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An overview of Development and Obstacles of Small and Medium Enterprises (SMEs) in Bengkulu Province

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In line to the national policy, strengthening the development and growth of small and medium enterprises (SMEs) has been decided as one of the strategic economic development policies for the medium and long term development plans of Bengkulu Province. During the last couple years, a number of studies on SMEs in Bengkulu Province had been undertaken by the authors of this paper and partial results of the studies are presented in this paper. More specifically, the aims of this paper are to provide an overview of the development of SMEs in Bengkulu Province, highlight obstacles faced by SMEs, discuss their implications and suggest relevant recommendations for strengthening the future development and growth of SMEs. The nature of this paper is a descriptive analysis using secondary data and sources which were collected using the library research method. The data provided by the Bureau of Statistics of Bengkulu (BPS, 2013) indicate that the number of SMEs established in Bengkulu Province, the amount of investment and production, and the number of people employed by the SMEs have grown steadily overtime. However, the results of the existing studies in Bengkulu Province indicated that generally SMEs face a number of obstacles hindering their further development and growth. The implications of the obstacles and relevant recommendations were discussed in this paper.

Keywords: enterprise development, business obstacles, SMEs.

Introduction

In line to the national policy, strengthening the development and growth of small and medium enterprises (SMEs) has been decided as one of the strategic economic development policies of Bengkulu Province. The documents of Medium-Term Regional Development Plan of Bengkulu Province (RPJMD) for the period 2005-2010 and the period of 2011-2015 have specified directions and strategies prepared for promoting and enhancing the development of SMEs. These include providing assistance in expanding markets,: providing greater access to capital and financial sources, accelerating technology transfer, improving the quality of human resources and ensuring the availability of technical assistance, management and appropriate technologies for SMEs and cooperation (Government of Bengkulu Province, 2005 and 2011).

There have been a number of studies on SMEs in Bengkulu Province had been undertaken by the authors of this paper and partial results of the studies are presented in this paper. More specifically, the aims of this paper are to provide an overview of the development of SMEs in Bengkulu Province, highlight obstacles faced by SMEs, discuss their implications and suggest relevant recommendations for strengthening the future development and growth of SMEs.

Roles and Obstacles of MSMEs

Internationally, the establishment and growth of small and medium enterprises (SMEs) have long been well regarded as the main contributors into the development and growth of the economy of most nations including Indonesia (OECD, 1999). Research evidence indicates that accelerating the establishment, development and growths of SMEs have also been identified as an effective strategy to enhance the development of economy through creation of more job opportunities and income generation. Their significant contributions into the economy include: (a) creating the majority of business opportunities. The total number of businesses in various sizes in Indonesia is approximately 51.3 million units and the majority of those businesses (99.9%) are classified as SMEs; (b) providing the greatest number of job creations as approximately 97.04% of the total workforces in Indonesia are employed by SMEs; (c) contributing a significant share into the formation of the Indonesian GDP accounted for approximately 55.6% of the total GDP (Abduh, 2012). Other significant roles of SMEs which have also been well recognized, include: stimulating economic competition, promoting innovation, producing goods and services efficiently, and being potential sources or seedbeds for larger enterprises. More importantly, SMEs generally use local resources and hence increase productivity of the local resources resulted in an increase of income and welfare of local community which in turns reduce the level of poverty in the respective region. These suggest that the higher the growth of MSMEs in a country the greater the MSMEs' contributions into the development of growth of the economy of the country (Abduh, 2007; Bygrave and Zacharakis, 2011; Schaper, Volery, Weber & Lewis, 2011: OECD, 1998).

Despite the significance of their roles to the economy, the failure rate of small and medium enterprises is high. Evidence from relevant studies suggests majority of SME (more than 75%) failed during the first five-years of their operation due a wide range of factors. Barriers such as lack of managerial and entrepreneurial skills; limitation in technical know-how; insufficiency of capital needed to run and develop business; lack of access to capital sources, market information and business networks; and time and competition pressure were identified as major factors of business failure (Abduh, 2007; Auken, 1999; Bygrave and Zacharakis, 2011; Chetty, 2003; Cromie, 1991; Kazanjian, 1988; Schaper, Volery, Weber & Lewis, 2011; Tepstra, 1993).

