

## **Sustainable Practice of Revolving Fund Program: An Effort to Empower Small and Medium Enterprises (SMEs) in Indonesia**

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### **ABSTRACT**

*One of the efforts developed by the government in optimizing and developing the potential of the region by creating, driving, and encourage the presence of Small and Medium Enterprises (SMEs). In connection with these efforts, the Indonesian government through the provision of capital assistance to facilitate SMEs by creating a revolving fund program. The fund of this program allocated by the Ministry/Agency/Unit General Services Agency for the strengthening of venture capital for cooperatives, micro, small, medium, and other efforts under the guidance of State Ministries/Institutions (Ministry Decree No. 218/PMK.5/2009). By the help of a revolving fund is expected to be able to help strengthen the working capital needed to empower SMEs, increase economic activity, increase the business volume of SMEs, and improve employment and increase the spirit of entrepreneurship among the community. Considering SMEs has a crucial role in growing the economy of society, so that facilities revolving fund for SMEs will be a stimulus for economic dynamics in economic growth and the expected future output of SME products can contribute to economic growth and national income, creating a climate that strengthens the potential owned by the community with the provision of a wide range of access to wider opportunities and to prevent competition by creating expectations of future partnerships and the other expected future is SME products are competitive in the international market.*

**Keywords:** revolving funds, Small and Medium Enterprises (SMEs), economic empowerment

## INTRODUCTION

Each policy set by the government, especially in the economic sector is expected to build the local economy and create social welfare for all citizens. One of the Government's successes can be seen from how the Government creates a climate conducive by empowering communities and optimizing potency of society to encourage growth and local economic development. However, in the implementation of community economic development strategies are still faced with the problem of poverty that still could not be resolved with the maximum, both mentally and materially.

An important aspect in a community development program is the program compiled by the public, answer the basic needs of society, supporting the involvement of the poor, women, illiteracy and other neglected groups, built from local resources, sensitive to local cultural values, pay the attention to the environmental impact, does not create dependency, the various stakeholders involved, as well as sustainable. On the other hand, the success of one rule can be seen from the efforts of the government successfully reduce poverty and create jobs for the people. For that, the process of economic empowerment should be continuous with the participation of society as responsible. The effort began in the local economic development by formulating development institutional in the area, increasing the ability of human resources to create products that better as well as industrial development and business activities on a local scale. In other words, it can be concluded that by empowering and optimize the potential that exists in the local community will encourage the growth and development of the local economy so that the public welfare could be guaranteed. One of the efforts developed by the government in optimizing and developing the potential of the area by creating, moving, and encouraging the presence of small and medium enterprises (SMEs). Effort to encourage the presence of SMEs can be realized through revolving fund program prepared by the government in order to support the sustainability of the activities of SMEs. Revolving funds are government assistance in the form of money or capital goods supplied to the Cooperatives, Small and Medium Enterprises (CSME).

Definition of revolving fund according to the budget system and concept is: "Public enterprise funds, which conduct business-like operations mainly with the public, and intragovernmental revolving

funds, which conduct business-like operations mainly within and between Government agencies.” The funds are channeled through rolling pattern.

The purpose of writing this paper is to increase the activity of Small and Medium Enterprises revenue Society (SMEs) through savings and credit services, improve the capabilities and range of services cooperatives, improving the quality of human resources managers of cooperatives, increase access to members and prospective members to obtain loans from cooperative services. The methodology in this paper uses literature study.

## DISCUSSION

### *Urgency of Community Empowerment*

Community empowerment is the government's efforts to reduce poverty based participation that is expected to create social reinforcement processes that could deliver the poor towards civil society, prosperous, equitable and based on faith and piety (Sumodiningrat, 2009). In line with these expressions by Sachs in his book *The End of Poverty: Economic Possibilities for Our Time* (2005), quoted by Nindita (2008) in “CSR for Local Economic Empowerment” said that “there are six main assets are not owned by the poor, the capital human capital, infrastructure, capital relating to nature, public institutions of capital, and knowledge capital”. Therefore, it becomes very important for the government to allocate values to the social welfare of society as a whole so that the established policy can benefit the community. Because the primary key in eliminating poverty by Sachs (2005) is “how do they enable the poorest of the poor to be involved in the development process”. It is like trying to empower communities to participate in development of the country.

