

## MICROCREDIT FOR MICRO-ENTREPRENEURS DEVELOPMENT IN ENDE DISTRICT

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**Ellen Rusliati**

ellenrusliati@yahoo.co.id

**Mulyaningrum**

**Mujibah A. Sufyani**

Fakultas Ekonomi dan Bisnis, Universitas Pasundan

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### ***Abstract***

*This study aims to examine the use of microcredit to improve business. Developing micro-entrepreneurs can create jobs to prevent urbanization and reduce poverties. The problems are micro-entrepreneur which are less professional to manage and low productivity. This study uses descriptive and qualitative analysis for 18 micro-entrepreneurs which got machine from Industrial Ministry. The largest contribution of Gross Regional Domestic Product of Ende District is the agricultural sector by 61.35%; its largest productions are cassava, rice, coffee, hazelnut, cashew, and cocoa. The results showed that contribution margin is still low, highly dependent on the season and manually processed; marketing are mostly done by direct sales, and shortage of capital. They need loan to increase the business, but improper utilization of capital can bring some difficulties. They must get some trainings and consultations either before get or used micro credit, because made micro-entrepreneurs have higher risk although they give higher profitability.*

**Keywords** : *microcredit; micro-entrepreneurs; productivity; poverty*

### **Abstrak**

Penelitian ini bertujuan untuk menguji penggunaan kredit mikro untuk meningkatkan bisnis. Mengembangkan wirausaha mikro dapat menciptakan lapangan kerja untuk mencegah urbanisasi dan mengurangi kemiskinan. Masalahnya adalah wirausaha mikro yang tidak profesional untuk mengelola dan menurunkan produktivitas. Penelitian ini menggunakan analisis deskriptif dan kualitatif untuk 18 mesin wirausaha mikro dari Kementerian Perindustrian. Kontribusi terbesar dari Produk Domestik Regional Bruto Kabupaten Ende adalah sektor pertanian sebesar 61,35%; produksinya terbesar adalah singkong, beras, kopi, kemiri, jambu mete, dan kakao. Hasil penelitian menunjukkan bahwa margin kontribusi masih rendah, sangat tergantung pada musim dan diproses secara manual; pemasaran sebagian besar dilakukan oleh penjualan langsung, dan kekurangan modal. Mereka membutuhkan pinjaman untuk meningkatkan bisnis, tetapi penggunaan modal yang tidak tepat dapat menimbulkan kesulitan. Mereka harus mendapatkan beberapa pelatihan dan konsultasi baik sebelum mendapatkan atau menggunakan kredit mikro, karena membuat pengusaha mikro memiliki risiko yang lebih tinggi walaupun mereka memberikan profitabilitas yang lebih tinggi.

**Kata Kunci** : kredit mikro; wirausaha mikro; produktifitas; kemiskinan

## INTRODUCTION

Ministry of Cooperatives and SMEs said that the number of entrepreneurs in Indonesia is only about 1.65% of the population today. Singaporeis about 7%, Malaysiais about 5% and Thailandis about 4% (Reuters, 3/12/2015). If the number of entrepreneurs increases, it will also boost the nation's economy, increase employment, and ultimately improve the quality of people's welfare. However, if the effort only focuses on big cities, it will result and increase welfare but unevenly and will result in gini ratio not falling from 41% (World Bank and the Central Bureau of Statistics, 2013). Table 1 shows poverty rate in Indonesia, either relative or absolute:

Table 1 shows the decline in the national poverty slowly. However, the Indonesian government use the terms and conditions that are not strictly on the definition of the poverty line, so that what appears is a more positive picture than reality. In 2014, the Indonesian government defined the poverty line with income per month (per capita) as much as Rp 3 12,328. The amount is equivalent to USD \$25 which means that the standard of living is very low. But if you use the value of the poverty line used by the World Bank, which classifies the percentage of the Indonesian population, it is less than USD \$1.25 per day. Furthermore, according to the World Bank, the number of Indonesian population living on less than US \$2 per day reached 50.6 percent in 2009. This shows that most of Indonesian population lives below the poverty line. Recent reports in Indonesia claim that about a quarter of Indonesia's total population (about 60 million) live just above the poverty line.

