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Micro Small-Medium Enterprise Development Strategy in the Special Regions Yogyakarta

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Abstract: The purpose of writing this research paper to develop the design of micro small and medium enterprises development in Daerah Istimewa Yogyakarta which is a region with high economic growth based on creative economy. Yogyakarta's economic development which is more referring to the triple helix model (Suharso P and Sukidin, 2014) provides space and opportunities for the development of micro, medium and small enterprises. However, economic development based on this creative company does not yet have a good development design (ADB, 2011). The research method used qualitative approach. Data were collected through interviews, documentation and focus group discussions. The results show that Yogyakarta has enormous potential for the development of micro, small and medium enterprises to support the local economy. As a tourist destination, micro, small and medium enterprises are growing more based on creative economy.

Keyword: Micro , small, medium, enterprise, regional economy, strategy.

INTRODUCTION

The Mandate of the Decree of the People's Consultative Assembly of the Republic of Indonesia Number XVI/MPR-RI/1998 on Economic Politics in the framework of Economic Democracy, Micro, Small and Medium Enterprises needs to be empowered as an integral part of the people's economy which has positions, roles and strategic potentials to realize the economic structure National development that is more balanced, developed and equitable, the empowerment of Micro, Small and Medium Enterprises needs to be implemented thoroughly, optimally and continuously through conducive climate development, giving

business opportunity, support, protection and business development as widely as possible, Increasing the position, role, and potential of Micro, Small and Medium Enterprises in realizing economic growth, equity and increasing people's income, job creation, and poverty alleviation.

Government policy through Law No. 20 Year 2008 on Micro, Small and Medium Enterprises, states the recognition of the importance and strategic of SMEs as a pillar of national economy and instrument of national stability through equal distribution of welfare and employment. The Law also reaffirms the government's commitment to empowering SMEs in all its aspects.

Understanding Micro, Small and Medium Enterprises (MSMEs) is quite varied among experts or observers of economic problems or populists in the field of social and economic. This is related to some of the parameters used as the basis for measuring the scale of the existing business. However, Micro, Small and Medium Enterprises (MSMEs) as regulated in Article 6 of Law Number 20 Year 2008 regarding Micro Small and Medium Enterprises are productive businesses owned by individuals and/or individual business entities with criteria and classified as follows:

Criteria for Micro Enterprises shall be as follows

First, it has a net worth of at most Rp. 50,000,000.00 (fifty million rupiah) excluding land and building of business premises; and secondly it has annual sales of at most Rp. 300,000,000.00 (three hundred million rupiah) Meanwhile, criteria for Small Scale Enterprises are as follows: First, it has a net worth of more than Rp. 50,000,000.00 (fifty million rupiah) up to a maximum of Rp. 500,000,000.00 (five hundred million rupiah) excluding land and building of business premises; and secondly it has annual sales of more than Rp. 300,000,000.00 (three hundred million rupiah) up to a maximum of Rp. 2.500.000.000,00 (two billion five hundred million rupiah). And Medium Business Criteria are as follows: First, it has a net worth of more than Rp. 500,000,000.00 (five hundred million rupiah) up to a maximum of Rp. 10,000,000,000.00 (ten billion rupiah) excluding land and building of business premises; and secondly it has annual sales of more than Rp. 2.500.000.000,00 (two billion five hundred million rupiah) up to a maximum of Rp. 50,000,000,000.00 (fifty billion rupiahs).

The criteria referred to in paragraph (1) a, b, and paragraph (2) a, b, and paragraph (3) a, b the nominal value can be changed in accordance with the economic development regulated by Presidential Regulation. It is well known that the strategic role of MSMEs in the foundations of the Indonesian economy is both in terms of quantity and distribution, labor absorption, productivity and even in supporting the international trade balance (MSME's ability to support export value) (Suharso, P, 2010). However, the development of MSMEs mainly related to the support of government policies and programs still feels less focused and focused today. Better quality and long-term support is required to sustain the current development of MSMEs, but unfortunately, government support is still spinning on routine and short-term matters. The role and support of the government needs to be improved in quality although the volume of government programs or projects in support of MSMEs development continues to increase from year to year (Kuncoro, 2012).