For the essence of empowerment is a process and an attempt to obtain or provide power, strength or ability of the individual and society weak in order to identify, analyze, define needs and potential as well as problems encountered and also choose the alternative solution by optimizing the resources and potential of the independently. Empowered society is a society which knows, understands, ideology motivated, opportunity, take advantage of opportunities, energetic,

able to work, know the various alternatives, able to make decisions, willing to take risks, able to find and capture the information and are able to act according to the situation. Empowerment process is able to bring people who have such properties expected to be done on an ongoing basis with the participation of society as responsible. The concept of empowerment is not considering growth and equity, but the concept is the view that the equalization creates a broader foundation for growth and ensuring sustainable growth. Community empowerment made with three things, namely:

1. Creating a climate that allows the developing human potential. The point of departure is the emphasis that every human being and society has the potential, then given the motivation and the realization that the potential can be developed.
2. Strengthening the potential of the communities in which steps need to be more positive and real, supplying a wide range of inputs and the opening of access to a wide range of opportunities that will make people capable of and take advantage of opportunities. Empowerment in this pathway may be giving productive variety of assistance, training, development of infrastructure both physical and social, and institutional development at the community level.
3. Empowerment implies the weaker side to side to prevent an unbalanced competition and create a mutually beneficial partnership (Suriadi, 2005).

The empowerment efforts should also pay attention to important aspects of community development program namely a program that is compiled by the public, answer the basic needs of society, supporting the involvement of the poor, women, illiteracy and other neglected groups, built from local resources, sensitive to the values local culture, pay attention to the environmental impact, not create dependency, the various stakeholders involved, as well as sustainable. Sachs (2005) stated economic development for the community is defined as a process by which the public can participate and find their own way to cope with their economic problems, thus it could build the capacity of the community for the long term so as to realize the achievement of the objectives of economic, social, and environmental. Local economic

development could be classified in the provision of human capital, business capital, and knowledge capital. Aid of human capital could be in formed in to training to improve the skills of the community. While, aid of knowledge capital may be given in form of providing training and mentoring to the community. Then, aid of business capital may include the provision of business capital equipment and working capital assistance. Related to the innovation of the aid of business capital, the central government issued capital financing program for small, medium business sector and cooperatives through a revolving fund management.

### ***Revolving Fund Program to Cooperatives, Small and Medium Enterprises (CSME) as Community Empowerment Tool***

Revolving fund program is a retrofitting of government assistance in the form of money or capital goods are distributed to Cooperatives, Small and Medium Enterprises (CSME). The funds are channeled through the rolling pattern. Rolling pattern is to utilize the assistance to CSME. Ordinances or requirements stipulated in the decision of the Minister CSME. This revolving pattern began in 2000 and is the one of breakthrough of CSME Ministry in order to stimulate economic growth in communities through policy guidance and development of CSME program.

The government's efforts are expected to make an empowered and self-sufficient community in meeting the needs of their own, so the welfare of the people is not entirely left to the central government, but by the collective cooperation of the public, private and government. Meanwhile, the indicators for measuring the success of economic empowerment programs by Wrihatnolo and Riant (2007) are:

1. Enhancement of micro-entrepreneurs income.
2. Creation of employment.
3. Strengthening the institutional capacity of the public.
4. Procurement/repairing of the facilities and infrastructure.
5. Reform of regional regulations.
6. Enhancement of engagement between government with stakeholders.

Indicator of the success of the economic development program will provide insight in evaluating the program as a revolving fund community economic empowerment. The revolving fund is expected that the funding for capital reinforcement for cooperation and business people who meet the criteria for grant recipients. By the help of venture capital, so this will reduce/break the chains of dependency on moneylender services. In line with this, the Act No. 20 Year 2008 on SMEs has been described extensively about SMEs, SMEs are defined as follows:

1. Micro Business is a productive enterprise owned by individuals and/or individuals business entities who meet the criteria of Micro Business as set in this Act.
2. Small Business is a productive economic activities that stand alone, which is conducted by an individual or business entity that is not a subsidiary or branch company is not owned, controlled, or be a part either directly or indirectly from Medium or Large Enterprises that meet Small Business criteria referred to in this Act.
3. Medium Business is a productive economic activities that stand alone, which is conducted by an individual or business entity that is not a subsidiary or branch company owned, controlled, or be a part either directly or indirectly with Small or Large Enterprises with the amount of wealth or annual net sales proceeds as provided in this Act.
4. Big Business is economically productive activities conducted by business entities with total net assets or annual sales greater than Medium Business, which include State/Private-owned Enterprises, joint ventures, and foreign business conducting economic activities in Indonesia.

Then, the criteria of Micro Business are as follow:

1. Having a net worth of at most IDR 50,000,000 excluding land and buildings; or
2. Having an annual sales turnover of IDR 300,000,000.