Provinces in East Indonesia showed a relative higher poverty. Table 2 shows five provinces in Indonesia with the highest relative poverty rate. All these provinces are located outside the territory of West Indonesia such as Java, Sumatra and Bali, which are areas that are more developed.

The poverty rate in the provinces in eastern Indonesia, where most of the population are farmers, lay on mostly in rural areas. In the indigenous area, people have been living on the edge of process and development programs. Migration to urban areas is the only way to get a job and - thus - avoid poverty. The Gross Regional Domestic Regional Product (GRDP) can be used as a measure of prosperity of a region. GRDP in 2014 showed East Nusa Tenggara province ranks last (Table 3), Southeast Sulawesi was ranked 20th. Compared to DKI Jakarta and West Java ranked 22 (GRDP per capita at current prices, 2014).

Massive urbanization shows the centrality of development in big cities, so that it increase urban population, huge traffic jam, and the GDRP (Gross Domestic Regional Product), while the rural area is not significantly able to contribute to development. Construction of industrial centers in the rural are

expected to reduce the rate of urbanization, therefore the burden of the urban does not become more severe, while the rural can create jobs for local people.

The largest contribution to the GDRP in Ende in 2015 is from Agriculture by 61.35% with a growth of 4.49%. Manufacturing contributes to the GDRP (at current prices) amounted to 5.04%, ranked 4th with growth of 17.23% in 2012 (Kecamatan Dalam Angka, Ende, 2015). Industrial development aimed at expanding employment opportunities, leveling the business opportunities, increase exports in supporting regional development by utilizing natural resources and energy as well as human resources. It indicates when a professionally managed micro-entrepreneurs can provide a greater contribution to the GDRP.

The definition of micro-entrepreneurs is the number of assets max 50 million with a maximum amount of turnover of Rp 300 Million (Law No. 20 of 2008 on SMEs). Industrial development aimed at expanding employment opportunities, leveling the business opportunities, increasing exports in supporting regional development by utilizing natural resources and energy as well as human resources.

In general, the weakness of micro/small enterprises is in management that is not professional. Business success is determined by the ability of management/ employees, which include financial, marketing, operational, and human resources management. The results of this study are expected to grow and develop professional micro-entrepreneurs in order to grow an interest of Indonesian people in entrepreneurship, improving the welfare of the people, decreasing gini ratio, and urbanization.

Based on Nurkse's Model of Vicious Cycle of Poverty, micro-entrepreneurs who have a limited capacity to invest in capital, productivity is restricted, incomes are inhibited, domestic savings remain low, and again, any increases in productivity are prevented. A lack of access to financial institutions also hinder the ability for entrepreneurs to engage in new business ventures, inhibit economic growth, and often, the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustainable (existing for continuing future use). Microfinance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process. However, unavoidably, various barriers and obstacles limit the roles of microfinance, entrepreneurship and sustainability in reducing poverty (Vincent, accessed January 6th, 2017).

Current micro-credit programs have very small or no effects on the income of their participants (Yang and Stanley, accessed January 6th, 2017). Micro-credit ought to be targeted at the poorest if the poor only with considerable care because some clients will be made poorer as a result of taking out of a loan, the consequences of which could be devastating. Services

should be targeted at those who already have some financial security, such as saving or another source of income, which will allow them to make loan repayments even if their business do not generate a profit immediately (Stewart, et.al. 2012).

The unit of analysis in this study is the micro-entrepreneurs for the food processing industry in the district of Ende, East Nusa Tenggara which obtained assistance from the Ministry of industrial machines, with consideration to take advantage of agricultural products into food processed products with higher added value. Utilize local natural resources, with local human resources, to the outdoor market at local, national, and if possible international through the use of information technology.

Credits derived from the word *credere* which means belief, that is when a person obtains a credit means gaining the trust of the other party (the lender) to obtain the funds that will be returned at a certain period in the future with recompense in the form of interest. Elements considered in the provision of credit are known as the 5C (Character, Capacity, Collateral, Capital, and Condition) and 3R (Returns, Risk Bearing Ability and Repayment Capacity). Creditors will continue to consider these elements in its lending, with the hope of loaned funds can be returned in accordance with the agreements made.

