

**THE IMPACT OF STRENGTHENING MICRO,
SMALL AND MEDIUM ENTERPRISES IN
INDONESIA**

-A CASE STUDY OF THE USC-SATUNAMA PROJECT-

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ABSTRACT

THE IMPACT OF STRENGTHENING MICRO, SMALL AND MEDIUM ENTERPRISES IN INDONESIA -A CASE STUDY OF THE USC-SATUNAMA PROJECT-

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In this mini-thesis, I explore what impact a particular project in Indonesia on strengthening micro, small and medium enterprises (SMEs) has on economic development. I argue, *firstly* that the project makes a positive contribution to development and *secondly* that an approach which combines training programs and technical assistance with credit makes a greater contribution than training programs and technical assistance alone.

I use the view that SMEs are very important for development as the basis of my argumentation. In spite of this, there is a lack of support for SMEs from the Indonesian government. This gap of support for SMEs was and is partially filled by non governmental organizations (NGOs). The NGOs support SMEs in dealing with problems such as the lack of working capital as well as the lack of knowledge about production, marketing, and management.

I focused my field study on the USC-Satunama project. USC-Satunama is a non-governmental organization which works (amongst other activities) to strengthen SMEs. Its activities include the provision of training programs and technical assistance to improve the human capital of the entrepreneurs as well as providing credit. Training programs and technical assistance are provided to all the beneficiaries of the project. However, not all beneficiaries are provided with a credit facility. Therefore, the respective impact of the two different types of support, (i) a combination of training programs and

technical assistance with credit and (ii) training programs and technical assistance alone, can be explored.

I use the improved welfare of the entrepreneurs indicated by the increase of their profits as yardstick to ascertain the impact of the project on development. The result of the field study is: the approach of the USC-Satunama project, according to which a training program and technical assistance are combined with credit, indeed makes a significant and positive contribution to the welfare of the entrepreneurs and thus it contributes to the development of Indonesia.

July 21, 2004



DECLARATION

I declare that *The Impact of Strengthening Micro, Small and Medium Enterprises in Indonesia -A Case Study of the USC-Satunama Project-* is my own work, that it has not been submitted before for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged by complete references.

Catur Utami Dewi

July 21, 2004



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LIST OF ABBREVIATIONS

AC	Average Cost
ADB	Asian Development Bank
AR	Average Revenue
ASEAN	Association of South East Asian Nations
BAPEKOINDA	Badan Pengembangan Perekonomian dan Investasi Daerah (Yogyakarta Economic and Investment Development Board)
BPS	Badan Pusat Statistik (Statistics Indonesia)
dQ	Change in the Quantity of Output
dTC	Change in the Total Cost
D.I. Yogyakarta	Daerah Istimewa (Special Region) Yogyakarta
EU	European Union
FC	Fixed Cost
GDP	Gross Domestic Product
GDRP	Gross Domestic Regional Product
IOB	Interest Over Balance
NGO	Non Government Organization
OECD	Organization for Economic Co-operation and Development
p	Price
Rp	Rupiah
Q	Quantity of Output
SHG	Self Help Group
SME	Micro, Small and Medium Enterprise
SPSS	Statistical Product and Service Solution
TC	Total Cost
TR	Total Revenue

USC-SATUNAMA	Unity Service Cooperation-Yayasan Kesatuan Pelayanan Kerjasama
US \$	United States dollar
v1	Variable Input
v2	Fixed Input
VC	Variable Cost



Chapter 1

INTRODUCTION

The Indonesian private sector is characterized by a large number of informal micro, small and medium enterprises (SMEs)¹. There are relatively few formal medium-sized and large enterprises. An illustration taken from the Statistics on the Manufacturing Industry 2000 which compares the number of micro-small, medium, and large industries shows that the manufacturing industries comprise of 2,598,704 micro-small industries, 15,377 medium industries and 6,797 large industries (Departemen Perindustrian dan Perdagangan RI, 2002:16). In fact, the real number of micro-small-medium industries is higher than the above mentioned figure because of the fact that many of the micro-small-medium industries are in the informal sector, which is invisible from the official system.

Indonesia benefited from comparatively high economic growth until the economic crisis hit the country in 1997. Indeed, SMEs were affected by the market turmoil. However, compared to the big enterprises, SMEs had greater flexibility to adapt to the rapidly changing economic environment and they were less affected by the devaluation of the Indonesian currency during the crisis (Asian Development Bank, Project Profile, 2001:1). The weakness of having limited access to credit, especially credit in US dollars, turned out to be an advantage. It made SMEs comparatively less affected by the fall of the Rupiah² against the US dollars during the crisis. Many big companies collapsed but many SMEs survived the crisis and continue to support the economy of the country. A quantitative survey conducted by the Asian Development Bank in June 2001 in two big Indonesian cities, Semarang and Medan, which sampled 482 SMEs, shows that 78% of the enterprises were not negatively affected by the crisis.

¹ There are several criteria to measure the size of enterprises and there is no single definition which is adopted by all countries (see section 2.1.2.2). The literature frequently differentiates the term 'Small and Medium Enterprises (SMEs)' from 'Micro and Small Enterprises'. As this mini-thesis aims at ascertaining the impact of a development project on strengthening enterprises in the informal sector which in itself does not differentiate the size of the enterprises whether they are micro, small and medium, it will not discuss further details of these different views. The term 'SMEs' in this mini-thesis refers to the micro, small and medium enterprises.

² Rupiah is the name of the Indonesian currency.

Moreover, 47% experienced a positive business development (Asian Development Bank, ADB SME Development Technical Assistance, 2001:5). In the domestic market, their markets became larger because they were able to accommodate the customers who sought substitutes for expensive imported goods. Their competitiveness was improved because the price of their goods was much lower than the price of the imported goods because the domestic productive inputs used were paid in Rupiah. Those who produced commodities for export also benefited from the depreciation of the Rupiah as the price of these commodities in the international market was set in foreign currency, usually US dollar. The revenue in US dollars was more or less the same as before the crisis. However, when the money they received was exchanged into the domestic currency, they received a lot more Rupiah (Asian Development Bank, Policy Discussion Paper no 5, 2001:11).

SMEs play an important role in providing the seedbed for economic growth and development. In addition to their flexibility to face economic turmoil like in the case of Indonesia in 1997, SMEs absorb workforce as they tend to be labour intensive. This contributes to economic and political stability (Havenga, 2001:2).

Despite the important role of SMEs, the Indonesian government has neglected them for a long time. It rather focused more on the development of big firms. Since the world-wide recession in 1982 and the weakening of oil prices - oil was the major contributor to the national income in Indonesia - the government's awareness of the importance of developing the SMEs to cope with the growing social and economic problems has increased (Tambunan, 1991:115). However, the policies to support the SMEs are still limited and they mainly target enterprises in the formal sector. For instance, financial assistance to small enterprises is minimal and does not address the need for access to credit by small enterprises, which lack access to the commercial banks (Tambunan, 1991:135). Policies are sometimes biased and only benefit formal medium and big enterprises (Husaini et al., 1996:15). SMEs which are in the informal sector mostly are not eligible for government support. This gap was and is filled by, among others, Non Government Organizations (NGOs) through various development projects. The NGOs support these enterprises with respect to problems such as the lack of

access to working capital as well as the lack of knowledge of production, marketing, and management.

The objectives of this mini-thesis are to examine: (i) the contributions of a specific project of strengthening SMEs to economic development, measured by the improvement of the welfare of the beneficiaries of the project, and (ii) the impact of the approach to strengthen SMEs by complementing the provision of training programs and technical assistance with the provision of credit. It is analyzed whether the combination brings about a greater contribution to improving the welfare of the entrepreneurs than training programs and technical assistance alone.

The USC-Satunama project on SMEs was selected for the case study. USC-Satunama is a non-governmental organization which works (amongst other activities) on strengthening SMEs by offering training programs and technical assistance to improve the human capital of the entrepreneurs as well as providing credit. It offers training programs and technical assistance to all the beneficiaries of the project, however not all of them are provided with a credit facility. Therefore, the different impacts of the different types of support, (i) a combination of training programs and technical assistance with credit and (ii) training programs and technical assistance alone without credit, can be seen in the project.

A field study was conducted to collect empirical data on the impact of the different supports provided to the beneficiaries of the USC-Satunama project. It focused on searching for the data on the contribution of the project to the economic development and the impact of the provision of credit which complements the provision of training programs and technical assistance. It used the increase of profits of the beneficiaries of the project as the yardstick to measure the impact of the project.

The field study focused on the USC-Satunama project area in the province of D.I. Yogyakarta. The main data from the beneficiaries of the project were collected through questionnaires (the questionnaire is attached as Appendix 2). The researcher used a stratified random sampling method to identify the sample. Three hundred questionnaires were distributed to the beneficiaries of the project

during the field study. One hundred and thirty nine questionnaires were returned and treated further as the sample to represent nine hundred and two entrepreneurs.

To investigate the importance of SMEs for the economic development in Indonesia and to judge the impact of the policies of supporting SMEs, this mini-thesis is structured as follows. Chapter one presented the motivation in choosing the topic, the objectives and the structure of the mini-thesis.

Chapter two presents the theoretical framework which is divided into two parts. The first section is on SMEs and development. In order to have a common understanding of the whole discussion, characteristics of firms in general and the differences between SMEs and big enterprises are presented, followed by the presentation of the contribution of SMEs to development. The second section contains the presentation of the support for SMEs which describes some strategies to meet the needs for supporting SMEs. The method to measure the impact of strengthening the SMEs through increasing human and physical capital is further discussed by using the neo-classical theory of production and the theory of the firm.

The third chapter discusses the research methodology. It contains information about the purpose of the field study, the coverage area and period of the field study, the design followed to collect data, the sampling method and the limitations of the research methodology.

The fourth chapter contains the results of the field study. An overview of SMEs in the province of Daerah Istimewa (D.I.) Yogyakarta, where the study took place, and the description of the USC-Satunama project are presented, followed by an analysis of the answers provided by the target groups of the USC-Satunama project in the survey. A conclusion and recommendations are given at the end of the mini-thesis.

Chapter 2

THEORETICAL FRAMEWORK

Sen argues that the term 'Development' is seen "... as a process of expanding the real freedom that people enjoy" (Sen, 1999:1). This refers to the removal of the barriers which prevent people from obtaining economic opportunities, political freedoms, social facilities, and civil rights.

This mini-thesis aims at exploring the impact of a project on strengthening SMEs on one of the determinants of development, i.e. economic opportunities. The term 'development' is treated here as the economic welfare of the country, which in nominal terms is measured by the GDP. GDP is the value of the total goods and services produced in a country during a given period of time, usually per year. It is the total value of the consumption and investment of individuals who reside within the borders of the country, the government purchase of goods and services and the net exports (Samuelson, Nordhaus, 1998:390).

To ascertain the impact of a project on strengthening SMEs to contribute to development, this mini-thesis examines whether there is an improvement of the welfare of the entrepreneurs, measured in terms of an increase of their profits within the project. The neo-classical theory of production and the theory of the firm serve as the basis of explanation for the increase of profit as the result of the intervention by the project.

2.1 SMEs and Development

2.1.1 Characteristics of Firms

There is no consensus on the definition of the firm. In the following, the characteristics of firms will be presented from the point of view of their function, ownership, and aim. (i) With respect to the *function* it performs, a firm can be defined as "a specialized decision-making unit" (Casson, 1999:48). The firms, the labourers as well as the consumers decide how to allocate the resources they own. However, the specialization of the firm is clear when the firm makes decisions about resources it does not itself own, such as labour time of the labourers, and about products it does not itself consume. The improvement of the quality of the

decision making is the result of the firm's capacity to acquire information at lower cost than individual people (Casson, 1999:48-49).

(ii) Concerning the *ownership*, a firm can be defined as a bundle of property rights:

...both trade and production involve contractual arrangements; these activities exist not so much to accomplish the exchange of goods and services but to permit the exchange of 'bundles' of property rights (Furubotn, Pejovich, 1972:1139).

The firm owner holds the property rights and can decide on the allocation of the firm's resources to production and on the composition of its output. The owner has the right to use it, to change its form and substance, and to transfer the property rights by selling or renting it.

(iii) From the point of view of *aim*, the firm aims at maximizing profit and behaves as if it is a profit maximizer. The direction of its decisions and activities is to realize the largest possible profit. In the presence of competitive pressure, the firm is prone to focus on profit maximizing behaviour. If it does not behave that way, it will not be able to survive the competitive pressure; hence it will be eliminated from the market. However, there are some other goals besides profit which play their role in directing the behaviour of the firm, for example doing beautification projects around its facilities and donations to social activities. This is usually conducted by a firm which to a degree does not face competitive pressure and has enjoyed good profits (Thompson, Formby, 1993:248-251).

Most producers also market their goods and only very few of them concentrate on pure production. Many firms are pure market makers though, that take the function as a mediator between the producers and consumers. They do not produce the goods themselves, yet they produce services. Intermediation reduces transaction cost, which would be higher if the producers and the consumers did the transaction themselves. Being able to reduce the transaction cost for the producers and consumers, the market making firm is at the same time able to realize profit. Typical examples are retail and wholesale shops (Casson, 1995:296).

2.1.2 Differences between SMEs and Big Enterprises

2.1.2.1 Factor Influencing the Size of a Firm

The size of the firm is influenced by internal and external factors (Casson, 1999:63-64). The *internal factors* relate to the quality and capability of the owner/manager. This includes his/her vision to build the business and his/her capability to generate and apply new ideas, knowledge, and information to enlarge the firm. The skills to organize the production inputs efficiently, to exercise effective power and to delegate the decisions and works effectively are required as well. The higher the quality and capability of the owner/manager, the bigger the firm he/she can run.

The *external factor* refers to the pattern of volatility, i.e. the level of disturbances faced by the firm. The higher the level of disturbances, the more complex the information needed to solve it. This requires a higher ability to collect and synthesize the information which is mostly possessed by big firms.

In the case of the market making firm where the firm produces services, the economies of scale are also an important factor in determining the size of the firm. If a firm combines the production of certain goods and at the same time makes its own market, the economies of integration also play an important role.

Basing its work on empirical research, the Organization for Economic Co-operation and Development (OECD) defines five variables to explain the competitiveness of SMEs in comparison to big firms (OECD, 1993:20-23). This definition helps to explain the difference between SMEs and the bigger enterprises. *The first variable* is the role played by the owner/manager or management. As the decision power in SMEs is centralized at the owner/manager level, his/her skills, knowledge, capabilities and behaviour play a crucial role in the growth of the firm. Given the necessary information, decisions can be made faster in the smaller firm. Consequently, it is easier and faster for SMEs to adapt to changes in the economy.

The second variable is the ability to obtain and use the appropriate scientific and technological information in order to maintain and improve the competitiveness of the firm through innovations of its products and/or along the various processes of production, distribution and management. It requires

attentiveness to technological progress, markets and competition. This job is usually done by a research and development department. As SMEs typically have no internal research and development department, this function can be served by public or private research centers. In reality, the innovation process of SMEs seems to be intuitive or implicit or non-formalized. The innovation process often is started when the entrepreneur generates an idea of a product or process of production or management. Ideas may also be raised after the entrepreneur receives a special request from a customer or information from a labourer, a supplier, a research center or other sources (ISBRC-PUPUK, 2003:57-58). In the case of the small enterprises which face limited access to information about technology, the innovation capacity is limited. Yet, they compensate by imitating the products of other firms (Kristiansen, 1999:16).

The third variable is the quality of the firm's organization. This aspect refers to the human capital within the firm and the way the firm organizes and manages its labourers. Large numbers of SMEs face constraints with regard to employing skilled labourers because of the inability to pay high salaries. Improving the skills of the labourers by sending them to attend a specific training program sometimes cannot be carried out by SMEs in Indonesia because of the limited resources, poor knowledge about available training programs and the high labour turnover, in which labourers easily move from one job to another (Batra, Tan, 2003:21). This inhibits SMEs from being effective.

The fourth variable is the tangible investment based on appropriate technologies, which are combined with the relevant know-how. Related to the third variable, the adoption of advanced physical capital like machinery does not guarantee the competitiveness of SMEs, if it is not combined with the knowledge to operate the equipment.

The fifth variable is flexibility, which enables SMEs to make use of opportunities and adjust rapidly to changes in the market, including market trends, consumers' demands and pressure from competitors. However, the level of flexibility also depends on the capability of the owner/manager to assess available scientific, technological and economic information and to maximize the use of

new management methods and technology in the firm through innovation and imitation.

2.1.2.2 Criteria to Define the Size of Firms in Indonesia

There is no single definition of SMEs. Criteria which are used to distinguish the actors of the economy are different from country to country. Among them are the number of labourers, asset size, registered capital, sales volume, and percentage of local shareholdings. Focusing on the number of labourers as a criterion illustrates this difference: The Philippines define enterprises as small, if they employ 10-99 labourers, and as medium, if they employ 100-199 labourers. Thailand defines small enterprises as having below 50 labourers and medium enterprises as employing 50-200 labourers (Asean-EU-Partenariat, 1997, website: <http://aeup.brel.com/sme>). According to the definition of the European Union, medium enterprises employ up to 250 labourers and small enterprises employ up to 50 labourers (European Union, website: http://europa.eu.int/comm/enterprise/enterprise_policy/sme-definition/index_de.htm).

The various Indonesian government bodies use different criteria to define SMEs. The BPS-Statistics Indonesia³ uses the number of labourers as a criterion to differentiate between enterprises in Indonesia. An enterprise is identified as micro⁴ when it employs 1-4 labourer(s), small when it employs 5-19 labourers, medium when it employs 20-99 labourers and big when it employs more than 100 labourers (ISBRC-PUPUK, 2003:22).

The Department of Trade and Industry and the Ministry of Cooperatives and Small and Medium Enterprises use asset size and sales volume to classify small enterprises, as stipulated in Law number 9/1995. Small enterprises are those whose assets (not including land and buildings) are less than Rp 200 million (US\$ 24,096⁵) and have a maximum sales volume of Rp 1 billion (US\$ 120,481) per year. The government bodies are working to reach consensus on classification criteria of the medium and big enterprises. They currently agree that medium

³ BPS-Statistics Indonesia is a non departmental government institution, responsible to provide data on the structure and growth of economy, social change, and development in Indonesia.

⁴ BPS-Statistics Indonesia uses the terms 'household enterprise'.

⁵ Indonesia adopts a floating exchange rate system. The currency rate fluctuated at the range between Rp 8.100 to Rp 8,500 to US\$ 1 when the study took place. The writer uses currency rate of Rp 8.300 to US\$ 1. This rate is generally used throughout the text, with the exceptions explicitly mentioned.

enterprises are those with a sales volume between Rp 1 to 50 billion per year (around US\$ 120,481 to 6,024,096). Enterprises with bigger sales volume than Rp 50 billion per year are categorized as big enterprises (Departemen Perindustrian dan Perdagangan RI, 2002:1).

The use of the number of labourers as the only criterion to measure the size of an enterprise is sometimes misleading. There are cases that an enterprise with a small number of labourers runs a bigger business from the point of view of assets and sales volume than an enterprise with a bigger number of labourers. However, from the practical point of view, this indicator is easier to be used. Many enterprises, mainly the small enterprises, do not have a proper book keeping system so that it is difficult to gather information about the sales volume. In many cases, the owners also do not differentiate the personal from the business assets. The criteria of assets and sales volume are easier to be applied to the formal medium and big enterprises.

Indonesian SMEs conduct their activities in the following sectors: (i) agriculture, forestry, and fishery, (ii) mining and quarrying; electricity, gas and water supply; and construction, (iii) manufacturing industry, (iv) wholesale and retail trade, restaurants and accommodation services, (v) transport, storage, and communication, and (vi) financial institutions; real estate, rental service and other services (Statistics Indonesia, website:<http://www.bps.go.id/sector/comser>). In the World Development Indicators, the World Bank uses another categorization (World Bank, World Development Indicators, website: <http://devdata.worldbank.org/data-query>). The first sector is called the primary sector (agriculture sector). The secondary sector (industry sector) consists of the sub sectors which in the categorization of the Statistics Indonesia are the second and third sector. The tertiary sector (services sector) refers to the sub sectors identified above as sector four to six. In this presentation, the word 'sector' refers to both the sector and sub sector concept.

In comparison to the big and modern industries, the small manufacturing industries in Java, as anywhere else, are characterized by labour intensive rather than capital intensive production processes (Kristiansen, 1999:16). The small

manufacturing industries prefer to substitute capital with labour because the price of labour, which is the wage, is comparatively low.

The small industries are able to absorb labourers if the wage is low. Often, SMEs employ their family or neighbours in order to pay less than the minimum wage standards set by the government which they cannot pay. This, however, may have a negative effect on their productivity although the quality of their products is not necessarily low (Kristiansen, 1999:16). Nevertheless, the level of productivity and efficiency of enterprises cannot be compared one to one with the size of enterprises. There are SMEs which are less efficient than bigger enterprises. However there is also evidence that some SMEs are more efficient than bigger enterprises (Batra, Tan, 2003:22).

2.1.2.3 SMEs in the Informal Sector

Many SMEs are in the informal sector⁶. The word 'informal economy' is commonly defined as "...all currently unregistered economic activities which contribute to the officially calculated (observed) Gross National Product" (Schneider, 2002:3). The main determinants for the enterprises to be in the informal sector are the burden of taxation and the unfavourable government regulations. Hence, firms in the informal sector have the advantage of keeping the cost low. However, excluding themselves from the formal sector has several disadvantages. The necessity to be quasi invisible from the official system prevents SMEs from growing both in size and advancement of technology. They are unable to learn from the innovation made by other firms in the formal sector and they lack access to the institutional support from the government (Winter, 1995:17).

Although there are bigger enterprises which exist in the informal sector, most enterprises in the informal economy consist of micro enterprises. It is argued, that people establish these enterprises for survival reasons because there are no jobs available at all for them or they are not able to compete in the job market. Hence, the scope and importance of this sector are often seen to be parallel to the levels of

⁶ BPS-Statistics Indonesia uses the term 'Establishment without legal entity' to address enterprises in the informal sector. It covers all sectors except agriculture, forestry and fishery sector.

poverty⁷ (Marius as quoted in Morris, Jones, Nel, 1997:3), rather than playing a role in economic development.

Those who doubt the role of the informal sector to development base their arguments on the disadvantages of enterprises in this sector. They are assumed as not having the means to grow such as capital, expertise, trainings and networks. Hence running an enterprise in this sector is seen as merely an attempt to survive. Those who believe in the important role of the informal sector to development argue that the informal sector plays a significant role to development by creating job opportunities and acting as training ground for the establishment of more formal enterprises (Morris, Jones, Nel, 1997:3).⁸

2.1.3 The Contribution of SMEs to Development

The main function of SMEs is to provide a seedbed for economic growth and development. As mentioned earlier, they create employment because relative to larger firms, they are labour intensive. Per unit of capital invested, SMEs create more employment than big firms. Consequently they absorb workforce, thereby reduce unemployment and hence enhance economic and political stability (Havenga, 2001:2).

A new enterprise may start with one person who concentrates on less complex activities. When the enterprise grows, it will expand the business by adding workers; hence employment creation is the result of the expansion of the existing enterprise. In the case of an economic recession, existing enterprises cannot avoid retrenchments so that fewer alternatives are available in the job market. As in fact people need to earn money for living, the unavailability of jobs forces people to start new businesses. Hence during economic stagnation, employment creation is the result of the establishment of new enterprises (Liedholm, Mead, 1999:65-67).

There are several motives which help to explain the reason for a person to establish a new enterprise (Casson, 1995:300-301). The first motive is that only few attractive alternatives are available in the job market and the hard competition in the job market, which was mentioned earlier. The second motive is related to

⁷ The result of the survey suggests that the average profit realized by the entrepreneurs before they were supported by the USC-Satunama project was higher than the national poverty line (See section 4.2.3).

⁸ Facts about the contribution of the informal sector to development in Indonesia are integrated in the next section.

the personal dignity of the individual who is reluctant to be controlled and given orders by somebody else, in this case the owner or the manager of a firm. The third motive is not so much related to the economic motive of earning money for living but to the need to have a part-time job in which activities can be as flexible as the entrepreneur wants. He/she may also have the interest to increase his/her social status by owning an enterprise. He/she may also like to use the enterprise as the means to pursue his/her hobby.

