

CHAPTER I

INTRODUCTION

1.1 Problem Background

Micro, Small and Medium Enterprises (MSMEs) have an indispensable part within the economic development almost in every country (Tambunan, 2012). Its existence is very crucial for many developed countries and also for developing ones, referred to Thornburg (in Tambunan, 2008) this sector has been supporting economic growth and technological advancement within developed European countries. The existence on this sector is extremely important for the economic growth no matter where they are.

In developing countries of Asia, Africa and South America the Small and Medium Enterprises (SMEs) have a strategic and significant role in reducing the poverty level and in providing employment (Tambunan, 2008). According to Narain (cited in Tambunan, 2008:54) SMEs contributes to: (a) make up 80-90% of all enterprises; (b) provide over 60% of the private sector jobs; (c) generate 50-80% of total employment; (d) contribute about 50% of sales or value added; (e) share about 30% of direct total exports. SME sector constitutes up to 90% of enterprises in ASEAN countries (The ASEAN Secretariat, 2015). Accounting for 30-60% of the Gross Domestic Product is largest source of domestic employment in ASEAN countries in both rural and urban areas (ASEAN

Secretariat, 2013). Hence, this sector is very crucial to build up the economy development as well as providing employments especially in Asian countries.

Indonesia has the biggest territory, population and highest GDP amongst ASEAN Member States (AMS) and it comes with a great economic opportunity as well as challenge (Indonesian Trade Ministry, 2014). Indonesia also has largest number of SME's amid ASEAN member countries (ASEAN Secretariat, 2013). According to the data retrieved from Ministry of Cooperatives and SMEs there are 56.5 million MSMEs with estimated 99.9 percent of total enterprises in Indonesia. This sector absorbs 97 percent of the total workforce in business sectors, with total of 107.7 million employees. Contributed Rp 4,869,568.1 trillion to the national economy with a stable contribution of around 60 percent of gross domestic product (GDP) (Ministry of Cooperative and SMEs, 2008). With this data, it shows that MSMEs sector is vital for Indonesia economy.

In January 2016, ASEAN Economic Community (AEC) began and brought in a revised version of free trade agreement across ASEAN member states to achieve a level of deep economic integration not commonly found in the developing world (Chia, 2013). Alleviation on import tariffs to zero percent supports the free flow goods, services, capital investments and skilled labors within a high competitive market amongst ASEAN member sates (ASEAN, 2008). It is aimed at encouraging regionalism within economic integration through a single market and production base with free flow of goods, services,

capital investments and skilled labors (Soesatsro, 2005). AEC's Blueprint was established in 2007 and used to plot the acceleration of economic liberalization within ASEAN countries. Advanced on four interdependent pillars: (1) a single market and production base, (2) a highly competitive economic region, (3) a region of equitable economic development, and (4) a region fully integrated into the global economy (Indonesian Trade Ministry, 2014). It follows a key component of the AEC is to enhance the competitiveness and expansion of SMEs. Competitiveness then becomes the main key of success within highly competitive ASEAN Economic Community's market.

Even though MSME sector is very important for a country's economy, its survival so often has to deal with great number of issues. Some identical problems faced by this sector that can be found in every country can be named as the following; the limitation on source capital and investment, marketing, distribution and procurement of raw materials, limitation of access to information regarding market opportunities, lack of high-skilled employees and technology capabilities, high transportation and energy costs, communication, higher cost caused by complexities of bureaucracy and administrations in dealing with business license, and uncertainty of economic regulations and policies (Tambunan, 2012:51). Suyatna (2016) added some structural problems that often contribute to disadvantages for MSME's are trade liberalisation such as the implementation of AEC, CAFTA, and lack of support from infrastructure.

Indonesian government has tried nearly all-possible way to support this sector like any other ASEAN Member countries are trying to do (Sandee, 2009). Sandee (2009: 189) mentioned those incentives are varied such as subsidized credit, training programs (in technical skills and entrepreneurship), advisory extension workers, subsidized inputs, and provisions of infrastructure, common facilities, and so on. However, with such an immense support programs most of those interventions have had only a small impact due to very limited budget for most programs, also when it comes to direct assistance it lasts only for a very short period of time (Sandee, 2009).

In response to ASEAN Economic Community, the Ministry of Cooperation and MSME initiates the Center for Integrated Service of Small Medium Enterprises and Cooperation (CIS-SMESCO) throughout all provinces in Indonesia to help the MSME sector via comprehensive and integrative improvement of services based on non-financial assistance. This Unit is expected to help the MSMEs sector and also to prepare the competitiveness toward AEC. There are currently 42 units of Center for Integrated Services of SMESCO in 69 province/regency/city (plut.or.id/home) and on them is already in D.I.Yogyakarta. The CISSMESCO unit would be run under government agency that deals with SME and Cooperation.

Daerah Istimewa Yogyakarta (DIY) chosen as the place where the CISSMESCO unit developed is because it one of the regions in Indonesia that

has high growth of MSME's sector. On 2008, there were total 144,723 MSME units and on 2015 the number spiked to 230,047 units (Disperindagkop dan UKM DIY, 2016). This region has CIS SMESCO unit that operated since 2014 (CIS SMESCO DIY, 2015). DIY preferred as the earlier region that received the establishment of CIS SMESCO mainly because its has rapid growth of MSME sector and chosen as main territory amongst two other biggest national industry development in Indonesia such as West and East Java, this province would be established as industries for leather, handicraft, batik also wood processing (Kementrian Perindustrian Republik Indonesia, 2012).

