

Conference Paper

The Role of Regional Government Policy and PT. Bank Pembangunan Daerah Jawa Timur's Strategy to Encourage the Development of MSMEs Through Social Innovation

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Abstract

Indonesia's development target is the achievement of people's welfare. One way to accomplish these objectives is to increase people's income through the development of MSMEs (Micro, Small, and Medium Enterprises). Strong competitive MSMEs are expected to encourage sustainable business. Why MSMEs? MSMEs is a business field that has a major contribution in the absorption of manpower. The government provides ease of doing business for all business actors. For the owners of MSMEs, through empowerment by the government, it is expected to increase the business class, from a micro business to small business, from small business to medium business, and from medium business to large business. Currently, the importance of the success of MSMEs empowerment is of high priority. For this reason, the policy of central government and regional government is very important for MSMEs. In addition, increased knowledge and skills, funding, market networking, and others will be a strong driver of growth and development of MSMEs. Hence, the growth of MSMEs requires the participation of several parties, such as government, universities, banking sector, community, media, and the owners of MSMEs. Involvement of MSMEs empowerment is a form of social innovation that builds the strength of MSMEs in sustainability. This article will present how the policies and strategies of regional governments in Indonesia, particularly the Government of East Java Province and PT. Bank Pembangunan Daerah Jawa Timur Tbk (Regional Development Bank of East Java Province), are encouraging high economic growth so as to achieve good results as well as development indicators by reducing poverty and unemployment through the empowerment of MSMEs.

Keywords: strategy, Government of East Java Province, PT. Bank Pembangunan Daerah Jawa Timur Tbk, Welfare, MSMEs (Micro, Small, Medium Enterprises)

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1. Introduction

Indonesia as an emerging market proved that it possesses the power to increase economic development. Since 2006, the global economic growth has been slowing, but, along with India and China, the Indonesian economy has an average economic growth of more than 5% [2]. The improvement of the Indonesian economy has impacted on the increasing people's welfare.

The government bears the obligation to preserve the constancy of the economic system. Government policies are encouraging the development of micro businesses, small businesses and medium ones (MSMEs). According to Trinh and Doan (2018), developing countries that focus on increasing MSMEs' growth have good economic prospects in the future because MSMEs not only create new jobs but are also growing the industry along with the economic improvement.

East Java, as one of the provinces in Indonesia, encourages the strength of MSMEs' growth. The government cooperates with banking sectors to help the distribution of funding development of MSMEs. They facilitate the entrepreneurs who want to start up a small business, because most of them initially cannot finance their own business [4].

The cooperation that is made by the government with the banking sectors creates new strategy in developing MSMEs. However, creating the stability of MSMEs requires increasing skills, market networking, etc. Therefore, social innovation is needed along with diverse parties, such as university, community, media, and the owners of MSMEs.

This article is arranged into different parts: The first part focuses on the role of the Government of East Java Province in increasing MSMEs. The second part presents the strategies of PT. Bank Pembangunan Daerah Jawa Timur Tbk as the Regional Development Bank of East Java Province in encouraging the improvement of MSMEs. Furthermore, the third part is the analysis of social innovation in creating the stability growth of MSMEs. The final part is the conclusion of the whole article along with suggestions to amend it.

1.1. The strategy of regional government in increasing the development of MSMEs

The Government of East Java Province has three major contributions in driving MSMEs [8] – production, funding and market. They emphasize the increase of SDMs' quality, inexpensive financing and the market expansion of MSMEs. The target of this strategy

is the group of society below 40% (the receivers of development use the category of income distribution by World Bank) to increase their purchasing power.

The increase of the society's purchasing power 40% below is an important instrument/official document of MSMEs' growth (including manufacture industry) and increasing domestic demand. According to Zhao and Tang (2017), the improvement of economic performance can be done by emerging one of the industry sectors.

The first construction by the Government of East Java Province is productive activity, which can increase the economic growth to be more inclusive. The increasing production of MSMEs is focused on preparing the database of MSMEs as well as increasing the MSMEs' capacity so that it has product competitiveness. The database was obtained by holding an MSMEs' Census in 2011 – 2012 which recorded the number of 6.8 million MSMEs in East Java Province. The Government of East Java Province also encourages the development of human capital through a vocational education policy, which is the cooperation of the Vocational High School's improvement (SMK) in overseas and domestic affairs such as in the field of technological and engineering expertise, maritime and fisheries affairs, etc. (formal way). There are other less common ways, such as the construction of 270 small Vocational High Schools and the development of an Employment Training Centre international standard.