The fourth motive is related to the need for a space to exploit his/her talents, having the confidence that he/she possesses the capacity and skills to be an entrepreneur. This person may find it difficult to work in an established firm because the superior judgment is in the hand of the owner and there is less space for him/her to claim a superior judgment.

The first three motives may limit the potential growth of the firm because those motives show personal weaknesses as reasons for the establishment of a new enterprise, namely that the individual simply employs him/herself because there is no other choice.

An individual who finds it difficult to get a job in competition with others, or to hold down a job once it has been obtained, is unlikely to have the personal qualities required for business success. An individual who is averse to employment *per se* is unlikely to be good at employing others... An individual who only wants to work at his own convenience is unlikely to provide his customers with the quality of service they require and will therefore not survive for long (Casson, 1995:300-301).

The fourth motive does not necessarily guarantee success of the enterprise. To be able to run the business he/she may need to be an apprentice in another firm to learn how to allocate resources, to delegate, to make contacts with the suppliers and customers, and to know the market. During this period, he/she may even be able to develop new ideas for his/her future business.

Firms, especially SMEs, are creators of employment but at the same time can be destroyers of employment because of their high rate of failure (Winter, 1995:31). "The probability that a firm will fail over a given period of time decreases with the firm size for firms of the same age and decreases with firm age for firms of the same size" (Acs, Carlsson, Karlsson, 1999:14). This affects especially the new entrants because of factors like over-optimism about the business, flawed assessment of opportunities in niche markets, misjudgment of the

timing of entry, or the inhospitable environment created by the existing firms. For a new industry, the failure may be caused by the misjudgment of the production processes and product design which may not bridge the consumer needs and the available technology.

For firms at the same age, the smaller the size of the firm is, the bigger is the probability to fail and vice versa. The probability of failure is less if the firm is older. However, survivors tend to increase their average size. The common mode of disappearance of the small firms is the closure of the firms rather than acquisition or other changes of their legal form (Winter, 1995:33).

The growth rate of the number of the small firms is higher than that of the big firms. The growth rate of the number of micro and small industries between 1998 and 2001 in Indonesia was 11.12 %. It was substantially higher than that of the big industries with 6.45 % (Departemen Perindustrian dan Perdagangan RI, 2002:6). However, although new enterprises can be easily established, which results in employment creation and employment opportunities, the new enterprises carry a high risk of being short lived (Liedholm, Mead, 1999:39-40). Hence, SMEs in comparison to the big firms have the advantage of having higher growth rates, although the probability to fail is also higher.

The Indonesian Ministry of Cooperatives and SMEs provides the following data on the percentage of employment creation and the contribution of the SMEs to the GDP in comparison to the big enterprises.

Tab. 1 Comparison of the Contribution of SMEs and Big Enterprises in Indonesia to Employment Creation and GDP (1997-2001)

	Year				
	1997	1998	1999*	2000**	2001***
Percentage of the employment created					
a. SMEs	99.40%	99.46%	99.46%	99.46%	99.45%
b. Big enterprises	0.6%	0.56%	0.54%	0.54%	0.55%
Percentage of contribution to the GDP					
a. SMEs	57.86%	57.85%	58.73%	55.16%	54.74%
b. Big enterprises	42.14%	42.15%	41.27%	44.84%	45.26%

*: temporary figure, **: very temporary figure, *** figure by projection

Source: BPS-Statistics Indonesia as quoted by the Ministry of Cooperatives and SMEs, website: <http://www.depkop.go.id> – statistik – usaha kecil dan menengah (ukm).

The above data show the potential of SMEs for the economy and employment creation in Indonesia. The contribution of SMEs to the employment creation is

very significant. In the period of 1997 to 2001, they created on average 99.45% of the employment in Indonesia. However, the contribution of SMEs to the GDP is comparatively lower than the contribution of the big enterprises. This result shows the characteristic of SMEs of being labour intensive, however, with lower productivity. This poses a big challenge to increase the productivity of SMEs.

In regards to the informal sector in Indonesia, its contribution to development is quite significant. The Integrated Business Survey 2001 which is conducted to collect data about businesses in the informal economy (all sectors except agriculture) provided the data that there were 14,660,645 businesses in the informal sector and they absorbed 27,204,656 labourers (BPS, 2002:47-48). Referring to the output, Schneider estimates that the informal economy contributed 19.4% of the GNP in 1999/2000⁹ in Indonesia (Schneider, 2002:8).

2.2 Support for SMEs

2.2.1 The Need for Supporting SMEs

Entrepreneurs in all countries identify three main problems which constrain their development. They are: (i) the problem of access to inputs, i.e. raw materials, machineries and equipments, required to make the products, (ii) the financial problem to maintain the present production and/or to enlarge the production and (iii) the marketing problem due to lack of knowledge and information about the market as well as the presence of boundaries to enter a particular market. The level of difficulty and the question which of these problems is more critical vary from one country to the other and from one sector to the other (Liedholm, Mead, 1999:83).

There also exist basic problems related to the characteristics of the firm. One of the problems is the problem of organization, which includes the allocation of resources and the specific business practices used in the firm. If a firm consists of more than one worker, monitoring may arise as a problem, specifically monitoring the performance of each team member in delivering the promised productivity. The firm may also face the problem that the team members renege the contract to demand a bigger share of the firm's income (Alchian, Woodward, 1987:112).

⁹ This Figure is based on a rough estimation due to the political-social-economic crisis.

The SMEs in Indonesia basically share similar problems. BPS-Statistics Indonesia identified six types of problems faced by the small enterprises. They are: shortage of capital (35.1%), difficulties in marketing (25.9%), stiff competition (16.1%), difficulties in acquiring basic materials (15.4%), lack of production technique and expertise (3.4%), and lack of managerial skill (3.4%) (Asean-EU-Partenariat, 1997, website:<http://aeup.brel.com/sme>).

Being large in number, the SMEs do not necessarily receive preferential treatment from the government. As it has been mentioned in the introduction, the government support to the SMEs to cope with the problem of shortage of financial capital and the access to credit from the commercial banks has remained too small. In contrast to the big firms, the small enterprises were disadvantaged during 1990-1998 when the value of micro credit schemes was reduced and the nominal interest rate was above 30%. In the same period, the bigger firms had the advantage of access to credit at international rates or below (Kristiansen, 2002:55).

The SMEs also face a problem in widening their market due to insufficient information about the market. Some SMEs face limited access to inputs for production and if the inputs are accessible, they are more expensive because of economies of scale and higher transaction cost. The owners usually lack higher education, knowledge and managerial skills. Access to information and technology is limited hence limits the capacity for innovation. The consequence is the growing trend of imitation (Kristiansen, 1999:16).

All these factors hamper the enterprises from making their products competitive in the market and severely prevent the SMEs from expanding their business. The big enterprises maintain their competitiveness over the small enterprises by having access to information, raw materials, capital, technology, and markets.

2.2.2 Strategies for Supporting SMEs

2.2.2.1 General Strategy

The capabilities of the firm to grow are influenced by two factors. *The first factor* is technology and *the second factor* is the selection of the specific business practice (Winter, 1995:13-14).

The term 'technology' in the economics of growth and development means "the way inputs to the production process are transformed into output" (Jones, 2002:79). In the neo-classical model, technology refers to the accumulation of human and physical capital (Jones, 2002:78). The term 'human capital' refers to "the stock of useful and valuable skills and knowledge accumulated by people in the process of their education and training" (Samuelson, Nordhaus, 1998:233). Hence, human capital is a vital factor in the firm and a learning process is important to improve the quality of the individuals. The human capital can be increased by giving additional skills and knowledge to the entrepreneurs for instance through training programs which are tailored to their needs. They can vary from skills and knowledge on Management, Marketing, Accounting, to technical aspects of production. Improved human capital increases productivity, and hence increases output which, until reaching an optimum level, will increase revenue and profit for the entrepreneurs.

Physical capital refers to the various tools, machineries, equipments and physical facilities which are owned by the firm. The more advanced the physical capital of a firm is, the higher the productivity of the firm will be, provided that it is accompanied by the advancement of the human capital to use the physical capital.

The problem of lacking financial capital prevents the entrepreneur from purchasing additional physical capital which hinders the SMEs from increasing the production. Access to credit, preferably at a low interest rate, will help to solve the problem. However, access to credit from the formal financial institutions like banks, requires certain conditions which often cannot be fulfilled by the entrepreneurs, especially those at micro and small levels. The banks ask for collaterals to approve a credit and the micro and small entrepreneurs often cannot meet the collateral requirements. In addition, the banks create many difficulties for the small lenders for example high administration costs and time consuming formalities (Tambunan, 1991:134-135). This weakness can be compensated by informal financial institutions established/provided by NGOs which are working in supporting SMEs by providing credit with more flexible conditions without charging high interest rates.

There are different arguments on the proper model to deliver programs to improve the human capital through training programs and technical assistance and physical capital through credit facilities to the entrepreneurs (Dunford, 2001:passim). One argument favours the parallel delivery model. It argues the two supports must be provided by different organizations, one specializes at delivering credit and the other one at delivering educational support. The basis for this argument is to guarantee the effectiveness and efficiency of both supports. When sustainability becomes a concern, it is better for an organization whose main concern is on credit not to add into its work the provision of education, because it will increase the running cost.

Another argument favours the unified delivery model which refers to an organization providing both types of support to the entrepreneurs.¹⁰ The case for this model is that it creates synergies of the services provided to the entrepreneurs in order to create a more significant impact. This model gives the organization some competitive advantages with the entrepreneurs and so long as the quality of services is maintained, the entrepreneurs also recognize the benefits of the supports. The use of non formal adult education techniques and the choice of topics which are tailored to their specific needs to develop their business such as Business Management and Production Techniques are proven to be successfully integrated (Dunford, 2001:i and the result of the field study, below).

There is an ethic concern with this 'package' approach: the entrepreneurs participating in the education program may do so merely to secure his/her chance to receive credit. However, there is considerable evidence that the entrepreneurs appreciate the educational support and opt for the combination of supports (Dunford, 2001:ii). There is also a concern about this model that the quality of the educational support is poor when it is given by the same staff who give the credit support. They may not have the required knowledge on the education-support-related topics. Responding to this concern, some organizations which adopt this model assign specific staff who have the necessary knowledge to provide the educational support. This usually can be done by organizations which run several other development programs, not only the provision of a credit facility.

¹⁰ USC-Satunama adopts this model (See section 4.2.5).

The second factor which influences the capability of the firm to grow refers to the decision of a firm to adopt or reject specific business practices. This is related to the availability of relevant information for the firm to make right decisions. However, because of economies of scale, the costs of information per unit of output for smaller firms are higher than that of the bigger firms. It is more costly for SMEs to identify and access information required by the firm for innovation although the dissemination costs of the information within the firm is lower. One strategy is to bring the SMEs into a cooperative relation with other SMEs in the form of business associations or local community structures to share the cost burden, hence reduce the cost of information for the individual firm (Winter, 1995:40). This process can be facilitated by the government and NGOs. Research can also be carried out by universities and government research institutes and their output can be disseminated to the SMEs. As a matter of fact, industry associations, independent NGOs, universities and government can play a role to support the SMEs through technical and marketing support systems (Levy, 1994:35).

The initiative of the Indonesian government to connect the SMEs to the subcontracting networks with the bigger firms is called sister-industry-scheme. The idea behind it is to facilitate transfer of technology, ideas, and products between the big and the small firms (Kristiansen, 1999:14). However, in reality it may stop at the big firms providing product specifications and the small firms as subcontractors produce specific goods as demanded by the big firms (Harianto, 1996:57) and hence should set specific investments which may not be applicable to produce goods other than the ones ordered by the related big firms. It makes the smaller firms lose their bargaining position before the bigger firms. This high asset specificity may lead to opportunistic behaviour of the big firms to the detriment of the subcontractors, the small firms (Milgrom, Roberts, 1992:31).

2.2.2.2 Measuring the Impact of Supporting SMEs through Improving Human and Physical Capital

The following presentation will only focus on the two strategies of supporting SMEs, i.e. improving their human and physical capital, due to the specific character of the project of Unity Service Cooperation (USC)-Satunama which is

used as a case study. The project supports entrepreneurs to improve their human capital through training programs and technical assistance and their physical capital by providing credit for business development purposes.

The neo-classical theory of production and the theory of the firm described below will be used to explain how the project of improving human and physical capital of the entrepreneurs can bring about an increase in the profits and hence improve the welfare of the entrepreneurs. The change in the profits of the entrepreneurs brought about by the project will be used as yardstick to measure the success of the project.

Neo-classical Theory of Production

The basic types of factors of production or productive inputs are land, raw materials, technological know-how, labour, managerial skills and capital which include various tools, machinery, equipment, and physical facilities. The firm produces goods and or services with its productive inputs. A production function describes the relationship between the quantity of productive inputs and the quantity of output produced by those inputs (Mankiw, 2004:392-394).

Productive inputs can be classified as being either fixed or variable inputs. The difference between fixed and variable inputs is the impact of the variation of the quantity of output to a variation of the inputs. A change in the quantity of output in the short run does not have any influence to the fixed inputs whereas it influences the variable inputs (Thompson, Formby, 1993:140-141). Examples of fixed inputs in the short run¹¹ are land and capital whereas raw material is an example of variable input.

¹¹ The short run is defined as a period in which the production of the firm can be adjusted by changing only the variable inputs, but not changing the fixed inputs whereas in the long run period, the firm is able to adjust all its productive inputs for production, including the inputs which are fixed in the short run (Samuelson, Nordhaus, 1998:107).

Fig. 1 Shifts of the Production Function Brought about by Increases of Fixed Inputs.

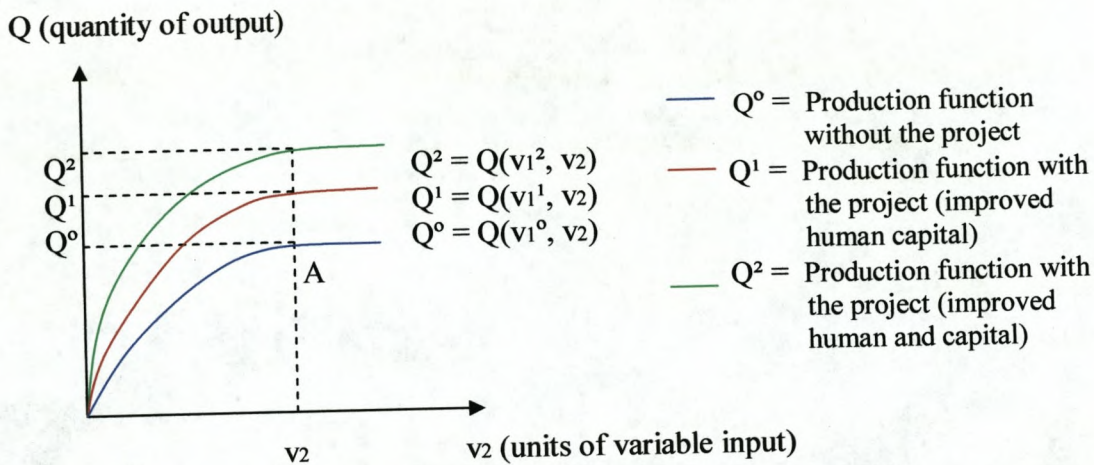


Figure 1 shows the shifts of the production function when the fixed inputs, v_1 , vary as the result of a project on improving human and physical capital whereas the variable inputs, v_2 , are constant. The curve Q^0 shows the production function without any additional fixed inputs and the quantity of output at Q^0 . The improvement in human capital brings about an additional fixed input from v_1^0 to v_1^1 . This result shifts the production function upwards to the new production function Q^1 which leads to the increased quantity of output Q^1 . The improvement in human and physical capital increases the fixed input from v_1^1 to v_1^2 which shifts the production function curve upwards to the new production function Q^2 . It leads to the increase of the quantity of output to the new level of Q^2 . The human and physical capitals are fixed inputs because the rate of their usage does not vary with the quantity of output but an addition of those inputs influences the quantity of output.

An additional fixed input shifts the production function curve upwards and hence leads to an increase of the quantity of output. The additional physical capital like machinery and an increase in labour quality as the result of improving skills and knowledge bring about an additional fixed input which contributes to the improvement in productivity.

Technological innovation is incorporated into the physical capital. As mentioned earlier, it is linked to investment in human capital because the new technology might not

be useful without the workforce having the requisite skills to operate it. Technological change is more complex than a simple transfer of machinery, manuals, or blueprints. There is an element of “tacitness” of the technology which requires investment in learning. The owner of the firm might undertake an investment in learning by experimenting with the new technology and finding out its suitability to the local conditions. The owner might also learn from other entrepreneurs who have engaged in a learning process or from locally based researchers and extension agents like universities and NGOs providing training programs for firms (Bardhan, Udry, 1999:152-153).

Theory of the Firm¹

There are three main characteristics of a competitive market. First, many buyers and many firms are present in the market. Second, the goods offered by the various firms are largely the same or essentially identical hence buyers are totally indifferent from which firm to purchase as long as the price is the same. Third, firms can freely enter or exit the market. The first and the second characteristics restrict each firm and each buyer from having market power. The products purchased by each buyer and produced by each firm are such a sufficiently small portion of the total bought by all buyers and produced by all firms. No individual can set the price. Only if many buyers or many firms act collectively can market prices be influenced materially.

The goal of a competitive firm is to maximize profit. Profit is equal to the firm's total revenue (TR) minus its total cost (TC). Total revenue is defined as the amount the firm receives from selling its product which is equal to price (p) times the quantity of the product (Q). Total costs are the amount the firm pays to purchase the inputs for production, both the fixed and variable inputs. Hence, it is the sum of the fixed costs (FC) and the variable costs (VC).

$$\text{Profit} = \text{TR} - \text{TC}$$

$$\text{TR} = p \times Q$$

$$\text{TC} = \text{FC} + \text{VC}$$

Profit maximization implies that marginal revenue (MR) is equal to marginal cost (MC). The marginal costs are the increase in total costs of producing one extra unit of output whereas marginal revenue is the change in the revenue which is generated by an

¹ The following presentation on the concept of profit, cost, and revenue follows largely on Mankiw, 1998:263-300 and Samuelson, Nordhaus, 1998:115-129, 137-145.

additional unit sold. For competitive firms, marginal revenue is equal to average revenue (AR) and to the price of the good.

$$MC = dTC/dQ$$

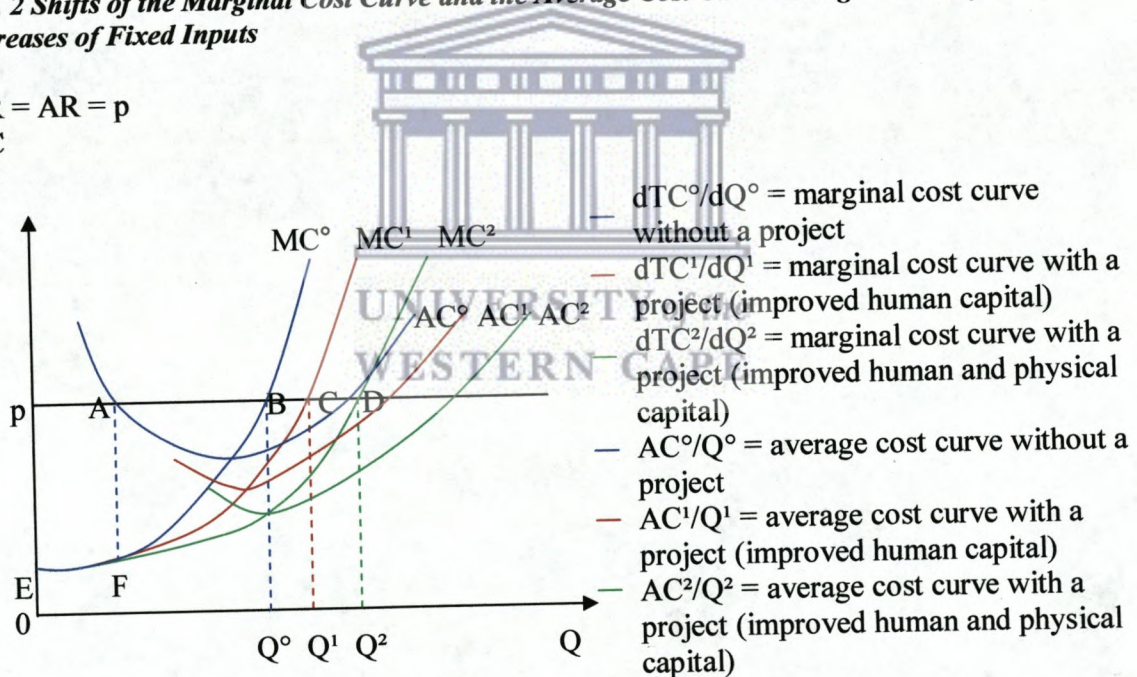
$$MR = TR/Q = AR = p$$

The firm will maximize its profit when it produces the quantity of output where the marginal cost is equal to the marginal revenue (= price), hence the marginal profit is equal to zero. The optimum output is set at that level. From this point on, producing additional output will result in a loss to the firm because the marginal costs exceed the price.

The marginal cost curve shows how the costs are changing if one extra unit of output is added. It also determines the quantity the firm is willing to supply at any price hence the marginal cost curve is the firm's supply curve.

Fig. 2 Shifts of the Marginal Cost Curve and the Average Cost Curve Brought about by Increases of Fixed Inputs

MR = AR = p
MC
AC



As mentioned in the discussion of the neoclassical production function, a change in the fixed inputs brings about a shift of the production function upwards which leads to an increase of the output. Up to the optimum output, an increase of inputs brings about an increase of profit to the firm. Figure 2 shows the relationship between marginal cost curve (the firm's supply curve), the average

cost curve, and the marginal revenue (= price) of a firm. The difference of the marginal cost curves is caused by the different fixed inputs placed into the production of the firm. The MC^0 curve is the original marginal cost curve, without any additional inputs. The MC^1 curve is the marginal cost curve whose shift from the MC^0 curve is the result of the additional input brought about by a project on improving human capital. The MC^2 curve is the marginal cost curve whose shift from the MC^0 curve is the result of the additional input brought about by a project on improving human and physical capital. The difference from the MC^1 curve is caused by the additional physical capital in input.

Total revenue of the original inputs (TR^0) is the quantity of the original output (Q^0) times the price. It is the area of $OpBQ^0$. Total revenue is the sum of total costs and profit in which total costs are the sums of variable costs (VC) and fixed costs (FC).

$$TR = TC + Profit = VC + FC + Profit$$

In Figure 2, variable costs of the original input are the area below the original marginal cost curve MC^0 ($0EBQ^0$). The area below the price and above the original marginal cost curve (EpB) is called the producers' surplus which consists of fixed costs and profit. In a competitive firm, profit is zero when the average costs are equal to the average revenue which is the price, shown in Figure 2 as point A where the average cost curve intersects with the price line. Hence, the firm starts to realize profit when it produces at the quantity of the intersection between the average cost curve and price line. The profit is the area in the producer's surplus after the intersection, in Figure 2 it is the area of FAB, while the fixed costs are the area before the intersection, the area of EpAF.

In the case that the increase of human capital is a result of the owner of a firm receiving more skills and knowledge provided for free by a project from an NGO or the government, the owner does not need to bear the costs for increasing his/her knowledge. Hence, the total costs of the firm do not increase; rather they decrease because of an increase in productivity. The average costs decrease and this leads to a shift of the average cost curve from AC^0 downwards to AC^1 . The firm is able to produce the same quantity of output as it did before the productivity increased, but with less total costs. The marginal cost curve shifts from MC^0 to MC^1 . The

new marginal cost curve shifts the profit maximization to the new level shown in the graph as point C hence the firm can produce more output until it reaches the new optimum quantity of Q^1 . The reduced total costs increase the area of the producers' surplus. As the costs for improving the human capital are paid by the project, any addition in the producers' surplus is nothing else but profit for the firm.