Table 1.1 The Growth of MSME's sector

according to the scale of business in D.I.Yogyakarta 2008-2015

Sectors	2008	2009	2010	2011	2012	2013	2014	2015
Micro	83.787	90.666	100.227	111.086	111.591	111.912	101.600	104.171
Small	38.085	41.212	45.558	50.494	50.999	51.459	67.509	71.289
Medium	22.851	24.727	27.335	30.296	30.801	31.121	51.594	54.587
Large	7.617	8.242	9.112	10.099	10.604	10.708	-	-

Source: Disperindagkop dan UKM D.I. Yogyakarta, 2016

D.I. Yogyakarta province has been acknowledged as a city of tourism for its culture and history. Not only famous with those features, this region noted for its facilitation in giving an ease licensing procedure for entrepreneurs and business associations through one stop service that helps SME sector growing

(Fitriati, 2014: 13). Based on the table above, MSMEs sector occupied more than 90 percent of total business entities and is responsible for creating many of employments more than what could large enterprises could afford to.

D.I.Yogyakarta government through its trade and industry board has considered MSME's sector that based on creative industry, this industry said as the identity of region's economy (Industrial and Trade board of D.I. Yogyakarta, 2015). It is one of strategy as an effort to improve MSME's competitiveness in D.I. Yogyakarta to deal with AEC 2015 (Industrial and Trade board of D.I. Yogyakarta, 2015). Creative industry could grow very well in Yogyakarta because of two main factors; first is the availability of creative human resource and second, there is a very strong foundation of culture which helps to develop this industry in Yogyakarta (Industrial and Trade Board of D.I.Yogyakarta, 2016).

In Yogyakarta, the potential of SME is very dominant with the variation of craft-based products from all five districts. Some product that have become the main exports commodity from this crafts industry in Yogyakarta such as; leather crafts, wood crafts, paper crafts, stone crafts, silver crafts, bamboo crafts and clay crafts. The crafts industry in Yogyakarta province has grown from total of 21.964 units in 2011 and this amount rose up to 24.417 units in 2015 (Industrial and Trade Board of D.I.Yogyakarta, 2016). Therefore, focus of this research is the SME units which engaged in handicraft sector.

Moreover, Cooperation and SME board of D.I. Yogyakarta province has no longer joined Dinas Perdagangan dan Industri (Industrial and Trade board) as delivered by head section of Cooperation and SME board Drs. Sultoni Nur Rifae in *pipenews*, he said with the change of structural organization this will brought importance momentum to be more focus and act more in developing Cooperation & SME in D.I. Yogyakarta. (pipenews.co.id, May 9 2016). In 2014 the Center for Integrated Services of SMESCO D.I. Yogyakarta was acknowledged as the best Center for Integrated Services (CIS) of SMESCO in Indonesia amongst other 21 CIS and expected to be the example for other CIS by having comparative study, this was delivered by the deputy of development and restructuring of the Ministry of Cooperative and SMEs at the grand launching in D.I.Yogyakarta (REPUBLIKA, 26 June 2014).

Meanwhile, the Vision-Mission of CIS-SMESCO in helping to develop the excellent potential of UMKM, among others are: "Vision, that is to become the main integrated center that enables cooperatives and SMEs in building the potential of regional excellence. As for the missions are; become a companion and coach who can provide solution problems; being a mediator and source of information that can provide appropriate referrals; and being a storefront and a source of inspiration that can bring best practice from the development of cooperatives and micro, small and medium entrepreneurs.

To realize these Vision, CIS-SMESCO D.I.Yogyakarta is supported by several activities, such as SMESCO business consulting, business advocacy, monitoring, advocacy, promotion and marketing, financing access facility, business training, networking, and the latest is the entrepreneur library service. Business consultancy services of UMKM is a service provided to MSMEs who want to share about their business. Assistance or business monitoring is for MSMEs who still need assistance in developing their business. Furthermore, promotion and marketing is done to help the perpetrators of SMEs in marketing their superior products, either by involving them in product exhibitions and so on. The financing access facility is aimed at assisting MSMEs in terms of capital for business development through cooperation with various capital institutions, such as cooperatives, venture, and also banks that are integrated with CIS-SMESCI D.I.Yogyakarta. The hope is that MSMEs are more bankable so it will make it easier for MSMEs to obtain capital loans to expand their business.!

The existence of CIS-SMESCO in DIY will certainly provide fresh air for the DIY's SMESCO in order to grow the potential of local superior product to be highly competitive. This focus related to the ASEAN global market then the local superior products will compete freely with products from abroad. Given the ASEAN free market in present so that this should be a serious concern for all sections, from government, businessmen/SMEs and society. In addition to

helping in growing UMKM, PLUT DIY itself can be a tool of government extension in socializing AEC to the DIY's MSMEs to be well organized to face the challenge of ASEAN Economic Community free market competition.

In addition, there are still many problems faced by SMESCO in D.I.Yogyakarta. Among them are product marketing, intellectual property rights issues, and lack of capital to expand their business. Among the various issues, the focus of the problem of UMKM DIY is the marketing is another issue for MSMEs. Many of SMEs who eventually collapse did not continue its business due to the difficulty in marketing of its products. And from the problem of intellectual property there are quite a lot of replication to the superior products of SMESCO. This is because there are still many MSMEs who do not have intellectual property rights. Whereas intellectual property is something that is very important for SMEs to protect their superior products from imitation, fabricating, and so forth. Associated with capital is a major problem for MSMEs in D.I.Yogyakarta. According to the head of Cooperatives and MSMEs board of D.I.Yogyakarta, Agus Mulyono explained the most prominent problem that still exists within DIY's MSMEs is about access to finance, whereas, although DIY's MSMEs have a clear vision in developing their business, however sometimes not bankable to apply for capital loans (jogja.antaranews.com, 2016). He added, with visiting to the CIS-SMESCO D.I.Yogyakarta the financing issues of MSMEs can be bridged. If the problems of MSMEs as already

described are not immediately followed up, it will be difficult for SMEs to penetrate the ASEAN free market and take advantage of AEC opportunities now and future.