There are a number of situations which have been regarded as encouraging factors for the formation and development of MSMEs, including: SMEs have become one of the main sources of income or additional income for most people, and therefore the development of SMEs is a necessity for a great number of population; establishing a smaller size of business in Indonesia including in Bengkulu province tends to be much easier than setting up a bigger business due to several conveniences such as the establishment of a new micro/small business does not really need to have a business license, especially in the early stage of business formation; in general, the establishment of a new micro/small business does not really SMEs require a very high level of business skills; a micro/small business can be started with a limited amount of initial capital; technology used by most MSMEs is generally conventional and hence is easy to be adopted or imitated in establishing similar business by the others; products produced by MSMEs are usually based on the needs of communities located surrounding the location of MSMEs implying that their market opportunities are relatively adequate, and raw materials used by MSMEs are usually derived from the surrounding areas (local raw materials) and hence obtaining raw materials

would not be a major obstacle in the early stage of business formation (Abduh, 2012; Bygrave and Zacharakis, 2011; Schaper, Volery, Weber & Lewis, 2011: OECD, 1998)..

Development of SMEs in Bengkulu Province

The development of SMEs in Bengkulu Province is represented by the increase/decrease in the number of SMEs established, the number of employment, the amount of investment and production. The data about the development of SMEs in Bengkulu Province was obtained from the Bureau of Statistics (BPS) of Bengkulu Province as presented in Table 1. As seen in Table 1, BPS classified SMEs activities into two main sub-sectors: manufacturing industry and trade. The manufacturing industry sector include agro and forest product industry, metal, machinery and miscellaneous industry, However, it seems important to note that BPS defined an enterprise as a productions unit engaged in economic activity, producing goods or services located in a building or in a certain location, keeping a business record concerning the production and cost structure, and having a person or more that are responsible to those activities (BPS, 2013, p. 284). However, due to this definition some enterprises might not been recorded in the database as they may not be able to meet the criteria such as do not have proper business record as specified and required by the definition.

Table 1 Number, Employment, Investment and production of Small and Medium Industry in Bengkulu Province 2008-2012

Description	Satuan	2008	2009	2010	2011	2012
1. Industry						
A. Small and Medium Industry						
- The Number of Business Unit	Unit	1.083	705	1.393	2.001	3.073
- The Number of Labor	Person	7.538	4.749	7.000	8.653	11.160
- Value of Production	Rp. 000	83.221.157	94.030.905	233.418.363	203.590.342	384.682.224
- Value of Investment	Rp. 000	158.996.535	1.309.383.833	74082627	93.563.258	211.561.497
2. Trade						
B. Trading on Small and Medium Industry						
- The Number of Business Unit	Unit	6.616	9.177	10.095	11.106	12.015
- The Number of Labor	Person	52.928	73.416	80.758	88.834	96..120
- Value of Production	Juta Rp.	6.616.000	9.177.000	10.094.750	-	12.784.500
- Value of Investment	Juta Rp.	1.323.200	-	300.375	-	-

Source: Bureau of Statistics (BPS) of Bengkulu Province, 2013

Types of Businesses
According to the data in Table 1, the majority (75%) of SMEs in Bengkulu Province were classified as trading businesses and the remaining 25% enterprises were classified as manufacturing industry consisting of agro and forest product industry, and metal, machinery and miscellaneous industry. This figure suggests that the exiting enterprises

activities focused more on services than manufacturing oriented businesses. It may also imply that most of manufacturing products needed by the community in Bengkulu Province were imported from other provinces. Hence the government should consider further strategies aimed at enhancing the development and growth of manufacturing businesses.

Number of Established Businesses
The number of businesses established in Bengkulu Province during the period from 2008-2012 has grown steadily from 7.699 units in 2008 to 15.088 units in 2012 with an average growth rate of approximate 25% per year. The significant increases in the number of established businesses could be resulted in from and in line with the development and condition of the overall economy of Bengkulu Province at the same period. For example, the decrease in the number of business units of manufacturing industry from 1083 in 2008 to 705 in 2009 was resulted in from the global economic crises in 2008. .

