



**THE SMALL MEDIUM ENTERPRICES (SME) POLICY REVIW OF CITY
GOVERNMENT OF YOGYAKARTA INDONESIA AND YUNLIN TAIWAN**

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Abstract

This study is aimed to investigate the issue of SME Policy of City Government. However, few policy initiatives target high-growth SMEs. There are various model related those issues such as Korea and Singapore have recently implemented policies for high-growth SMEs, Israel plans to introduce such policies, Canada, combined SME support through R&D programs and venture capital increased the number of high-growth companies considerably. Global Review of Innovation Policy Studies indicates that there is a lack of evaluation studies that could substantiate certain measure to support high-growth SMEs as being particularly effective or ineffective in Indonesia. Indonesia and Taiwan is a very interesting laboratory for this research, since the problems with governance, such as related party lending or crony capitalism, is one of the institutional problems to high-growth SMEs policies. This collaborative research is to provide an extremely comprehensive benchmark for investigating the most obstacle to lead SME, parties involved, and policy modeling as well as city government responsibility.

Keywords: SME's Policy, Yogyakarta state government, Yunlin District Government

I. INTRODUCTION

According to Sathe (2006), Government regulations and their bureaucratic procedures can hinder as well as facilitate entrepreneurship activity such as new business origination. Therefore the government can occur up with policies that can boost and support the growth of novel technologies, products, and solutions. Research on SMEs policy needs to be improved. It is believed that SMEs which lacked government support policies have restricted access to improving their performance. The Government policies for SMEs are vary from advanced economies to developing countries and from country to country attributed to variations in social and custom values, the extent amount industry and business settings (Eniola, & Entebang, 2015). Externally, the industries are constantly changes, competition among competitors increase, market getting more competitive, and product-related is likely uncertainties, overwhelming business climates and the lack of exploitable opportunities, changing demand conditions and radical innovations which in



turn can cause the firms technological capability to become obsolete seem to be the principal issues of environment hostility. Whereas internally, business management capacity is also an issue with many SMEs – quality of business judgment and cash management discipline. The SME development strategy should, therefore, be holistic. Accordingly numerous propositions have come out of the literature and conscious attempts are still needed on the role of governments. It is believed that government can behave an entrepreneurial role to have an effect on the cosmos of a maintainable market component.

Yogyakarta City and Yunlin County is likely an emerging SMEs potential. However, industrial environment seems have a reverse support. Yogyakarta city is closed to a tourism culster rather than agriculture one for Yunlin county. Hence policy requirement for supporting SME's thus important to be explored. Antecedent of success on policy implementation endorses the climates of SME's development. However, research on city government policy analysis to rise SME business are view. Indeed, several papers have also attempted to examine SME Policy in emerging countries (Chang, Hsu, & Chou, [2015](#); Chiu, [2015](#); Perera & Chand, [2015](#)). However, few of them has taken city government policy into very close consideration. Our research project is therefore dedicated to investigate the issue of the model of city government policy on SME. Yogyakarta city government is a very interesting laboratory for this research, since the threat of the effort of Yogyakarta city government on developing SME capacity heading the global competition. Accordingly The objective of the paper is to explore content of both Yogyakarta city government and Yunlin county government policies in term of the intention of SMEs development. The study is expected to give contribution to business practices for city government decision makers to investigate the appropriate models of SME policies that significantlu effect on SME business.

II. EXISTING REGULATION SME'S APPLIED IN CITY GOVERNMENT

Yogyakarta City Government

The nation's micro-, small- and medium-sized enterprises (SMEs) have great potential to serve as an economic pillar of the state. The government of Indonesia through its policies continuously gives attention to the development of SMEs so that they will be able to face free trade and technology development in the globalization era which require the capability to compete and create good quality products. Another important measure taken by the government was through the stipulation of Government Regulation Number 75 Year 2005 regarding Types and Tariff of Non-Taxed Government Revenue in the Ministry of Law and human Rights. This regulation provides for special fees for applications by SMEs. Other institution government that provide subsidies system for SMEs are Ministry of Cooperatives and SME, Ministry of Industry and a number of Local Government, such as: Province of Yogyakarta Special Region, Province of west Java, Province of Central Java, Province of East Java and Province of West Nusa Tenggara. Lastly, in the effort to bridge inventors/innovators with SMEs, the Government of Indonesia set up an Innovation Center for Micro, Small and Medium-sized Enterprise. However, local SMEs have not been properly managed and their presence has been made a stepping-stone by officials to realize personal ambitions. Despite all the boasts about capital aid, given the present way of SME management, with the government lacking a populist economic development vision, everything will be in vain. SME management has for a long time been politically motivated.