Hence, it is very interesting to do a reasearch on CIS SMESCO in D.I. Yogyakarta firstly because the CIS is a newly established instituion that specifically focused on the development of MSME and Cooperation especially in facing ASEAN Economic Community. The significance also relay on CIS-SMESCO D.I.Yogyakarta unit was pointed as the first CIS unit that offered complete services among other CIS in Indonesia which titeled as the best among others. This is seen relevant in viewing how well the implementation of CIS-SMESCO DIY in strengthening tha Craft-based SME sector. Moreover, D.I. Yogyakarta considered as a region that has large number of SME followed by the rapid growth of this sector on each year. In D.I. Yogyakarta the creative inudstry is reflected as its region's economy distinctiveness on which largely supported by SME that focused on handicraft.

Therefore, this research would specifically focuses on investigating the implementation of Center for Integrated Services of SMECO D.I.Yogyakarta in strengtheing the handicraft-based SME sector facing ASEAN Economic Community 2015.

1.2 Research Question

Based on the problem background above, this research would examine the answer to the following question:

1. How is implementation of the Center for Integrated Service of SMESCO D.I.Yogyakarta in strengthening Craft-based MSME's toward ASEAN Economic Community 2015?
2. What are the challenges that being faced by CIS SMESCO D.I.Yogyakarta in effort to strengthen craft-based SME?

1.3 Research Objectives

- 1.3.1 To build better understanding regarding the role of CIS SMESCO D.I.Yogyakarta in strengthening craft-based SME's skills toward ASEAN Economic Community 2015.
- 1.3.2 To analyze the CIS SMESCO's program implementation in facing ASEAN Economic Community 2015.
- 1.3.3 To investigate how well does CIS SMESCO of D.I.Yogyakarta carry out program.

1.4 Benefit of Research

This research is required to give benefit as a basic research. According to objectives of the research that is set, the benefits of this research expected is as an additional literature by getting information and developing knowledge

related to discussion of local government's role in strengthening MSME's efforts.

1.5 Literature Review

This undergraduate thesis is a research worked through literature review from books, mass media news, journals and government reports. Also, literature reviews is very crucial as a basis for comparison that needed to avoid plagiarism in the process of this research writings. Generally, research regarding the role of government in improving SMEs competitiveness is already many published. However, not many specific researches that discuss the role of government through Center of Integrated Service Unit that focuses on improving SMEs in facing ASEAN Economic Community 2015. There are at least seven previous researches with similar topic on SME development as author's references and comparisons.

First, study done by Wuryandani & Meilani (2013) regarding The Role of Local Governments in Development Policy Micro Small and Medium Enterprises in the Province of Yogyakarta. They found the role of local government was not optimal because of there are still overlapping in term of policies between regions and between the central and local governments caused by regional autonomy. There is still limited infrastructure and no centralized office yet. The composition and educational qualifications of staff in several level has not balanced and does not meet the criteria. The authors conclude

empowerment of SMEs in D.I. Yogyakarta requires a lot of attention from the local government, so that it can be progressed to the next business level and the importance of complementary, harmonious and synergy in the level of macro-economic policy, sectorial policies and regional development policies.

Second, study of an Assessment of SME Competitiveness in Indonesia by Anton, et al (2015). This study identify sources of the competitiveness of SME in the level of innovation, entrepreneurship, human capital, financial resources, potential market and business strategy. They conclude that the SMEs need government assistance to develop marketing networks and access to financial institutions.

The next was a study of SME Development Through the Facilities of External and Internal Potential (Case Study in Business Group "Emping Jagung" in Pandanwangi Village - Blimbing Malang District) done by Anggraeni, Hardjanto, & Hayat, (2013). They described the facility from external actor which is Cooperatives and SMEs board of Malang that have giving SMEs access to capital resources, conduct coaching and training, product promotion activities, expand product marketing, as well as providing facilities and infrastructure. Although, with those facilities there are still some employers constrained in developing their business caused by rising raw material prices, the limited of human resources, has a problem in the capital, lack of infrastructure and lack of access to product marketing.

Another study with the title of “Increasing the existence of SMEs through Comparative Advantage in Order to Dealing with AEC 2015 in Temanggung” done by Sukriyah & Hamdani (2013) shows that government has conducted several activities to minimize the factors that impeding the development of SMEs by providing soft loans, providing training services to the owners of SMEs to be able to expand its business by working with stakeholders, the construction of infrastructure such as road construction, simplify licensing. The role of government alone is not enough then the need for strategies to be implemented by the SMEs themselves to remain in existence amid flood of products from outside is using comparative advantage or advantages that are not owned by other regions or other countries. However, in this study, the researches did not discuss about the real challenges faced by local government role toward their efforts on developing SMEs toward AEC 2015.

The next study done by Najib, Kiminami, & Yagi on 2011. This study sought Indonesian government implements policy that support clustered SMEs, it could be expected that SMEs in the cluster area could pursue and emphasize different performance than their non-clustered counterparts. The findings indicate that business performance in clustered SMEs is significantly different than that in dispersed SMEs. Market orientation and innovation level in clustered SMEs is significantly higher than that in dispersed SMEs. Location factor, in this case is cluster and non-cluster, has influence on competitiveness.

Such conclusion has been confirmed by the fact that cluster give positive condition for developing market orientation and innovation in which SMEs in the cluster area can perform better than dispersed SMEs.

Further study with simmilar topic was already conducted by Putra (2015). His research shows the significant development of glass beads due to role of local government through the cooperatives and SMEs agency as well as the active participation of the businessman glass beads. The results showed that local government acted as a facilitator that is manifested through training activities, capital and technology assistance, the local government also acted as a catalyst that is manifested through promotional products activities, and determination of glass beads as a superior product of Jombang Regency.