Job Creation
Like those in other regions, SMEs in Bengkulu Province play significant roles in creating job opportunities which increase overtime. In line to the number of their business units, trading businesses created more job opportunities with an average of 8 persons for each business. The ability of manufacturing businesses to create job opportunities decrease overtime from an average of 7 persons per each business in 2008 to only 3,6 persons per each business in 2012. A plausible explanation of this finding is the businesses becoming more capital intensive or using more efficient manufacturing technology. However, further research should be undertaken to address this phenomenon and in order to provide clearer picture about the situation in reality.

Value of Production
Value of production for both manufacturing industry and trading increased steadily every year during the period of 2008 to 2012. However, the ratio between the production value and the number of business units increased for manufacturing industry but decreased for trading businesses every year.

Value of Investment
The data of the value of investment for trading businesses are however incomplete. The value of investment for manufacturing businesses increased every year as to the increase in the number of established business units. However the ratio between the value of investment and the number of business units fluctuated during the period from 2008 to 2012. A comparison between the value of investment and the value of production also fluctuated overtime but tended to higher in 2012. This suggests that profits gained by the manufacturing industry tended to be higher in 2012 and may imply that they added greater value from the manufacturing process. However, further research should be conducted to address such the tentative opinion as it is too early to draw a valid conclusion.

Obstacles of SMEs in Bengkulu Province

The presentation of the obstacles faced by common SMEs in Bengkulu Province was derived from partial results of several relevant studies conducted by the authors of this paper. The relevant studies include a   Baseline Study of Superior Commodities, Products and Business Types in Bengkulu Province which was conducted through a research collaboration between Bank Indonesia (the central bank of Indonesia) in Bengkulu (2011), Evaluation of performance of the development of Bengkulu which has been conducted

every year since 2009 through a research collaboration with the Board of National Planning and the Board of Regional Planning of Bengkulu Province. Based on the findings of those studies, there are a number of situations which have been identified as obstacles or discouraging factors for the formation and development of SMEs in Bengkulu Province as follows:

- The majority of SMEs entrepreneurs do not have sufficient and adequate skills needed for expanding their businesses.
- The majority of SMEs entrepreneurs do not have sufficient capital required to develop and expand their business,
- Most of SMEs entrepreneurs do not have access and ability to apply for capital loan from formal financial institutions,
- Business Networks owned by entrepreneurs of SMEs in general are still relatively limited, including networks and access to raw materials, marketing and distribution.
- Technology used by the majority of SMEs is usually conventional and has not been updated that resulted in the production process less effective and less efficient leading to higher costs of production and hence the price of their products become less competitive compared to the price of similar products produced by other businesses including products imported from overseas (global competition).
- Quality of the products produced by SMEs are not too high and in most cases the products are unable to compete with similar products imported from overseas which have better quality and cheaper price.
- Low level of supports of community who prefer to consume imported products rather than local products.
- Low level of entrepreneurial spirit among the people who generally prefer to be employees rather than employers,
- Government supports through various assistance programs and services were usually limited and available for certain SMEs only,
- Government supports through various assistance programs and services were mostly based on 'project approach' rather than the 'needs' of entrepreneurs,
- Government supports through various assistance programs and services were usually temporary and unsustainable,
- Inconsistency between planning and the implementation of government policies on the development of SMEs frequently occurred that resulted in ineffectiveness of various supporting programs and services for SMEs.
- Most of rules and regulations of banking industry were difficult to be fulfilled by the majority of SMEs.

More specific obstacles faced by SMEs in Bengkulu as derived from the results of the Baseline Study of Superior Commodities, Products and Business Types in Bengkulu Province (Bank Indonesia Bengkulu, 2011) are presented in Table 2.