As for the criteria for Small Business are as follow:

1. Having a net worth of more than IDR 50,000,000 to a maximum of IDR 500,000,000 excluding land and buildings, or
2. Having annual sales of more than IDR 300,000,000 to a maximum of IDR 2,500,000,000.

Furthermore, for the criteria of Medium Business are as follow:

1. Having a net worth of more than IDR 500,000,000 up to a maximum of IDR 10,000,000,000 excluding land and buildings; or
2. Having annual sales of more than IDR 2,500,000,000 to a maximum of IDR 50,000,000,000 (Act No. 20 Year 2008 on SMEs).

Based on the explanation above, revolving fund is a fund that drives the sustainability of business activities. Income earned from fees for use of a revolving fund used to finance operational again, usually without going through the annual budgeting system. Another opinion about the definition of a revolving fund also disclosed according to Franklin, A and Douglas, J (2003):

*“Revolving funds operate as “continuing appropriations”. These funds have no lapse date; the cash balances remain available to agencies indefinitely. Agency discretion in how revolving funds are spent is enhanced because object code or program activity limits are not established, and the money is available for expenditure as soon as it is received.”*

In line with some of the definitions above, Panggabean (2005) argued that revolving fund is “retrofitting government assistance in the form of money or capital goods were distributed to the Cooperative, Small and Medium Enterprises (CSME)”. The funds are channeled through the rolling pattern. Rolling pattern is to utilize the assistance to CSME. Moreover, Panggabean (2005) also mentioned that that in general the revolving fund program aims to:



1. Improving rural economic activity.



**Figure 1.** *Rural Economic Activity*

2. Increase the volume and the cooperative efforts of SMEs.
3. Improving employment. By the revolving fund will be able to develop the business so that it could absorb labor.



**Figure 2.** *Improving Employment in Convection Enterprise*

4. Improving cooperative spirit
5. Increasing income members, and improving work ethic.



**Figure 3.** *Soto Trader who Receive Revolving Fund*



Through the revolving fund program, where CSL/ESL Cooperative members are expected to be useful for a strengthened public confidence in the cooperative. Based on the objectives and benefits mentioned above, the revolving fund sourced from the Revenue and Expenditure of Local Government Budget to loan to entrepreneurs of small and medium industries with a low interest rate with a rolling system which the implementation is managed by the Department of Industry. Management of revolving funds held by the Executive Management Team of Revolving Fund of the Provincial Department of Industry in collaboration with the District/Municipal Department of Industry and Trade and Community Credit Bank of Credit Agency of Sub-District designated. Revolving Fund with an interest rate lower than the interest rate of the bank is expected to the entrepreneurs of small and medium-sized industrial who get the loan could develop their business and compete in the increasingly fierce market competition in the global market era. Lending capital with scrolling system is intended that the loan installment receipts will be rolled out or loaned back to both the loan recipients who have paid off, and to the other entrepreneurs of small and medium industries.

### ***Mechanism of Revolving Fund Distribution***

Before determining the debtor, Team Selection of Revolving Fund assisted by Assistance Team of revolving fund in the district/city held a survey of prospective borrowers. The survey was conducted to determine the condition of the company directly. From the results of the survey, then the team conducted an analysis to determine the feasibility used as the basis for determining the names of the recipients of revolving fund, in addition to other administrative requirements. A survey conducted by the selection committee to get the data directly from employers. One of the requested data is financial report of SME business. After getting the capital loan, Small and medium enterprises expected could thrive. Therefore, the missions of Revolving Fund Program include:

1. Conduct training program for SME or development of SME through a training program to the entrepreneurs through education and training.

2. Conduct training program for SME or development of SME through human resources guidance to the employers of small and medium enterprises.
3. Facilitate the entrepreneurs of small and medium enterprises with the help of industrial tools required.
4. Provide assistance in the form of loan capital to small enterprises to manage their enterprises (Nurhayati, 2007).

To avoid revolving loan that are not appropriate to the designation and to avoid bottlenecks in the process of return, there should be an extension of activities on the use of appropriate revolving fund. Because the revolving fund program objectives are to empower members of cooperatives, microenterprises or small businesses underserved by banks and other financial institutions through strengthening the structure of healthy financial institutions, and to improve their human resources.

The target of revolving fund programs are:

1. Distribution the revolving loan from the government to:
  - a. Cooperatives.
  - b. Micro and Small Enterprises.
2. Realization of an increase in working capital for the cooperatives, micro businesses or small businesses in the form of working capital loan.
3. Strengthening the implementation cooperative working capital, micro-businesses or small businesses as well as the realization of improvement and business development (Kristanto, 2013).