Another literature was a journal by Joko Setyono in 2012 that focus on MSME Development Opportunities in Yogyakarta Post ASEAN-China Free Trade Area (ACFTA). The research was conducted by analyzing the primary data Indonesia-China trade and was equipped with a qualitative analysis of the data obtained from interviews with SME entrepreneurs, the Chamber of Commerce, employers associations and relevant authorities in Yogyakarta. The products most affected by the ACFTA are the various products of garment / apparel for young-adults, dairy products and its derivatives and even batik printings produced from China are also entered into Yogyakarta. In his study, (Setyono, 2012) found that Government's role (Disperindagkop Yogyakarta)

through a policy such as socialization of ACFTA and how to anticipate them have not been able to reach all entrepreneurs in Yogyakarta. Moreover, government policy in protecting businesses is perceived by employers who are less affected by the implementation of ACFTA, either directly or not.

Those seven previous studies are discussed about the development of SME by government through varieties of programs in dealing with certain issues. The role of government in strengthening the SME's competitiveness as well as challenges that are being faced both by government and SME actors in the development process of SME itself. Though, specifically, there were fewer studies that investigate the role of government in strengthening the SMEs competitiveness through newly established government organization.

The significant difference of this research with those previous seven studies would appear on its focus which examining an institution's program that specifically designed to help SME sector in the rise of ASEAN Economic Community's competitive market. In this research, the author is try to dig information regarding government's role through the Center for Integrated Services D.I. Yogyakarta in strengthening SME's toward ASEAN Economic Community.

1.6 Theoretical Framework

1.6.1 Micro, Small and Medium Enterprises (MSMEs)

1.6.1.1 Definition of Micro, Small and Medium Enterprises

The definition of MSMEs may be varied on which many countries have their own definition of MSMEs. According to Tambunan (2012: 11) in defining SMEs mostly for many countries referred to the three scales such as initial assets (not include building and land), average turnover per year and total permanent employees. He also mentioned that variations in determining the definition for this sector, in many countries could be differ between sectors and even amongst institutions or government departments.

Referring to the Asian Development Bank (ADB) (2015) in the Asia SME Finance Monitor (ASM) report, the small and medium-sized enterprise (SME) relies upon national definitions. In the ASM countries, SMEs are mainly classified into four criteria by law; number of employees, net or total assets, annual turnover, and capital invested. However, six countries from, South Asia, Southeast Asia, and the Pacific (Bangladesh, Cambodia, Fiji, Solomon Islands, Sri Lanka, and Papua New Guinea) define SMEs in the national policy framework or their central bank's guidelines. Half of the ASM countries define SMEs by industry sector (e.g., service, trade, and manufacturing). In 13 ASM countries, due to policy priorities for inclusive growth, micro enterprises are defined separately from SMEs (Asian Development Bank, 2015).

In Indonesia this sector is incredibly important to national economic foundation and also categorized by government as the vulnerable economic

group and deserves such a special care (Sandee, 2009). Referred to Rahmana in (Sudaryanto, Ragimun, & Wijayanti, 2013) definitions for this sector comes from various intuitions as Central Bureau Statistics, Ministry of Finance and Ministry of Cooperation and SMEs, which are dissimilar from one to another. Conversely, since 2008 all government authorities and the central bank have adopted a single national MSME definition, stipulated under Law No.20/2008 (MSME Law) for SME development policies and financing (Asian Development Bank, 2014).

Central Bureau Statistics defines SMEs based on the quantity of employees. Small Enterprises has an average employee for around 5 to 19 people, meanwhile for Medium Enterprises is an entity of business that employs 20 to 99 people. Unlike the Ministerial Decree of Finance No 316/KMK.016/1994 that outlined Small Enterprises referred as individual or business entity that has been doing business with the turnover at maximum Rp 600.0000.000 per year or an asset equal to Rp 600.000.000 (excluding land and building). Above all, the national definition of MSMEs under Law No.20/2008, which involved the definition of Micro Enterprises. Firstly, Micro Enterprises is the business entity owned by personal or individual business entities which meets the criteria of Micro Enterprises as agreed in this regulation. Small Enterprises is the stand-alone productive economic entities, runs by personal or individual business units that is not branch company or

subsidiary, owned, managed, or became part of Medium Enterprises or Large Enterprises direct/indirectly which is stated in this regulation. Medium Enterprises is the stand-alone productive economic entities, which runs by personal or individual business units, which is not Branch Company or subsidiary, owned, managed, or became part of Small Enterprises or Large Enterprises direct/indirectly with total net worth as predetermined in this regulation. Large Enterprises is productive economic entities runs by business units with total net worth bigger than Medium Enterprises, includes state-owned or private enterprises, joint ventures and foreign business which conducting economic activities in Indonesia.

1.6.1.2 Characteristics of MSMEs

The characteristics of MSMEs may be dissimilar for one country to another. Tambunan (2009) identifies five characteristics of SME in Indonesia, which makes this business important for this country's economic development. First, SME in Indonesia mainly owned by local people and it absorbs millions of workforce in the country. Second, SME is very common in rural areas, and their business based on agriculture, thus they are become important for rural economic development. Third, SME is labor intensive, with many less educated and youngsters involved in the business. Fourth, SME in Indonesia obtain their financial operations from personal savings. Fifth, these industries

produce simple consumer goods. They serve domestic market and targeted on low-income consumers.