Table 2.
Obstacles and Potential Constraints Faced by SMEs in Bengkulu Province

No.	Dimension/Constraint
1.	Skilled Workforce
a.	Limited number of skill workers needed
b.	Low level of education
c.	Lack of link and match between availability and needs by market
d.	Lack of experienced workforce in specialization needed
2.	Raw Materials
a.	Limited availability of raw materials needed
b.	Fluctuation of price
c.	Fluctuation of availability and unsustainable
d.	Damaged Easily
e.	High variation of quality
f.	Bulky, storage consuming
3.	Capital
a.	The limited amount of initial investment and working capital
b.	The limited access to formal capital resources
	• Constrained by an absence of business license
	• Absence of adequate administration and financial bookkeeping
	• Absence of collateral/guarantee
4	Production Facilities / Business
a.	The limited number and types of business facilities
b.	Unaffordable
c.	Limited number of facility operators
d.	Limited infrastructure (electricity power, usable water, road)
5.	Technology
a.	Conventional technology
b.	Unaffordable
c.	Limited number of facility operators
d.	Limited availability of services and spare parts
6.	Social Culture
a.	Lack of adoptability
b.	Resistance to conventional economic activities (agriculture)
c.	Easily satisfied by existing achievements
7.	Business Management
a.	Lack of capability in identifying business problems faced
b.	Insufficiency of modern business management skills
c.	Did not do regular bookkeeping and business administration
d.	Lack of access to business training provided by government and other organizations
8.	Market Availability
a.	Market is limited to a certain range (local/regional/national)
b.	Lack of business networks
c.	Lack of access to market information

Table 2.
The Potential Constraints on CPT Development

No.	Dimension/Constraint
9.	Price of Product
a.	Inadequate price
b.	Fluctuate and unpredictable
10.	Absorption of Labor Forces
a.	Slowly growth to higher business scale
b.	Lack of product differentiation and business diversification (monotone absorption)
11.	The Economy Contribution to The Region
a.	Concentrate on primary sectors
b.	Insufficient ability to generate higher added value

Source: Bank Indonesia, Bengkulu 2012.

The findings suggest that promoting and enhancing the development of SMEs seems to be uneasy tasks because there are a number of potential barriers associated with vital factors such as raw materials, labor, technology, production process, market, price and location. The potential barriers include inadequate amount of raw materials for certain SMEs, limited number of skilful labors, unaffordable production facilities, high fluctuation of rice, and unreachable market. Such those barriers could potentially be an obstacle hindering the process and outcomes expected from the development of SMEs. In addition, each of SMEs usually has its own characteristics and face certain constraints which may be different from the others and hence it requires specific solutions.

Implications and Recommendations
Promoting and enhancing the development of SMEs is a kind of process which has multi-stakeholders and multi-criteria such as the availability of raw materials, labor, appropriate technology and production facilities, demand conditions or market prospects, price and location, employment creation and contribution to the regional economy. As discussed previously, there are a number of potential obstacles that could hinder the process and achievement of expected outcomes. Accordingly, appropriate strategy, mechanism and workable efforts should be formulated in order to be able to enhance the development of SMEs effectively and efficiently.

The results of this study should be considered as a major reference by relevant parties in formulating of strategic plan, Master Plan of Development (*Rencana Induk Pengembangan*) of SMEs including training and apprenticeship of entrepreneurship, technical skills and business management, as well as the expansion of credit facilities for working capital and investment in various forms, such as soft loans and revolving funds.

Since the development SMEs involves various parties and timing aspect, it is therefore necessary to formulate more suitable policies and then enhance the consistency between the policies and proposed plans and their implementation in order to achieve the expected outputs and outcomes more effectively and efficiently. The relevance and consistency between policy, planning and implementation could create conducive circumstances such as certainty which is one of important aspects for investment. In addition, policies and

regulations shall be binding and implemented consistently and hence could induce a feeling of safety and certainty.

Most of the assistance provided by the government tends to be very general, both the material or its participants. Most of the SMEs assistance programs are ad hoc only implemented in the short term. Such programs are usually not sustainable, therefore policies, plans and implementation should be more holistic and sustainable.