With the increase in productivity, the firm reduces its total cost to produce the quantity of Q^0 . When the firm produces up to the maximum quantity of Q^1 the total revenue is the area of $OpCQ^1$, increased by the area of Q^0BCQ^1 . The variable cost changes to the area of $0ECQ^1$ because it varies with the quantity of output. As the fixed costs remain constant, increase in the producer's surplus by the area FBC is the additional profit for the firm as the result of increased productivity brought about by the project on improving human capital.

A project which combines the provision of training programs and technical assistance with credit improves the human and physical capital of the firm. Using credit to improve the physical capital, e.g. new machinery, increases the fixed costs because the firm pays interest for the credit it takes. However, as the project charges a lower nominal interest rate compared to the normal interest rate charged by commercial banks, the increase is not very significant and hence will be ignored in the following analysis. The productivity of the firm increases with the improvement in the human and physical capital and hence reduces the total costs and average costs. It causes the shift of the average cost curve downwards from AC^1 to AC^2 . The marginal cost curve shifts from MC^1 to MC^2 . Profit maximization shifts to the new level of point D in the graph and the new optimum quantity of output shifts to Q^2 .

If it were producing at the quantity of Q^0 , the firm would receive the same total revenue as without any project yet the distribution of the amount of costs and profit would be: the variable costs would be reduced to the area below the MC^2 curve up to Q^0 hence the producers' surplus would be increased. If it were producing at the quantity of Q^1 , the total revenue would increase into $OpCQ^1$. The variable costs would increase as a result of increase in the quantity of output shown as an area below the MC^2 curve up to Q^1 . The addition in the producer's

surplus would contribute to an increase of profit. The firm maximizes its profit when it produces at the optimum quantity of output of Q^2 . The total revenue increases to the area of $OpDQ^2$, the variable costs increase into $OEDQ^2$, the fixed cost remains constant and hence the difference between the producers' surplus and the fixed cost is nothing else but the maximum profit. The additional inputs of human and physical capital bring about an increase in productivity for the firm. Producing at its new optimum quantity with the new inputs, the firm is able to realize a new profit maximum which is higher than the previous ones.

The profit realized by a firm goes to the owner of that firm. He/she can use it for household consumption and/or invest it in the firm to increase the production which in turn will increase the profit. Hence, additional productive inputs bring about increased productivity which leads to an increase in the quantity of production and in profit which at the end improves the welfare of the owner of the firm.

The right approach to support the SMEs helps them to increase their productivity which leads to an increase of their profits. They may also be able to absorb more labourers so that more people are secured from unemployment. The improvement of each individual entrepreneur as the owner of the firm as well as the newly employed labourers definitely contributes to the aggregate improvement of the welfare of the country.

The following chapter presents the methodology for the field study. The study is conducted to collect the data to ascertain the impact of the USC-Satunama project, that it brings about a positive contribution to development and the provision of additional productive inputs, i.e. credit to complement training programs and technical assistance, contributes to improve the welfare of the entrepreneurs.

Chapter 3

METHODOLOGY

A field study was conducted to collect empirical data from the USC-Satunama project “Livelihood Security through Strengthening the Entrepreneurs in the Informal Sector” to measure the contribution of the project to development and the impact of complementing training programs and technical assistance with credit to increase the welfare of the entrepreneurs. This chapter presents the methodology and the steps taken during the field study as well as the limitations of the methodology.

3.1 Coverage Area and Period of the Field Study

The USC-Satunama project “Livelihood Security through Strengthening the Entrepreneurs in the Informal Sector” covers several regions in the province of Central Java, East Java, Daerah Istimewa (D.I.) Yogyakarta, and East Nusa Tenggara. Facing time and logistic constraints, the study was focused on the impact of the project to the target groups in the regency of Sleman and Gunung Kidul. Both are located in the province of D.I. Yogyakarta.

The field study was conducted from August 22 to October 18, 2003.

3.2 Data Collection

Data were collected through questionnaires¹³, interviews, and a study of the organization and project documents.

The main data on the impact of the USC-Satunama project were collected through questionnaires. Questions raised in the questionnaires were divided into three categories. The first category was on the social data, which included information on sex, age, marital status, number of family being supported, level of formal and informal education and residence. These questions were important to provide baseline information about the target groups of the USC-Satunama project.

The second category was relevant information about their businesses. This included questions on the type of business, the time they started the business, and

¹³ The questionnaire is attached as Appendix 2.

the number of labourers. The answers to these questions provided information about the characteristics of the target groups' businesses.

The third category was on the problems they were facing and supports they had received and expected to receive in the near future. The respondents were expected to identify problems which they felt were hindering the development of their business. The next step was identifying what kind of supports they had received, both from USC-Satunama and from other sources. Related to the support of the project for increasing human capital, questions on the training programs and technical assistance they received and which they expected to receive were raised. Concerning the financial capital, the following questions were raised: their principal source of finance when they started their business and during the time they run the business, the amount of credit they received from USC-Satunama and the payback conditions, and the utilization of the credit which they received. To measure the change in the profits realized by the entrepreneurs brought about by the project, the respondents were required to identify the profits they received without and with the presence of the project.

The secondary data on the project and the development of SMEs in the province of D.I. Yogyakarta were collected through interviews and studying the organization and project documents.

The researcher conducted interviews with the director of USC-Satunama, the project manager, and the field officers to get information on the background of the project, the nature of the project and the development of the project and target groups since the project was started. Interviews with several members of target groups of the project were also conducted to get deeper understanding of their problems and experiences.

Secondary data on SMEs in the province of D.I. Yogyakarta were collected from the documents of the BPS-Statistics of the province of D.I. Yogyakarta, Badan Pengembangan Perekonomian dan Investasi Daerah (Yogyakarta Economic and Investment Development Board - BAPEKOINDA) and the Department of Trade and Industry of the province of D.I. Yogyakarta.

3.3 Sampling Method

The researcher used a stratified random sampling system to choose a sample from the whole target groups of the USC-Satunama project in the target area of the field study. The purpose of choosing this system is to guarantee the representation of each Self Help Group (SHG)¹⁴ and to avoid systematic bias in the sample. There were mainly three steps to identify the sample.

The first step was to identify the SHGs from which the sample would be taken. From the twenty six SHGs and cooperatives supported by USC-Satunama in the regency of Sleman and Gunung Kidul, questionnaires were only distributed to twenty two SHGs and cooperatives.

Two cooperatives were not included because facilitation from USC-Satunama is not very intensive to those two cooperatives. Technical assistance mainly is given to the members of the boards and financial support for the cooperatives is coming from several resources, not only from USC-Satunama, and hence it is very difficult to identify whether the change is brought about by the USC-Satunama project or the result of the other projects. SHG Suka Maju was not included because the USC-Satunama project did not have data of the members of the group by the time of the identification of the sample. SHG Ngudi Rejeki was also not included because support from the project was just started in July 2003. There were only twenty observations taken from Cooperative Ngudi Lestari although it has two hundred and thirty five members based on the consideration that the group was supported only in April 2003 and hence support from USC-Satunama was not yet received by all members. Although SHG Sekar Indah, SHG Lestari-Bekelan, and SHG Ngudi Mulyo-Banaran were only supported since May 2003, support had been conducted intensively by the field officer through frequent technical assistance and the running of two training programs for the groups.

The second step was to identify the number of observations per SHGs taken as sample, based on the proportion of membership of the respective SHG in comparison with the total membership of the twenty two SHGs. Using data from the project files, the researcher made a list of members of SHGs and cooperatives

¹⁴ The USC-Satunama helps the entrepreneurs to form organizations called SHGs and support to the entrepreneurs is provided through the organization. Details can be seen in section 4.2.

supported by the project. There are some cases that the number of membership of SHG which was available in the project files (a printed file submitted by each SHG) is different from the one written in the “Data of the Development of the Project” file. The difference is the result of an update of the data. The last mentioned file is frequently updated by the project officer. However, it only contains the information about the number of membership, but not the list of names of the members. The groups may not submit the updated list of membership in relation to the new or outgoing membership. As the research requires the names of the members, the researcher used the data with the list of names of the members.

Tab. 2 Number of Observations per SHG in the Research Sample

No	Name of Group	Region	Members	Number of Observations	
				Calculation	Observations
1	SHG Pertiwi	Sleman	29	12.17	12
2	SHG Sekar Tanjung	Sleman	31	13.01	13
3	SHG Sri Rejeki	Sleman	24	10.07	10
4	Coop. Restu Mandiri	Sleman	45	18.89	19
5	SHG Sido Akur	Sleman	16	6.72	7
6	SHG Gumregah	Sleman	24	10.07	10
7	SHG Mekar Lestari	Sleman	12	5.04	5
8	SHG Kartini	Sleman	30	12.59	13
9	SHG Jati Mandiri	Sleman	34	14.27	14
10	SHG Harpi Tiara Kusuma	Sleman	29	12.17	13
11	SHG Sembilan	Sleman	22	9.24	9
12	SHG Tri Husada Warga	Sleman	44	18.47	18
13	SHG Sekar Indah	Sleman	8	3.36	3
14	SHG Lestari-Bekelan	Sleman	34	14.27	14
15	SHG Ngudi Mulyo-Banaran	Sleman	38	15.95	15
16	SHG Andini Mulyo	Gunung Kidul	20	8.39	8
17	YBTI	Gunung Kidul	90	37.78	38
18	Ngudi Raharjo	Gunung Kidul	45	18.89	19
19	SHG Sumber Waras	Gunung Kidul	29	12.17	13
20	SHG Sido Mulyo	Gunung Kidul	28	11.75	12
21	Ngudi Lestari	Gunung Kidul	235		20
22	SHG Mekar Sari	Gunung Kidul	35	14.69	15
Total			902	279.96	300

Source: USC-Satunama, project files.

Altogether, there were nine hundred and two names of entrepreneurs identified in the coverage area of the study and three hundred questionnaires were distributed to three hundred entrepreneurs chosen as sample. As the number of observations

from pre-cooperative Ngudi Lestari was fixed to twenty, the group was not included in the calculation for the remaining two hundred and eighty observations. Hence, two hundred and eighty observations were taken from six hundred and sixty seven entrepreneurs.

After identifying the number of observations per SHG which represented the group in the research sample, the third step was taken. The researcher identified the sample by choosing randomly the observations from each SHG.

3.4 Limitations of the Methodology

In terms of collecting data through questionnaires, the researcher decided not to take face to face interviews due to the sensitivity of the questions. This was meant to guarantee confidentiality to the entrepreneurs to increase the chance to get the correct answers. This was done based on the concern that the presence of the researcher or any other person related to the project may influence their answers. Practically, it was also difficult to do face to face interviews due to the size of the sample and the time constraint.

The first idea of distributing the questionnaire was through mail. However, it could not be done due to the unavailability of data about the addresses of all beneficiaries of the USC-Satunama project. As a solution, the researcher sent the questionnaires to one member of the board of the SHG and then she/he distributed them to the entrepreneurs who were chosen to be the sample for the study. She/he collected them later on and the researcher collected from her/him. This method may reduce the level of confidentiality and independence in answering the questions. However, it was the best method available.

Specific questions in the questionnaire whether the entrepreneurs realized an increase or decrease of profits and how big the profit changes were, were not asked in the questionnaire because interviewees are usually not ready to respond to questions directly trying to reveal income changes. Instead, they were asked to identify income changes brought about by the USC-Satunama project on an ordinal scale. In consequence, the use of a range of profit instead of working with a cardinal scale made it difficult to see clearly all changes in profits brought about by the USC-Satunama project as the following example shows. With the project, A realized a profit of Rp 850,000 and B of Rp 600,000. With the project, A

realized a profit of Rp 900,000 and *B* of Rp 800,000. The movement of *A*'s profit can be seen from the empirical analysis because the increase of *A*'s profit with the project moves *A* to a higher profit range while *B*'s increase of profit cannot be seen because the movement is still in the same range of profit, although *B* realized a higher increase of profit than *A*. In the same case, there is a possibility that there are entrepreneurs who realized a decrease of profits within the same range of profit.

The profit mentioned by the entrepreneurs is not necessarily identical with their monthly income. There are many cases where the entrepreneurs are also having other sources of income as for example, they are at the same time civil servants or drawing income from cultivating their farms. There are also cases where the spouse is also contributing to the family income. Hence, the profit changes derived from the questionnaires are not necessarily indicating the income changes of the entrepreneur one by one.

The researcher collected one hundred and forty seven questionnaires at the end of the period of the field study. Eight questionnaires were not taken into account because many questions were not answered in those eight questionnaires and hence only one hundred and thirty nine questionnaires are analyzed. The researcher used a computer program called the Statistical Product and Service Solution (SPSS) which is widely used to process statistical data for social science (Santoso, 2001:10) to process the data collected through questionnaires.

The following chapter presents the analysis on the data collected during the field study.

Chapter 4

RESULTS OF THE FIELD STUDY

The presentation of the result of the field study is divided into three sections. The first one is the overview of SMEs in the province of Yogyakarta where the sample of the study lives. It helps to provide an understanding of the economic development as well as the development of SMEs in the area where the field study takes place. The next section explains the USC-Satunama project. Interviews and study of the project and organization documents are the basis of information for these two sections. The last section provides the analysis of the data collected through questionnaires.

4.1 SMEs in the Province of Daerah Istimewa Yogyakarta

4.1.1 Facts and Figures

The province of Daerah Istimewa (D.I.) Yogyakarta is located on the island of Java. It is considered to be the second smallest province in Indonesia in terms of area. It covers 3,185.80 km² area or 0.15% of the total area of Indonesia. In 2000, the population of the province of D.I. Yogyakarta was 3,102,529 (BPS Statistics- of the province of D.I. Yogyakarta, 2000:8). The Indonesian population at that time was around 224 million. Thus only 1.3% of the Indonesian population lived in the province. However, it was densely populated with around 1,034 inhabitants per square km (BAPEKOINDA, Jogja in Brief, website: <http://www.bapekoinda.com/pages/jogjainbrief.htm>).

There were 1,724,775 members of the labour force in the province of D.I. Yogyakarta. The majority of the labour force worked in the Agriculture, Forestry and Fishery sector. This sector alone absorbed 43.3% of the labour force. The trade sector; the financial institutions, real estate, rental service and other services sector; and the industrial sector absorbed 18.8%, 13.1%, and 13.0% employment respectively (BPS Statistics- of D.I. Yogyakarta Province, 2000:16, 23).

An Integrated Business Survey 2001 which collected information about SMEs in the informal sector (i.e. SMEs without legal entity) in Indonesia showed that in the province of D.I. Yogyakarta, there were 366,855 SMEs in the informal sector

(Agriculture-Forestry-Fishery sector is not included) which created 661,964 employment opportunities in 2000. Compared with the size of the labour force in 2000, the SMEs in the informal sector absorbed 38.4% employment in the area. In 2001, their number grew by 10.3% to 404,742. They created 744,396 employment opportunities which means that employment grew by 12.5% (BPS-Statistics Indonesia, 2002:51).

Tab. 3 Development of Small Industries in the Province of D.I. Yogyakarta (2000-2002)

	2000	2001	2002
Number of small industries	77,764	78,289	78,641
Growth rate		0.68%	0.45%
Number of employment created	219,710	228,141	229,578
Growth rate		3.84%	0.63%

Source: Dinas Perindustrian dan Perdagangan Propinsi D.I. Yogyakarta (Department of Trade and Industry of the Province of D.I. Yogyakarta), 2003:14.

To illustrate the contribution of SMEs in job creation in the province of D.I. Yogyakarta, data in 2000 from the industrial sector will be examined. As stated above, the industrial sector employed 223,358 (13.0%) workers in the province of D.I. Yogyakarta. The small industries alone gave employment to 219,710 workers or 98.4% of the labour force in the industrial sector. This confirms data in the national level that the contribution of SMEs in job creation is very big.

The province of D.I. Yogyakarta is divided into five areas: 4 regencies (Sleman, Gunung Kidul, Bantul, and Kulon Progo) and one municipality (Yogyakarta city). Since the study focused on the target groups of USC-Satunama in the regency of Sleman and Gunung Kidul, only data from these two regencies are presented here.

The economy of the regency of Sleman counts on the trade sector which contributes 30.7% to the Gross Domestic Regional Product (GDRP), and is followed by the industrial sector with 30.63% contribution and the agricultural sector which contributes 25.73% (BAPEKOINDA, Information by Area, website: <http://www.bapekoinda.com/pages/regional.htm>).

Data from the BPS-Statistics of the Province of D.I. Yogyakarta show that the number of people employed in the regency of Sleman amounted to 463,882 in 2000 (BPS Statistics-of D.I. Yogyakarta Province, 2000:17). The report from the regency office to the provincial office of the Department of Trade and Industry

shows that there were 16,633 small industries in 2002 which employed 43,781 workers.

There were 452,811 people employed in the regency of Gunung Kidul according to data from the BPS-Statistics of the Province of D.I. Yogyakarta (BPS Statistics-of D.I. Yogyakarta Province, 2000:17). The report from the regency office of the Department of Trade and Industry shows there were 18,351 small and medium industries which employed 44,596 workers in 2002.

The agricultural sector plays a very important role in the GDRP in this regency. It contributes 30.2% of the GDRP. The industrial sector and the trade sector contribute 15.4% and 13.0% respectively to the GDRP (BAPEKOINDA, Information by Area, website:<http://www.bapekoina.com/pages/regional.htm>).

The above data on the SMEs in the province of D.I. Yogyakarta seem to include the formal and informal sectors. Some interviews conducted with the target groups of the USC-Satunama project who were running handicrafts production suggested that although their businesses were informal, they were recognized by the Department of Trade and Industry of the province of D.I. Yogyakarta based on the fact that they received some supports from this office like training programs.

4.1.2 Problems of SMEs and Support Provided by the Government

The major problems of SMEs in the province of D.I. Yogyakarta as identified by Yogyakarta Economic and Investment Development Board (BAPEKOINDA) and the Department of Trade and Industry of the province of D.I. Yogyakarta are the lack of financial capital and human capital, problems in marketing which include access to market information, problems in accessing and applying the appropriate technology, problems in networking and cooperation among the entrepreneurs and problems of organization and financial administration.

Support to the SMEs is provided by all government bodies working in the economic sector (ISBRC-PUPUK, 2002:87-88). They develop policies on SMEs because SMEs exist in all economic sectors. The state owned enterprises also carry out the task to provide supports to SMEs. However, among the government bodies, the role played by the Department of Trade and Industry is very vital. Although it focuses only on the industry sector and trade-restaurants-

accommodation services sector, the contribution of these sectors to the GDRP is very significant. In the province of D.I. Yogyakarta, they contributed 35.1% to the GDRP in 2001, followed by the agriculture sector with a contribution of 19.4% (BPS-Statistics of DIY, 2002:13).

Support in the national level is also conducted by the Ministry of Cooperatives and SMEs. It has the main task of assisting the president in developing policies for cooperatives and SMEs and coordinating all programs and activities related to the cooperatives and SMEs. Different from the Department of Trade and Industry which has regional offices, it does not have regional offices. In the case of the province of D.I. Yogyakarta, the cooperatives and SMEs issues are handled by the Department of Cooperatives and Small and Medium Entrepreneurs of BAPEKOINDA.

BAPEKOINDA employs several field officers whose tasks are to provide business development services to the entrepreneurs and facilitate the provision of credit including credit provided by the state owned enterprises. The field officers are responsible to help the cooperatives and SMEs to increase the productivity through providing support in Management, Business Development and Marketing as well as caring for the credit provided and facilitated by BAPEKOINDA.

Support to deal with the problems in marketing includes facilitating the entrepreneurs to take part in local, national and international exhibitions, conducting and inviting the entrepreneurs to business meetings in order to meet the buyers and conducting training programs on Export Management. Opening access to technology by providing machineries to the entrepreneurs through industrial clusters or groups of entrepreneurs, facilitating internships to the more developed enterprises as well as cooperation with the state university to develop a business incubator are also conducted. BAPEKOINDA also carries the task to disseminate the quality standardization and “halal” (“allowed” according to Islamic law) certification.¹⁵

The Department of Trade and Industry of the province of D.I. Yogyakarta carries the task to facilitate, accelerate, and empower enterprises in the industrial

¹⁵ The information on BAPEKOINDA is collected through interview with Supriyadi, BSC from BAPEKOINDA and the documents provided during the interview.

sector and trade-restaurants-accommodation services sector as well as developing markets for those sectors in order to increase their competitiveness in the local as well as international market. Supports to the SMEs include (i) the development of their products through training programs on the techniques of production, development of business clusters, and introducing a quality management system; (ii) development of technology through provision of machineries for production, and introduction to the internet and development of a homepage; (iii) strengthening the organization by facilitating the cooperation and partnership between SMEs with the local government bodies and state owned enterprises; (iv) development of entrepreneurship by facilitating the entrepreneurs to conduct internship in the more developed enterprises; (v) market development by introducing the concept of property rights to the entrepreneurs, assisting the entrepreneurs in registering their brand, introducing the entrepreneurs with the buyers through business meetings, developing a directory of the potential enterprises and profile for investment in the potential commodity, organizing and facilitating the SMEs to take part in exhibitions for their products, and develop cooperation and partnership with the offices in other regions; (vi) development of environmentally-friendly enterprises: introducing Eco-label, monitoring the enterprises' waste treatment units and advocating the development of waste treatment units to the enterprises; and (vii) control the goods and services distributed in the market (Department of Trade and Industry of the Province of D.I. Yogyakarta: Accountability Report on the Work of Government Body in 2002, 2003:9-14).

As it has been mentioned in section 2.1.2.2, each government body uses different criteria to identify the SMEs. Coordination among these bodies is urgently required in order to make the programs of strengthening the SMEs work effectively. Coordination is also important to avoid cases that some entrepreneurs receive similar supports from two government bodies while simultaneously there are some other entrepreneurs who do not receive any support at all. However, based on the interviews with the government officials from these offices, it would seem as though such coordination does not really exist. In some cases, the BAPEKOINDA identifies and provides support to some handcrafters. As

handcraft is categorized as part of the industrial sector, the support is supposed to be conducted by the Department of Trade and Industry.

Some entrepreneurs who are target groups of USC-Satunama got the opportunity to receive government support. Based on the interviews conducted with them, the perception of the entrepreneurs of the programs run by the government bodies was varied. Some of the entrepreneurs were satisfied with the service provided for them. However, there were also many who complained about the ineffective service delivery and corruption which took place in the government programs. There was a case as mentioned by the Head of the Development Bureau of Sendangagung village that the bad debt of the soft loans provided by the government project was reaching 30%.

The project on SMEs conducted by NGOs like USC-Satunama provides an alternative to the government-run projects. The approach used by the USC-Satunama project promises an effective service delivery because the project activities are designed to meet the very needs of the entrepreneurs to develop their businesses. At the same time, effective monitoring is also a highlight of such a project. In the following section, a thorough description of the USC-Satunama project on SMEs is presented.

4.2 The Project “Livelihood Security through Strengthening Entrepreneurs in the Informal Sector”¹⁶

4.2.1 Profile of the Project

Unity Service Cooperation (USC)-Satunama is a development of USC-Canada which started its work in Indonesia in 1975 and established its field office in 1983. The dynamics in the society and the national political development urged USC-Canada in Indonesia to move beyond the already developed programs. However, the management found it impossible to do so due to the limited mandate of the organization. Since 1996, the management started the nationalization process and in 1998, USC-Satunama officially became an Indonesian NGO. This development opened the opportunity for the organization to develop new

¹⁶ The information on the following presentation is based the interviews with the Director of USC-Satunama, the former and present project managers, and the field officers of the project as well as study on the organization documents and the project “Livelihood Security through Strengthening the Entrepreneurs in the Informal Sector” files.

cooperations with other funding agencies in addition to continuing the cooperation with USC-Canada. Being a national NGO, USC-Satunama is also able to work directly with the people.¹⁷ The vision to eradicate poverty and attain an Indonesian society that is self-reliant, democratic, socially just and upholding the human rights is transformed into many programs and projects. USC Satunama runs its development programs and projects through its five divisions.

The project “Livelihood Security through Strengthening Entrepreneurs in the Informal Sector” started to be implemented in 1997. It is run under the People Empowerment Division. The project provides training programs and technical assistance and credit to several Self Help Groups (SHG), cooperatives, and NGO in the province of Yogyakarta, Central Java, East Java, and East Nusa Tenggara.