The second construction is competitive funding for the MSMEs sector. The MSMEs' problem in increasing its production is based on the minimum capital and only 17.50% of MSMEs apply for a bank loan while the other 82.50% lend from non-bank institution. Thus, the Government of East Java Province facilitates the MSMEs' capital through both infrastructure assistance as well as primer infrastructure along with the development of financing schemes through the banking system. There are three banking system schemes that are arranged by the Government of East Java Province: the APEX Bank scheme (making PT. Bank Pembangunan Daerah Jawa Timur Tbk as APEX – Central Bank – for 276 BPR in East Java Province); Revolving Fund Loan scheme with interest of 6%, the formation of PT. Jamkrida (the lending insurance agency for the risk of proper MSMEs, but it is not bankable) with a special credit scheme for the agriculture sector (since 2015); and the formation of Micro Finance Institutions (Women's Cooperatives, Religious Dorm Cooperatives, Institution of Forest Village Society, Employee Cooperatives).

The third construction is marketing development and providing a market for MSMEs' product. Limited capital leaves little room for MSMEs in selling their product. In developing the MSMEs, the government needs to optimize the market share of MSMEs; this will balance the increasing production with competitive funding. The Government of

East Java Province has reconstructed a market scheme that can accelerate domestic market share, even for auction market, and the national acceleration market by opening a Trade Representative Office in 26 provinces in Indonesia.

1.2. The strategy of PT. Bank Pembangunan Daerah Jawa Timur Tbk in encouraging the increasing of MSMEs

The government cooperates with banking sectors in order to increase MSMEs' growth. Funding from banking sectors, benefits not only MSMEs but the bank itself. Research by Tongurai and Vithessonthi (2018) concluded that the development and growth of industry sectors will encourage the banking sector.

Loan Agreement is a form of strategy between the Government of East Java Province and PT. Bank Pembangunan Daerah Jawa Timur Tbk Channeling (forwarding to BPR owned by the provincial government and regional with 9% interest, before which the government will provide PT. Bank Pembangunan Daerah Jawa Timur Tbk as APEX (Central Bank) for Bank Perkreditan Rakyat (BPR) in East Java Province). PT. Bank Pembangunan Daerah Jawa Timur Tbk being the APEX Bank for 276 BPR, which comes as member of the BPR Association of Indonesia (Perbarindo) from 334 units BPR in East Java Province, and it is trusted as the organizer of Jatim Electric Transfer System (JETS) for BPR's customers. This is done because the banking sectors are more interested in medium and large business segments, so that micro and small businesses tend to have more difficulty in increasing the capital to make the business' scale larger. These micro and small businesses have good business feasibility (feasible), yet, according to the bank criteria, do not fulfill the conditions to apply for credit (not bankable). This intermediation attempt (linkage program) is intended to increase the access of MSMEs to financing so that they can increase their business capacity.

In the APEX PT. Bank Pembangunan Daerah Jawa Timur Tbk scheme, each BPR is charged a deposit fee of Rp 30 million with the sum of Rp 8 billion. According to Perbarindo regulation dealing with the inclusion of a ratio of 1 to 1, PT. Bank Pembangunan Daerah Jawa Timur Tbk also gives a contribution as Rp 8 billion. The initiative of APEX PT. Bank Pembangunan Daerah Jawa Timur Tbk is expected to encourage the other BUMN banking sectors to take similar action by accumulating the BPR that have yet not joined in APEX PT. Bank Pembangunan Daerah Jawa Timur Tbk so that it will provide more advantages for MSMEs in East Java Province.

1.3. The analysis of social innovation in creating the stability development of MSMEs

The strategy of achieving sustainable economic development focuses on reducing poverty and unemployment, and also income distribution. The underlying issue of this strategy is the imbalance that is more extant in developed nations as well as developing countries and which is caused by globalization factor and technology changes so that the government's policy needs to take a role in facilitating inclusive growth [1]. One of the ways is by being focused on economic development policy based on MSMEs achieving economic stability. By developing the MSMEs, then a sustainable livelihood is expected to emerge.

One of the social innovation approaches in MSMEs' growth is using the Penta Helix model. This is a socioeconomic development model that encourages the economy and knowledge to achieve innovation and entrepreneurship through collaboration and cooperation and which is beneficial among academicians, government, industry, LSM and society's sectors, and social entrepreneurs [10]. The Penta Helix model is based on Triple Helix Etzkowitz and Leyesdorff (2000) in which a tri-lateral of academics, industry and the government are collaborating to arrange an innovative project which is cultured in an education institution and change this project so that it can be well-implemented. LSM, civil society and social entrepreneurs are added in the Penta Helix model and have an important role in supporting the innovation's goal [7] and in contributing to the economic development based on social development.