Yogyakarta Special Region is one area with a very dynamic life of MSMEs (MSME) and various kinds of business can be found in this region. The role of MSMEs in the economy in Yogyakarta is enormous considering not so many large industries are developing in this region. Therefore the government gives

little attention to the development of this MSMEs. In developing MSMEs, the government has a special vision. In the document Masterplan Development of SMEs DI Yogyakarta Province 2010-2014 listed a vision as follows:

“the realization of micro, small and medium enterprises (SMEs) are kopentitif, based on local economic strength and Human Resources (HR) is professional and ethical”. (Bappeda DIY, 2015).

Although the attention of the government is important enough but that does not mean there is no problem. The problems that often arise related to government support for the development and development of SMEs today is on the aspect of synergy or alignment among the program/project the government itself. Different programs with different institutional backgrounds have generated a lot of distortion or overlap in the field so that government support becomes less than optimal. In addition to synergy is also concerned with the sustainability aspect of a program (Suharso, P and Sukidin, 2014). A program often stops in the middle of the road without sufficient evaluation results to be followed up and then disappears as it is replaced by a new program/project. To provide a more optimum support pattern in the future, this integration problem must be resolved. One of the approaches that can be taken is the formulation of a “Joint Guideline” which is the foundation of all parties at the provincial level in organizing various programs that support the development and development of SMSEs in Yogyakarta Province.

There for Yogyakarta needed a “grip” or a grand design in the development of SMEs in Yogyakarta. This grand design of MSME development is a fundamental (fundamental) thought that can be used as a foundation for policy makers in planning and implementing policies or programs for the development of MSMEs in DI Yogyakarta. Thus a grand design is not a plot of planning but a fundamental flow of thought that can guide us in undertaking/planning and implementing strategies. It can also be understood that the Grand Design of MSMEs Yogyakarta Development is not a planning document that contains a series of processes and achievements related to a certain period of time but this grand design can and will be used all the time before there is a need to replace or modify it.

RESEARCH METHOD

Document Analysis

This research uses qualitative approach. Data were obtained with documents, FGDs, and in-depth interviews with various parties involved in the development of small and medium-sized micro enterprises. Some of the important documents that form the basis of the drafting of the Grand Design of MSMEs Development are:

- Master Plan of SME Development in Yogyakarta 2014
- Policy Review of Small and Medium Enterprises Development Opportunity of Yogyakarta Special Region 2014
- RPJMD Yogyakarta Special Region Year 2010 - 2014
- RPJPD Yogyakarta Special Region 2010 - 2025
- Revolving Fund Management Model of Cooperatives and SMEs in Yogyakarta Special Region
- Documents-other supporting documents

The various documents are analyzed and based on the analysis of the above documents will be described an economic characteristics, especially about SMEs in Yogyakarta Special Region and its strategic issues.

Focus Group Discussion

Focus Group Discussion held to explore the opinion of many parties about the Grand Design of this MSME Development. The discussion was conducted by inviting various related institutions. Also discussed with the perpetrators of SMEs to explore their aspirations about the development of SMEs in Yogyakarta. The following are some important notes from discussions with relevant agencies with actors. Discussion I with the relevant agencies was held on Friday, August 26, 2014. Discussion II with related institutions was held on Thursday, September 29, 2014. Meanwhile, between the two discussions with related institutions also conducted a discussion with the perpetrators of MSME on September 19, 2014.

Formulation of Strategic Issues of MSME Development in Yogyakarta

Various information and data obtained from document review and also discussions with stakeholders need to be filtered, selected and defined as information and data as well as strategic issues as the basic ingredients of grand design development formulation. The screening process and the selection of these strategic issues are carried out by considering their importance, the opinions of many parties and also their qualitative nature in providing the possibility of leverage on the development of MSMEs in Yogyakarta. By formulating these strategic issues the grand design of MSMEs development is expected to provide an appropriate press point that can trigger the development of all aspects related to the development of MSMEs in Yogyakarta.