Data of the project as of August 2003 show that the target groups in the first three provinces located in the Java Island consist of 21 SHGs, 1 NGO and 11 cooperatives. The total members are 3,974 of which 1,185 are male and 2,789 are female. In the province of East Nusa Tenggara, USC-Satunama supports 2 big cooperatives with 3,100 members in the region East Flores and four cooperatives in the region West Flores. Because charity donations are still very dominant in the province of East Nusa Tenggara and the use of money in the area is not as common as it is in the island of Java, the project prefers to put more efforts in the training programs and technical assistance works.

In the island of Java, the credit activity tries to serve both the purpose of development work as well as raising funds for the organization. In the long run, the project is expected to be able to finance its own activities without relying on funds from the funding organization. At present, the profit from the credit enables the project to finance the salary of three project staff.

The USC-Satunama project regulations for the provision of credit follow efficiency and economic considerations in order to ensure the profitability of the credit it disburses. In the case that the two purposes contradict each other, a decision, which differs from the set-regulation, may be made based on a consideration of the possible impact of the decision, whether sacrificing the profit will strategically help to improve the performance of the target groups.

¹⁷ Funding agencies are not allowed to work directly with the community. Support must be provided through government bodies or local/national organizations.

4.2.2 Approach of the Project

The USC-Satunama project “Livelihood Security through Strengthening Entrepreneurs in the Informal Sector” is run to support entrepreneurs who are working in the informal sector mainly in the rural areas. The individual entrepreneurs are encouraged to form and work in a group, which is called a Self Help Group (SHG) and support is provided through the group.

The focuses of support are the individual entrepreneurs and the organization of the entrepreneurs. The function of the organization is to facilitate the networks and cooperation between the members so that they can share experiences and information in business. In the context of building a relationship with the external environment, the members of the SHG will realize the benefit that they are stronger when they act together in a group rather than as an individual. From a technical point of view, it is also more efficient for the field officers of USC-Satunama to approach the entrepreneurs via the group rather than individually. For example, the field officers do not need to be concerned about individual credit because credit is given to the group to be managed and distributed to the members and only one agreement is made so that transaction cost is reduced.

The cooperation and networking among the members help the individual members to access credit although they do not have collateral because USC-Satunama only requires one collateral from each group. Implicitly, the group itself can be treated as “collateral”. The values and norms like trust, honesty, reliable performance of duties and the keeping of commitments developed among the members can be treated as a group pressure which is expected to be the tool to secure the payback as the group is not entitled to receive a new credit when the old one is not yet paid fully. This enables individuals to benefit from the networking, especially those who initially have no access to credit because of having no collateral.

4.2.3 Target Groups

The result of the study about the average profit realized by the entrepreneurs suggests that the entrepreneurs, before receiving services from the USC-Satunama project, on average realized profit which was higher than the national poverty line. The average profit of the entrepreneurs per month without the project was Rp 411.000 (\pm US\$ 52.3¹⁸).¹⁹ The national poverty line for 1999 issued by BPS was Rp 69,420 (\pm US\$ 8.8) per person per month for people living in rural areas. Assuming the entrepreneur had a family with two children and he/she was the only one who earned money for the family²⁰, the profit from the business was big enough to provide the basic standard living of the family. Comparing the average profit with the minimum salary of the province of D.I. Yogyakarta in 2000 which was Rp 224,000 (\pm US\$ 20), the profit realized by the entrepreneurs was almost double the basic salary of those who are employed in the formal sector (Bapekoinda, Workforce, website:<http://www.bapekoinda.com/pages/workforce.htm>).

The entrepreneurs organize themselves into SHGs. The composition of the membership of the SHG is usually determined by one of two considerations: either (i) entrepreneurs join a SHG which is involved in a specific type of business like the hair dress/bridal salon (SHG Harpi Tiara Kusuma), production and selling of traditional herbal medicine (SHG Sumber Waras), and tile production (SHG Sembilan), or (ii) membership is area based, regardless of their business. It can be residence based, like in the case of SHG Mekar Lestari which members come from Celungan area, or a business place like SHG Sido Mulyo which members work in Krakal beach. Later on, the groups may develop and add new members from different business sectors or those coming from different areas. USC-Satunama also provides support for SHGs which have existed before.

Three initiatives may take place in recruiting the target groups. The first possibility is the result of the identification of a potential group (which has been active or not yet established) by the field officers. The second possibility is the

¹⁸ The exchange rate was roughly at rate US\$ 1 = Rp 7,855.2 in 1999 according to the CIA, website: <http://www.cia.gov/cia/publications/factbook/geos/id.html#Econ>.

¹⁹ See section 4.3.4.2 and section 4.3.5.2.

²⁰ There are many cases that the entrepreneurs are also having other sources of income (See section 3.4).

bottom-up approach, when request for assistance is submitted by the group itself. The third possibility is facilitated by an external body like the field officer of another organization which has been working with the group/community or the village officials as it is in the case of SHGs in Sendangagung village.

There are two criteria for the USC-Satunama project to agree supporting a group. The first one is the principle adopted by the group to work for the benefit of its members as well as the bigger community where they live. This point of view is examined from the group's activities, whether the group works to empower the members or that the board works for its own interests. Data provided by the group are being cross checked with the information gathered from those who are familiar with the group which includes the members, the community in the area, and the village development officials. This is also important in order to identify the potentials of the group to develop. The second criterion is that the members of the group are entrepreneurs who reside in the coverage area of the project.

4.2.4 Target Area

Having limited resources, the USC-Satunama's coverage area for the project is focused on certain regions. In the province of D.I. Yogyakarta, the project covers the regencies of Sleman and Gunung Kidul. When the field study took place, the project started to develop activities in the regency of Kulon Progo. The project also covers three regencies in the province of Central Java (Boyolali, Klaten, and Banjarnegara), one regency in the province of East Java (Lamongan) and two regencies in the province of East Nusa Tenggara (East Flores and West Flores). These regions are located in the areas where the offices of USC-Satunama are sited.

In addition to the rationale that USC-Satunama wants to make a contribution to the development in the area where the offices are located, the choice for the coverage area is based on the awareness of the importance of USC-Satunama to create networks with the society in its neighbourhood. The choice of the target area however goes hand in hand with the method applied by the project of providing close-support to the target groups which requires a frequent visit to and dialogue with the groups.

The cooperation with Cooperative Bharata in Banjarnegara and an NGO in Lamongan, YAPSEM, has been started much earlier when support was still given through the local organizations. Technically, it is difficult to provide as close a support as the project provides to the other groups due to the location of these two organizations which are far from the USC-Satunama office. However, the management decided to continue the cooperation due to their good performance. It is also possible because the emphasis for the support for the Cooperative Bharata and YAPSEM is on the provision of credit.

4.2.5 Project Activities

As it has been mentioned above, there are two types of support provided by the USC-Satunama project. The first one is training programs and technical assistance. The second one is the provision of credit. Of the two models of delivering services to the entrepreneurs discussed in section 2.2.2.1, USC-Satunama adopts the unified delivery model. The project provides both types of support although a few SHGs only receive training programs and technical assistance. The training programs and technical assistance are not always given by the staff of the project. If the staff of the project do not have the expertise to give a training program, they will invite staff of other projects/divisions who are more competent and knowledgeable about the topic. This guarantees the quality of the service provided to the entrepreneurs. At the same time, it creates synergy and integration among USC-Satunama's development projects. This also gives a chance for entrepreneurs to improve their non-business-knowledge by participating in the training programs conducted by other projects/divisions such as on Civic Education.

4.2.5.1 Training Programs and Technical Assistance

USC-Satunama provides training programs and technical assistance for the members of the groups as well as to their boards. The idea of supporting the boards of the SHGs is to strengthen the organization of the SHGs so that they are strong in organization, administration and financial aspects. Usually, it covers topics like Management of SHGs, Accounting of SHGs, Leadership, and Organization. Members of the SHGs receive training programs on Small Scale Business Management, Techniques of Production, and Household Economy.

Since 2002, the USC-Satunama project regularly conducts an Evaluation and Planning meeting with the target groups. Every group sends representatives to participate. As indicated by its title, the meeting is designed to get the participation of the target groups in the evaluation of how the project has been run and in the planning for the next term. In addition, this forum is used to encourage the establishment of networks and cooperation among the different SHGs. The groups are facilitated to share experiences and exchange information. It is expected that they can learn from each other, learning from the mistakes as well as success stories of the other groups in solving their problems. There are cases that members of different SHGs conduct the same business activities and hence it enables them to exchange information on market and technology.

4.2.5.2 Provision of Credit

Credit is provided for business development purposes, due to the fact that many entrepreneurs in the informal sector do not have access to credit from the formal financial institutions. Many entrepreneurs were trapped by borrowing money from money lenders who charged them very high interest rates. Some could easily charge up to 20% interest rate per month. Concern about this fact led the USC-Satunama project to provide credit for the entrepreneurs at a lower interest rate than that being charged by the banks.

Since 2002, the USC-Satunama project has implemented new policies in disbursing the credit to the groups. They are: (i) the SHG has at the minimum 30 members and has been facilitated by USC-Satunama for at least six months, (ii) the maximum amount of credit provided is four times the saving of the members of SHG kept in the group, (iii) credit is only provided to increase the capital of the members of the group for productive economic activities, (iv) credit is provided for SHGs which from the perspective of administration, organization, membership, and business activity have a potential to grow, (v) the SHG must provide a collateral, and (vi) the SHG must agree to pay the interest rate and administration cost charged by USC-Satunama.

, USC-Satunama disburses the credit to the SHGs with a fixed interest rate. Facilitated by the field officers, the members and boards decide on the distribution of the credit received by the group to the members based on the needs of the

individual members. The group usually applies a higher interest rate to its members than the one charged by USC-Satunama. The following is an illustration on how it is done by several SHGs. USC-Satunama gives credit with 1.5% IOB (Interest Over Balance) rate per month to the group. The group distributes it to its members with a 1.5% flat interest rate per month. The difference is kept in the group and treated as income of the group. It adds up the amount of revolving funds for credit for the members. At the end of the year, it will be distributed as dividend to the members. Details of the percentage of the dividend are decided by each group based on agreement among the members.

The USC-Satunama's interest rates in comparison to the bank's interest rates are given below. Normally, USC-Satunama applies a monthly interest rate rather than yearly interest rate to the target group. However, it will be presented in the yearly basis in order to make it easier to be compared with the other data on inflation and bank's interest rate.

Tab. 4 Comparison of the Interest Rates of USC-Satunama and Commercial Banks

Period	Inflation Rates	USC-Satunama's interest rates		Banks' interest rates	
		Nominal	Real	Nominal	Real
April 2003-Dec. 2003	5.73%	9.75%	4.02%	26%	20.27%
Oct. 2001 – March 2003	12.01%	9.75%	-2.26%	27-36%	14.99%-23.99%
Feb – Oct. 2001	12.56%	18%	5.44%	27%	14.44%
April 2000 – Jan. 2001	7.32%	21%	13.68%	35%	27.68%
Jan 1999 – March 2000	2.51%	24%	21.49%	65%	62.49%
May-Dec. 1998	77.46%	55.5%	-22.46%	64%	-13.46%
Jan.-April 1998	77.46%	30%	-47.46%	64%	-13.46%
1997	12.72%	24%	11.28%	35%	22.28%

Sources: BPS-Statistics Indonesia, website:<http://webapps.bps.go.id/cpi/tables.cfm?PN=04&vl=3471000000,Yogyakarta&fc=0> and BPS-Statistics of D.I. Yogyakarta Province, website:<http://yogyakarta.bps.go.id/dist/press/press97/press199712.htm> (Inflation rates); Book Keeping on Credit Disbursed by the USC-Satunama Project (USC-Satunama's interest rates); and Bank Indonesia Kantor Perwakilan Propinsi D.I. Yogyakarta, 2003:42 (bank's interest rates).

Table 3 shows that USC-Satunama's nominal interest rates are always below the interest rates of the commercial banks. When the inflation is taken into account, the real interest rates can be calculated by deducting the nominal interest rates with the inflation rates. During the period of January-December 1998 and October 2001-March 2003, USC-Satunama's real interest rates were negative. The same is true for the real interest rates of the banks in 1998. The negative real

interest rates show that USC-Satunama and the banks subsidize the credit they provided and that USC-Satunama's subsidies were even higher than those provided by the banks.

Started from April 2003, the USC-Satunama project has applied a new policy on the interest rate. The group is charged with 1.75% IOB rate per month which consists of 1.5% IOB rate which goes to USC-Satunama and 0.25% IOB rate going to the savings of SHG in USC-Satunama. At the end of the credit period, the savings will be returned to the group. In the case that the group requires certain training programs which cannot be provided by the project for free, the group can use these savings for that purpose. In addition, these savings provide a guarantee for USC-Satunama in the case of problems like bad debt.

The nominal interest rate charged by the USC-Satunama project is in fact negotiable, taking into account certain considerations. For example, YAPSEM as a local NGO which also runs a project to support SHGs in its target area is only required to pay 1% IOB per month to USC-Satunama. The ability of members to pay due to specific circumstances is also a factor. The LPPT Maju Bersama whose members breed cows received a special treatment of having to pay only 0.75% IOB per month due to their losses following the implementation of a recent government policy which eases the regulation to import cows. This policy led to a fall of the price of cows in the domestic market. The payment period also varies from one SHG to another.

This method requires a good management of the organization and a democratic environment in the group. Strong efforts from the field officer in facilitating the process and especially control among the members of the group are needed to realize it. If the field officer fails in facilitating the group, it may be that only the board members strongly influence and dominate any decision making in the group. The groups who are strong financially will also be able to access more credit.

USC-Satunama's work on strengthening the organization is not only focused on strengthening the human resources but also on the capacity of the SHGs to be financially self sufficient by encouraging savings. The policy of allowing the amount of credit to the maximum of four times the savings collected by the group

is an incentive to increase savings. It is expected that one day the source of revolving funds for credit to the members will be coming from the group's savings. There are several savings introduced to the SHGs: the "initial saving"²¹ ("simpanan pokok"), the "compulsory saving"²² ("simpanan wajib"), and the "voluntary saving"²³ ("simpanan sukarela"). USC-Satunama does not play a part in making the decision about the amount of money for the initial and compulsory savings. The decision is made by the group and it is based on the discussion and agreement of the members.

Since the project was started in 1997 up to now, there is no case in that USC-Satunama stopped providing credit to the groups. There are two reasons underlying this tendency. The first one is the result of the policy applied. USC-Satunama may not be able to provide a big amount of credit due to the four-times-saving policy. Hence, the disbursed credit may not meet the need of the group and the members. In addition, in the case of credit, trust to the SHGs is very important. Hence, for the first credit, USC-Satunama may not provide a big amount of credit because it needs to check the performance of the SHG to payback the credit. The second reason is, if it meets their needs for the present business, they need more capital in the future to diversify their business. The members of SHG Sumber Waras for example initially only produced and sold traditional herbal medicine ("jamu"). USC-Satunama disbursed credit to help them maximize the production of their "jamu". The first and the second credit were able to meet this need. However, they applied for more credit because they wanted to diversify the business, mostly by raising and breeding sheep and some of them started to sell something else in addition to their "jamu", for example vegetables and clothes.

There is the case that the Cooperative Angudi Luhur does not require any credit from USC-Satunama because they are able to finance their activities themselves. However, the group realizes the importance to increase their human

²¹ The initial saving is paid when an individual entrepreneur becomes member of the group.

²² The compulsory saving is paid regularly, usually every month, and every member saves the same amount of money.

²³ As indicated by the name, the voluntary saving is not obligatory. The amount of money saved by each member is different, depending on their financial situation.

capital by receiving training programs and technical assistance from USC-Satunama.

4.2.6 The Implementation of the Project in the Island of Java

There are three field officers in Java to run the project. Each of them is responsible for one sub area. The coverage area in Java is divided into three: West Sleman, East Sleman-Gunung Kidul-Klaten, and Boyolali. Temporarily, two SHGs in the regency of Kulon Progo are facilitated by the “Civil Society” project officer. They are originally supported by the Civil Society project and at the moment are newcomers for the project “Livelihood Security through Strengthening the Entrepreneurs in the Informal Sector.” Cooperation with the NGO in Lamongan and the cooperative in Banjarnegara are handled by the program manager.

The field officer pays a visit at least once a month in the SHG’s monthly meeting. The functions of the visit are to monitor the development of the group and members and to get feedback and information relevant to the project. This is also the forum for the field officer to provide additional technical assistance to the members and being involved in the discussion in the group. The second visit is to pay a visit to the individual member, meant to discuss more details of the problems faced by him/her. For a new SHG, the field officer makes an additional visit to meet the members of the board, especially to provide technical support for the organizational and book keeping aspect of the group. For Cooperative Bharata in Banjarnegara and YAPSEM in Lamongan, the program manager officer only attends the annual meetings.

USC-Satunama categorizes the SHGs and cooperatives into three different levels: the starter, the average, and the steady level. The difference in the levels influences the frequency of the technical assistance provided by the field officers. The starter level receives at least three visits per month: to attend the monthly meeting, to visit the individual members, and to provide technical assistance to the members of the board. In principle, the field officers are not required to provide technical assistance for the boards of SHGs in the average level anymore based on the assumption that they have already the knowledge and the skills and hence only twice a month visits are scheduled for the group. For the groups in the stable

level, the field officers are required to visit the group once a month to attend the monthly meeting. However, this arrangement is not fixed. In the case that more technical assistance and consultation are required by the boards and the groups, the field officers should provide it. There are six groups categorized to be in the starter level, eleven in the average level, and sixteen in the stable level.

The principle of the support is to meet the need of the members of the group, and hence, services given to one SHG maybe different from the others. Taken the provision of training programs and/or technical assistance as an example, not all SHGs receive the very same topics from the project. However, all members of the board of SHGs receive training programs and/or technical assistance in Management of SHGs, Accounting of SHGs, Leadership, and Organization.

Flexibility is also shown in the policy of the minimum number of the group that is entitled to receive credit. There are six groups with a membership of less than thirty that received credit. In addition to the performance of the group, there are specific considerations which are kept in mind. USC-Satunama applies a 'non retroactive' policy. The SHG Pertiwi is entitled to receive credit because the group has been facilitated by USC-Satunama since August 1998 when the policy of the minimum 30 members did not yet exist. A similar policy is applied to SHG Sido Akur, SHG Gumregah, SHG Andini Mulyo, and SHG Sembilan. A problem exists for SHG Andini Mulyo to enlarge the membership because the group is exclusively for entrepreneurs in one sub hamlet. It is similar in the case of SHG Gumregah which was established by a group of Catholic entrepreneurs in Madurejo. They are not open for members from other regions or religions. USC-Satunama stopped facilitating SHG Sri Rejeki for some time due to the problem of accountability and that the members of the board dominated the group. However, after reorganization has taken place, the group started to receive facilitation again from USC-Satunama in April 2002 and was entitled to receive credit after three months.

4.3 Analysis of the Result of the Questionnaires

The presentation in this section is the analysis of the answers provided by the sample of the survey to the questionnaires.

4.3.1 Baseline Data of the Target Groups

This section contains the basic information about the target groups of the USC-Satunama project. It includes information on the social data and the business of the entrepreneurs. It is important for USC-Satunama to gather this information especially in order to help to design the project activities which suit the condition of the target groups.

4.3.1.1 Social Data

Sex

Data processed from the answers given in the questionnaires show that the target groups of USC-Satunama were dominated by female entrepreneurs. Their proportion was 60.1% compared to 39.9% of male entrepreneurs. From the one hundred thirty nine respondents, one respondent did not provide the information and hence was treated as a missing value.

Age

The data show that the age of the target groups of the USC-Satunama project ranged between 20 to 67 years. In order to ease the analysis, they were grouped into five age groups: age 20-29, age 30-39, age 40-49, age 50-59, and age 60-69. By grouping the age of the target groups, it can be seen that 37% of entrepreneurs were in the age group between 30 and 39 while 34.8% were in the age group between 40 and 49. Hence, the majority of the target groups of the USC-Satunama project, 71.8%, were in the range of between 30 and 49 years old. The mean and median ages of the entrepreneurs were 41. There were four missing values.

Marital Status

In the questionnaire, the entrepreneurs were asked to provide information on their marital status based on three choices: (i) not married, (ii) married or (iii) widowed. Five respondents did not fill in their marital status and hence there were five missing values. 88.1% entrepreneurs were married, 5.2% were not married and 6.7% were widowed.

Members of Immediate Family Supported

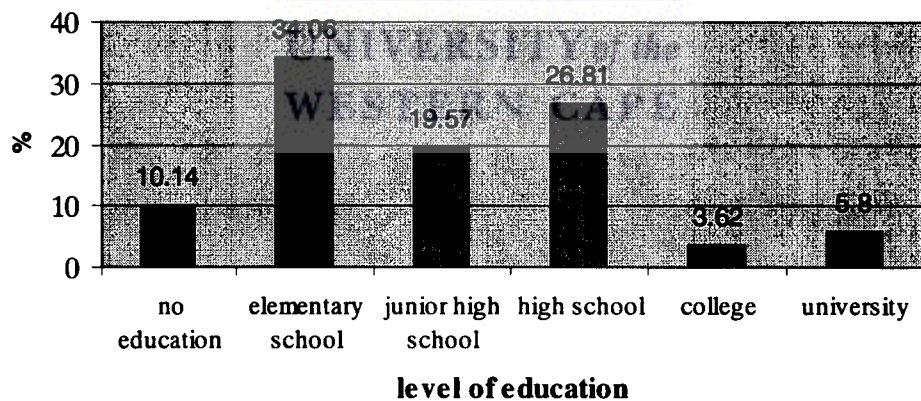
On the question of the members of immediate family being supported by each entrepreneur, all entrepreneurs provided the information that they bore the responsibility to earn money to support the living of other people, in many cases their immediate family. 4.4% of the entrepreneurs supported one person, 8.8% supported two persons, 75.9% supported three to five persons, and 7.3% supported six persons. Five entrepreneurs bore the responsibility to support seven persons. There were two missing values.

Level of Education

One focus of the USC-Satunama project is improving the human capital of the entrepreneurs through its training programs and technical assistance. Hence, it is important to find out the level of education of the entrepreneurs, in terms of formal education and informal education.

Formal Education

Fig. 3 Level of Education of the Target Groups of the USC-Satunama Project



Source: data collected through questionnaires.

The answers to the question on the level of formal education show that 10.14% of the entrepreneurs did not undergo any formal education or they did not finish the six years of elementary school. 34.06% of the entrepreneurs completed only the elementary school and 53.63% accomplished the nine years education as it is considered by the Indonesian government as the basic education. 9.42% of the

entrepreneurs got the opportunity to continue and finish their study in colleges or universities. There was one missing value.

Informal Education

All the target groups of USC-Satunama received training programs and/or technical assistance from the project. In addition to that received from USC-Satunama, 28.5% of the entrepreneurs also had access to similar support provided by other organizations and government bodies. These entrepreneurs indicated that 64.1% of the supports were provided by government bodies, 10.26% by non governmental organizations, and 25.64% by organizations whose names were not specified by the entrepreneurs.

Residence

As explained already in section 3.2, the scope of the field study was the SMEs assisted by USC-Satunama in the province of D.I. Yogyakarta who live in the regency of Sleman and Gunung Kidul. However, there were two entrepreneurs in the sample whose residences are in the regency of Bantul and the municipality of Yogyakarta. One person joins one of the SHGs in Sleman and the other joins one SHG in Gunung Kidul.

Taking into account the two members of SHGs who live in the other regencies in the province of D.I. Yogyakarta, 62.6% of the entrepreneurs reside in the regency of Sleman and 36% in the regency of Gunung Kidul.