This Penta Helix model in East Java Province involves various parties cooperating to do social development as a kind of social innovation/societal invention. There is the government's role, banking sectors, university, society/community, and the owners of MSMEs themselves as a unit that is related to and supportive of each other. There is one more role, the media which is used in stability of MSMEs' growth or as a kind of supervisor.

The government's role as regulators becomes important in making decisions about what kind of a policy should be made and used. In MSMEs' growth the Government of East Java Province has indicated PT. Bank Pembangunan Daerah Jawa Timur Tbk as one of the main banking sectors to encourage the capital disbursement for MSMEs. The cooperation that is managed by the Government of East Java Province along with the scheme of University Framework shows that the university supports the government program in increasing MSMEs.

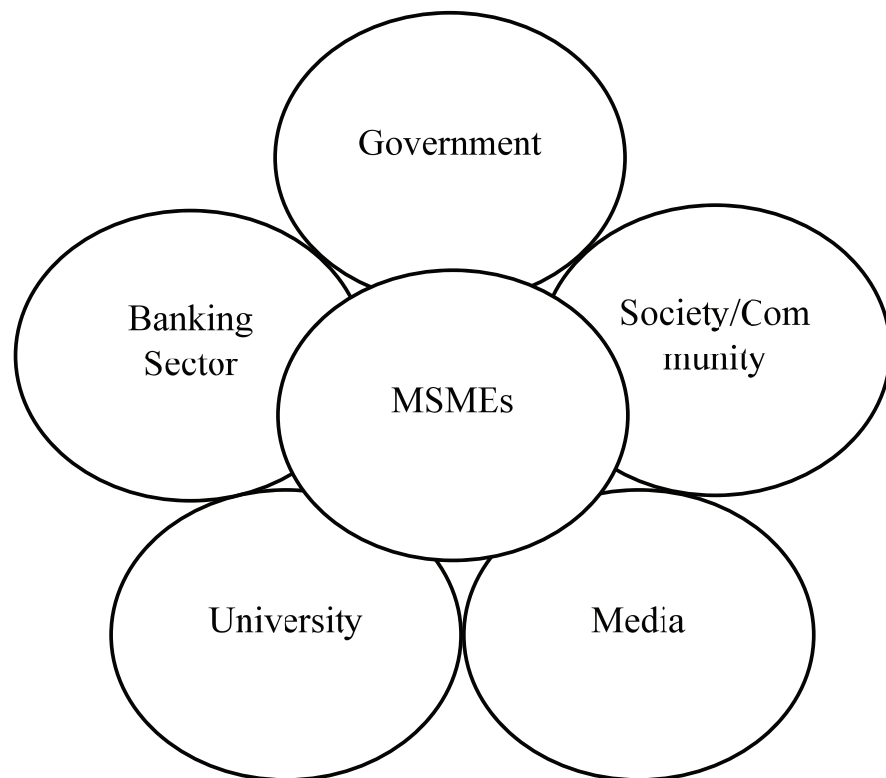


Figure 1: Penta Helix model for developing MSME.

The next social innovation is the societal role in encouraging the increase of MSMEs. This plays an important role in the supply side as well as demand. From the supply side, small industrial business, such as a batik community groups, are created. The new innovative products that are made by those societies give many variations in which the MSMEs products are able to compete with the others. While, from the demand side, people become the most important point in the support system as consumers of local or domestic products.

Both the supply and demand side is found in the media's part. Media serves to provide a promotional platform for the product by MSMEs and increases consumers' desire for local/domestic product. In addition, the media are able to support the spread of information of MSMEs' success and a sample of successful MSMEs can provide motivation for beginners.

Those five play a role in encouraging MSMEs' growth; however, the owners of MSMEs themselves are more significant. MSMEs should have an interest in each other, for example, if the product of MSMEs does not sell due to the price being too expensive on account of the raw material, support from MSMEs upstream and downstream will establish how much the price of the output is. It would be better if the output of micro

businesses could be an input for small businesses while the output from small businesses could be an input to medium businesses. Therefore, the cooperation between MSMEs upstream and downstream will create the strength of the MSMEs' industrial area.

2. Conclusion

The MSMEs' development is influenced by a social aspect that is intended to increase a society of social sustainable livelihood; therefore, the MSMEs' development is very important, especially in East Java Province. The MSMEs sector affords the biggest contribution in the absorption of manpower and this problem is important in increasing society's living standards. Therefore, the Government of East Java Province focuses on a policy of increasing the growth of MSMEs. As the optimal way, the government is able to apply the model of social innovation in developing MSMEs in East Java Province. The cooperation with the banking sector of PT. Bank Pembangunan Daerah Jawa Timur Tbk can be more optimal than the role of others, such as university, society/community, media and the owners of MSMEs themselves. The increase in MSMEs' growth is affected by the economic increase by applying the model of social innovation.

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