In relation of Micro Enterprises (MIE), Small Enterprises (SE) and Medium Enterprises (ME) differences, Central Bureau of Statistic (BPS) reports in (Tambunan, 2012) mentioned there are 5 characteristics that differentiates this sector with LE and between its own group:

- a) Background or Entrepreneur Motivation. According the report, largely in Indonesia micro enterprises have an economic background to increase the incomes. However, for small enterprises their economic background seemed to be more realistic on which behold the future prospect with the limited capital as the obstacle. Meanwhile, for medium enterprise's motivation in Indonesia it is appeared to be similar with small business with the outlook on the opportunity of secure and bigger market segment.
- b) Legal Basis. Dissection between SMSEs to LE and subcategory within MSMEs itself is based on legal status. Obviously, many enterprises in LE group are incorporated unlike MSMEs group. That gives an impression where increasing large scale of business, the more enterprises have legal basis.
- c) Age. Another characteristic is the age structure of entrepreneur. In Indonesia, based on the data from BPS in (Tambunan, 2012), it shows that micro-small enterprise tends to have younger owners rather than in medium

enterprises ownership. This based on two reasons; first, medium enterprise is a business entity, which is bigger and complex also needs large capital this may only be executed by an established person, capitalized, experienced and have a conception. Second, many medium enterprises owner starts their business in the level of micro small enterprises consequently when their business develops from micro small to medium their age also getting mature.

- d) Employment status. In large enterprises there is no worker who did not get paid unlike in MSMEs. Similarly, in micro-small enterprises total of worker who gets paid lower compared to those in medium enterprises. The composition of unpaid employees has a reverse tendency of business scale, which means bigger scale of a business smaller composition of worker who is unpaid. This also shows that mostly of micro enterprises get involves in running his/her business as self-employment.
- e) Gender. According to employment gender category, in large enterprise the role of female employee relatively is lower than in MSMEs. Inside MSMEs itself, micro-small enterprise employs higher women than medium enterprise does. Conversely, in Indonesia regarding the ownership of enterprise between LE and MSMEs are more dominated by male instead of female.

f) Education Level. The differences between LE and MSMEs can be considered on the average level of owner's formal education. In Medium Enterprises (MIE) total entrepreneurs with the education of elementary level are higher than Small Enterprises (SE) and Micro Enterprises (ME). This gives an impression of positive correlation between the average education level and business scale: as larger business scale required the complexities of business and needs wider high skill and business insight, increasing number of entrepreneur with the tarsier formal education.

1.6.1.3 Criteria of MSMEs in Indonesia

Criteria of MSMEs based on Law No 20 2008 about Micro, Small and Medium enterprises. This law is referred as single national MSME definition in Indonesia, which MSMEs are classified on their assets and turnover. These criteria's is stated clearly in chapter 4 articles 6 of this regulation.

Table 1.2 Criteria of MSMEs based on Law No 20 2008

No	Scale	Criteria	
		Asset*	Turnover**
1	Micro Enterprises	Rp 50 millions	Rp 300 millions
2	Smal	> Rp 50 millions to 500 millions	> Rp 300 millions to 2.5 billions

	1 Enterprises		
3	Medium Enterprises	> Rp 500 millions to 10 billions	> Rp 2 billions to 50 billions

Source: Law No 20 2008 about MSEs (Chapter 4 article 6)

*Asset does not included with land and company building

**The annual turnover

However, these criteria could be changed according to the economic development that regulated through presidential decree (article 6 clause 4 Law No 20 2008).

1.6.2 Policy Implementation

1.6.2.1 Definitions

Implementation, according to Pressman and Wildavsky (in Najam, 1995) "means just what dictionaries says: to carry out, accomplish, fulfill, produce, complete." They also explained on their book of policy theory "...that policies become programs when, by authoritative action, the initial conditions are created... the implementation, then, is the ability to forge subsequent links in the causal chain so as to obtain the desired result."

Meanwhile, Van Meter and Van Horn (in Najam, 1995) offered a specified definition: "Policy implementation encompasses those actions by

public or private individuals (or groups) that are directed at the achievement of objectives set forth in prior policy decisions." They showed a clear dissimilarity between the interrelated concepts of implementation, performance, and impact.

Further opinion by Indiahono (in Kurniati, 2015), which said the implementation of policies is an critical phase of a policy process. On this stage determines whether the policies pursued by the government can actually be applied in the field and managed to produce outputs and outcomes as planned.

Rein and Rabinovitz (in Najam, 1995) within their influential paper of describe implementation as "the point at which intent gets translated into action." Their conceptual definition of implementation is "(1) a declaration of government preferences, (2) mediated by a number of actors who (3) create a circular process characterized by reciprocal power relations and negotiations." They see the "politics of implementation" as being an attempt to resolve conflicts between three imperatives: "the legal imperative to do what is legally required; the rational-bureaucratic imperative to do what is rationally defensible; and the consensual imperative to do what can establish agreement among contending influential parties who have a stake in the outcome."

Mazmanian and Sabatier's (in Najam, 1995) describe the concept of policy implementation is "those events and activities that occur after the issuing of authoritative public policy directives, which include both the effort to administer and the substantive impacts on people and events." Goggin, Bowman, Lester, and O'Toole (in Najam, 1995) defined implementation as a "process, a series of... decisions and actions directed toward putting an already- decided ... mandate into effect." They develop a 'communications model' to implementation where "messages, their senders, and the messages' recipients are the critical ingredients" and "decoding these messages and absorbing them into agency routine is what implementation is all about".

Thus, based on those definitions, the policy implementation emphasis on the actions, whether by the government or an individual (or group) private, which is directed to achieve the goals that have been set in a previous policy decisions.

1.6.2.2 Policy Implementation Theories

Moreover, in the policy implementation process, there are several considerations that will affect the successful of implementation as delivered in some model as following; Ripley & Franklin's model, Donald Van Metter & Van Horn's model, and Goerge C. Edward III's model. Those models are the representation of two perspectives of top-down or down approaches in viewing the policy implementation.

