

# CHAPTER I

## INTRODUCTION

### A. Background of the problem

Indonesia as developing countries, the existence of Micro Small and Medium Enterprises (*MSMEs*) was very helpful to economy state, so it's expected that the empowering of MSMEs will be major key to survive this country more better (Sariningtyas, 20014).

The long journey of public economy in economic order, both at the regional and national level still seems to need concepts and policies which are concrete and integrated. The momentum of economic society system in the crisis era has provided valuable lessons for nations to walk toward the Indonesian economy are more conducive. One of the phenomena that led to the appearance paradigm of economic society system is the existence of public economy, namely small and medium businesses and cooperatives are agent of security of Indonesian economy. There are three major factors that causing public economic remains to be the greatest of national economic are:

1. The structure of Indonesia's GDP which tends contributed by consumption sector, whiles many consumption goods are produced by public economic.

2. The public economic sector not many people rely on third party funds, although the financial sector has been crisis the public economic was not affect.
3. It's easier to be accepted into market in order to fulfill public demand, so public economic sector can stand in every condition.

On the other hand, Micro Small and Medium Enterprises (MSMESs) play a crucial role for region economic development, because of its tendency that is based on cooperative superiority. Therefore it's potentially in employing the labor.

MSMEs can be viewed as the savior of the national economic recovery. The role of MSMEs in encouraging economic growth and employment are expected to be a step for the government efforts to move the production sector in various business fields. MSMEs are one of the most potential main economic resilience for the country. It can be seen during the crisis period that was when conglomeration business has many troubles survive because of foreign indebted, whereas for MSMEs which are focus on export oriented, they can gain more profit and the others continue to hold with various ways because of small investment and capital that rotates.

On the others hand, the government would remain MSMEs development, because they have big role towards development of

Indonesia economic system. There are problems that faced MSMEs entrepreneur:

1. Limited fund
2. Unfavorable or poor marketing strategy
3. Bad human resources
4. Difficult access to bank
5. MSMEs still unbankable

Meanwhile, the deals in ASEAN China Free Trade Agreement (ACFTA) in 1<sup>st</sup> of January 2010 are aimed for:

1. Strengthening and to develop the economic collaboration, and the infestation of both side.
2. Liberating stuff, service and infestation trading.
3. Looking for the new area to develop economic collaboration that gives mutual profit for both sides.
4. Facilitating integrated-economic in which more effective with new member of ASEAN and bridging the gap of both sides. It will finely implicate toward the opportunity or threat of cooperation and MSMEs in DIY.

The challenge is, the way on how those MSMEs take the benefit of those opportunities correctly, thus, global economic development can give the good impact for MSMEs in particular, and the economics of DIY in general.

In order to benefited these opportunity, with doing and running their business, not all entrepreneur in DIY have enough capital and fund to develop their business, it is necessary to find the good solution to overcome the problems that face MSMEs and need the government intervention through its policy that favor to MSMEs.

The release of presidential instruction no 6 in 2007 about the policy of the acceleration of the real sector development and empowerment of MSMEs on 8 June 2007, at least its shows that there is the desire from government under Susilo Bambang Yudhoyono guidance to develop real sector and empower MSMEs, Ultimately it is expected can improve economic growth. One of what is instructed on the presidential instruction is related to the empowerment of MSMEs, conducted by taking policy to strengthen the system of credit insurance for MSMEs. These policies were through the program; include the improvement of Credit Guarantee Institution role for MSMEs, by means of:

1. Restructure credit guarantee system for MSMEs
2. Strengthen capital and service range expansion of Perum Sarana Pengembangan Usaha (SPU) and PT. Asuransi Kredit Indonesia (Askrindo).

With this description, it is clear that the presence of credit guaranty was very needed by the society and entrepreneurs which need the capital to run and develop their business. Basically, the fundamental function of

credit is to fulfill society need in order to encourage and expedite trade, production and services which were aims to improve quality society life.

Therefore, in order to fulfill MSMEs needs toward the availability of the capital and guaranty that receive from the financial institution, so it is very important for DIY government to establish Regional Credit Guaranty Institution (LPKD) in order to support and improve MSMEs development.

The establishment program of LPKD very support government programs such as:

1. Increasing employment
2. Encouraging economic growth
3. Reducing poverty
4. Increasing income per capita and region

With the establishment of LPKD will ease MSMEs entrepreneur to obtain the capital in order to develop their business. Based on the description of the problem background above, motivated the researcher to observe and discuss more about **“THE URGENCY OF REGIONAL CREDIT GUARANTY INSTITUTION (LPKD) ESTABLISHMENT TO THE DEVELOPMENT OF MICRO SMALL AND MEDIUM ENTERPRISES (MSMEs) IN SPECIAL REGION OF YOGYAKARTA (DIY)”**

## **B. Problem Formulation**

Based on the background that has described above, and then the problems that will be discussed in this research are as follows:

1. How are the role and the Urgency of Regional Credit Guaranty Institution (LPKD) Establishment to the Development of MSMEs in DIY?
2. What is the factor that encourage the MSMEs entrepreneur in DIY to borrow the fund?

## **C. Research Purposes**

The purposes of this research about The Urgency of Regional Credit Guaranty Institution (LPKD) Establishment to The Development of MSMEs in DIY are:

1. To know the role of the Urgency of Regional Credit Guaranty Institution (LPKD) Establishment to the Development of MSMEs in DIY.
2. To know the factor that encourage MSMEs entrepreneur in DIY when they borrow the fund.

## **D. Research Benefits**

This research is expected to give benefit and useful for students, LPKD and MSMEs.

1. For Students

Can add and expand the researcher perception about the important role of Regional Credit Guaranty Institution (LPKD) establishment to the development of MSMEs in DIY especially and in Indonesia generally.

2. For Regional Credit Guaranty Institution

Can be input and solution for Regional Credit Guaranty Institution (LPKD) in distribute the guaranty and fund to the entrepreneurs.

3. For MSMEs

Can be guidelines and orientation for MSMEs to seek the fund in develop their business.