As a result, government officials, their wives, their children and other assorted relatives take part in running institutes, foundations or associations governing SMEs. Government policies should be designed to develop SMEs are inclined to be capitalistic, rather than those that favored of the growth of people's economic ventures. Consequently, there has been no sincere commitment to boost the potential inherent in SMEs. Guidance for SME businesses should be consistently and continuously provided while government departments should maintain their synergy and common vision.

Case of Yogyakarta SMEs and its government support in term of its policies are vary. Yogyakarta city region has quite a lot of mini market franchised. It directly competes for the small entrepreneur. Accordingly to protect small businesses develop in this region, the Mayor of Yogyakarta Regulation No. 79 Year 2010 are issued. This objectives are to makea restriction of the franchise minimarket and role of the Licensing Agency of Yogyakarta. However, it is found that there are some differences in the implementation of the regulations. The Licensing Agency of Yogyakarta district reduce the cost of local tax for SMEs, while the Disperindagkoptan provide oversight and guide partnership for SMEs to manage a better business.

Yunlin City Government

Compete to Yogyakarta district, the recent issues of SME's policy in Taiwan promote the legislative caucus of the ruling party has been pushing for a series of law revisions that would offer tax incentives to enterprises to raise wages and increase employment includes the Small and Medium Enterprises (SMEs) Development Act. The main opposition party has suggested that the pay increases should be achieved by raising the minimum wage and it has also expressed support for the law revision proposal¹. Small and medium-sized enterprises (SMEs) continue to make up the backbone of the economy in Taiwan. According to the Ministry of Economic Affairs (MOEA), SMEs in Taiwan numbered about 1.33 million at the end of 2013, accounting for 97.64 percent of all enterprises.

In order to help SMEs to enhance competitive strength, besides helping SMEs to upgrade and transform their businesses, Republic of China (ROC) government have encouraged SMEs to engage in innovation and R&D, enhance technical standards, strengthen operational and quality management, increase operational efficiency with IT, and create higher added value². Various policies are launched such as capital financing needs of SME development by aggressively providing them with financing guarantees and strategic project loans, arranged for them consultation and diagnostic services through financial service teams. In order to encourage SMEs to utilize local resources and development characteristics, the Small and Medium Enterprise administrative Director-General of ministry economic affair have promoted projects related to the One Town One Product (OTOP) and integrated local association tourism resources to promote the development of local characteristic industries. Accordingly Republic of China (ROC) government promotes policy, acts and regulations to improve and develop the business operations of small-scaled enterprises without unfair treatment in respect of financial and taxation systems and other related matters such as shall take appropriate assisting or encouraging measures in respect

¹<http://focustaiwan.tw/news/awps/201503120026.aspx>

²<http://www.moeasmea.gov.tw/ct.asp?xItem=67&CtNode=302&mp=2>



of the following Market research and development, Furtherance of rationalization of business operations, Promotion of mutual cooperation, Acquisition and securing of production factors and technology, Education and training of competent personnel, and Other matters relating to the establishment or sound development of small and medium enterprises (Act for Development of Small and Medium Enterprises)³. To create a healthy environment for the development of SMEs, Small and Medium Enterprise administrative launches the following programs and initiatives includes assertion of SMEs' rights by regulatory adjustment, research on and analysis of the SMEs' business environment, and promoting comprehensive planning matters. The county (includes Yunlin) competent authority may, taking into account of the specific development requirements of small and medium enterprises, under its jurisdiction, draw up assistance plan and formulate budget, and shall be responsible for the execution.

Republic of China (ROC) government believe that with more than 97% Taiwan enterprises are SMEs that play important role in the upstream value chains supporting larger-scale enterprises' production and exports. They are the cornerstones promoting economic growth and stabilizing society and employment. The vigor and tenacity they present in operation have marked out Taiwan spirit. Hence the Republic of China (ROC) government cares about the development of SMEs and provides SME assistance with government resources, in order to create a better and prosperous future for SMEs and Taiwan. Empirically, the Republic of China (ROC) government is encouraging the development of new technologies and products by SMEs under the Small Business Innovation Research Program 小型企業創新研發計畫, which offers subsidies covering up to 50 percent of their R&D costs. The Small and Medium Enterprise Credit Guarantee Fund of Taiwan 中小企業信用保證基金, which provides guarantees for bank loans to businesses, was also expanded to NT\$1.30 trillion (US\$43.67 billion) in 2013. As part of government efforts to help small innovative startups, the Gre Tai Securities Market (GTSM) 證券櫃檯買賣中心 launched the Go Incubation Board for Startup and Acceleration Firms (GISA) 創櫃板 in January 2014. Nonpublic microenterprises that pass review by the GTSM may list on the board, provided they have capitalization of no more than NT\$50 million (US\$1.65 million). The GISA encourages the public to invest in small businesses and gives creative and high-potential startups greater access to funding needed for their operations.