First, model by Ripley & Franklin (in Sulistyatuti, 2012) comprise three factors in successful implementation which are level of compliance, the routine of agency functions, and policy outcomes in accordance with policy's plan.

Meanwhile, the second model comes Donald S. Van Meter and Carl E. Van Horn (in Kurniati, 2015) that states a successful of policy implementation can be influenced by the following factors: (1) Policy standards and objectives; (2) Policy resources;(3) Inter organizational communication and enforcement activities;(4) The characteristics of the implementing agencies;(5) Economic, social, and conditions; (6) The disposition of implementers.

Furthermore, policy implementation according to George C. Edwards III (in Kurniati, 2015) is the stage of policymaking between the establishment of a policy-such as the passage of a legislative act, the issuing of an executive order, the handing down of a judicial decision, or the announcement of a regulation and the consequences of the policy for the people whom it affects. According to Edward III (in Widodo, 2010), there are four critical success factors or variables of a policy implementation, as follows:

- 1) Communications

Communication, according to Edward III (in Widodo, 2010) will determine successful of the achievement of the public policy implementation's objectives. Effective implementation occurs when decision makers already know what they are going to do. Knowledge of what they do will work if communication goes well, so every policy decision and implementation rule must be transmitted (or communicated) to the appropriate personnel department. In addition, the policies communicated must be accurate, accurate and consistent. Communication (or transmitting information) is needed so that decision makers and implementers will be more consistent in implementing every policy to be implemented in society.

According to Edward III (in Widodo, 2010) there are three indicators that can be used in measuring the success of communication variables are:

- a) Transmission; Often that happens in the distribution of communication is the misunderstanding (miscommunication). It is required that the information of policy shall be transmitted to the targeted groups not only the implementer.
- b) Clarity; information received by the street-level-bureaucrats must be clear and unambiguous so that targeted groups and other parties grasp what the meaning, aim, target and also the substance of a public policy. In addition, clear information will allow any party

prepares about what to do in making the policy implementation successful, effective and efficient.

- c) Consistency; the information shall be coherent so that the policy would not confused the target groups and other parties.

2) Resource

Resource is another important factor in implementing the policy, according to Goerge C. Edward III (in Widodo, 2010). The resource indicator consists of several elements, namely:

- a) Human resource; the main resource in the implementation of the policy is the staff. Failure that often occurs in the implementation of the policy caused by one of them caused by staff who are not sufficient, adequate, or not expert in their field. The addition of staff and implementers is not enough, but it also requires the adequacy of staff with the necessary skills (skills and capabilities) in implementing the policy or performing the task desired by the policy itself.
- b) Budget; Edward III (in Widodo, 2010) said, “*budgetary limitation, and citizen opposition limit the acquisition of adequate facilities. This is turn limit the quality of service that implementor can be provide to public*”. He conclude that limited budgetary resources will affect successful implementation of the policy. Besides the

program cannot be implemented optimally, budget constraints could cause low disposition of policy implementer.

c) Authority; According to Edward III (in Widodo, 2010) sufficient authority to make self-decisions owned by an agency will affect institutions in implementing a policy. Authority this becomes important when they are faced with a problem and requires that it be resolved immediately with a decision.

d) Facilities; According to Edward III (in Widodo) physical facilities are also important factors in policy implementation. The Implementer may have sufficient staff, understand what to do and have the authority to carry out his duties, but without the support facilities (facilities and infrastructure) then the implementation of the policy will not work.

3) Dispositions

The third variable affecting the success of policy implementation is disposition. George III (in Widodo, 2010) said “if the policy implementation is to succeed effectively and efficient, the implementors not only know what to do and have the ability to do the policy, but they should also has the will, desire and inclination to implement the policy”. Important points to consider in the disposition variable, according to Goerge C. Edward III (in Agustino, 2008), are:

- a) Appointment of bureaucrats; disposition or executive attitude will create significant barriers to policy implementation if existing personnel do not implement the policies desired by senior officials. Therefore, the selection and appointment of personnel of policy implementers should be those who are dedicated to the established policies.
- b) Incentive; Edward stated that one of the suggested techniques for dealing with the tendency of the executors is to manipulate the incentives. Therefore, in general people act according to their own interests, then manipulating incentives by policymakers influence the actions of policy implementers. By adding a certain profit or cost may be a driving factor that enables policy implementers to execute orders well. This is done as an effort to meet personal interests (self interest) or organization.

4) Bureaucratic Structure

According to Edward III (in Agustino, 2008), "policy implementation may still be ineffective because of the inefficiency of bureaucratic structures". Although resources to implement a policy are available, or policy implementers know what to do, and have a desire to implement a policy, it is unlikely that the policy cannot be implemented or realized because of the weaknesses in the bureaucratic structure. Two

characteristics, according to Edward III, which can boost the performance of bureaucratic / organizational structure towards a better, that is by having:

- a) Standard Operating Procedures (SOPs); is a routine activity that allows employees (or implementers of policy / administrators / bureaucrats) to carry out their activities on a daily basis in accordance with the established minimum standards required.
- b) Fragmentation is an effort to disseminate the responsibilities of employee activities or activities among several work units.

1.6.3 ASEAN Economic Community (AEC)

The Association of Southeast Asian Nations (ASEAN) was formed by Indonesia, Malaysia, Philippines, Singapore, and Thailand in 1967 mainly to foster regional peace and security. Brunei Darussalam joined in 1984, and Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar, and Viet Nam (CLMV) joined between 1995 and 1999. The basic objective of ASEAN is to foster freer trade between member countries and to achieve cooperation in their industrial policies (Hill, 2007).