Arrangement of Grand Design Direction and Development Model

The modeling is done by analyzing several aspects and factors influencing the development and dynamics of MSMEs in Yogyakarta. Some aspects and factors are then grouped into fundamental and important aspects that are then compiled into a direction and plot of grand design Development of SMEs in Yogyakarta. Basically the mind-set model can be formulated in a simple and concise scheme, but a more detailed description is needed in order to facilitate its understanding.

RESULTS AND DISCUSSIONS

General Condition of MSMEs in Yogyakarta

Based on data published by Disperindagkop Yogyakarta (2015) it can be seen that the number of industries in Yogyakarta in 2014 is 76.267 units of business. The number of industries is differentiated in several types of businesses: food, clothing and leather, chemicals and building materials, metals and electronics, and handicrafts. A fuller explanation of the industry, labor force and investment value of industry in Yogyakarta 2014 can be seen in Table 1.

The development of micro, small and medium enterprises in Yogyakarta Province is quite encouraging. One of them is marked by the increasing number of units of MSMEs. In 2014 the number of SMEs in the Yogyakarta is 11,090 units. This amount is much larger when compared in 2010 that only as many as

Table 1
Industrial Potential in Yogyakarta Tahun 2014

| <i>Jenis Industri</i> | <i>Unit Usaha</i> | <i>Tenaga Kerja (orang)</i> | <i>Nilai Investasi (Rp. 000)</i> |
|--------------------------|-------------------|-----------------------------|----------------------------------|
| Pangan | 34.854 | 111.250 | 191.355.750 |
| Sandang and Kulit | 4.433 | 21.332 | 113.567.925 |
| Kimia and Bahan Bangunan | 12.024 | 63.334 | 334.333.030 |
| Logam and Elektronika | 3.631 | 12.567 | 30.750.250 |
| Kerajinan | 21.325 | 65.138 | 99.267.565 |
| Jumlah | 76.267 | 273.621 | 769.274.520 |

Sumber: Disperindagkop dan UKM (2015).

9,810 units. Explanation of the development of number of SMEs in Yogyakarta by district/city in 2010-2014 can be seen in Table 2.

Table 2
Number of MSME in Yogyakarta, 2010-2014 (unit)

| <i>No.</i> | <i>District</i> | <i>2010</i> | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> |
|------------|-----------------|-------------|-------------|-------------|-------------|-------------|
| 1. | Kota Yogya | 2.845 | 3.004 | 3.027 | 3.082 | 3.116 |
| 2. | Bantul | 2.573 | 2.729 | 2.777 | 2.827 | 2.895 |
| 3. | Kulon Progo | 1.302 | 1.397 | 1.445 | 1.479 | 1.519 |
| 4. | Gunungkidul | 2.168 | 2.310 | 2.357 | 2.412 | 2.451 |
| 5. | Sleman | 922 | 997 | 1.045 | 1.066 | 1.099 |
| | Jumlah | 9.810 | 10.437 | 10.651 | 10.866 | 11.090 |

Sumber: Disperindagkop DIY (2015).

Judging from the number of SMEs by district/city can be seen that the number of SMEs in the city of Yogyakarta. Two districts that also have relatively small number of SMEs are Bantul and Gunungkidul. The highest and lowest SMEs in Yogya City occurred in 2014 (3,116 units) and 2010 (2,845 units) respectively. For cases in Bantul Regency, the highest and lowest SMEs are 2,895 units (2014) and 2,573 units (2010), respectively. While the highest number of SMEs in the lowest in Gunungkidul Regency are respectively 2,451 (2014) and 2,168 (2010). By looking at the growth of the number of SMEs by districts/cities above can be seen that the largest contribution of regions that have SMEs in Yogyakarta in 2010-2014 can be observed in Table 3.