4.3.1.2 The Types of Business

Tab.5 Types of Business of the Target Groups of the USC-Satunama Project

Sector	Number of entrepreneurs	Percent
Primary sector		
I. Agriculture, Forestry, and Fishery: Farming (3 entrepreneurs) Livestock (18 entrepreneurs) Fishery (2 entrepreneurs)	23	16.55
Secondary sector		
II. Mining and Quarrying; Electricity, Gas and Water Supply; and Construction: Carpenter (2 entrepreneurs)	2	1.43
III. Manufacturing Industry: Handicraft (13 entrepreneurs)	39	28.06

Tile production (6 entrepreneurs)		
Food production (4 entrepreneurs)		
Traditional herbal medicine (16 entrepreneurs)		
Tertiary sector		
IV. Wholesale and Retail Trade, Restaurants and Accommodation Services:		
Trade (33 entrepreneurs)	47	33.81
Restaurant (14 entrepreneurs)		
V. Transport, Storage, and Communication:		
Motorbike transportation (1 entrepreneur)	3	2.16
Telecommunication (2 entrepreneurs)		
VI. Financial Institutions; Real Estate, Rental Service and other Services:		
Hair dress (11 entrepreneurs)	25	17.99
Sewer (4 entrepreneurs)		
Hand tractor (1 entrepreneur)		
Garage shop (4 entrepreneurs)		
Printing (1 entrepreneur)		
Sound system rental (2 entrepreneurs)		
Other services (2 entrepreneurs)		
Total	139	100
Missing values	0	

Source: data collected through questionnaires.

The different types of business of the entrepreneurs were categorized into six groups, following the categorization of the BPS-Statistics Indonesia which has been mentioned in section 2.1.2.2. The majority of the entrepreneurs were working in the trade, restaurant and accommodation sector (33.81%), followed by the manufacturing industry sector (28.06%), financial institutions, real estate, rental service and other services sector (17.99%) and agriculture, forestry and fishery sector (16.55%). These four sectors are also absorbing major labourers in the province of D.I. Yogyakarta.²⁴ Following the World Bank classification of types of business, 53.96% of the businesses of target groups of the USC-Satunama project were in the tertiary (services) sector, followed by 29.49% in the secondary (industry) sector and 16.55% in the primary (agriculture) sector.

There were 2.16% of the entrepreneurs filling in “farming” as their business. This does not necessarily mean that the others do not own and run a farm. Many target groups of USC-Satunama are also farmers who at the same time run other businesses in order to increase the income of the family. However, the USC-

²⁴ See section 4.1.1.

Satunama project excludes farming from the support activities. Nevertheless, there were three entrepreneurs who in fact only worked as farmers.

Tab. 6 Cross Tabulation between Residence and Business Sector

		Types of business sector						Total
		1	2	3	4	5	6	
Residence	Sleman	20	2	21	24	2	18	87
	Gunung Kidul	3		18	23	1	5	50
	Bantul						1	1
	K. Yogyakarta						1	1
Total		23	2	39	47	3	25	139

Source: data collected through questionnaires.

As it has been mentioned earlier, the businesses of the entrepreneurs were categorized into six sectors and then coded accordingly: *one* for agriculture, forestry and fishery, *two* for mining and quarrying; electricity, gas and water supply; and construction, *three* for manufacturing industry, *four* for wholesale and retail trade, restaurants and accommodation services, *five* for transport, storage, and communication, and *six* for financial institutions; real estate, rental service and other services. As seen in the table above, the majority of the entrepreneurs in these two regions worked in the trade and restaurant sector and the manufacturing industry sector. These two sectors were indeed playing a very important role in the Gross Domestic Regional Products (GDRP) in the two regencies and absorbing a large number of labourers.²⁵

4.3.1.3 Period of Running the Business

The target groups of the USC-Satunama project varied from very young entrepreneurs to entrepreneurs who run the business for more than thirty years. The youngest entrepreneurs - in terms of the period of running the business - assisted by USC-Satunama were running the business for half a year. They made up 1.5% of the total entrepreneurs. The longest period of running the business was forty years, conducted by 0.7% of the entrepreneurs. 73.9% of the entrepreneurs assisted by USC-Satunama run their business for ten years or less, 13.5% for more than eleven years to twenty years and 12.6% for more than twenty years.

²⁵ See section 4.1.1.

4.3.1.4 Employment

Tab. 7 Number of Labourers of the Target Groups of the USC-Satunama Project

Number of labourers	Number of entrepreneurs		Total number of labourers
	Frequency	Valid percent	
1	39	28.1	39
2	58	41.7	116
3	16	11.5	48
4	11	7.9	44
5	6	4.3	30
6	4	2.9	24
10	1	0.7	10
13	1	0.7	13
15	2	1.4	30
30	1	0.7	30
Total	139	100	384

Source: data collected through questionnaires.

As mentioned in section 2.1.2.2, one of the characteristics of the SMEs is their ability to absorb members of the labour force. The answers to the question of the number of labourers (including self employment) show that 28.1% of the entrepreneurs run the business themselves. At the same time, 71.9% of the entrepreneurs employed more than one person. The total number of the labourers in the 139 enterprises was 384. It means that 245 persons other than the owner of the enterprises were employed. However, there was no specific question raised in the questionnaire whether the additional labourers were family members and how they were paid.

Referring to the criterion of SMEs from the BPS-Statistics Indonesia which uses the number of labourers to identify the size of the enterprises, 89.2% of USC-Satunama's target groups were considered to be micro entrepreneurs (employing 1-4 labourers), 10.7% were small entrepreneurs (employing 5-19 labourers), and 0.7% were medium entrepreneurs (employing 20-99 labourers).

Hence, it can be concluded from the social data that the majority of the target groups of USC-Satunama project in the province of D.I. Yogyakarta were female entrepreneurs (60.1%), at the age between 30 and 49 (71.8%), and married (88.1%). They were all financially supporting members of their family.

53.63% of the entrepreneurs passed the nine years of basic education. All entrepreneurs received training programs and/or technical assistance from the

project and 28.5% of the entrepreneurs received similar support from other organizations and government bodies.

As it has been mentioned earlier, the social data have to be taken into account to make the right designs of the project activities. As it is in the case of running any training program, one has to pay attention on the contents as well as the venue, time, and method of presentation. This applies also when the project runs a training program for entrepreneurs. The design must fit the conditions of the entrepreneurs. As most of them are married and female entrepreneurs, the venue must be located as close as possible to their houses. Almost 90% of the entrepreneurs run micro enterprises which in many cases indicates a small financial capital. They also cannot leave their business for a long time to attend the training program. It means that the timing of the program must fit into this framework. The training program must not be conducted for long hours and if possible use the time when they are not too busy with their works.

Almost half of the entrepreneurs did not have the nine years of basic education and most of them are above thirty years old. This means that the field officers must be able to use a simple language in delivering the message so that it can be easily understood by the entrepreneurs.

As shown in table 6, the majority of the target groups of USC-Satunama in the province of D.I. Yogyakarta resided in the regency of Sleman which comprised of 62.6% of the total target groups in the province. 36.6% were in the regency of Gunung Kidul. In both regencies, the majority of the entrepreneurs worked in the trade and restaurant sector and the manufacturing industry sector. Around three quarter of the entrepreneurs were running their business for less than ten years and 71.9% of the entrepreneurs provided jobs for other people.

4.3.2 Sources of Financial Capital

Shortage of financial capital is one of the major problems faced by SMEs. This section is meant to provide the information about the sources of financial capital of the target groups of the USC-Satunama project when they started the business and in the period of running the business.

4.3.2.1 To Start with the Business

Tab. 8 Sources of Financial Capital to Start the Business

		Credit		Total
		Used	Not used	
Personal savings	Used	20.6%	55.1%	75.7%
	Not used	24.3%	0%	24.3%
Total		44.9%	55.1%	100%

Source: data collected through questionnaires.

Based on the question of the source of money to start the business, 55.1% of the entrepreneurs used only their personal savings, 24.3% used only credit, and 20.6% used both credit and personal savings. Three entrepreneurs did not provide an answer.

4.3.2.2 Sources of Credit other than from the USC-Satunama Project

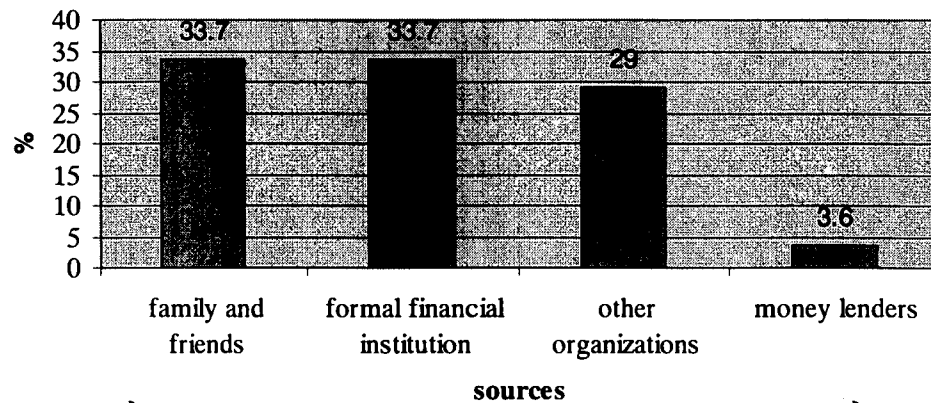
Tab. 9 Credit from Sources other than the USC-Satunama Project

Credit	Number of entrepreneurs	Valid percent
Received	65	48.1
Not received	70	51.9
Total	135	100
Missing values	4	

Source: data collected through questionnaires.

48.1% of the entrepreneurs had access to credit from sources other than the USC-Satunama project and there were four entrepreneurs who did not provide the information whether they received credit from other sources or not.

Fig. 4 Sources of Credit Other than the USC-Satunama Project



Source: data collected through questionnaires.



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There were four options of sources of credit raised in the questionnaire. The entrepreneurs who stated that they received access to credit from other sources should identify which of these four sources they received the credit from.

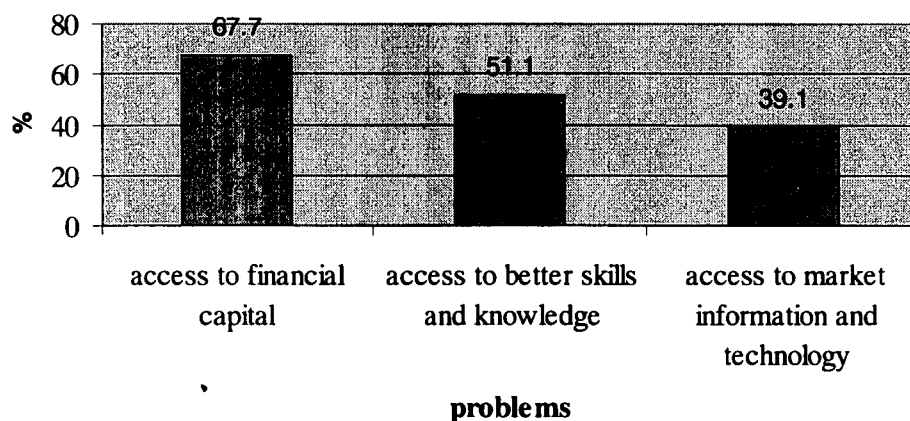
The family-and-friends and the formal financial institutions seemed to be the major alternative sources of credit outside the project. 33.7% of entrepreneurs received credit from family and friends and 33.7% received credit from the formal financial institutions. 29% of the entrepreneurs received credit from other organizations, including government bodies. The number of entrepreneurs who received credit from money lenders was very low, 3.6%. It is one impact expected by the project that the project will eliminate the role of the money lenders. One entrepreneur provided an answer that he/she received credit from another source but did not identify the source.

4.3.3 Problems and Sources of Support in the Business

4.3.3.1 Problems

There are two questions raised in the questionnaire to find out the problems identified by the entrepreneurs. The first question was related to problems in accessing financial capital, better skills and knowledge, and market information and technology. The second question was on the external problems related to the access to raw materials, impact of the government policies and regulations and competition with the bigger enterprises.

Fig. 5 Problems Identified by the Target Groups



Source: data collected through questionnaires.

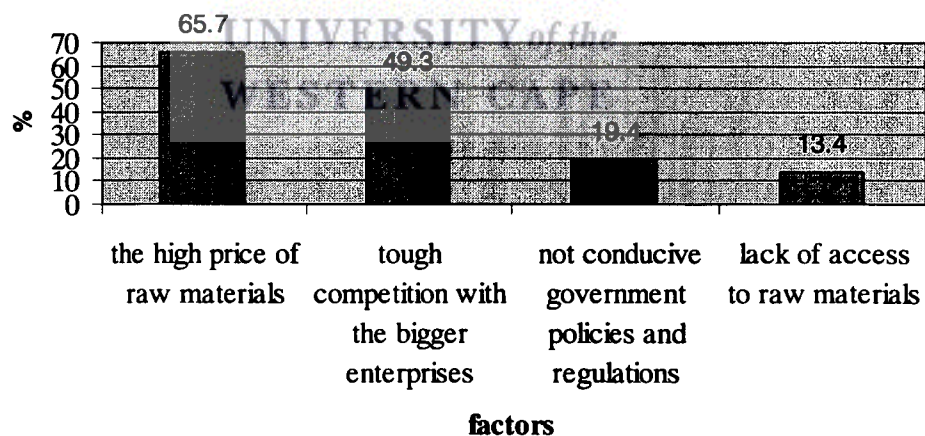


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In general, the entrepreneurs identified access to financial capital to be the main problem. 67.7% of the entrepreneurs were facing this problem. This can explain why more than 50% of the entrepreneurs used only their personal savings to start the business.²⁶ 51.1% of the entrepreneurs experienced access to better skills and knowledge as the second problem. Access to market information and technology was identified as the next problem with 39.1% of the entrepreneurs experiencing this problem.

The entrepreneurs were given the opportunity to provide additional information on the problems they identified in their business other than the three options. Thirty four entrepreneurs wrote down the additional problems they faced. Nineteen entrepreneurs identified the lack of means of transportation as the major problem and twelve persons identified problems in marketing which included problems of a low market price and the uncertainty in the market price. The other problems were the trend for handicraft which changed easily, the low profit and one entrepreneur, who runs a business in the entertainment sector, experienced a lack of appreciation from the society for his status of being an entertainer.

Fig. 6 External Factors Negatively Influencing the Business



Source: data collected through questionnaires.

Only 13.4% of the entrepreneurs considered difficult access to raw materials as negatively influencing the business. However, the high price of the raw materials was the major factor which negatively influenced the business as it was

²⁶ See section 4.3.2.1.

identified by 65.7% of the entrepreneurs. 49.3% of the entrepreneurs perceived tough competition with the bigger enterprises to be a problem. Government policies and regulations were considered by 19.4% of the entrepreneurs to have a negative impact on their business.

Five entrepreneurs provided additional information about their problems which included the difficulty to find a qualified sheep for breeding, expensive equipment, hard competition between entrepreneurs, and not enough experience in the business. One entrepreneur wrote that he/she did not face any problem in running the business.

The high price of raw materials may inhibit many entrepreneurs to buy the adequate amount of raw materials to maximize their production. At the same time lacking human capital, they found it difficult to compete with the bigger enterprises which comparatively have better financial and human capital.

Based on the interviews with several entrepreneurs, the recent government policy which allows import of cows creates a big loss for them as the price of cows falls severely. The enterprises in the trade-restaurant sector who have to pay a daily tax to the government also get a negative impact from the new law on Regional Autonomy. They have to pay a higher tax as the local governments increase the tax in order to increase their revenue.

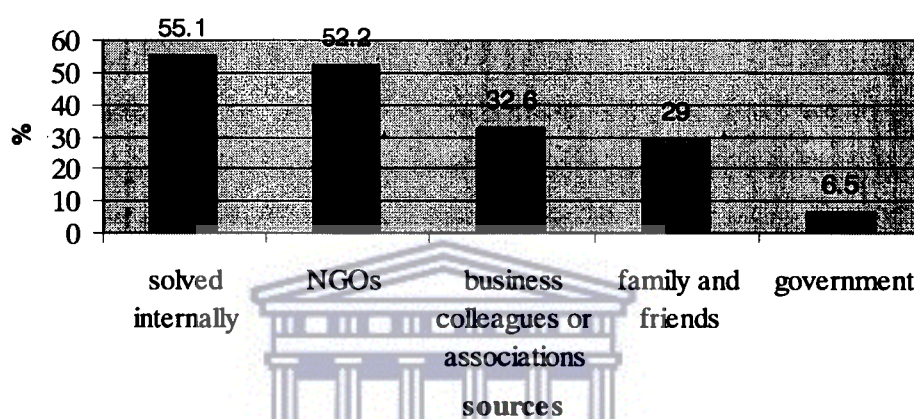
The USC-Satunama project is dealing mainly with the problems of financial capital and human capital. Originally the project did not design any specific activities to deal with the marketing problem. It was expected that the entrepreneurs were able to share market information through networking and cooperation built among the entrepreneurs in the same SHG and among SHGs. Realising that many entrepreneurs also face the marketing problem, the project starts to pay more attention to support the entrepreneurs in this respect. When the field study was carried out, the field officers started to identify enterprises which were producing prospective handicraft products to be marketed in Canada. USC-Satunama also initiates a collective marketing for the target groups in Banjaroya

village and one cooperative and one SHG in the province of East Nusa Tenggara.²⁷ However, these two areas were not in the coverage of the field study.

Basically, the problems faced by the entrepreneurs as identified from the answers in the questionnaire show similar results as they are identified by the BPS-Statistics Indonesia²⁸ and BAPEKOINDA Yogyakarta.²⁹

4.3.3.2 Sources of Support

Fig. 7 Sources of Support and Assistance



Source: data collected through questionnaires.

In case of facing problems in the business, 55.1% of the entrepreneurs did not rely on other people to solve the problems. They tried to solve it internally with all the available resources. 52.2% of the entrepreneurs experienced that non governmental organizations like USC-Satunama assisted them in solving problems in the business.

The idea of supporting the entrepreneurs through the SHG in order to facilitate cooperation and networking among the entrepreneurs showed a positive result. 32.6% of the entrepreneurs found out that business colleagues and/or associations helped them in solving the problems in the business. There were 29% of entrepreneurs who received assistance from family and friends. The government

²⁷ See appendix 1: Strategic Planning of the Project “Livelihood Security through Strengthening Entrepreneurs in the Informal Sector”.

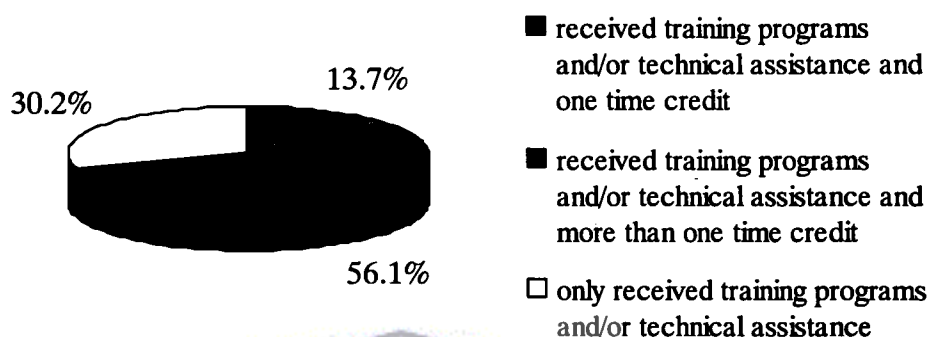
²⁸ See section 2.2.1.

²⁹ See section 4.1.2.

played the least role as only 6.5% of the entrepreneurs considered it to support and assist them in the case of facing problems in business.

4.3.4 Support from the USC-Satunama Project

Fig. 8 Support from the USC-Satunama Project



Source: data collected through questionnaires.

As it has been mentioned, the focus of work of the USC-Satunama project is supporting the entrepreneurs through the provision of training programs and technical assistance and the provision of credit. The entrepreneurs were asked which of these two types of support they received. All entrepreneurs answered that they received training programs and/or technical assistance from the project. However, not all of them received credit from the project. The data show that 30.2% of the entrepreneurs did not receive any credit from the project and 69.8% of the entrepreneurs received credit of which 13.7% received a credit one time and 56.1% received more than one time credit.

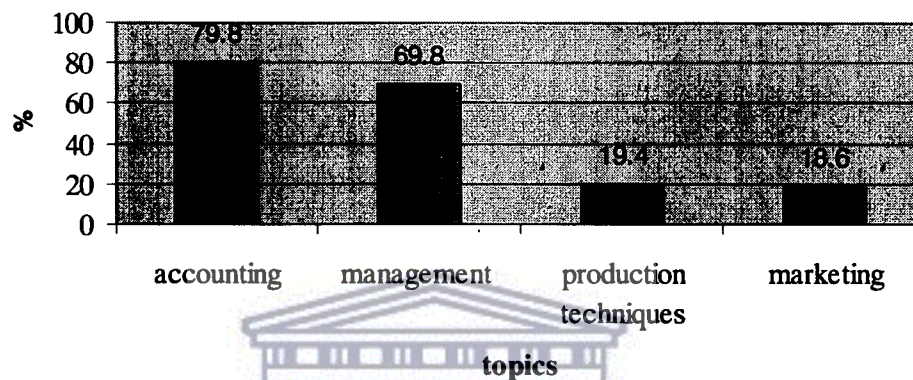
4.3.4.1 Provision of Training Programs and/or Technical Assistance

Topics of Training Programs and/or Technical Assistance

USC-Satunama provides several training programs for the entrepreneurs like Accounting, Household Economy, and Small Scale Business. The last two topics are in the management field, one is on the management of the households and the other one is on the management of running a small scale business. In addition to the training programs, the project also provides from time to time technical

assistance on the same topics and other topics like Marketing and Techniques of Production in the monthly meeting of the SHGs. In addition to the topics relevant for the development of the business, some entrepreneurs also received training programs which were conducted by the other projects/divisions of USC-Satunama on other topics like Gender.

Fig. 9 Training Programs and/or Technical Assistance Received by the Target Groups of USC-Satunama



Source: data collected through questionnaires.

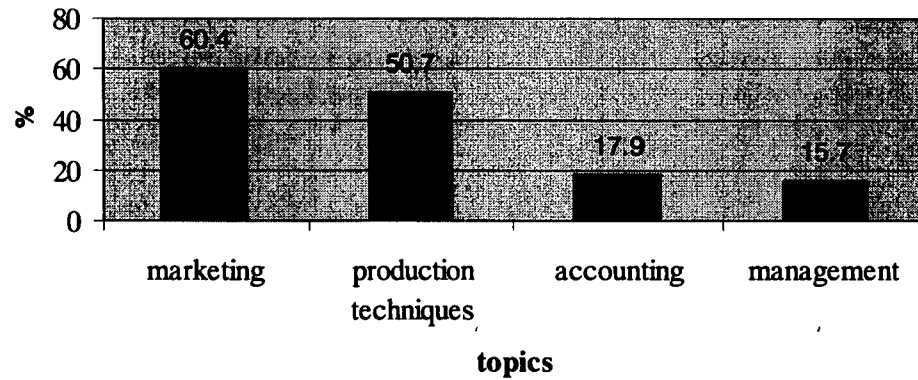
The most frequent topics given to the entrepreneurs were Accounting (79.8%), followed by Management (69.8%), Production Techniques (19.4%) and Marketing (18.6%). One respondent suggested that considering the age, he/she preferred to give the chance to attend the training programs to the younger people.

Thirteen entrepreneurs provided more information about the topics of training programs and/or technical assistance they received from the project. In addition to the four options provided in the questionnaire, seven entrepreneurs specified that they received a training program on the Household Economy, followed by four persons with the topic of Traditional Herbal Medicine, three persons on Gender, and one on Acupuncture.

In addition to the question on the training programs and/or technical assistance they received, the entrepreneurs were also asked which topics of training programs and/or technical assistance they wished to receive. As indicated by more than 50% of the entrepreneurs, many of them considered Marketing and Production Techniques to be very important. While only 15.7% and 17.9% of the

entrepreneurs expected to receive training programs and/or technical assistance on Management and Accounting.

Fig. 10 Training Programs and/or Technical Assistance Expected by the Target Groups of USC-Satunama



Source: data collected through questionnaires.