SME are loans to borrowers of micro, small and medium enterprises who meet the criteria as stipulated in Law No. 20 of 2008 on SMEs ([www.bi.go.id](http://www.bi.go.id)). Under the bill, the criteria for microenterprise is a productive enterprise that has a net worth of Rp 50,000,000 (fifty million rupiahs), excluding land and buildings; or have a yearly sales revenue of Rp 300.000.000 (three hundred million rupiah).

Roles that micro enterprises have (Wiyono, et.al., 2006, in Yuwono, 2013) are: (a) The population of small and micro enterprises are mass and distributed everywhere, (b) Engaged in various sectors of economic activity (agriculture, animal husbandry, fisheries, industry, handicrafts, trade, services) both in cities and in villages, (c) Micro-businesses as a principal livelihood, highly engaged and resilient in running the business, (d) Trustworthy and have a smooth traffic business, (e) The pattern of relatively simple business financing has made the level of benefits quite high.

The sources of funds consist of external funding sources, which are obtained from outside the company in the form of equity or loans, and internal funding sources, which are obtained from the company or produced by the company itself that can be either profit or shrinkage that can be used temporarily.

Internal funding sources are limited in number, so that it becomes an obstacle for entrepreneurs if they want to do business expansion as well as with their own capital. Loan capital may come from banks, which requires the availability of collateral as running prudential banking obligations.

Financial Management regards investment decisions, financing decisions, and asset management. Investment decisions in current assets and fixed assets missteps will result in over/under investment which results in the profitability of businesses being disrupted. Selection of inappropriate funding, resulting in high operating expenses and risks, which may result in high operating expenses and risks, which could lead to liquidity problems, unable to pay obligations, can even bring businesses towards bankruptcy.

Micro credit in general is a form of crediting to micro and small entrepreneurs in order to increase their income and reduce poverty through employment creation itself. Chowdhury (2008) suggests the provision of micro-credit in Bangladesh can significantly increase the amount of capital of micro entrepreneurs, but does not increase the entrepreneurial spirit of a housewife.

Factors that inhibit the growth of micro and small enterprises in the formal sector in East Java is the infrastructure outside the institution, managerial capabilities and resources, manpower and technology, financial, location and network, competition and business circumstances. Factors inhibiting the growth of the largest are the external factors that come from the business environment as most competitors have greater strength, instability of raw material prices, and many competitors with equal force (Yuwono and Ardianti, 2013).

This study differs from previous studies. The unit of analysis is a micro-entrepreneur of food processing of agricultural/marine sectors in East Nusa Tenggara, as well as identifying the inhibiting factors of internal; covering aspects of finance, marketing, and operation, which can be described as Figure 1.

## METHOD

The method used is a qualitative description based on empirical data obtained through survey using questionnaires, observations, and interviews as the main data collection tool. The data used is cross section, i.e. 18 micro-entrepreneur in the province of East Nusa Tenggara, who got machine from Industrial Ministry. Respondents are the owners of the company was conducted in November 2015.

## RESULTS

Land area, productivity, and production of agricultural and plantation in Ende District of East Nusa Tenggara appear, as seen in Table 4. According to the Table 4, it appears that Ende District was the largest production of cassava, rice, and coffee. Other unique products that are hallmarks of the area are hazelnut, cashew, and cocoa. The utilization of agricultural products is expected to increase employment and income of local residents thereby improving their welfare.

Ende district also borders with the Sawu Sea to the south, so there are also people who have a job as a fisherman, carrying 17 fishermen groups with members of 35 people and four groups of women fishing with 10 members, and there are 180 people seaweed farmers. The results of the highest fish caught are tuna, and mackerel (KCDA Ende, 2014).

Gross Regional Domestic Product of Ende District in 2012 at current prices was amounted to Rp 54,588,302,000 with the largest contribution from the agricultural sector by 61.35% and 14.03% of hotels and restaurants; contribution of the manufacturing sector by 5.04%. Processing of agricultural and the sea into food products and sold to tourists is expected to increase the GRDP through the synergy of these three sectors.

Agriculture, plantation and sea products successfully processed by the people are as follows: (a) agar-agar jelly, (b) candied grated and sliced coconut, (c) Brown residual oil (galendo), (d) coconut syrup, (e) isotonic, (f) fried skin of beans, (g) Bimoli cake, (h) salty, sweet, spicy chips, (i) coconut oil, (j) chicken feet stick, (k) cassava chips.