Taiwan's economic growth rate improved modestly from 1.48 percent in 2012 to 2.09 percent in 2013 amid mild global recovery and slowing growth in Mainland China, the most important trading partner of Taiwan. As for the performance of SMEs in 2013, the number of SMEs reached a record level of 1,331,182, up 1.87 percent from 2012, and accounted for 97.64 percent of all enterprises in Taiwan. In addition, the number of employed persons in SMEs increased to 8,588,000, up 1.22 percent from 2012 - the highest level in recent years - and represented 78.30 percent of all employed persons in Taiwan. The annual sales of SMEs in 2013 came to NT\$11,322 billion, accounting for 29.44 percent of the total annual sales of all business enterprises in Taiwan, which was 0.53 percentage points lower than in 2012 due to 18.53 percent drop in total exports, partially offset by 2.74 percent rise of domestic sales. In 2013, a total of 98,821 new SMEs were established. Amid industrial structure adjustment in Taiwan, the number of SMEs is mostly concentrated in the service sector, with the

³<http://www.moeasmea.gov.tw/ct.asp?xItem=229&ctNode=299&mp=2>



proportion being 80 percent. 56 percent of SMEs are Sole Proprietorships. In terms of the industries, over 50 percent of SMEs are in wholesale and retail trade, followed by manufacturing (10.5 percent) and hotel and restaurant industry (9.8 percent). In regional terms, 46.5 percent of all SMEs were concentrated in Northern Taiwan. The shares of total sales and export sales held by SMEs in the service sector both rose in 2013 compared to the previous year. In terms of market entry and exit, SMEs often display more flexibility than large enterprises. However, there were nearly 49 percent SMEs had been going concerns 10 years and over by the end of 2013, and the share of SMEs in existence for 20 years and over had been rising consistently over the past 5 years, climbing from 20.5 percent by 2008 to 23.5 percent by 2013, showing improved consistency and resilience (White Paper on SME in Taiwan, 2014).

In sum Taiwanese government is argued been working actively to establish effective policy measures to facilitate the development of SMEs and resolve the hurdles facing SMEs. Multiple policy measures were taken by relevant government departments to assist SMEs in funding and credit guarantee, marketing, talent cultivation, technology upgrading and transformation, start-up promotion, incubation and acceleration mechanism, free trade policy, and improved legal and regulatory environment. The government's development strategy for SMEs in 2013-2014 has focused on four key areas includes improving the provision of financing services to SMEs and boosting investment in the SME sector, encouraging SMEs to upgrade and transform themselves and to enhance their R&D capabilities, putting in place the mechanisms needed to support innovation and new business start-up and incubation, and promoting the in-depth development of local industries and helping these industries to capitalize on market opportunities. A large number of projects and ancillary measures have been implemented in order to help achieve these goals. Each year, the government revises its SME development strategy to reflect changes in the economic environment in Taiwan and the global economy as a whole and carries out planning and implementation of related ancillary measures to boost the competitiveness of Taiwan's SMEs and contribute to their stable, continued development. New guidance and measures recently instituted by the government include the Young Entrepreneur Start-Up Financing Loans, Policy Loans for Special Projects to Help Innovative SMEs, the Innovation and R&D Program, the Youth Entrepreneurship Project, and the Taiwan-Japan SME Business Matching and Taiwan-Japan SME Cooperation and Exchange Platform.

Yunlin County's economy relies mainly on agricultural production, including fresh-water fisheries, although there are also industrial parks. As of July 2015, the county had a total debt of NT\$64.8 billion. Monthly, the county government spend NT\$600 million for staffs salary and another NT\$600 million for retirement funds. There are several SME developed within this county. However several SMEs in different parts of Taiwan and was impressed by these smaller-scale companies that have quietly secured unique but solid positions in the world market. There is a high-pressure gas cylinder producer Mosa Industrial Corp in Yunlin County. It is believed that 100 Taiwanese SMEs possess key technologies and market products under their own brand names into hidden champions in three years. Hence the



Taiwanese government aims to upgrade local SMEs, which account for more than 90 percent of the nation's businesses, to help build a sustainable economy⁴.