The above contribution data can be one of the potential map of distribution of SMEs in Yogyakarta Special Region by district/city. Kota Yogyakarta, Bantul Regency and Gunungkidul Regency are the three regions where the presence of SMEs participating in regional economic activity is significant. It is not new that the role of SMEs in the Yogyakarta economy is significant. Some indicators used to look at the role of SMEs are the number of business units, the number of production values and the amount of labor used. SMEs in their role as one solution to the reduction of unemployment and poverty will require a lot of attention and “intervention” from various parties, especially the government. Government intervention

Table 3
MSME contribution by district in Yogyakarta 2010-2014 (%)

| No. | District | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----|-------------|--------|--------|--------|--------|--------|
| 1. | Kota Yogya | 29,00 | 28,78 | 28,42 | 28,36 | 28,10 |
| 2. | Bantul | 26,23 | 26,15 | 26,07 | 26,02 | 26,10 |
| 3. | Kulon Progo | 13,27 | 13,39 | 13,57 | 13,61 | 13,70 |
| 4. | Gunungkidul | 22,10 | 22,13 | 22,13 | 22,20 | 22,10 |
| 5. | Sleman | 9,40 | 9,55 | 9,81 | 9,81 | 9,91 |
| | Jumlah | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 |

Sumber: Disperindagkop DIY (2015).

here is not limited to the policy formulation of SMEs, but the implementation of the policy is directly perceived benefits by SMEs in operating and developing their business.

Discussion with Stakeholders

The discussion was conducted by inviting various related institutions. Also discussed with the perpetrators of SMEs to explore their aspirations about the development of SMEs in Yogyakarta . The following are some important notes from discussions with relevant agencies with actors. Discussion I with the relevant agencies was held on Friday, August 26, 2014. Discussion II with related institutions was held on Thursday, September 29, 2014. Meanwhile, between the two discussions with the relevant agencies also conducted discussions with the perpetrators of MSME on September 19, 2014. Some important notes of a series of discussions conducted are as follows:

Discussion I, Friday, August 26, 2014

1. One background of this grand design idea is the emergence of questions from legislative members about the picture of SME development in Yogyakarta.
2. This document is expected to be a grounded document based on the unique character of Yogyakarta and is a document capable of providing significant leverage for the development of MSMEs, including in this case how to develop a strategy of developing MSME that is able to provide/increase economic growth rate in In Yogyakarta.
3. Some development schemes from developed countries need to be considered but do not have to choose one of them.
4. In the preparation will be considered on the data is still weak and various versions of existing data.
5. This document should also be able to synergize with other plans and development programs of SMEs that are being pioneered, such as how to synergize with the Ministry of Research and Technology plan that will establish the Bussiness Training Center (BTC).

6. Micro, Small and medium scale businesses need to be differentiated, Cooperative Roles need to be analyzed.
7. In the E phase (Exchange/exchange) needs to be elaborated role of government, Universities and Large Corporation.
8. How to create a bridge between researchers and the public.
9. Need approach based on business group.
10. It should also be reviewed about the level of authority between the District Government and Provincial Government.
11. Grand design is a long-term conceptual concept with a more stable pattern, willing to take where MSME coaching in Yogyakarta.
12. For supporting materials are already available some important documents such as Masterplan Development of MSME in Yogyakarta as well as other documents so that the drafting team can review and conduct a grand design formulation of the available materials.
13. In the document of Grand Design Development of MSME in Yogyakarta, it is necessary to formulate the parameters and indicators of development that are clear and directional so as to facilitate the implementation and evaluation. In addition, stakeholder analysis should also be conducted to provide guidance and guidance on who and what should do.

Discussion II, Thursday 29 September 2014

1. One of the problems faced by SMEs in Yogyakarta is the supply system/supply of raw materials necessary, with a long chain may be the supply system is a constraint for the development of SMEs in Yogyakarta.
2. Needs a priority scale in the target audience.
3. How to do the transformation in the agricultural sector, given its contribution is decreasing.
4. We need to think about real strategies and actions in protecting and improving traditional market management especially.
5. The creative industry needs to be considered.
6. Internal analysis of micro-enterprises should be analyzed.
7. The grand design stage should be how we analyze the current state, formulate what is desired in advance and also develop the interventions necessary to realize the desired conditions.
8. Is it necessary to model like One Village One Product (OVOP), etc.

Discussions with Business Actors

The discussion was held on 19 September 2014 at the Small Medium Enterprises Development Center meeting room, Gadjah Mada University. The discussion involves about 20 MSME actors from the handicraft, tourism, association, agriculture, IT, food etc sectors. Some of the results of discussions with business actors are as follows.