Economic cooperation and integration began modestly in 1977 with the Preferential Trading Arrangement and a number of industrial cooperation schemes. Economic integration in ASEAN began with the 1992 ASEAN Free Trade Area (AFTA) that covers trade in goods, complemented by the

1995 ASEAN Framework Agreement on Services (AFAS) and the 1998 ASEAN Investment Area (AIA) agreement. In October 2003, ASEAN decided to deepen its economic integration with the establishment of the ASEAN Economic Community (AEC) by 2020 but then accelerated it to 2015. Beside AEC, there was also the establishment of other ASEAN community such ASEAN Political-Security Community and ASEAN Socio-Culture Community as the implementation of ASEAN VISION 2020.

In November 2007, the AEC Blueprint outlining various measures and strategic schedules for implementation was adopted. In April 2012 ASEAN agreed to redouble efforts and set priority activities and concrete key actions to realize the AEC by 2015 (Chia, 2013). The AEC has four pillars. Those pillars are designed within AEC’s Blueprint and established in 2007. Each pillar has its own core elements.

Table 1.3 AEC Blueprint-Four Pillars and Core Elements

Pillars	Core Elements
1.) Single Market and Production Base	<ul style="list-style-type: none"> • Free flow of goods: 9 strategic approaches • Free flow of services: 3 strategic approaches • Free flow of investment: 5 strategic approaches

	<ul style="list-style-type: none"> • Freer flow of capital: 7 strategic approaches • Free flow of skilled labor • Priority integration sectors • Food, agriculture, and forestry
2.) Competitive Economic Region	<ul style="list-style-type: none"> • Competition policy • Consumer protection • Intellectual property rights • Infrastructure development: 10 strategic approaches • Taxation • E-commerce
3.) Equitable Economic Development	<ul style="list-style-type: none"> • SME development • Initiative for ASEAN Integration
4.) Integration into Global Economy	<ul style="list-style-type: none"> • Coherent approach toward external economic relations

	<ul style="list-style-type: none">• Enhanced participation in global supply networks
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Source: ASEAN Secretariat (2008)

In realizing the ASEAN as a production base and single market (pillar 1), equally and gradually, the ASEAN member countries duty free and eliminating non-tariff barriers more for ASEAN countries where goods that will be traded meet the requirements which has been established jointly. In addition, ASEAN countries also deflate barriers to trade in services among ASEAN countries, by providing higher foreign capital limits. In simple terms it can be said that under the AEC Blueprint, capital and skilled labor will be free to move amongst ASEAN countries.

In accomplishing regional competitiveness (pillar 2) and based on the blue print formation of the AEC, ASEAN countries would have a competition policy, consumer protection, and the protection of IPR (Intellectual Property Rights) are jointly building the infrastructure, fix the tax system, and intensified e-commerce.

Achieving equitable economic development (pillar 3), ASEAN countries work together in building the ASEAN SMEs and create a range of initiatives to achieve an integrated region. In the development of micro, small, and medium enterprises (SMEs), published ASEAN blueprint for SME development policy 2004-2014. SME development blueprint that aims to

jointly build ASEAN SMEs into MSME that has competitiveness, more resilient, and contribute significantly to the economy of ASEAN.

In achieving the ASEAN integration to global economy (pillar 4), ASEAN made an agreement of economic cooperation and trade with main partner countries, such as ASEAN + 1 and RCEP by promoting ASEAN centrality and increasing participation in global value chain.

The aim of AEC is to “transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy” (ASEAN, 2008). It has often been properly compared to the EU Single Market scheme with the major turning point of the “ASEAN Declaration of Concord II” in October 2003, the intra-ASEAN economic cooperation entered into a new stage, which had a goal of AEC including a single market or a common market (Shimizu, 2010).

Since January 2016, ASEAN Economic Community is effectively being implemented even though some ASEAN member states still have not achieved the AEC’s Scorecard Schemes by 100 percent. Challenges being faced by industries especially MSMEs will be more complex with the free flows of goods and labors inter ASEAN member countries. With AEC implementation according to Santoso and Rahmi cited in (Sukuriyah & Hamdani, 2013) it will eventually create new configuration in between result from product

disrtibution and prodcution factor of intra ASEAN economy following with its challenges and opportunities.

1.7 Conceptual Definition

According to Singarimbun and Efendi (1989) the conceptual definition is the definition used to see exactly the phenomenon to be studied. Conceptual definitions used for abstract purposes concerning the incidence of group or individual circumstances of the center of attention in the social sciences. It is an important stage that discusses limit understanding an abstraction of things in order to avoid misunderstanding.

This research in relation with the research question would studied the implementation of Center for Integrated Services of SMESCO (CISSEMESCO) D.I.Yogyakarta in strengthening craft-based SME toward ASEAN Economic Community 2015. The implementation theory that used in this research is the theory by George C. Edwards III (in Kurniati, 2015). Policy implementation is the stage of the passage of a legislative act, the issuing of an executive order, the handing down of a judicial decision, or the announcement of a regulation and the consequences of the policy for the people whom it affects. To see the quality of implementation of CISSEMESCO D.I.Yogyakarta can be measured by Edwards III's factor of successful policy implementation consist of:

1. Communication
2. Resource

3. Dispositions

4. Bureaucratic Structure

The factors above used in this research because they can support to find and explain the existing problem formulations.

1.8 Operational Definition

According to Babbie (2007), operationalization literally means specifying the exact operations involved in measuring a variable. There are many ways we can attempt to test our hypothesis, each of which allows for different ways of measuring our variables. Operationalization is the development of specific research procedures (operations) that will result in empirical observations representing those concepts in the field. This research measured the quality of Center for Integrated Services of Small, Medium Enterprises and Cooperation D.I.Yogyakarta's implementation in strengthening Craft-based SME in facing Asean Economic Community through George C. Edward III's implementation theory. According Edward III (in Agustino, 2008) there are four factors of successful policy implementation namely:

1. Communications

Successful communication can be measured through three indicators;

- a. Transmission;
- b. Clarity and;
- c. Consistency.