III. METHOD

The study will focus on exploring SME policy for both city governments and the effect of SME policy for SME Business development. A Qualitative approach will be conducted. Qualitative approach is done by reviewing literatures and forum group discussion including stakeholders.

IV. FINDING AND DISCUSSION

There are 23.000s of potential SMEs running in Yogyakarta city. Whereas, Kurniyati (2017) reports that 18.234 SMEs play thier businesses ini Yogyakarta City, included 4.569 units of industrial sectors, 13.126 for trading and services, and 539 "cooperative" business. However Yogyakarta city government administred and published only 2028 of them spread within 14 disticts. It indicate the various problems of SMEs in Yogyakarta. The problems are included the internal and external of marketing, capital and funding, Innovation and utilization of technology information, Raw material usage, Production equipment, employment absorption and empowerment, Business development plan, and readiness to face external environmental challenges.. Internally, they have to solve the lack of ability to innovate products, limitations of production capacity to meet demand in a short time (certain cases), limited availability of financial resources for business development, limitations of production process technology so that product quality has not been able to meet market demand, quality of human resources that do not have the skills / skills required so that product quality is not optimal, and weaknesses in buying raw materials, especially to meet large-scale buyers (big buyer). Externally they faced difficulty expanding new market share, especially export market, the threat of similar products originating from imports, especially products from China, economic conditions that are less stable, so greatly affect the price of raw materials and product prices, the condition of banks with high interest rates and credit processes are convoluted, poor infrastructure that increases distribution costs, lack of external contributions, such as associations, investors, and other private parties in support of MSME development, and the price level of the product is relatively high as a result of expensive production costs, also government policies that are less conducive, especially in taxation (Hamid & Susilo, 2011). Hence it is important to regulate to problem of SME problems such as raw material, production tools, process, product, marketing, human resources, facilities, and financial (Astuti, Budiantara, & Saputra, 2016).

Yogyakarta city government by the regulation no 4 in 2011 encourage and foster SME business climates. The regulations are included provide mentoring and developing program for SME, facilitate and encourage the develop SME capabilities integrate to the regional major commodities, expand financing sources and facilitate them to access credit and other financial institutions, provide specific incentives to each related Local Government policy,

⁴<http://www.taipeitimes.com/News/editorials/archives/2013/01/06/2003551853>



establish a policy program, and facilitate and encourage SME empowerment through partnership programs.

Taiwan investigation on SME develop into various issues. Scholars indicate broader capabilities of SME. Embedded themselves into the 'triple helix' model of university, industry, and government, the study of SME are included to explore the responding capability means the ability to react to external stimulus, including identification, acting and recovering from changes, long-term adaptation response which defined as an adjustment in natural or human systems in response to actual or expected long-term future of the environment, economies, and society, and capabilities to the preparedness for responding to changes in a proper manner, that in turn SME able to take advantages or reduce vulnerability associated with climate changes (Chen, Lin, & Chu, 2013; Liao, Wang, & Yao, 2014). Whereas others explore the SME capabilities such as to develop International Market Entry Strategy (Perumal, 2015; Chiu, 2015), to make a decision based on Material Flow Cost Accounting System (Chang, Chiu, Chu, Wang, & Hsieh, 2015; Lee, Yueh-Hua and Wu, Feng-Yi, 2013), and pay a deep attention to build up scientific and technological capabilities lead by the Industrial Technology Research Institute (ITRI) and Hsinchu Science-based Industrial Park (HSIP) (Chen, Lin, & Chu, 2013). SMEs are endorsed to develop their capacities and capabilities on technology, human resources, and developing new high-tech industries. Accordingly Taiwan act of SME are assisting or encouraging measures in respect of the Market research and development, Furtherance of rationalization of business operations, Promotion of mutual cooperation, Acquisition and securing of production factors and technology, Education and training of competent personnel, and Other matters relating to the establishment or sound development of small and medium enterprises.

V. CONCLUSION

There are likely to generate that Yogyakarta City Government and Yunlin city Government have some different contents and attentions of SME regulation application. The success of SMEs' cases in Taiwan rather than Indonesia encourage policy makers in developing countries are suggested to refer to Taiwan's model to design a national innovation system for incubating high-tech sectors (Chen, Lin, & Chu, 2013).

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