Respondents who have taken the initiative to conduct a production process using a local base material must be accompanied in order to be stronger and able to manage their business in a professional manner. They need to know the weaknesses in the management of their business and functional management concerns.

The average revenue from the sale is as Table 5. According to Table 5, it appears that the contribution from the sale is still low, therefore, it needs an effort to help micro-entrepreneurs to increase the sales of the products. Efforts to increase sales starting from the raw material, it turns out the problems are the high price and the long ordering process (Table 6).

Agricultural products are highly dependent on the season. When it comes to harvest season, it is cheap. But when planting season comes, the raw material prices were high and difficult to obtain. Micro-entrepreneurs need to be introduced with a flexible production process, or adjust to the season. This means that produce food according to seasons, for example when the harvest of cassava, the resulting product is processed snacks made from cassava, coconut otherwise when the season, then the resulting product is a confectionary made from coconut, and so on.

Problems to the use of technology are as seen in Table 7. Equipment and technology used is felt inadequate, because the micro-entrepreneurs processed confectionary manually and do not use the help of adequate machinery, so the long production process and the products produced are not according to standard. The introduction of technology seems appropriate in these micro entrepreneurs, which are expected to increase the amount of production.

Promotion carried out is as seen Table 8. Marketing products are mostly done by direct sales; in addition,

the promotion is also done through brochures, radio, internet, and newspapers. The marketing currently undertaken is adequate, but the distribution of market expansion to other islands should be explored to accommodate local production.

The financial problems faced is the lack of capital, is another common problem faced by micro entrepreneurs (Table 9). Shortage of capital is a classic problem faced by entrepreneurs in general; it is also faced by micro entrepreneurs in the district of Ende. Further investigation to determine the capital requirements are actually necessary and alternative sources of funding that can be accessed in order to fulfill it.

Size of loans needed to meet funding requirements appears as seen in Table 10. The most required amount of loan is Rp 10,000,000, which is necessary to increase the size of the company. The duration of monthly installments is as seen in Table 11.

The duration of the monthly installments is as seen in Table 12. Monthly installments are as seen in Table 13. Affordable monthly installments are mostly Rp 200,000. The ability to pay installments has to be supported by the ability to generate revenue. Therefore it is necessary for employees to project revenue and costs, so that each has a production and sales targets that must be achieved for each month, so that employees are able to avoid financial difficulties in the future. Installment Rp 200,000, - per month for two years, allowing the entrepreneur will get a loan of Rp 4,800,000, -, without interest. Now the business can exploit economies of scale, deploy specialized assets, and use modern business processes to generate value for both its owners and employees.

The use of debt needs to be done carefully, because the risk factors can bring on bankruptcy on entrepreneurs. Some of the requirements of the use of debt is (1) the ability of their own capital to ensure debt (leverage), (2) the ability of earnings to cover repayments and interest payments (time interest earned), (3) profitability is greater than the interest rate. How to pay the installments is as seen in Table 14.

Installment payment is promised by entrepreneurs to the cooperative. This can be understood because the number of banks is limited. The purpose of capital loans used is as seen in Table 15.

## DISCUSSIONS

Most of the required funding needs of micro-entrepreneurs are to adding capital. This means micro-entrepreneurs saw the importance of capital to run the business. However, the improper utilization of capital can bring a company to business difficulties, such as too much capital or improper use or inaccurate selection of funds. The enterprises whose owners also received business training, tax exemption, fair interest rate, enough grace period and infrastructures performed better than those that did not (Makorere, 2014).

Micro-entrepreneurs need assistance in financial management, so that the funding requirements are precisely known. Funding needs should be calculated precisely, so it can be used optimally, determined the appropriate financial resources in order to improve financial performance. Promoting micro-entrepreneurs providing access to financial capital and basic managerial skills through microcredit and business-training programs are the most widely used strategies to promote enterprise development. Findings from recent empirical impact evaluation studies suggest that these programs are insufficient to trigger firm growth or job creation (Prediger and Gut, 2014). Micro-credit sometimes increases engagement in economic opportunities. Micro-credit can also increase income in some circumstances, but reduce it in others. It has similarly mixed impacts on levels of savings and accumulation of assets, and in most cases it reduces expenditure, although the advantages or disadvantages of the latter are not entirely clear (Stewart, et. al., 2012). There was positive contribution of microfinance lending to the development of such enterprises (Obokoh, et.al. 2016).