Government policy

1. Multi-party cooperation programs in support of MSMEs are still needed by MSME actors, such as capital assistance which is accompanied also by the process of business development assistance.
2. Globally and in the perspective of neo-liberalism MSME is still a tool of capital accumulation for the rulers of large/foreign capital. In Yogyakarta this practice is very clearly visible for handicraft products that have export orientation. The position of craftsmen/small entrepreneurs is still very weak and has not been said as equal partner for entrepreneurs/wholesalers/foreigners.
3. The government has not been able to provide protection for small actors, especially for those who engage in global business arrangements.
4. The current economic policy can not be said in accordance with the objective conditions of micro and small enterprises. Economic policy is still built in liberal economic construction. As an example the case is the silver craftsmen who need government support in the need of raw materials. Traditional silver pengarajin “compete freely” with the perpetrators of silver trade in the international world because silver is an international trade commodity. There is no policy umbrella that protects these silversmiths to compete with the big actors precisely the craftsmen are burdened by the same tax rules applied to the big bidders.
5. Supporting SMEs is an ideological movement, there must be a clear alignment to micro-small business but until now the government and SMEs have not seen to partner strategically, especially in addressing the development and dynamics of the global economy. MSME actors are still weak in reading macro and global conditions therefore this should be something strategic that can be built together between MSME and government actors.

Cluster Management

1. Cluster management is still very alarming. Among the entrepreneurs in one cluster instead of happening synergy but actually involved in a very tight competition climate and eventually just dropped each other.
2. Cluster service system is still very minimal. Information service and also guest reception is still conventional. Differentiation of products among business actors in clusters is also not well managed.

Technical support

1. Lots of unused tool aids. This is due to the inadequacy of the target group or because of the quality and capacity of the adequate offline tools.
2. The capability of human resources is more important than machine help
3. Bias a momentary interest in granting facilities by the government
4. There are still many aids that are “*menina bobokkan*”.

Direction of Sectoral Development

Optimization of primary sector in supporting the development of secondary and tertiary sectors. Given the existing development of strengthening the role of the secondary and tertiary sectors and the decline in the contribution of the primary sector, it is necessary to strengthen the agro base to support the growth of the secondary and tertiary sectors. The development of the secondary and tertiary sectors should not be solely seen as a threat to the development of the primary sector but may also be an opportunity for the development of the primary sector. However the development of the secondary and tertiary sectors in the areas of services, hotels and restaurants and others will be followed by increased demand for primary products. The problem is whether the primary productivity in DI Yogyakarta is able to meet both quality and quantity.

Strengthen the Competitiveness of Small Industries

Several small industries are well developed in Yogyakarta, involving handicrafts (natural fiber, bamboo, furniture, etc.) as well as food processing industries. However, this small industry needs to be supported to improve its competitiveness. The competitiveness of this small industry needs to be improved as it faces a not-light level of competition from other regions. To improve this competitiveness, there is at least some attention to three aspects, namely: the aspect of raw material supply, the use of appropriate technology and also the development of its human resources. The use of appropriate technology and the improvement of the quality of labor greatly affect the quality of the products produced. Therefore, attention to these two aspects is very important considering the competition of product quality is fundamental in the existence of SME products in the market.

Special Attention to Non-craft Creative Industry and Technopreneur

Yogyakarta as one of the main education cities in Indonesia is a gathering place for prospective professionals who have high innovation and creativity. They are born from various educational institutions that exist and develop in Yogyakarta. Looking at the progress that has emerged with the emergence of various non-craft creative industries such as the Production House, art groups as well as village tours with various objects and models of development, special attention is needed to this. Attention to non craft creative industry is based on 2 things, namely:

1. The unique potential of Yogyakarta concerns the human resources and characteristics of nature and tradition,
2. This potential is not owned by all other regions/provinces so that should be a special attention in Yogyakarta.