Capital is one of the main production factors required to initiate and develop SMEs. However, the factual conditions of the majority of SMEs do not have adequate capital in sufficient amounts that would be an obstacle in the process of starting or developing a business. SMEs also do not have access and ability to apply for loans to banks or other formal financial institutions. This is caused by several factors such as not having the assets that can be used guaranty, do not have the skills to prepare and submit a loan proposal, does not have a good bookkeeping business so it can not know exactly about the development of its business, does not have a business license and trouble to get it , or in other words can not meet all the requirements needed for obtaining loans as determined by the banks or other formal financial institutions. Accordingly, the banks should formulate policies that are more conducive for business to the constraints faced by SMEs in obtaining loans actors can be overcome. Some of the things that are relevant to recommended include:

A number of enterprise development programs have been promoted to assist SME to solve their problems and enhance their survival rate. Over the last decade, business incubators or business incubation programs (BIPs) have emerged to be an effective mechanism and strategy to enhance the formation, development, growth and survivability rate of new and existing SMEs. Evaluation of the incubation programs revealed amazing results indicating that well managed business incubators could boost the survival rate of start-up businesses to 80-90 per cent, as compared to that of new businesses under normal circumstances (Abduh, 2012; Abduh et al, 2011)

By definition, a BIP can be considered as an enterprise development strategy aimed at assisting and accelerating the process of formation, development, and survivability of new and existing enterprises in the community. It does this by pooling potential resources including potential businesses (clients) from the community in a business incubator facility and then providing the clients with a wide range of business assistance services (Abduh *et al*. 2007; Rice and Mathew, 1995). The practice of a business incubation program is like a metaphor of raising chickens (Temali and Campbell 1984). 'Like a mother hen, the incubator helps the new ventures to hatch, grow and leave' (Carroll 1986, p. 25). As illustrated in Figure 1, an incubator selects potential new and small businesses in the community to be its clients, facilitates the clients with a comprehensive and integrated range of support services to enhance the success of their businesses, and then, after a period of time, the incubator releases the assisted clients to become independent, self-sustaining businesses in their respective markets and to provide contributions to their community (Peters, Rice and Sundararajan, 2004; Rice and Mathews, 1995).

Figure 1 The Process of Business Incubation

Source: Rice and Matthews (1995, p.25).

The nature of the concept of business incubation programs is an integrated networking strategy designed to pool and manage all potential resources in the community in order to enhance entrepreneurship development by accelerating the establishment, development, growth and survivability of SMEs. The greater the number of healthy SMEs in a community the greater the contributions of the SMEs into the community through jobs creation and income generation. and in turns accelerating the poverty alleviation. An integrated networking strategy among potential resources in the community could improve the focus, effectiveness, efficiency, outputs and outcomes of supports given to SMEs representing closer integration among resources including government bodies, non profit organizations, banking industry and other institutions within a focus of collective goals.

Conclusions

The majority (75%) of SMEs in Bengkulu Province were classified as trading businesses and the remaining 25% enterprises were classified as manufacturing industry consisting of agro and forest product industry, and metal, machinery and miscellaneous industry. The number of businesses established in Bengkulu Province during the period from 2008-2012 has grown steadily from 7.699 units in 2008 to 15.088 units in 2012 with an average growth rate of approximate 25% per year. SMEs in Bengkulu Province have played significant roles in creating job opportunities which increase overtime. In line to the number of their business units, trading businesses created more job opportunities with an average of 8 persons for each business. The ability of manufacturing businesses to create job opportunities decrease overtime from an average of 7 persons per each business in 2008 to only 3,6 persons per each business in 2012. Value of production for both manufacturing industry and trading increased steadily every year during the period of 2008 to 2012. However, the ratio between the production value and the number of business units increased for manufacturing industry but decreased for trading businesses every year.The value of investment for manufacturing businesses increased every year as to the increase in the number of established business units. However the ratio between the value of investment and the number of business units fluctuated during the period from 2008 to 2012. A comparison between the value of investment and the value of production also fluctuated overtime but tended to higher in 2012. This suggests that profits gained by the

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Promoting and enhancing the development of SMEs seems to be uneasy tasks because there are a number of potential barriers associated with vital factors such as raw materials, labor, technology, production process, market, price and location. The potential barriers include inadequate amount of raw materials for certain SMEs, limited number of skilful labors, unaffordable production facilities, high fluctuation of rice, and unreachable market. Such those barriers could potentially be an obstacle hindering the process and outcomes expected from the development of SMEs. Accordingly, appropriate strategy, mechanism and workable efforts should be formulated in order to be able to enhance the development of SMEs effectively and efficiently. Business incubation programs should be considered as viable enterprise development strategy of SMEs in Bengkulu Province in the future.

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