The focus of micro finance is two-fold that is business orientation to generate sustainable financial resources instead of depending on unsustainable source of finance (donors) and a poverty alleviation orientation to reach the poor and help them overcome their poverty (Gamaleldin, 2012). Micro finance institutions have positive contribution for SMEs to promoting their market share, financial credibility, number of employment, sales revenue, net profits, and decreased liabilities (Monge, 2016). Micro finance institutions have significant effect in alleviating poverty by increasing income and increase economic activities (Fadejin, 2016).

Development and social impact, the microfinance industry allows significant improvements in quality of life for the micro-entrepreneurs. They can now stabilize the cash flow of their economic activity, bringing security to the enterprise. This allows them to manage better spending, which often generates savings; and provides better standards of living to their family, and dependents in terms of housing, nutrition, health and education. Finally, an access to banking and increased security promote a sense of entrepreneurship, and thus their self-esteem and reputation increase (Vincent, accessed February 18th 2017).

## CONCLUSIONS

Micro-entrepreneurs must be provided with simple financial management that needs to be supported by the financial statements and budgets, which increase access to capital for entrepreneurs in the district of Ende, East Nusa Tenggara. Micro-entrepreneurs could be provided business training and assistance so that they can manage the business in a professional manner.

Micro-entrepreneurs could be establish relationship with others to strengthen bargaining position to get material with certainty and lower price as well as certainty in marketing with profitable price. Development of local-based micro-entrepreneurs can create jobs and reduce the rate of urbanization in the district of Ende, East Nusa Tenggara.

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Table 1. Statistics Poverty and Inequality in Indonesia

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Relative Poverty (% of population)	17.8	16.6	15.4	14.2	13.3	12.5	11.7	11.5	11.0
Absolute Poverty (in millions)	39	37	35	33	31	30	29	29	28
Gini Coefficient	-	0.35	0.35	0.37	0.38	0.41	0.41	0.41	-

Source: World Bank and the Central Bureau of Statistics

Table 2. Province with Relatively High Poverty Rate

Province	Percentage Based of Total Population
Papua	27,8%
West Papua	26,3%
East Nusa Tenggara	19,6%
Maluku	18,4%
Gorontalo	17,4%

Source: Central Bureau of Statistics, September 2014

Table 3. GDRP Rank of Some Provinces in Indonesia in 2014

Rank	Province	GRDP (in thousand rupiah)
-	Indonesia	42.432,08
1	DKI Jakarta	174.824,11
20	Southeast Sulawesi	32.115,11
22	West Java	30.110,13
32	Maluku	19.146,36
34	East Nusa Tenggara	13.620,02

Source: Central Bureau of Statistics, 2014

Table 4. Land area, productivity, and production of agricultural and plantation in Ende District of East Nusa Tenggara Year 2014

No	Result of Agricultural and Plantation	Land Area (Ha)	Productivity (Kg/Ha)	Production (Ton)
1	Rice	614	25	1535
2	Corn	324	30	972
3	Cassava	240	120	2.800
4	Sweet potato	14	80	112
5	Coconut	345,10	1.214	341
6	Coffee	2,9567,30	623	1.153
7	Clove	184	319	36
8	Cocoa	453,20	996	270
9	Cashew	212,30	903	102
10	Candlenut	999,80	1.113	760
11	Kapok	14,30	300	3
12	areca nut	175,10	504	66
13	Vanilla	28,20	286	4
14	Nutmeg	14,50	500	1
15	Pepper	9,30	500	2

Source: Kecamatan Dalam Angka Ende, 2015 (processed)

Table 5. Monthly Revenue  
Micro Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Revenue per month (Rp)	Number of Entrepreneurs	Percentage
1	< 300.000	9	50%
2	300.000 – 500.000	4	22,22%
3	600.000 – 1.200.000	2	11,11%
4	> 1.200.000	3	16,67%