In addition, small-scale business based technology also needs to be developed considering the potential human resources available in the Special Region of Yogyakarta. For example a variety of organic fertilizer products and also other agricultural production facilities can be produced with the ability of existing human resources. Yogyakarta is also one of the targets of the national alternative development program with the existence of several programs of Energy Self Village. This needs to be further developed to meet the established development targets.

Support and Protection of Non-formal Sector

Non-formal sectors such as traditional market traders, casual workers, becak drivers, traveling traders and others have not been formally identified. But in the field their role can not be considered light. The non-formal sector is able to dynamically drive the economy of the community with a variety of micro-scale enterprises. Governments need to develop support strategies and even protection of their activities. An example is the protection and improvement of traditional market management as well as street vendors. Non-formal sectors such as diverse hunting professions, wildlife breeders can be the target group of coaching, because in principle they are able to open employment but need to be directed so as not to harm the environment that sometimes will damage the potential of their own business.

Especially for traditional markets the government should give special priority by improving facilities and facilities as well as management of market management. Some traditional markets in the middle of the city for example Demangan Market and also Kranggan Market needs to be repaired system and service of vehicle parking. Management and behavior of traders and entrepreneurs can also be improved so that services in traditional markets can compete with modern markets. Traditional markets are able to provide a vast business space for micro and non-formal business actors.

Scema of MSME Development Process

The development and dynamics of SMEs in Yogyakarta is influenced by various factors and aspects that surround it, both internally and externally. In preparing the grand design of MSME development is needed a sharp analysis to be able to see the factors that are important to be managed. To facilitate the analysis, various aspects and factors that influence the development of MSMEs can be simplified into a constructive and fundamental thinking line.

In the previous explanation can be described directives to manage some sectors, factors, aspects and also important scope. Furthermore, there should also be a design about the processes that must be implemented in the development of SMEs. This process is not aimed at a particular sector or specific scope but a fundamental process that must be implemented by the stakeholders to be able to improve the dynamics of SME development in the Special Region of Yogyakarta. A series of such processes can be summarized in the following scheme.

Thus there are 3 important aspects that should be encouraged in developing SMEs, namely: Information collection aspect (information collection), Exchange Aspect (Exchange); and Aspects of Development outside the internal business unit (Development Support).

Information Collection

Information in the modern economy is the basis for business decision making. Complete and accurate information is the basic capital for various parties that will develop the business (venture). Without the support of adequate information it is impossible to develop a business. Various scope of information required by various parties in developing their business. In addition to complete and accurate information should be easily and quickly obtained. Easy and inexpensive information is important for micro and small businesses, because the process of obtaining information is also an expensive investment for them. Various initiatives/activities should be carried out in managing this information which in principle can be categorized into three things: collecting, packaging and distributing. The three initiatives above if done simultaneously