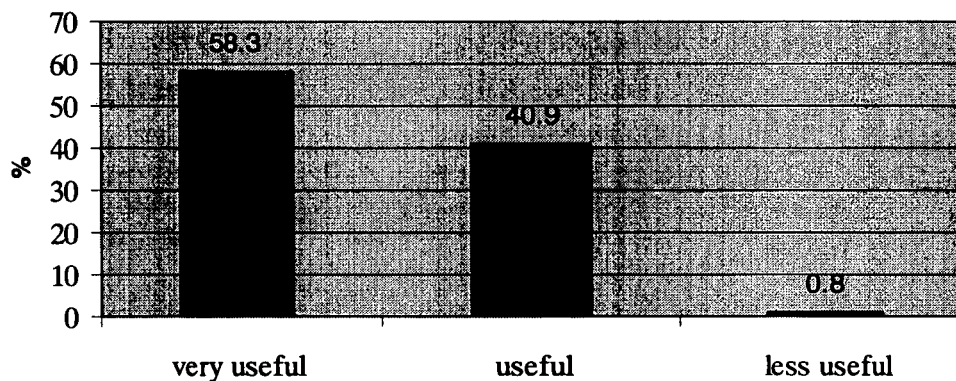
One respondent mentioned that he/she did not expect to receive any training programs due to his/her old age. Sixteen entrepreneurs provided more information on the topics they considered to be important for them. Twelve of them gave information on the details of the production techniques they wish to receive like how to raise cattle, food production, and hair dress and facial make up. They also raised the need for skills and knowledge on market expansion and on waste-management and organic fertilizer.

This result indicates that Marketing and Production Techniques are vital topics which should be addressed by the project in the future. However, it does not necessarily indicate that Management and Accounting are less vital. The fact that more than 50% of the entrepreneurs had already received training programs and/or technical assistance on these two topics made these topics less required by the entrepreneurs.

The Usefulness of the Training Programs and/or Technical Assistance

After identifying the topics of the training programs and/or technical assistance provided by the project and expected by the target groups, the entrepreneurs were asked to give their opinion whether the training programs and/or technical assistance provided by the project were useful to develop their business.

Fig. 11 The Usefulness of Training Programs and/or Technical Assistance



Source: data collected through questionnaires.

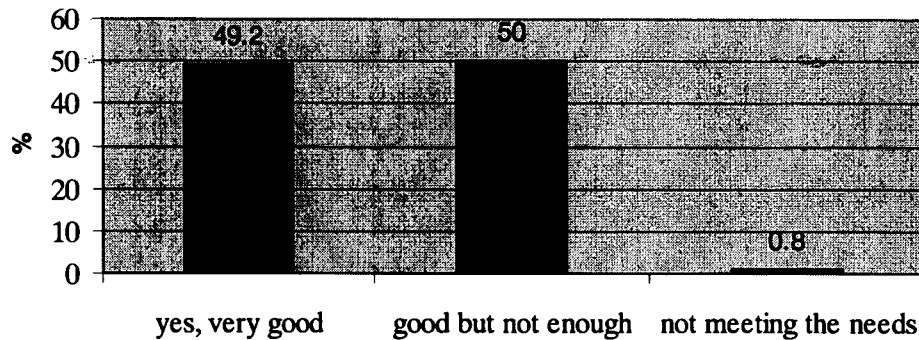
None of the entrepreneurs mentioned that the training programs and/or technical assistance were not useful. 58.3% of the entrepreneurs answered that they were very useful, 40.9% considered them to be useful and 0.8% found them to be less useful for the business. Hence, it can be concluded that the entrepreneurs felt that the training programs and/or technical assistance were useful for the development of their business.

One may argue that the entrepreneurs may say only positive things about training programs and/or technical assistance to avoid running a risk of losing the chance to receive credit. However, when the researcher attended several training programs and/or technical assistance run by the USC-Satunama project, she got the impression that the entrepreneurs were in general pleased with the programs and they followed the sessions enthusiastically.

Did the Training Programs and/or Technical Assistance Provided by the Project Meet the Needs of the Entrepreneurs?

On the question whether the topics of the training programs and/or technical assistance provided by the project met their needs, 49.2% of the entrepreneurs replied that the topics were very good and they met their needs, 50% felt that they were good but not enough or in other words the entrepreneurs demanded to receive more training programs and/or technical assistance, and 0.8% thought they were not meeting their needs at all.

Fig. 12 Does the Topic of the Training Programs and/or Technical Assistance Meet the Needs for Additional Skills and Knowledge?



Source: data collected through questionnaires.

Although the percentages are not exactly the same, these data matched the data on the problems faced by the entrepreneurs³⁰ that 51.1% of the entrepreneurs faced problems of lack of access to better skills and knowledge because around 50% of the entrepreneurs expected to receive more training programs and/or technical assistance.

4.3.4.2 Provision of Credit

The following presentation is an analysis on the provision of credit which was received by the individual entrepreneurs provided to them through the SHG.

As it has been mentioned earlier, of the 69.8% of the entrepreneurs who received credit from USC-Satunama, 13.7% received a one time credit and 56.1% received more than one time credit.

Terms of Credit

As it has been explained in section 4.2.2, the fact that USC-Satunama disbursed credit to the SHGs, not directly to the entrepreneurs, has an impact on different data on the interest rates charged by the project and the interest rates which are paid by the entrepreneurs. The interest rates the SHG charged the entrepreneurs are in many cases higher than those the project charges the SHGs.

³⁰ See section 4.3.3.1.

Tab.10 Comparison of the Mean of the Interest Rates of Credit Provided by USC-Satunama with Respect to Different Credit Tranches

	Received a one time credit	Received more than one time credit		
	Interest rates	Interest rates of the first credit	Interest rates of the second credit	Interest rates of the third credit
Mean	20.37%	19.13%	19.23%	19.81%

Source: data collected through questionnaires.

On average, the entrepreneurs were charged 20% interest per year by the SHGs. The lowest interest rate was 9% and the highest was 28%³¹ per year. Referring to the data of the nominal interest rates charged by the project as shown in table 4, the credit analyzed here was the credit which was at the earliest received in 1999 because the interest rates before that period was more than 28% per year. The different interest rates are partly caused by the different interest rates applied by the project which changes the rates from time to time³² and partly caused by the decision made in every SHG on the interest rates applied to the credit of the individual entrepreneurs.

Tab. 11 Comparison of the Mean of the Amount of Credit Provided by USC-Satunama with Respect to Different Credit Tranches

	Received a one time credit	Received more than one time credit		
	Amount of credit	Amount of the first credit	Amount of the second credit	Amount of the third credit
Mean	Rp 618.421,05 (US\$ 74.5)	Rp 937.987,01 (US\$ 113)	Rp 1.426.973,68 (US\$ 171.9)	Rp 1.514.583,33 (US\$ 182.5)

Source: data collected through questionnaires.

The amount of credit ranged from Rp 75 thousands (US\$ 9) to Rp 12 millions (US\$ 1,445.7). The average for the amount of credit for those who only received a one time credit was Rp 618.421,05 (US\$ 74.5). The average for the amount of the first credit disbursed to the entrepreneurs was higher for those who received more than one time credit. In their case there was an increase of Rp 488.986,67 (US\$ 58.9) between the average of the first credit and the average of the second credit. The same happened to the third credit, the average was again higher than the second one. It suggested that the SHGs and entrepreneurs were gaining trust from the project over time, based on the performance of the repayment of the credit.

³¹ Only one entrepreneur indicated the interest rate of 28%.

³² See section 4.2.5.2.

The project does not disburse a big amount of money for the first credit but the amount increases significantly for the next credits.

However, the average of the amount of the first credit for those who received more than one time credit and those who only received a one time credit showed that the latter was lower. Based on the interview with the field officers, the project is very careful now in the disbursement of its credit. The project tends to carefully check the performance of the entrepreneurs and the SHGs in fulfilling their duty to payback the first credit. Once, they are able to perform the duty well, the project is ready to disburse a bigger amount of credit. It is supported by the fact that in the case of those who received credit more than one time, there was a significant increase of the amount of credit for the second time by 52.13%.

One respondent who received credit more than once could not remember the amount of money he/she received the second time.

Tab. 12 Comparison of the Mean of the Payback Period of Credit Provided by USC-Satunama with Respect to Different Credit Tranches

	Received a one time credit	Received more than one time credit		
	Payback period	Payback period of the first credit	Payback period of the second credit	Payback period of the third credit
Mean	11.21 months	11.28 months	11.38 months	12 months

Source: data collected through questionnaires.

The SHGs paid the installment every month to USC-Satunama within the periods of payment of 5, 6, 10, 12, or 15 months. On the average, the project applied a 12 months period of payment for all credits.

Is the Amount of Credit from USC-Satunama Enough to Fulfill the Needs of the Entrepreneurs for Financial Capital?

The entrepreneurs were asked to indicate whether they considered the amount of credit disbursed by the USC-Satunama project to be too much, sufficient, not enough, or far too little.

Tab. 13 Judging the Amount of Credit Provided by USC-Satunama

	Judgement on the amount of credit				Total
	Too much	Sufficient	Not enough	Far too little	
Number of entrepreneurs	0	57	34	4	95
Percent	0%	60%	35.8%	4.2%	100%

Source: data collected through questionnaires.

None of the entrepreneurs gave the answer that the amount was too much and two entrepreneurs did not provide an answer. 60% of the entrepreneurs considered it to be sufficient, 35.8% considered it to be not enough in the sense that the entrepreneurs still needed more money to be able to satisfy their needs of financial capital. 4.2% answered that the amount is far too little to help developing their business.

Tab. 14 Comparison of the Judgment of Entrepreneurs who Received a One Time and More than One Time Credit on the Amount of Credit Provided by USC-Satunama

	Judgement on the amount of credit				Total
	Too much	Sufficient	Not enough	Too little	
Received a one time credit					
Number of entrepreneurs	0	7	11	1	19
Received more than one time credit					
Number of entrepreneurs	0	50	23	3	76

Source: data collected through questionnaires.

A cross tabulation between the variable “the judgement concerning the amount of credit disbursed by the USC-Satunama project” and the variable “the frequency of credit received by the entrepreneurs” shows that the majority of those who received more than one time credit gave “sufficient” as the answer and the majority of those who received a one time credit were those who answered “not enough”. Hence, it indicates that the entrepreneurs require an increase in the amount and frequency of credit.

Does the Provision of Credit Help to Solve the Problems of the Entrepreneurs?

Sixty nine point eight percent (69.8%) of the entrepreneurs had access to credit from USC-Satunama and 48.1% had access to credit from other organizations. A

cross tabulation analysis helps to see the percentage of the entrepreneurs who received credit from any sources.

Tab. 15 Cross Tabulation between the Number of Entrepreneurs who Received Credit from the USC-Satunama Project and from Other Sources

		Credit received from other sources		Total
		Received	Not received	
Credit from the USC-Satunama project	Not received	14.8%	15.6%	30.4%
	Received	33.3%	36.3%	69.6%
Total		48.1%	51.9%	100%

Source: data collected through questionnaires.

Eighty four percent (84.4%) of the entrepreneurs received credit from USC-Satunama and/or other sources. There were 33.3% of the entrepreneurs who had access both from the USC-Satunama project and another source, 36.3% only from the project, 14.8% only from other sources, 15.6% did not receive any credit and 4 entrepreneurs did not provide an answer.

Although more than half of the entrepreneurs had access to financial capital, 67.7% of entrepreneurs still felt that they lacked access to financial capital. An analysis whether credit disbursed by other organizations met the need of the entrepreneurs of financial capital was not done because it was not in the scope of the study.

Tab. 16 Cross Tabulation between the Number of Entrepreneurs who Faced the Problem of Access to Financial Capital and Entrepreneurs who Received Credit from USC-Satunama

		Credit from USC-Satunama		Total
		Not received	Received	
Problem: access to financial capital	Yes	19.6%	48.1%	67.7%
	No	19.6%	21%	32.3%
Total		30.9%	69.1%	100%

Source: data collected through questionnaires.

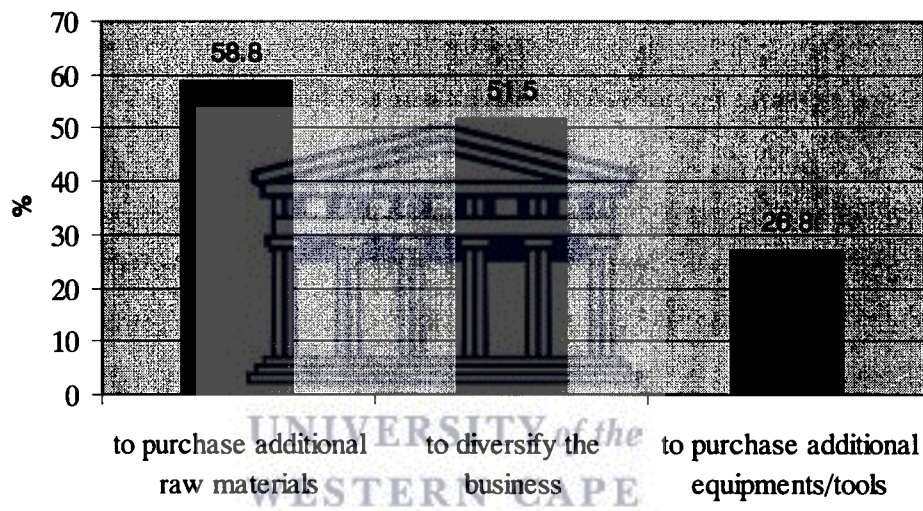
From the point of view of the USC-Satunama project, only 60% of the entrepreneurs who received credit from the project felt that the amount was sufficient while 40% considered it to be not enough and far too little.³³ The data derived from the analysis with a cross tabulation of the variable “the problem of access to financial capital” and the variable “the support received from the

³³ See table 13.

project: credit” show that 48.1% of those who received credit still felt they lacked access to financial capital. It can be explained that although they had access to financial capital from the project, the amount was not sufficient to fulfill their needs for financial capital. However, credit from USC-Satunama was able to help solving the need for financial capital of 21% of the entrepreneurs. There were 19.6% of the entrepreneurs who lacked access to financial capital and they did not receive any credit from the project.

What did the Target Groups Use the Credit Received for?

Fig. 13 The Use of the Credit



Source: data collected through questionnaires.

The answers to the question on the use of credit received from the USC-Satunama project indicated that around half of the entrepreneurs used the money to purchase additional raw materials in order to increase their production. However, at the same time, more than 50% of the entrepreneurs also used the money to diversify the business and 26.8% to maximize the production by buying additional equipments/tools/machineries to work.

Eleven entrepreneurs provided detailed information on how they used the credit. They used it to repair the stable and buy a computer, an iron, more sheep, and equipment for cooking. However, two entrepreneurs did not use the money

for the development of the business but to pay for the 'social cost' and to buy consumption goods.

There are at least three possible explanations why the entrepreneurs used the credit to buy additional raw materials. The first one is that the machineries owned by the entrepreneurs were underemployed. Hence, the entrepreneurs used the credit to buy additional raw materials to maximize the use of the machineries. This explanation may be true due to the data that 65.7% of the entrepreneurs faced the problem of high prices of raw materials.³⁴ It shows the fact that without the USC-Satunama project, the entrepreneurs did not produce at the maximum capacity because of the unavailability of financial capital to buy the necessary amount of raw materials. With the credit from the project, they were able to buy additional raw materials and hence the quantity of output increased which led to an increase of profits.³⁵

The theory assumed that the project provided long term credit for the entrepreneurs to purchase additional physical capital. However, the USC-Satunama credit is short term with an average payback period of twelve months.³⁶ Hence it cannot be expected that the credit was used to finance the purchase of additional machineries for production, rather, the credit was devoted to enable the entrepreneurs increasing the expenditure for raw materials to increase the revenue.

The second explanation is based on the fact that credit increased the overall budget of the entrepreneur. If the entrepreneur used the credit to buy additional raw materials, it set free his/her financial capital (without the credit) which may have been used for other purposes like to buy additional machinery. If the machineries owned have been used to maximum capacity, additional raw materials required additional machineries. However, as mentioned in section 2.1.2.2 that SMEs are labour intensive rather than capital intensive because labour is comparatively cheaper and more flexible (labourers can be easily hired and fired according to the business situation), the entrepreneurs preferred to employ

³⁴ See section 4.3.3.1.

³⁵ Referring to Figure 1 about the shift of production function, in this case the entrepreneur did not use a new production process by using more physical capital so that there was no shift of the curve of the production function upwards. Instead, the additional variable inputs increased the quantity of output which was represented by a movement on the curve upwards and to the right.

³⁶ See table 12.

more labourers than to purchase additional machinery. Eleven out of fifteen entrepreneurs who increased the number of labourers used their credit to purchase additional raw materials.

The third explanation is related to the character of the business of the entrepreneurs. Referring to the information on the business of the entrepreneurs in section 4.3.1.2, there were sixty three entrepreneurs (45.3%) who may not need additional machinery, but instead, it would be more profitable for them to increase the raw materials because their production process is quite simple. They were the ones who produced and sold herbal medicine and those in the trade and restaurant business.

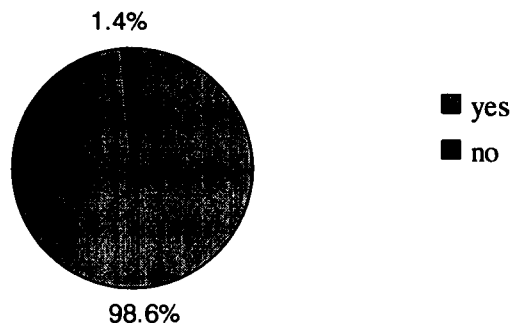
In the case of the target groups of the USC-Satunama project using the credit to purchase raw materials, there was no exact information available to find out which of these three explanations was right.

In the case the entrepreneurs used the credit to diversify their business there was no additional profit from the already established business. They realized profit from the new business which increased the overall profit realized by the entrepreneurs.

4.3.5 Benefits Received by the Beneficiaries of the Project

4.3.5.1 Development of the Business

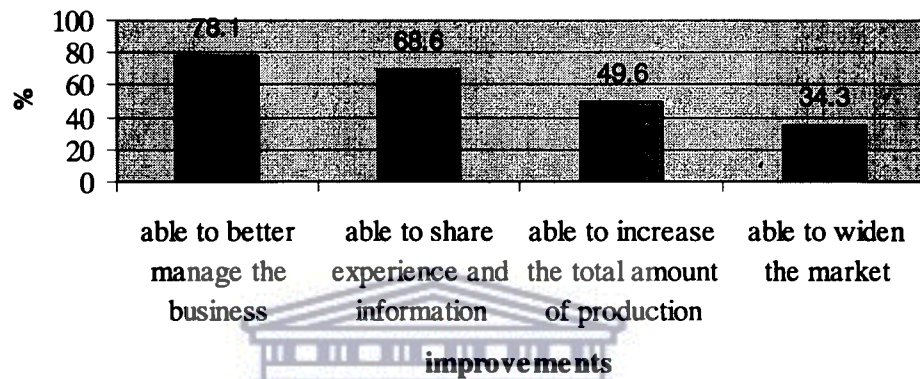
Fig. 14 Does the USC-Satunama Project Contribute to the Development of the Business?



Source: data collected through questionnaires.

On the question whether the USC-Satunama project contributes to the development of the business, 98.6% of the entrepreneurs gave a yes answer, 1.4% said no and one entrepreneur did not provide an answer. This gave an indication that the project contributed positively to the development of the business of the entrepreneurs which could lead to an increase of profits.

Fig. 15 Improvement in the Business Brought About by the USC-Satunama Project



Source: data collected through questionnaires.

In the next question, the entrepreneurs were asked a more specific question on the positive contributions brought about by the project to their business. The biggest contribution, felt by 78.1% entrepreneurs, was that they were able to better manage the business. Another positive contribution of the project was that 68.8% of the entrepreneurs were able to share experience and information with other entrepreneurs. In addition to the previous data in section 4.3.3.2 that 32.6% of the entrepreneurs found their business colleagues and associations provided support in case of facing problems in running the business, it indicates that the approach of the project to support the entrepreneurs through the SHG instead of individual enterprises is showing a positive result. The project is able to facilitate the cooperation and networking among the entrepreneurs. 49.6% of the entrepreneurs were also able to increase the total amount of production and 34.3% were able to extend the market to other areas.

Six entrepreneurs provided details of the development they realized since being assisted by the project. They included the ability to diversify their business,

to allocate the working hours effectively, to improve their knowledge and experience, to increase the quantity of products sold which lead to an increase in customers and profits, and to meet the consumer's demand and orders.

It has been discussed in section 4.3.1.4 that 71.9% of the entrepreneurs employed more than one person in the business. The question was whether the entrepreneurs increased the number of labourer(s) since receiving support from the USC-Satunama project. This will provide information on the contribution of the project to an increase of the number of labourer(s).

Tab. 17 Additional Number of Labourers with the Project

Number of additional labourers	Number of entrepreneurs		Additional labourers
	Frequency	Percent	
1	6	40	6
2	5	33	10
3	1	7	3
4	1	7	4
5	2	13	10
Total	15	100	33

Source: data collected through questionnaires.

For this question, twenty entrepreneurs did not provide the answer and hence there were twenty missing values. 14.3% of the entrepreneurs increased the number of labourer(s). 40% of them employed one more labourer, 33% employed two more labourers, and 27% employed three to five more labourers. Hence, support from the project enabled the entrepreneurs to create more employment for thirty three people.

4.3.5.2 Increase in the Profits

To find the information whether the USC-Satunama project brings about an increase or a decrease in the profits of the entrepreneurs, two questions were posed. The first one was concerned with the profits the entrepreneurs realized per month from the business without the USC-Satunama project and the second one was concerned with the profits realized with the USC-Satunama project.

The entrepreneurs were asked to provide the information about the profits they realized per month based on the following category of range of profit: *one* ranges from Rp 0 until less than Rp 300.000 (US\$ 36.1), *two* ranges from Rp 300.000 (US\$ 36.1) until less than Rp 600.000 (US\$ 72.3), *three* ranges from Rp 600.000

(US\$ 72.3) until less than Rp 900.000 (US\$ 108.4), *four* ranges from Rp 900.000 (US\$ 108.4) until less than Rp 1.200.000 (US\$ 144.6), *five* ranges from Rp 1.200.00 (US\$ 144.6) until less than Rp 1.500.000 (US\$180.7) and *six* ranges from Rp 1.500.00 (US\$180.7) until less than Rp 1.800.000 (US\$ 216.9).

More than half (51.8% or seventy two entrepreneurs) experienced an increase in their profits as the profits they realized with the project were in a higher range of profit than without the project. It is shown in the table below that the average of the profits realized with the project compared to that without the project showed a significant increase. The average of the profits without the project was Rp 438,000 (US\$ 55.8)³⁷ (average profit range=1.46) and the average with the project was Rp 978,000 (US\$ 117.8) (average profit range=2.63). Hence, there was an increase of profits by 123% and a shift in the range of profit from two to three.

