dissemination of the BDS-P roles in developing SMEs, involvement of BDS-P in providing business service for SMEs, and the establishment of the standard on the competency certification for professional consultants/facilitators in order to work for SMEs professionally and independently

## CONCLUSION

The existence of large number of SMEs to large extent is the main pillar of Indonesian economic strength. Nevertheless, the inherent problems encountered by SMEs need effective solutions to enable them to develop, survive, and compete in the current open market era. In this case, BDS-P can play significant roles in providing a solution to the SMEs problem and, in turn, empowering them to be strong enterprises. By providing services to solve the MSEs problems, BDS-P has the opportunity to improve the ability and capacity in the business services, disseminate its roles in developing SMEs, involve in providing business service for SMEs, and establish the standard on the competency certification for professional consultants/facilitators.

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