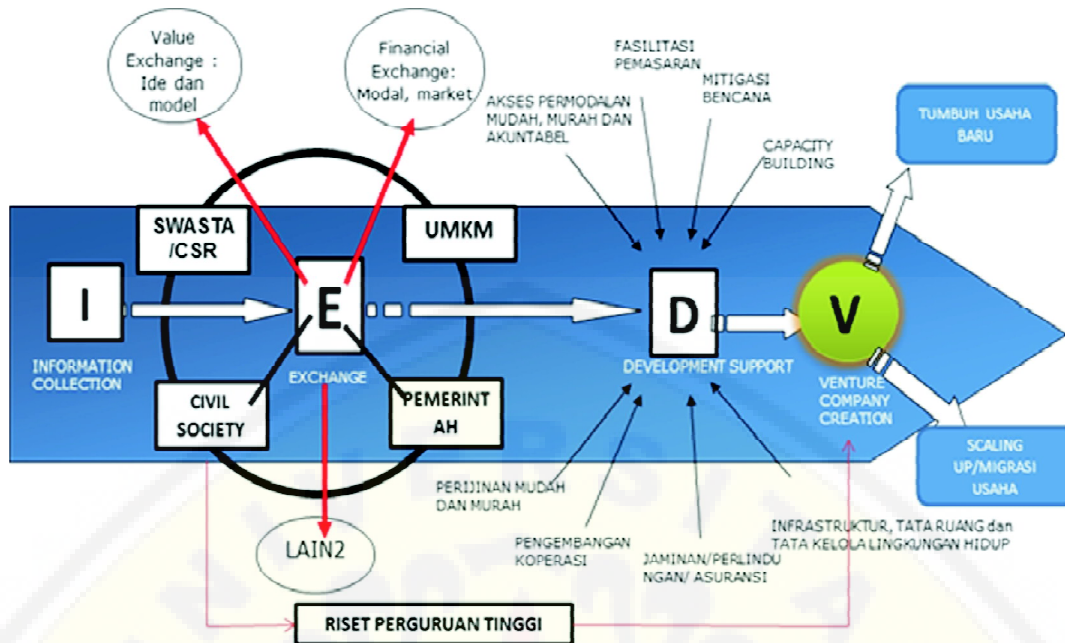


Figure 1

Sumber: Suharso, P and Sukidin, 2014.

will form an Information System. The management of this information or information system may be encouraged by the government in cooperation with other parties, but its packaging and distribution to business actors should be established in such a way that as mentioned above actors can obtain information easily, quickly and easily. This information system should also be dynamic and up to date.

Exchange (Exchange Process)

Is a process of meeting the parties that will support the development of business units. In this case a business will naturally proceed with this exchange process, at least between the seller and the buyer. However, in the wider context this exchange may occur between the parties that influence the development of the business. If it is assumed that business units will evolve based on the exchange process it can be deduced that if this exchange process is well driven and more progressive then business/business development will also be more dynamic. Different types of exchanges that will occur can include various things, namely:

1. Financial exchange, is an exchange that involves money as a means of exchange or practically is the occurrence of a transaction process.
2. Value exchange, is the exchange of value that is things that are non-financial but can be perceived benefits by the parties that exchange. Things like knowledge, practical experience may even be technology, and market information can be exchanged without involving financial transactions. Including the process of changing the mind set toward the industrialist.
3. Other Results Other results of the process of the occurrence of this exchange for example is related to the policy (Policy exchange). This can be a form of exchange on government initiatives in support of the development of MSMEs. This policy-related exchange is expected to encourage synergies or integration between and among the districts and provincial governments.

The government should be able to encourage and facilitate the process of exchange (exchange) through a mechanism or a continuous process and can be done periodically for example in every quarter or every semester in 1 budget year. The exchange process can be done through a simple process by inviting stakeholders related to the development of SMEs as described above. Each side can convey the progress of its initiative, and then the other parties will be able to respond either directly or indirectly after the meeting.

Development Support

There are various aspects that support the growth and development of an initiative for the establishment and development of MSME business units. This definition of support is very broad. Various types of support for the growth and development of these business units can be:

- Facilitate quick and cheap licensing
- Support the financial system for SMEs are cheap and accountable
- Support infrastructure and regional arrangement
- Support for MSME pro-market access
- Support the tax system that pro MSME

In realizing the various forms of support above the government should be able to establish the appropriate priortas scale for the development of MSMEs. The forms of support that need to be prioritized can be discussed in the exchange process conducted in a certain period.

CONCLUSION

There is no doubt that micro, small and medium scale enterprises in Yogyakarta are essential for rapid and sustained regional economic growth and development. They create employment, enhance capacity building for manpower and skills development, promote growth, reduce poverty, and facilitate industrial development among others. Several efforts and strategy has been made by successive governments to promote SMEs amidst the vast availability of human and materials resources. Despite these efforts, MSME in Yogyakarta have not yet contributed significantly to the development of the Yogyakarta economy macro. Findings revealed that the potentials of MSMEs have not been fully harnessed due to poor implementation of the seemingly promising policies and inadequate financing of the MSME sub-sector.

In spite of government policies aimed at providing financial and technical support for the promotion of SMEs, they have performed less satisfactorily largely because of operational bottlenecks including lack of depth of the financial system, inadequate infrastructural facilities, poor management practices and low entrepreneurial skills to mention but a few. Therefore, it will be absolutely impossible for SMEs to contribute meaningfully to economic development in Yogyakarta due to absence of a business-friendly environment.

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