Table 6. Problems Faced in Obtaining Raw Materials  
Micro Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Problems	Number of Entrepreneurs	Percentage
1	Difficult to get at the Market	3	16,67%
2	High price	7	38,89%
3	The ordering process is long	6	33,33%
4	Easily damaged goods	2	11,11%

Table 7. Equipment and technology used to Produce Products  
Micro Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Problems	Number of Entrepreneurs	Percentage
1	Inadequate equipment	16	88,89 %
2	Expensive equipment	2	11,11 %

Table 8. Promotional Efforts Undertaken  
Micro Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Problems	Number of Entrepreneurs	Percentage
1	Radio	9	50 %
2	Television	0	0
3	Internet	6	33,33 %
4	Billboard	3	16,67 %
5	Exhibition	5	27,78 %
6	Free samples	1	5,56 %
7	Become a sponsor	1	5,56 %
8	Direct sales	17	94,44 %
9	Newspaper	6	16,67 %
10	Magazine	2	11,11 %
11	Brochure	7	38,89 %

Table 9. Financial Problems Faced  
Micro Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Problems	Number of Entrepreneurs	Percentage
1	Lacking capital	9	50 %
2	Difficult terms in getting a loan	5	27.78 %
3	No financial management	4	22.22 %

Table 10. Required Amount of Loans  
Micro Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Amount of Loan	Number of Entrepreneurs	Percentage
1	Rp 1,000,000	1	5.55 %
2	Rp 5,000,000	5	27.78 %
3	Rp 10,000,000	6	33.33 %
4	Rp 25,000,000	2	11.11 %
5	Rp 50,000,000	4	22.22 %
6	>Rp 100,000,000	1	5.55 %

Table 11. Financial Problems Faced  
Micro Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Problems	Number of Entrepreneurs	Percentage
1	Lacking capital	9	50 %
2	Difficult terms in getting a loan	5	27.78 %
3	No financial management	4	22.22 %

Table 12. Term Installment of affordable  
Micro- Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Installment	Number of Entrepreneurs	Percentage
1	2 years	10	55.56 %
2	5 years	4	22.22 %
3	> 10 years	4	22.22 %

Table 13. Affordable Monthly Installments  
Micro Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Monthly Installment	Number of Entrepreneurs	Percentage
1	Rp 200,000,-	9	50 %
2	Rp 500,000,-	3	16.67 %
3	Rp 1,000,000,-	5	27.78 %
4	Rp 10,000,000,-	1	5.56 %

Table 14. Affordable Installment Payment  
Micro-Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Institution	Number of Entrepreneurs	Percentage
1	Bank	6	33.33 %
2	Cooperative Institution	12	66.67 %

Table 15. Fund Appropriation  
Micro-Entrepreneur of Processed Agricultural, Plantation and  
Sea Products In Ende District 2015

No	Fund Appropriation	Number of Entrepreneurs	Percentage
1	Adding Capital	16	88.89 %
2	Buying machinery/equipment	1	5.55 %
3	Buying land/building	1	5.55 %

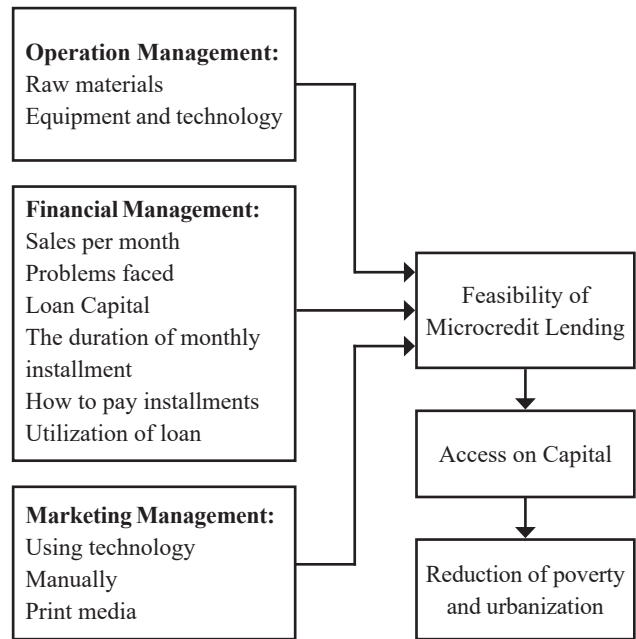


Figure 1. Research Paradigm