2. Resource

In measuring effective resource there are four indicators;

- a. Staff;
- b. Budget;
- c. Authority and;
- d. Facilities.

3. Dispositions.

There are two effective disposition indicators that can be used;

- a. Appointment of bureaucrats and;
- b. Incentive.

4. Bureaucratic Structure.

There are two indicators can be use to measured organizational structure;

- a. Standard Operational Procedures (SOPs) and;
- b. Fragmentations.

1.9 Research Methodology

1.9.1 Types of Research

This research is to be classified based on its purpose as qualitative descriptive. Many qualitative studies aim primarily at description (Babbie, 2007). Descriptive research is research that explains, describes the systematic factual and actual information on the facts, nature and relationships between the

phenomena under investigation. The result expected from qualitative descriptive is the detailed representation from unit analysis (Nasir, 1980: 63).

1.9.2 Research Location

This research takes place in D.I. Yogyakarta. This region chosen as research location because it has large number of SME and one of several regions that has established and operates Center for Integrated Services of SMESCO since 2014.

1.9.3 Unit Analysis

Unit of analysis of this research is the Center of Integrated Services for SMESCO (PLUT-KUMKM), which relevant and appropriate to the discussion to be used as data sources in this research. Thus the unit analysis that interviewed covers the Center of Integrated Services for SMESCO (PLUT-KUMKM) D.I. Yogyakarta;

1. Head of Centre of integrated Services for SMESCO (PLUT-KUMKM) D.I. Yogyakarta;
2. Consultant of Center for Integrated Services of SMESCO D.I.Yogyakarta; and
3. Craft-based SMEs that have become partners of the Center for Integrated Services of SMESCO D.I.Yogyakarta.

1.9.4 Type and Sources of Data

According to Moelong (2007) data is all of the explanations or information all cases that related to research objective. Loftland (in Moelong

2007) said the data resources are from words and actions, and the rest would be additional data such as document and others. There are mainly two data needed in this research, which are primary and secondary data;

1.9.4.2 Primary Data

In this research, the primary data is data obtained from research participants through conducting observation and interviews to board Center of Service Integrated of SMESCO D.I.Yogyakarta and MSME's partners of CIS SMESCO D.I.Yogyakarta and as well as information on the implementation of program activities.

1.9.4.2 Secondary Data

Secondary data is supporting data from studies conducted and the form of information, documents, archives, books, and other documents related to the MSME strengthening efforts of D.I.Yogyakarta's government through CIS SMESCO.

1.9.5 Data Collecting Method

Data collection technique is the way of researcher used in a research to collect a data required to answer a research question. This study conducted from 5th April to 10^h June 2017. This research uses two methods in collecting data as follow:

1.9.5.1 Documentation

In this technique, the authors attempted to collect data from the books, archives, agendas, and other records relevant to the research problem. They come from the library, the institution where the research conducted and from various literatures. The documents that being used in this research such as;

- 1) CIS-SMESCO D.I.Yogyakarta annual report from 2014 to 2016.
- 2) CIS-SMESCO D.I.Yogyakarta member's database.
- 3) Micro, Small and Medium Enterprises and Cooperation board of D.I.Yogyakarta's strategic plan document.

1.9.5.2 Interview

According to Lindlof in (Weare 2008: 20), interviews technique used to obtain the data by interviewing people who are directly involved with the research activity encountered. Interviews conducted in Center for Integrated Service of SMESCO D.I.Yogyakarta and respondent's workshop places. This study interviewed 5 people in order to gain information. There were 2 people that represented the institution such as the head of CIS SMESCO and CIS's consultant. From the side of group that is benefited program of CIS D.I.Yogyakarta featured three SME's owner that are craft-based SME actors who already joined CIS as partners. Taken by random sampling in determining SME respondents. Craft-based SME chosen as the problem background and also this group of SME is the biggest number of cluster that being member of CIS-SMESCO D.I.Yogyakarta. Those three SME members

chosen to represent the scale of business, one of them has the small-scale business and two of them are micro-scale business. Also, CIS member respondent chosen based on their long membership since 2014 and 2015 till now.

1.9.6 Data Analysis Technique

Bogdan in (Sugiyono, 2008: 88) explained the data analysis is a process of searching and organizing the data systematically that collected from interview, field note, and other resources, so it can be easily understand and its finding may be informed to other people. In the process of data analysis, this research employed qualitative data analysis. While the procedure to analyze qualitative data according to Miles and Huberman in (Sugiyono, 2008) are as follows;

- A. Data reductions. Done through summarizing the important part and focuses on pattern. The reductions of data used on documents and interview's transcript. The document refers to the annual reports of CIS-SMESCO D.I.Yogyakarta from 2014-2016. The interviews transcript comes from five respondents interviews. Both primary and secondary data get classified and rearranged based on this research framework.
- B. Data display. It can be done after data has been reduced. The data in this research displayed in two phases. Frist, the data collected from documents of CIS-SMESCO DIY showed in the forms of table or flowchart then added descriptions analysis. Second, the data obtained from the interviews

towards CIS-SMESCO DIY and CIS's member would be quoted and highlighted into the discussion chapter. The data collected from the interviews would be shown and compared based on their topic discussions and accompanied with arguments descriptions.

C. Conclusion. Is the last step of qualitative data analysis that conducted through drawing a conclusion and verification. The data that have been gathered both from documents and interviews would be collaborated briefly and densely from the overall data and reports that have been obtained from the research through conclusion that extracted from over all analysis.