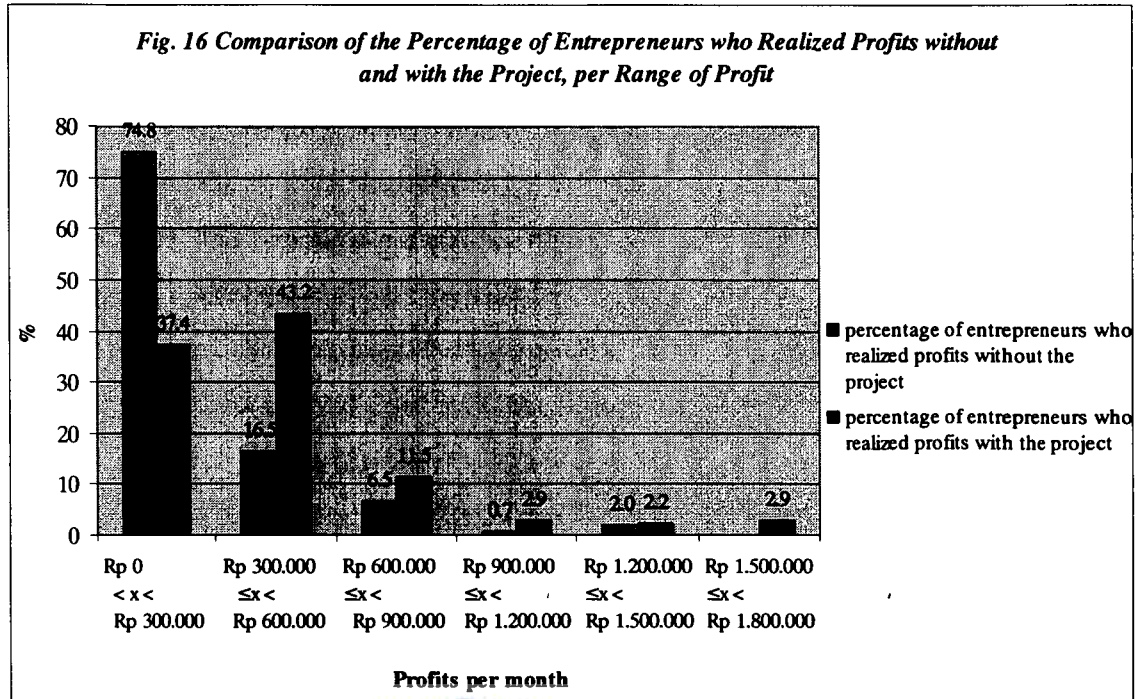
In general, taking into account all entrepreneurs, there was also an increase in the profits with the project which can be seen from the average of the profits. The average of the profits without the project was Rp 411,000 (US\$ 52.3)³⁸ (average profit range=1.37) and with the project it was Rp 594,000 (US\$ 71.6) (average profit range=1.98). Hence, there was an increase of profits by 45%. However, the increase did not move them to a higher range of profit.

There was a possibility that actually more than 51.8% of the entrepreneurs realized an increase in their profits. However, the method to use the range of profit prevented the researcher from finding out how many percent of the entrepreneurs realized an increase or a decrease in profits which happened in the same range of profit.³⁹ Hence, only 51.8% of the entrepreneurs were considered to experience an increase in profits. They were the entrepreneurs whose profits with the project were in a higher range of profit than without the project. Simultaneously, no entrepreneur experienced a decrease in profit because there were no entrepreneurs who experienced a decrease to the lower range of profit with the project.

³⁷ Based on exchange rate in 1999 US\$1 = Rp 7.855. See the explanation on Section 4.3.4.2 on "Terms of Credit".

³⁸ Ibid.

³⁹ See section 3.4.



Source: data collected through questionnaires.

The change in the profits of the entrepreneurs realized with the project can be seen clearly from the figure above. It shows a shift in the formation of the profits realized by the entrepreneurs without and with the USC-Satunama project. Without the project, the majority of the entrepreneurs realized profits below Rp 300.000 (US\$ 36.1) per month and only 2% was equal to or above Rp 1.200.000 (US\$ 144.6). With the presence of the project, the formation of the profits of the entrepreneurs changed. There were only 37.4% of the entrepreneurs who realized profits below Rp 300.000 (US\$ 36.1). 26.7% of the entrepreneurs were able to increase their profits to the range of profit from Rp 300.000 (US\$ 36.1) until less than Rp 600.000 (US\$ 72.3) and 5% to the range of profit from Rp 600.000 (US\$ 72.3) until less than Rp 900.000 (US\$ 108.4). 8% of the entrepreneurs realized profits above Rp 900.000 (US\$ 108.4) with the project while only 2.7% of the entrepreneurs realized the same profits without the project.

The following analysis was conducted to establish the types of support from the USC-Satunama project received by the entrepreneurs who realized increases in their profits.

Tab. 18 Cross Tabulation between the Number of Entrepreneurs who Received Credit from the USC-Satunama Project and Entrepreneurs who Realized Increases in Profits

		Profit per month		Total
		Not increased	Increased	
Credit from USC-Satunama	Received	27	70	97
	Not received	40	2	42
Total		67	72	139

Source: data collected through questionnaires.

All the entrepreneurs received training programs and technical assistance from the project, however, only 69.8% received credit. The data also show that 51.8% (72 entrepreneurs) experienced an increase in profits. An analysis with a cross tabulation between the variable “support received from USC-Satunama: credit” and the variable “entrepreneurs who increased the profits” shows that 97% (70 out of 72) of them received both training programs and/or technical assistance and credit while 3% who experienced increases in profits only received training programs and/or technical assistance. For those who did not increase the profits with the project, 60% (40 out of 67) did not receive any credit and 40% received credit. This indicates that combining training programs and/or technical assistance with credit will create a better effect than providing only training programs and/or technical assistance.

Training programs and/or technical assistance are expected to improve the productivity of the entrepreneurs so that with the same quantity of inputs, they can produce an additional quantity of output. Simultaneously, the increased productivity cannot be fully transformed into an increase of profits if there are no additional inputs added into the production process. Hence, credit is required to complement the improved productivity brought about by the training programs and/or technical assistance.

A correlation analysis is conducted to find out whether the change in the range of profit of the target groups correlates with the support provided by the USC-Satunama project. The first step is to identify whether there is a change in the range of profit realized by each entrepreneur with the project. If there is no change, it is coded with zero. If the entrepreneur increases the profit so that his/her profit moves one level higher than the range of profit without the project, it is coded with one. If the profit moves to two levels higher, it is coded with two, and so on. This new variable is named “the change in the range of profit”.

The second step is to code the support received by each entrepreneur. All entrepreneurs received training programs and/or technical assistance from the project and hence all entrepreneurs are coded with one for this type of support. With regard to the provision of credit, the entrepreneurs who did not receive any credit are coded with zero. Those who received a one time credit are coded with one and so on. The third step is to sum up the codes of each entrepreneur from these two types of support. The new variable is named the “total support provided by USC-Satunama”.

Tab. 19 Correlation between the Total Support Provided by the USC-Satunama Project and the Change in the Range of Profit

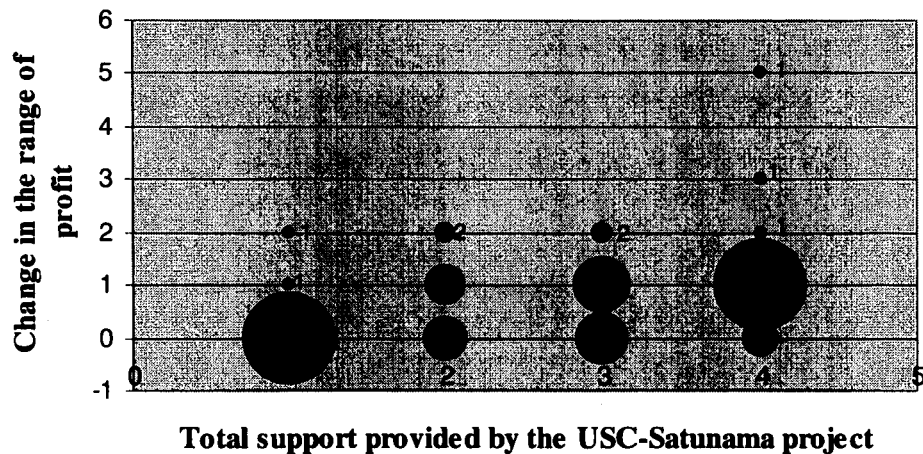
		Change in the range of profit	Total support provided by USC-Satunama
Spearman's rho	Change in the range of profit	Correlation Coefficient	.618*
		Sig. (2-tailed)	.000
		N	139
		Total support provided by USC-Satunama	.618*
Total support provided by USC-Satunama	Total support provided by USC-Satunama	Correlation Coefficient	1.000
		Sig. (2-tailed)	.000
		N	139
		N	139

** . Correlation is significant at the .01 level (2-tailed).

Source: data collected through questionnaires.

A Spearman correlation analysis was chosen because these two variables are ordinal. Table 19 shows that the error probability is computed to be equal or lower than 0.000 and hence the correlation coefficient is significant. The correlation coefficient is 0.618 which means that there is a positive correlation and the correlation is strong. Hence it can be interpreted that the more support provided by the USC-Satunama project, the higher the increase of the profits realized by the beneficiaries. Due to the fact that all entrepreneurs received training programs and/or technical assistance so that the support only differs in the provision of credit, the words “the more support from the USC-Satunama project” refers only to the increase in the frequency of disbursement of credit to the entrepreneurs.

Fig. 17 Chart of the Total Support Provided by the USC-Satunama Project and the Change in the Range of Profits of the Entrepreneurs



Source: data collected through questionnaires.

Using the range of profit, Figure 17 shows the tendency that the entrepreneurs realize increases in their profits when the support provided by the project is bigger. When only one support (training programs and/or technical assistance) was provided by the project, forty out of forty two entrepreneurs did not realize increases in their profits. When an additional assistance (plus one credit tranche) was provided, ten out of nineteen entrepreneurs increased their profits. When the entrepreneurs received two times a credit, seventeen out of twenty nine entrepreneurs realized increases of profits. In the case of three credit tranches provided, forty three out of forty nine entrepreneurs realized increases in their profits. Hence, the graph above shows clearly that the increase in the frequency of credit from the USC-Satunama project increases the profits of the entrepreneurs.

To see the significance of the contribution of the USC-Satunama project to development, the average percentage of the increases in the profits of the target groups with the project will be compared with the growth rates of the value added of the sectors they are belonging to at the national level. The value added consists of the components of wages, interest, and profit of the entrepreneurs (Samuelson, Nordhaus, 1998:759). There is no 100%-link between value added and the profit of the entrepreneurs. However, in the absence of other data sets, the value added will be used as proxy for the general performance of profits in the sector.

Tab. 20 Value Added of the Industry Sector and the Services Sector in Indonesia (1999-2002)

	Year				Average growth rates 2000-2002
	1999	2000	2001	2002	
GDP					
Current US\$	140,001,300,000	150,195,800,000	141,254,500,000	172,991,300,000	
Growth rates		7%	-5%	22%	8%
Industry, value added					
% of GDP	43%	46%	46%	44%	
Current US\$	60,200,559,000	69,090,068,000	64,977,070,000	76,116,172,000	
Growth rates		15%	-6%	17%	8.67%
Services, value added					
% of GDP	37%	37%	37%	38%	
Current US\$	51,800,481,000	55,572,446,000	52,264,165,000	65,736,694,000	
Growth rates		7%	-6%	26%	9%

Source: World Bank, World Development Indicators, website: <http://devdata.worldbank.org/data-query>.

The table above shows the value added of the industry sector and the services sector in Indonesia between 1999 and 2002. These two sectors are used for comparison because 54% of the target groups of the project are working in the services sector and 29% in the industry sector.

The average growth rate of the value added from 2000⁴⁰ to 2002 in the industry sector was 8.7% and in the services sector was 9%. Profits realized by the beneficiaries of the USC-Satunama project were increased by 45% from 1999⁴¹ until October 2003⁴² (the average increase was between 11.6% and 15% per year⁴³). Hence, it is concluded that in the absence of the complete data sets for 2003, the performance of the target groups of the USC-Satunama project was above the average of the performance of their sectors.

These results show the evidence that the contribution of the USC-Satunama project to help the entrepreneurs developing their business is significant. Using the increase of profits as yardstick to measure the success of the project, it

⁴⁰ The growth rate of the value added in 2000 is the percentage of the increase of the value added in 2000 over the value added of the previous year, 1999. The same way of calculation is true for the growth rate of the other years.

⁴¹ Table 18 indicated that 97% of the entrepreneurs who increased their profits received credit and the maximum interest rates paid by the entrepreneurs were 28% (see section 4.3.4.2 on the 'Terms of Credit') which suggested that the credits were at the earliest received in 1999.

⁴² October 2003 was the last month of the data collection.

⁴³ The calculation for profits realized by the beneficiaries of the project did not cover the whole year of 2003 as the study was conducted between August-October 2003.

is shown that by combining the two types of support to SMEs, i.e. training programs and technical assistance with credit, the project manages to help the beneficiaries of the project to realize an increase in their profits which is above the average profits made by the other entrepreneurs in the same sectors and hence improve their welfare.



Chapter 5

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

SMEs play an important role in the development in Indonesia from the point of view of employment creation and contribution to the GDP. However the contribution of SMEs to the GDP is comparatively lower than that of the big enterprises. Hence, development projects on strengthening SMEs are very important.

The USC-Satunama project is one of many projects aimed at strengthening SMEs which results in increasing the welfare of the entrepreneurs. By using an increase of profits as yardstick to measure the success of the project, it is found out that the project is able to help the entrepreneurs to increase their average profits by 45% from 1999 until October 2003. Comparing it with the growth rate of the value added in the services sector and industry sector at the national level which grew at the annual rates of 9% and 8.7%, it shows the evidence that the project is able to strengthen the entrepreneurs so that their performance is better than the performance of the sector they are belonging to.

From the organizational aspect, the USC-Satunama project was able to give a positive contribution to the development of the business of the entrepreneurs. With the project, 78% of the entrepreneurs were able to apply a better business management and around 50% were able to increase their production. Although the project did not provide a specific activity which directly addressed the problems of marketing, it helped 34% of the entrepreneurs to widen their market area. The project was also able to facilitate cooperation and networking among the entrepreneurs. This was supported by the result of the study that 69% of the entrepreneurs were able to share experience and information on their business and in the case of facing problems, 33% of the entrepreneurs found support from their business colleagues and associations.

From the point of view of job creation, the USC-Satunama project was able to help fifteen entrepreneurs to create more jobs for thirty three people. Hence, the

USC-Satunama project does not only contribute to improve the welfare of the entrepreneurs. In addition, the project helped to improve the welfare of thirty three people who were newly employed by the entrepreneurs as the result of the improvement in the business brought about by the project.

The above results confirm the hypothesis that the USC-Satunama project on strengthening SMEs brings about a positive contribution to development measured by the significant improvement of the welfare of the entrepreneurs and the labourers who were newly employed.

The USC-Satunama project combines the provision of training programs and technical assistance with the provision of credit. The analysis of the answers provided by the entrepreneurs in the questionnaires shows that combining these two types of support created a better result than training programs and technical assistance alone, measured by higher increases of profits. 97% of those who realized an increase in profits were those who received both types of support from the project. There is also a positive and strong correlation between total supports provided by the USC-Satunama project with the increase of profits of the entrepreneurs. As the quantity of support only differs in the provision and the frequency of credit, it is concluded that the provision of credit increases the profits of the entrepreneurs and the higher the frequency of credit is, the higher the profits realized by the entrepreneurs. Although improving human capital of the entrepreneurs through training programs and technical assistance is very important, the support in the form of training programs and technical assistance alone without being accompanied by support in the form of the provision of credit will not give a very significant contribution to improving the welfare of the entrepreneurs. Hence, it is confirmed that complementing training programs and technical assistance with credit makes a greater contribution to improving the welfare of the entrepreneurs than training programs and technical assistance alone.

5.2 Recommendations

The results of the study show that 67.7% of the entrepreneurs still lack access to financial capital and that the higher the frequency of credit, the higher the profits realized by the entrepreneurs. Hence, it is recommended that the project increases

the amount and frequency of credit provided to the target groups if they are applying the credit for profitable investments.

For some periods, the USC-Satunama project gave a subsidy to the entrepreneurs (when the inflation rates are concerned) by applying interest rates which were lower than the inflation rates. Simultaneously, the project's interest rates are always lower than the interest rates charged by the commercial banks. To enable the project to serve the purposes of a development project as well as raising funds for the organization, the interest rate charged to the target groups should be higher than the inflation rate but lower than the interest rate charged by the commercial banks. Hence, the project will be able to realize some profits and at the same time to help the entrepreneurs to access credit with moderate interest rates. The sustainability of the project is higher when it is able to raise funds to run its activities and continue providing services which address the needs of the beneficiaries.

The project shows a positive contribution to the entrepreneurs and hence it is also recommended to increase the number of SHGs being supported. However, the project must be aware that the approach to support the target groups closely through frequent visits to and dialogue with the SHGs requires the field officers to allocate a substantial amount of time to each SHG. If one field officer is responsible for too many SHGs, there is a danger that he/she will not be able to allocate enough time to every SHG anymore so that the quality of service provided could be reduced. Hence, the USC-Satunama project should keep the balance of the proportion of the number of field officers to the number of SHGs facilitated.

The cooperation and networking among the entrepreneurs which have already been established should be strengthened so that more sharing of information and experience for the development of the business can be facilitated. The implementation of assistance to the entrepreneurs to cope with problems in marketing has been started. In addition to the present effort from the USC-Satunama project to develop a market in Canada for the handicrafts produced by the entrepreneurs, it is also important to develop and strengthen the local market by making use of the networks which have been established.

The result of the study on the USC-Satunama project shows that integrating the support of training programs and technical assistance with the provision of credit creates a greater impact in improving the welfare of the entrepreneurs than training programs and technical assistance alone. Hence, it is recommended for projects on SMEs which only focus their activities on training programs and technical assistance to consider providing credit to the entrepreneurs in order to create a bigger impact. However, one should not simply adopt the same approach without doing a preliminary study on the economic and social background of the project area and the values held by the targeted beneficiaries.⁴⁴ The case that the USC-Satunama project in the province of East Nusa Tenggara does not provide a credit facility to the entrepreneurs is the outcome of an analysis that charity donations are still very dominant in that area and that the use of money is not as common as it is in the island of Java. A project which involves the provision of credit may as well not work in an area where the people reject the practice of paying interest on loans.

There are several other methods by which SMEs can be supported, e.g. direct support with the marketing of their products as well as support through influencing the government policies. These are equally as important as the provision of training programs, technical assistance and credit to the entrepreneurs which are analyzed in this mini-thesis. It would also be beneficial to have an analysis of the impact of other types of support on SMEs to complement this study. This could help to identify effective measures to strengthen the SMEs so that they can make the most of their potential to grow.

⁴⁴ Indonesia consists of more than 500 ethnic groups with correspondingly many different cultures. Development is highly concentrated on the western part of Indonesia, mainly on the island of Java where the study took place.

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APPENDICES

APPENDIX 1

**STRATEGIC PLANNING OF THE PROJECT
“LIVELIHOOD SECURITY THROUGH STRENGTHENING
ENTREPRENEURS IN THE INFORMAL SECTOR”⁴⁵
MAY 2003-APRIL 2004**

		Indicator
Impacts	Improved income security for villagers	% increase in households income or assets
	The role of money lenders in project locations is eliminated	% decrease in number of individuals borrowing money from money lenders
Outcomes	Increase in income from the income generating activities	# of persons who are able to diversify their source of income
	Increased capacity of individuals and groups	# of groups functioning well 95% of loan repayment rates
	Improved access to markets and bargaining position	10% increase in sale of members of SHGs
Outputs	Management skills are learned and used	90 persons (30 male and 60 female) receive trainings in Java. 120 persons (35 male and 85 female) receive training in Flores.
	Improved skills and knowledge of their business	150 people (100 female and 50 male) receive training
	Increased number and improved quality of cooperatives and SHGs	36 groups (Java) and 2 groups (Flores) receive training and consultation. 17 SHGs (15 in Java and 2 in Flores) reached Advanced level 21 groups reach Intermediate levels in Java 5 SHGs (3 in Java and 2 in Flores) reach Beginners level
	Improved management skills for board members of the cooperatives and SHGs	Availability of monthly board meeting. Availability of financial and progress report activities.
	Improved access to credit with low interest rate for income generating activities	300 people (100 male and 200 female) in 15 SHGs groups receive credit.
	Enlarge the number of SHGs and increase their savings and credit exists	Additional 10 SHGs and the size of savings and credit
	Improve the performance to an effective and efficient administration	15 SHGs receive administrative tools and know how to use them
	Improved access to low price imported goods used in the income generating activities	Availability of local institutions which engage in the community to manage the business

⁴⁵ USC-Satunama, project file: Strategic Planning for May 2003-April 2004.

	Improve access to a stable price for local commodities	At least 0.75 ton of 7 local products sold out through marketing activities
Activities	Providing Accounting and Household Economy training programs for SHGs	Management training program: 3 times for 90 people in Java and 2 times for 60 people in Flores are run Household Economy training program: 2 times in Java for 30 couples and 2 times in Flores
	Conducting Small Scale Business training	3 times for 90 people are run in Java
	Conducting evaluation and planning for SHGs	2 times evaluation and planning meetings for 25 SHGs for 75 people in Java are run
	Providing training programs and technical assistance for SHGs	The field officers visit 38 SHGs in Java at the minimum twice a month
	Providing credit for SHGs	850 members of SHGs (800 in Java and 50 in Flores) receive credit
	Providing SHGs the administrative tools as available for cooperatives	The administrative tools are available and being used
	Facilitating collective marketing	Facilitation is conducted in 5 communities in Banjaroya in Java and Cooperative Galekat Lewo and SHG Dawata'a in Flores

Risk and assumptions⁴⁶:

- a. Internal: The coverage area is too large for the present number of field officers, which might cause difficulties to monitor activities and results/ achievements.
- b. External: There is a possibility that local government institutions involved in the formation of Village Parliaments will try to push their own agenda (over the community agenda). Other potential risks include political instability leading up to the 2004 national election, and possibly a change in government and working relationship with NGOs, as well as risk of natural disasters (earthquakes, floods, drought).

⁴⁶ USC-Satunama, project file: Strategic Planning for May 2003-April 2004.

APPENDIX 2

QUESTIONNAIRE

Please indicate your social data

1. Sex: Male (1) Female (2)
2. Age: _____ years old
3. Marital status: Single (1) Married (2) Widow/Widower (3)
4. Member of immediate family being supported: _____ persons
5. Your last formal education:
 No formal education (1) Academy (D1, D2, D3) (5)
 Elementary school (2) S1 (undergraduate study) (6)
 Junior high school (3) S2 (post graduate study) (7)
 High school (4)
6. District of residence:
 Sleman (1) Bantul (3) Kulon Progo (5)
 Gunung Kidul (2) Kotamadya Yogyakarta (4)

Characteristics of Your Business

7. Please specify your business: _____
8. When did you start your present business? _____ year(s) ago
9. How many people (including yourself) are working in your business now?
_____ person(s)

Problems and Supports

10. Please identify the problems in your business (you may choose more than one option)
 Access to financial capital (1)
 Access to better skill and knowledge, e.g. training/technical assistance (2)
 Access to market information and technology (3)
 Other (9), please specify: _____
11. Who assists you when you face problems in the business?
 Solved internally (1) Government (4)
 Family and friends (2) NGOs, e.g USC-SATUNAMA (5)
 Business colleague or association (3)

12. What kind of support did you receive from USC-SATUNAMA? (you may choose more than one option)

- Training program/technical assistance (1) Credit (2)

13. Which training program/technical assistance did you receive from USC-SATUNAMA? (you may choose more than one option)

- Management (1) Marketing (3)
 Production Techniques (2) Accounting (4)
 Others (9), please specify: _____

14. How do you find the training program/technical assistance to be for your business?

- Very useful (1) Useful (2) Less useful (3) Not useful (4)

15. Do the topics of the training program/technical assistance provided by USC-SATUNAMA meet your need for additional skills and knowledge to develop your business?

- Yes, very relevant (1) Yes, but not enough (2) Not relevant (3)

16. What kind of training/technical assistance do you expect to receive in the future?

- Management (1) Marketing (3)
 Production Techniques (2) Accounting (4)
 Others (9), please specify: _____

17. Did you also receive training program/technical assistance from other institutions/organisations?

- No (2) Yes (1) → Please specify, by which organisation: _____

18. a. Did you receive credit also from other institutions/organisations?

- No (2) Yes (1)

b. If yes, please specify the source:

- Credit from family and friends (1)
 Credit from formal financial institutions, e.g. bank (2)
 Credit from money lenders (3)
 Credit from other NGOs (4)

19. Did you receive a credit only once from USC-SATUNAMA?

- No (2) Yes (1)

If yes, please indicate the credit amounts and the payback conditions:

a. The amount of the credit: Rp _____

b. The payback period: _____ years

c. The interest rate: _____ % per year

20. Did you receive more than a one time credit from USC-SATUNAMA?

No (2) Yes (1)

21. **If yes, please indicate the credit amounts and the payback conditions:**

a. Credit 1:

Amount: Rp _____ payback period: _____ years, interest rate: _____ % per year

b. Credit 2:

Amount: Rp _____ payback period: _____ years, interest rate: _____ % per year

c. Credit 3:

Amount: Rp _____ payback period: _____ years, interest rate: _____ % per year

22. What did you use the credit received for? (you may choose more than one option)

Purchasing additional equipments/ tools/ machinery to work (1)

Purchasing additional raw materials to optimise production (2)

Diversifying the business (3)

Others (9), please specify: _____

23. What do you think about the amount of credit provided by USC-SATUNAMA in relation to your need for financial assistance?