The criteria for potential recipients of revolving fund, namely:

1. Cooperative:
  - a. Legal Entity as Primary Cooperative at least 2 years.
  - b. had been carrying out the Annual Members Meeting in Last Fiscal Year.
  - c. Preferred Cooperative who never received a revolving loan.
  - d. Apply for a working capital loan to the Finance Working Group through the Head of Department of Cooperatives and Micro, Small and Medium Enterprises.

2. Micro and Small Enterprises
  - a. are productive economic group.
  - b. The group has a number of members in economically productive 10 to 15 people who live in the area of the village and/or had identity card.
  - c. Each group has a board consisting of representatives from the Chairman, Secretary and Treasurer.
  - d. Preferred micro and small businesses who have never received a revolving fund.
  - e. Applying for a revolving loan to the Finance Working Group through the Head of Department of Cooperatives and Micro, Small or Medium (Kristanto, 2013).

Meanwhile, basic provisions of the revolving fund, namely:

1. Revolving Fund is derived working capital budget is dedicated to the Cooperative Regions, micro businesses or small businesses as a program participant who has been determined based on the selection and should be rolled out to each member with joint responsibility.
2. Credit ceiling revolving fund, will be set according to the following provisions:
  - a. For Cooperative loan revolving fund administered by IDR 25,000,000, up to IDR 75,000,000 over the technical considerations, the principle of benefit, level of need and improvement of business performance in accordance proposal/plan activities and studies in the field of technical team.
  - b. Micro or Small Business of IDR 30,000,000/group (15 persons), or IDR 2,000.000 for each person that is tailored to their business.
  - c. The working capital fund by cooperatives, micro-enterprises or small businesses accounted for in the form of debt.
3. Utilization and mechanism of payment of interest on capital revolving fund for cooperatives, micro or small bears interest at 6% per year, which is deposited in the account of the Regional Treasury. Furthermore, 1% paid as administrative expenses Executing Bank through mechanisms Regional Budget.

4. After a period of 24 months of return goes smoothly, revolving funds could be rolled back to the cooperatives, micro businesses or small business is concerned.
5. If the performance of cooperatives, micro or small or otherwise not good enough, then the cooperatives, micro-businesses or small businesses that need to restore the entire revolving fund with interest. Furthermore, by the Finance Working Group will be transferred to the Cooperative, Micro or Small Business after obtaining input and recommendations from the Bank Executor and companion.
6. Returns revolving fund by the Cooperative, Micro or Small Enterprises within 24 months and the first installment at month 5 up to month 24, namely principal and coupled with current interest (Kristanto, 2013).

From the review above, it can be noted that capital is an essential element which supports increased production and income. The capital shortage severely limits the space for their business activities. While external funding sources that could help overcome the shortage of capital is not easy to obtain, so the more difficult for small industrials to develop their business activity quickly. Therefore, development of small industries needs serious attention from the government in this case as facilitator/service to create a climate conducive to economic development. One venture capital comes from the revolving fund. For the partnership and cooperation of all parties, both government and private sectors in the scope of its CSR (*Corporate Social Responsibility*) will be able to develop the economy to the level below.

## CONCLUSION

Economic empowerment process must be continuous with the participation of society as responsible. The effort began in Local Economic Development to formulate an institutional-institutional development in the region, improve human resource capacity to create products better and fostering industrial and business activities on a local scale. So it can be said that by empowering and optimizing the potential that exists in the local community will encourage the growth and development of the local economy so that the welfare of the community can be assured. One of the efforts developed by the

government in optimizing and developing the potential of the area by creating, moving, and encouraging the presence of small and medium enterprises (SMEs).

However, the development of SMEs experiencing common problems still lack access to banking and SMEs financing is still largely dependent on moneylenders at high interest rates. Therefore, with the help of a revolving fund is expected to be able to help strengthen the venture capital needed to empower SMEs, improving economic activity, increasing the volume of SME business and increase employment and improve the entrepreneurial spirit among the people. Given SMEs have a crucial role in growing the economy, society, the revolving fund facilities for SMEs is expected to be a stimulus for economic dynamics in economic growth and expected future output products of SMEs can contribute to economic growth and national income, creating a climate that strengthens the potential owned by the community with the provision of a variety of access to wider opportunities and to prevent competition by creating partnerships and future expectations of the products of SMEs to compete in the international market.

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