Too much (1) Sufficient (2) Not enough (3) Far too little (4)

24. Does the USC-SATUNAMA project contribute to the improvement of your business?

No (2) Yes (1)

25. **If yes, what kind of improvement brought about by the USC-Satunama project? (you may choose more than one option)**

Able to better manage the business (1)

Able to increase total amount of production (2)

Able to share experience and information with the other entrepreneurs (3)

Able to widen the market (4)

Others (9), please specify: _____

26. What are the factors negatively influencing your business?
- Lack of access to the raw materials (1)
 - The high price of the raw materials (2)
 - Not conducive government policies and regulations (3)
 - Tough competition with the bigger enterprises (4)
 - Others (9), please specify _____
27. Is there any additional labourer you employ since receiving support from USC-SATUNAMA?
- No (2) Yes (1) → How many more? _____ labourer(s)
28. How much profit did you realise per month from your business **without** the USC-SATUNAMA assistance?
- Rp 0 until less than Rp 300.000 (1)
 - Rp 300.000 until less than Rp 600.000 (2)
 - Rp 600.000 until less than Rp 900.000 (3)
 - Rp 900.000 until less than Rp 1.200.000 (4)
 - Rp 1.200.000 until less than Rp 1.500.000 (5)
29. How much profit do you realise per month from your business **with** the USC-SATUNAMA assistance?
- Rp 0 until less than Rp 300.000 (1)
 - Rp 300.000 until less than Rp 600.000 (2)
 - Rp 600.000 until less than Rp 900.000 (3)
 - Rp 900.000 until less than Rp 1.200.000 (4)
 - Rp 1.200.000 until less than Rp 1.500.000 (5)
 - Rp 1.500.000 until less than Rp 1.800.000 (6)
30. What was the principal source of money to start your business?
- Personal savings (1)
 - credit (2)

APPENDIX 3

SELECTED DATA ON THE ANSWERS GIVEN BY THE SAMPLE OF THE TARGET GROUPS OF THE USC-SATUNAMA PROJECT TO THE QUESTIONNAIRES

List of Names of Variables and the Codes

Name of variables	Label	Codes	
		Code	Code label
NO	Number		
BUSS	Type of business		
BUSSGRP	Business group based on six sectors		
EMPLY	Number of laborers		
		99	Not available
QUES10A	Problem in business: access to financial capital	1	Yes
		2	No
		99	Not available
QUES10B	Problem in business: access to better skills and knowledge	1	Yes
		2	No
		99	Not available
QUES10C	Problem in business: access to market information and technology	1	Yes
		2	No
		99	Not available
QUES12A	Support received from USC-Satunama: trainings and technical assistance	1	No
		2	Yes
		99	Not available
QUES12B	Support received from USC-Satunama: credit	1	No
		2	Yes
		99	Not available
QUES13A	Training programs/technical assistance received: Management	1	Yes
		2	No
		99	Not available
QUES13B	Training programs/technical assistance received: Production Technique	1	Yes
		2	No
		99	Not available
QUES13C	Training programs/technical assistance received: Marketing	1	Yes
		2	No
		99	Not available
QUES13D	Training programs/technical assistance received: Accounting	1	Yes
		2	No
		99	Not available
QUEST14	The usefulness of training programs/technical assistance	1	Very useful
		2	Useful
		3	Less useful
		4	Not useful
		99	Not available
QUEST15	Do the topics of the training programs/technical assistance meet your need?	1	Yes, very relevant
		2	Yes, but not enough
		3	Not relevant
		99	Not available
QUES16A	Training programs/technical assistance expected: Management	1	Yes
		2	No
		99	Not available
QUES16B	Training programs/technical assistance expected: Production Technique	1	Yes
		2	No
		99	Not available
QUES16C	Training programs/technical assistance expected: Marketing	1	Yes
		2	No

		99	Not available
QUES16D	Training programs/technical assistance expected: Accounting	1	Yes
		2	No
		99	Not available
QUEST19	Received a one time credit from USC-Satunama	1	Yes
		2	No
		99	Not available
QUEST20A	The amount of credit		
		99	Not available
QUEST20B	The payback period in months		
		99	Not available
QUEST20C	The interest rates		
		99	Not available
QUEST21	Receive more than one time credit from USC-Satunama	1	Yes
		2	No
		99	Not available
QUEST22A1	The amount of credit 1		
		99	Not available
QUEST22A2	The payback period 1 in months		
		99	Not available
QUEST22A3	The interest rates 1		
		99	Not available
QUEST22B1	The amount of credit 2		
		99	Not available
QUEST22B2	The payback period 2 in months		
		99	Not available
QUEST22B3	The interest rates 2		
		99	Not available
QUEST22C1	The amount of credit 3		
		99	Not available
QUEST22C2	The payback period 3 in months		
		99	Not available
QUEST22C3	The interest rates 3		
		99	Not available
QUES23A	The use of credit: to purchase additional equipment/tools/machinery	1	Yes
		2	No
		99	Not available
QUES23B	The use of credit: to purchase additional raw materials	1	Yes
		2	No
		99	Not available
QUES23C	The use of credit: to diversify business	1	Yes
		2	No
		99	Not available
QUEST24	Opinion on the amount of credit from USC-Satunama	1	Too much
		2	Sufficient
		3	Not enough
		4	Too little
		99	Not available
QUEST25	Does USC-Satunama project gives contribution for business development?	1	Yes
		2	No
		99	Not available
QUES26A	Development: able to manage the business better	1	Yes
		2	No
		99	Not available
QUES26B	Development: able to increase total amount of production	1	Yes
		2	No
		99	Not available
QUES26C	Development: able to share experience and information with other entrepreneurs	1	Yes
		2	No
		99	Not available

QUES26D	Development: able to widen the market	1	Yes
		2	No
		99	Not available
QUES27A	Factors negatively influence the business: lack of access to raw materials	1	Yes
		2	No
		99	Not available
QUES27B	Factors negatively influence the business: the high price of raw materials	1	Yes
		2	No
		99	Not available
QUES27C	Factors negatively influence the business: government policies and regulations	1	Yes
		2	No
		99	Not available
QUES27D	Factors negatively influence the business: tough competition with the bigger enterprises	1	Yes
		2	No
		99	Not available
QUEST28	Do you add the number of labourers?	1	Yes
		2	No
		99	Not available
YES28	How many more labourers?		
		99	Not available
QUEST29	Profit per month without the USC-Satunama's assistance	1	Rp 0 until less than Rp 300.000
		2	Rp 300.000 until less than Rp 600.000
		3	Rp 600.000 until less than Rp 900.000
		4	Rp 900.000 until less than Rp 1.200.000
		5	Rp 1.200.000 until less than Rp 1.500.000
		99	Not available
QUEST30	Profit per month with the USC-Satunama's assistance	1	Rp 0 until less than Rp 300.000
		2	Rp 300.000 until less than Rp 600.000
		3	Rp 600.000 until less than Rp 900.000
		4	Rp 900.000 until less than Rp 1.200.000
		5	Rp 1.200.000 until less than Rp 1.500.000
			Rp 1.500.000 until less than Rp 1.800.000
		99	Not available
PROFITCG	Change in the range of profit		
TRAINCOD	Code (training programs/technical assistance)		
CREDTCOD	Code (credit)		
SPTCODE	Total support provided by the USC-Satunama project		

Selected Data from the Answers to the Questionnaires

No	Buss	Bussgrp	Empl	Ques10a	Ques10b
1	Carpenter	2	4	1	1
2	Bamboo handicraft	3	2	1	1
3	Bridal salon	6	3	2	1
4	Bridal salon and hair dress	6	4	2	1
5	Basic comodities retailer	4	2	1	1
6	Bridal salon	6	1	2	1
7	Food production-soya souce	3	5	1	1
8	Tile production	3	5	1	2
9	Food production-kripi belut	3	3	1	2
10	Assistant in a bridal salon	6	1	2	2
11	Bamboo handicraft-besek	3	2	1	1
12	Selling tobacco	4	1	1	2
13	Bridal salon	6	6	1	2
14	Traditional medicine producer and seller	3	2	2	2
15	Raising sheep	1	2	2	1
16	Basic commodities retailer	4	1	1	1
17	Bridal salon and hair dress	6	4	1	2
18	Small trading	4	2	1	1
19	Food catering	4	15	1	2
20	Traditional herbal medicine producer and seller and sheep and cow raising	3	2	2	2
21	Traditional herbal medicine producer and seller	3	2	2	2
22	Traditional herbal medicine producer and seller and sheep and cow raising	3	2	2	2
23	Selling rice	4	2	1	1
24	Running a small cafeteria	4	2	1	2
25	Bridal salon and hair dress	6	3	1	2
26	Bridal salon	6	4	1	2
27	Bamboo handicraft	3	4	1	1
28	Small trading	4	2		
29	Running a small cafeteria	4	2	2	1
30	Bridal salon and hair dress	6	5	2	1
31	Raising sheep	1	1	1	1
32	Running a small cafeteria	4	1	1	1
33	Traditional herbal medicine producer and seller, vegetable seller, and sheep raising	3	1	2	2
34	Selling vegetables	4	1	1	2
35	Raising sheep	1	1	2	2
36	Running a small cafeteria	4	1	1	1
37	Running a small cafeteria	4	2	1	2
38	Traditional herbal medicine producer and seller and sheep and cow raising	3	2	2	2
39	Bamboo handicraft	3	1	1	1
40	Trading sheep and cow	4	1		
41	Selling vegetables	4	1	1	2
42	Traditional herbal medicine producer and seller, vegetable seller, and sheep raising	3	2	2	2
43	Selling food	4	1	1	2
44	Running a small cafeteria	4	1	1	1
45	Small trading	4	1	1	1
46	Selling food	4	2		
47	Small trading	4	1		
48	Selling vegetables	4	1	1	1
49	Machine reparation and gasoline retailer	6	2	1	2

Ques10c	Ques12a	Ques12b	Ques13a	Ques13b	Ques13c	Ques13d	Ques14	Ques15	Ques16a
2	2	2	1	2	2	1	1	2	1
1	2	1	99	99	99	99	1	1	2
2	2	2	1	2	2	1	2	1	2
1	2	1	1	2	2	2	1	1	2
1	2	2	1	2	2	1	2	2	2
2	2	2	1	2	2	1	2	1	2
2	2	1	2	2	2	1	2	1	2
1	2	2	1	2	2	1	2	3	2
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2	2	2	1	2	2	1	1	2	2
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1	2	2	1	2	1	2	2	2	2
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2	2	2	1	1	2	1	1	1	2
1	2	1	2	2	2	2	1	1	2
2	2	2	1	2	1	1	1	1	1
2	2	2	2	2	2	1	1	2	2
1	2	2	1	2	2	2	1	1	2
2	2	2	1	2	2	1	1	2	2
2	2	2	1	1	2	1	1	1	2
2	2	2	1	2	2	1	1	2	2
1	2	2	1	2	2	1	1	2	2
2	2	2	2	2	2	1	2	2	1
1	2	2	1	2	2	1	1	2	2
1	2	1	99	99	99	99	99	99	2
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1	2	2	1	2	1	1	1	2	2
1	2	1	99	99	99	99	1	1	2
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1	2	2	1	2	2	1	2	2	2
2	2	2	1	2	2	1	2	2	2
1	2	2	1	2	2	1	2	2	2
	2	2	1	2	2	1	99	1	2
	2	2	2	2	2	1	1	1	2
2	2	2	1	2	1	1	2	2	2
2	2	2	1	2	1	1	2	2	2
1	2	2	1	2	2	1	2	2	2
2	2	2	1	2	2	1	2	2	2
2	2	2	1	2	1	2	2	2	2

Ques16b	Ques16c	Ques16d	Ques19	Ques20a	Ques20b	Ques20c	Ques21	Ques22a1	Ques22a2
1	1	1	1	750000	10	15	2		
1	1	2	2				2		
2	1	2	2				1	600000	10
2	1	1	2				2		
1	1	2	2				1	1700000	10
2	1	2	2				1	600000	10
1	1	2	2				2		
1	1	2	2				1	1000000	10
1	1	2	2				1	600000	10
1	2	2	2				1	600000	10
1	2	2	2				2		
1	1	2	2				1	700000	10
2	2	1	2				1	600000	10
2	1	2	2				1	850000	12
1	2	2	2				2		
1	2	2	2				1	750000	10
2	2	1	2				1	600000	10
2	1	1	2				1	2000000	15
1	2	2	2				1	12000000	10
2	1	2	2				1	1000000	12
2	1	2	2				1	800000	12
2	1	2	2				1	800000	21
1	1	2	2				1	250000	10
1	2	2	2				1	400000	10
2	2	1	1	500000	10	21	2		
2	1	1	2				1	1000000	10
1	1	2	2				2		
1	2	2	2				1	2000000	15
2	2	1	1	1000000	10	21	2		
2	2	1	2				1	1000000	10
1	1	2	2				2		
2	1	2	2				1	500000	10
2	1	2	2				1	900000	12
1	1	2	2				1	300000	10
2	1	2	2				1	300000	10
1	2	2	2				1	300000	10
1	1	2	1	200000	12	21	2		
2	1	2	2				1	500000	12
1	1	2	2				2		
2	1	2	2				1	500000	12
1	1	2	1	300000	12	21	2		
2	1	2	2				1	1000000	12
1	1	2	2				1	500000	10
1	1	2	1	500000	10	21	2		
1	1	2	1	500000	12	21	2		
2	2	1	2				1	1000000	15
1	2	2	2				1	500000	10
1	2	1	2				1	500000	10
2	1	2	2				1	700000	10

Ques22a3	Ques22b1	Ques22b2	Ques22b3	Ques22c1	Ques22c2	Ques22c3	Ques23a	Ques23b	Ques23c
							1	1	1
18	1000000	10	21				1	2	2
21	1500000	12	21				2	1	1
18	1000000	10	21				1	2	1
18	1000000	10	18	1500000	10	21	2	1	2
24	500000	10	18				1	2	2
18	800000	10	21				1	2	2
21	700000	12	21				2	1	2
18	1000000	10	21				2	2	1
18	700000	12	21				2	1	2
18	750000	10	18	750000	10	18	2	1	2
18	1600000	99	21				1	2	2
24	99	6	18	99	99	21	2	2	1
18	12000000	10	18	5000000	10	18	1	2	2
18	1000000	12	18	700000	12	21	2	1	2
18	1000000	12	18	1500000	12	21	99	99	99
18	900000	12	18	800000	12	21	2	2	1
18	750000	10	18	1000000	10	18	2	1	1
18	750000	10	18	750000	10	18	2	1	1
							1	2	2
18	2000000	10	21				2	2	1
24	3000000	10	18	1000000	10	21	2	1	2
							1	2	1
18	2000000	10	21				1	2	2
21	500000	12	21				2	1	2
18	1000000	12	18	100000	12	21	2	1	1
21	300000	12	21				2	1	1
21	300000	12	21				1	1	2
21	400000	12	21				2	1	1
							2	1	1
9	1000000	12	18	2700000	12	21	2	1	2
9	1000000	12	18	1500000	12	21	2	2	1
							2	1	2
18	1500000	12	21	1500000	12	21	2	1	1
21	300000	12	21				2	1	1
							2	1	1
24	1000000	10	21	3000000	10	21	1	2	2
24	400000	6	28	1000000	10	21	1	2	2
21	300000	12	21				2	1	2
21	750000	12	21				1	1	2

Ques24	Ques25	Ques26a	Ques26b	Ques26c	Ques26d	Ques27a	Ques27b	Ques27c	Ques27d
4	1	1	1	1	1	2	2	2	1
	1	1	1	1	1	2	1	2	2
3	1	1	2	2	2	2	1	2	2
	1	1	2	1	1	2	2	2	1
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3	1	1	1	1	2	2	1	1	1
3	1	1	1	1	2	2	1	2	1
99	1	1	2	2	1	99	99	99	99
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2	1	2	1	2	1	2	1	2	2

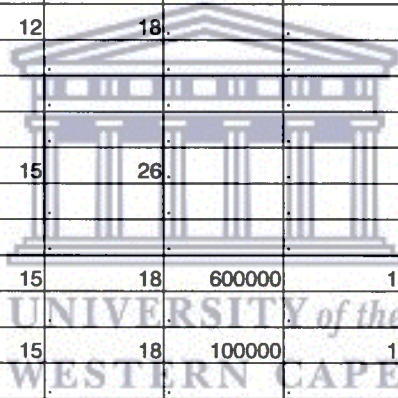
Ques28	Yes28	Ques29	Ques30	Profitcg	Traincod	Credtcod	Sptcode
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2		3	3	0	1	2	3
1	2	4	6	2	1	0	1
2		2	3	1	1	2	3
2		3	3	0	1	2	3
2		2	2	0	1	0	1
2		1	1	0	1	3	4
1	2	1	2	1	1	2	3
2		1	2	1	1	2	3
99		1	1	0	1	0	1
2		1	2	1	1	2	3
2		5	6	1	1	2	3
2		1	2	1	1	2	3
1		1	1	0	1	0	1
2		1	2	1	1	3	4
2		2	3	1	1	2	3
2		1	2	1	1	3	4
2		2	5	3	1	3	4
2		1	2	1	1	3	4
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2		1	1	0	1	3	4
2		1	2	1	1	3	4
2		1	1	0	1	3	4
2		1	2	1	1	1	2
2		2	4	2	1	2	3
99		1	1	0	1	0	1
2		3	4	1	1	3	4
2		1	1	0	1	1	2
2		5	6	1	1	2	3
99		1	1	0	1	0	1
2		1	1	0	1	2	3
2		1	2	1	1	3	4
2		1	2	1	1	2	3
2		1	1	0	1	2	3
2		1	1	0	1	1	2
2		1	2	1	1	3	4
99		1	1	0	1	0	1
2		1	2	1	1	3	4
2		1	1	0	1	1	2
2		1	2	1	1	3	4
2		1	1	0	1	1	2
2		2	2	0	1	1	2
99		2	3	1	1	3	4
2		1	2	1	1	3	4
2		1	1	0	1	2	3
1	1	1	2	1	1	2	3

50	Motorbike transportation	5	1	2	1
51	Running a small cafeteria	4	2	2	1
52	Farmer	1	2	2	2
53	Basic commodities retailer	4	2	1	2
54	Traditional herbal medicine producer and seller, vegetable seller, and sheep raising	3	2	2	2
55	Tellecommunication service	5	2	1	2
56	Sewer	6	4	1	2
57	Sewer	6	1	2	1
58	Small trading	4	2	1	2
59	Traditional herbal medicine producer and seller, vegetable seller, and sheep raising	3	1	2	2
60	Service	6	3	1	2
61	Carpenter	2	5	2	1
62	Bridal salon and hair dress	6	3	2	1
63	Raising and breeding cow	1	2	1	1
64	Food production and production of bed	3	1		
65	Traditional herbal medicine producer and seller and sheep raising	3	2	2	2
66	Traditional herbal medicine producer, vegetable and clothes seller	3	2	2	2
67	Traditional herbal medicine producer and seller and sheep raising	3	1	2	2
68	Raising sheep	1	2	1	1
69	Running a small cafeteria	4	6	2	1
70	Raising cattle	1	2	1	2
71	Raising sheep	1	2	1	1
72	Farmer	1	2	1	2
73	Handicraft	3	15	1	1
74	Raising cattle	1	2	1	1
75	Handicraft and raising and breeding sheep	3	3	2	1
76	Raising chicken	1	1		
77	Small trading	4	1	1	2
78	Running a small cafeteria and kiosk	4	6	1	2
79	Small trading	4	3	1	2
80	Raising and breeding sheep	1	3	1	1
81	Sound system rental	6	4	1	2
82	Selling chicken meat	4	3	1	1
83	Running a small cafeteria	4	5	1	2
84	Fishery	1	4	1	2
85	Small trading	4	2	1	2
86	Hand tractor	6	4	2	1
87	Running a small cafeteria	4	3	1	1
88	Selling food-tempe	4	2	1	1
89	Tile production	3	4	1	1
90	Handicraft	3	1	2	1
91	Selling lobster	4	1	1	1
92	Garage shop for bycycle	6	2	1	2
93	Hair dress and tellecommunication service	6	2	1	2
94	Raising and breeding sheep	1	2	1	1
95	Sablon	6	2	1	2
96	Running a small cafeteria	4	2	1	1
97	Food production-salted eggs	3	3	1	2
98	Basic commodities retailer	4	2	1	2
99	Raising cattle and farming	1	2	1	2
100	Sewer	6	1	2	1

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102	Tile production	3	3	1	1
103	Handicraft and raising sheep	3	3	1	2
104	Trading sheep	4	1	1	2
105	Basic commodities retailer	4	1	1	1
106	Service	6	2	1	1
107	Selling vegetables	4	1	1	1
108	Traditional herbal medicine producer and seller and sheep raising	3	2	2	2
109	Bamboo handicraft	3	30	1	1
110	Raising and breeding sheep	1	2	1	1
111	Raising and breeding cattle	1	1	2	1
112	Bamboo handicraft	3	5	1	1
113	Sound system rental and entertainer	6	3	1	2
114	Selling food	4	2	2	1
115	Traditional herbal medicine producer and seller and sheep raising	3	2	2	2
116	Running a small cafeteria	4	1	1	1
117	Tile production	3	2	2	1
118	Garage shop	6	10	1	1
119	Tile production	3	3	1	2
120	Small trading	4	1	1	1
121	Tile production	3	6	1	2
122	Sewer	6	2	1	1
123	Selling meat	4	2	1	2
124	Garage shop	6	3	1	1
125	Bamboo handicraft	3	4	1	2
126	Fishery	1	13	1	1
127	Farming	1	1	1	1
128	Raising and breeding cow	1	2	2	1
129	Raising birds	1	2	1	2
130	Traditional herbal medicine producer and seller and sheep raising	3	2	2	2
131	Traditional herbal medicine producer and seller, vegetable seller, and sheep raising	3	2	2	2
132	Handicraft from mendong	3	1	2	1
133	Raising and breeding duck	1	2	1	1
134	Telecommunication service	5	2	2	2
135	Raising and breeding cows and farming	1	2	1	1
136	Handicraft	3	1	2	1
137	Small trading	4	2	1	2
138	Running a kiosk and raising and breeding chicken	4	2	2	1
139	Basic commodities retailer	4	1	1	2

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	1	2	1	1	2	2	1	1	2
3	1	1	1	1	1	2	2	1	2
	1	1	2	2	2	2	1	2	1
2	99					2	2	2	1

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2		1	1	0	1	2	3
2		1	2	1	1	3	4
99		1	1	0	1	0	1
2		1	2	1	1	1	2
2		1	2	1	1	3	4
2		1	2	1	1	1	2
2		1	1	0	1	0	1
2		1	2	1	1	1	2
99		1	1	0	1	0	1
1		1	2	1	1	0	1
2		1	1	0	1	0	1
99		1	1	0	1	0	1
2		1	1	0	1	0	1
2		1	2	1	1	1	2
2		1	2	1	1	3	4
2		1	1	0	1	2	3
99		1	1	0	1	0	1
1	5	3	5	2	1	2	3
99		3	3	0	1	0	1
2		1	2	1	1	3	4
2		1	2	1	1	3	4
2		3	3	0	1	0	1
2		1	2	1	1	3	4
1	2	2	3	1	1	3	4
2		1	1	0	1	1	2
2		1	1	0	1	1	2
2		1	1	0	1	0	1
2		1	1	0	1	0	1
2		1	1	0	1	2	3
2		1	2	1	1	3	4
2		1	2	1	1	3	4
2		1	1	0	1	0	1
99		2	2	0	1	0	1
2		1	2	1	1	3	4
99		1	1	0	1	0	1
2		1	1	0	1	0	1
2		2	3	1	1	1	2
2		1	1	0	1	0	1
2		1	1	0	1	1	2

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