Local Government Grants And Sme Performance, Evidence From Surakarta City, Indonesia

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Abstract :*This study analyzes effects of government direct spending to Small and Medium Entreprises (SME). Some scholars and policy makers belief that government should issues several industrial policies to strengthen SME performance. This study analyzes those policies in Surakarta city. In this study, we assess the effect of local government direct spending to SME such as, capital grants and low rate loan to their business performance. We conduct survey which involved 500 SME in manufacturing. Our resuls shows that capital grants and loan policy by local government in Surakarta has positive effect to SME assets, capital and turnover. This study shows that capital grant is more effective compare to other government assistance such as equipment grants and loan to increase SME's business performance. In this study, industrial policy for SME is not limited to business regulation but it also include direct assistance from local government for these business organizations.*

Keywords: local government spending, industrial policy, capital grants, SME's business performance.

I.   INTRODUCTION

The role of the government to develop industries in a country or region faces a debate on what and how is best way to develop the industry. Does the government provide enough good investment condition so that all industries can grow and compete well, or the government should intervene to develop the industry which have the biggest role in the economic development of a region or country? Klimenko (2004) and Sener et al., (2001) stated that industrial policy in the form of a selection of developed industry, the development of industrial cluster and location is very crucial in order for the selected industry could give a positive impact to the economy. Soltes and Gavurova (2014) and Iammarino and McCann (2006). State that a developing industry depends on its ability to use resources and innovation to develop itself. However, they also stated that the industry could grow well if there is regulation of the business from governments that support the development of the industry.

There is an agreement that industrial policy is needed, but how far should the industrial policy that is needed to be done by the government to build up an industry? In the context of Indonesia, the SME (Small medium enterprises) have an important role in the national industry. The kind of this industry is the dominant group kinds of business organizations that dominate the national industry.

Munizu (2010:30) says that the programs and activities done by the government to develop the Small Medium Enterprise sector, is very satisfying. Since the financial and economic crisis era in 1997, an increase of the roles and activities of the Small Medium Enterprise's business sector already appears, both of them gradually show an increasing development and could become the foundation pillar of national economic growth.

The fact is in line with the results of empirical research conducted by Demirbag et al., (2006) in Munizu (2010:41) it was concluded that the success of the small and medium enterprises (SME) directly impact on economic development both in developed countries or developing countries. The capability of SME to create job vacancies and become a pioneer in innovation and flexibility could meet the demands of the public or customers.

There are several patterns of government intervention on the SME in Indonesia. Making business regulations which give ease toward SME is commonly issued by government both on the level of the local authorities or central government. Other interventions are in the form of a capital grant or a low rate loan, and bail out scheme is done by charging such interventions on local budget (APBD) as well as the state budget (APBN). This paper presents a pattern of granting assistance from local budget of local government toward SME in Surakarta City Indonesia.

Based on the realization data of the Local Budget of Surakarta until 2012, there are three spending post which had been utilized for the Small Medium Enterprise: grant spending, goods and services spending and local loans. The posts are being used to fund a capital fund and help Small Medium Enterprise. Thus, the research needs to be done to find out if the use of those three local budget post is efficient, right on target, and whether the use of those funds could raise the capital and productivity of Small Medium Enterprise in Surakarta.

Analysis tool that would be used in calculating productivity in this research is a multivariate model. To know the performance of Small Medium Enterprise before and after being given a grant fund from local budget of Surakarta and then will be calculated using the sign test.

This research aims to identify the detail of local budget fund of Surakarta that has been allocated to Small Medium Enterprise in 2008 until 2012 so that the nominal value is known. Furthermore the study also identified the types of grant and Small Medium Enterprise that have received grant from the local budget of Surakarta in fiscal year 2008 until 2012 and also knowing the Small Medium Enterprise business development, by comparing the conditions before and after getting help from the City Government. In the end the study analyze the effect of the local budget fund grant to the Small Medium Enterprise in Surakarta toward their business performance.

II. LITERATURE REVIEWS AND HYPOTHESES DEVELOPMENT

Indonesia's Small Medium Enterprises

Referring to law No. 20 in 2008, the definition of micro, small, and medium enterprises are as follows:
1. Micro business is a productive enterprise owned by individuals or entities who meet the criterias of micro enterprises. Micro enterprise criteria are as follows:
   a. have net worth IDR 50,000,000,00 (fifty million rupiahs) at maximum excluding land and building businesses; or
   b. Have the most annual sales revenue IDR 300,000,000,00 (three hundred million rupiahs) at maximum.
2. Small enterprise is a productive economic enterprise that is independent, run by an individual or business entity that is not a subsidiary or a branch of an owned company, not controlled or become part either directly or indirect from the Medium or Large Enterprises that meet the criteria of small enterprise. Small enterprise criteria are as follows:
   a. Have a net worth more than IDR 50,000,000.00 (fifty million) up to at most 500,000,000.00 (five hundred million rupiah) excluding land and buildings; or
   b. Has annual sales revenue more than IDR 300,000,000.00 (three hundred million rupiah) up to at most IDR 2.500.000.000,00 (two billion five hundred million rupiah).
3. Medium Enterprises is a productive economic enterprise that independent, which is ran by individuals or entities that are not subsidiaries or branches of owned companies, not controlled, or be a part either directly or indirect with the small enterprise or large enterprise with the amount of wealth or annual net sales revenue as stated in this law. Medium enterprise criteria are as follows:
   a. Have a net worth of more than IDR 500,000,000.00 (five hundred million rupiah) up to at most IDR 10,000,000,000.00 (ten billion rupiah) not including land and buildings; or
   b. Has annual sales revenue of more than IDR 2.500.000.000,00 (two billion five hundred million rupiah) up to at most IDR 50.000.000.000,00 (fifty billion rupiah).

Sme's Business Performance

In many countries in the world, the development and growth of small and medium enterprises (SME) is one of the driving force of economic growth. From research Tambunan (2003) mentioned that one of the characteristics of dynamics and good economic performance with a high growth rate in the countries of East and Southeast Asia known as the Newly industrializing countries (NICs) such as South Korea, Singapore, and Taiwan, the performance of Small Medium Enterprise are very efficient, productive and have a high level of competitiveness. Su et al., (2015) suggested that Small Medium Enterprise in China have a good business performance because of their ability in innovate the products and markets as well as build an extensive business network.

Still according to Tambunan (2000), noted that in Indonesia, from the view of the number of business units that appears in many sectors of the economic and contributes significantly to employment and income, especially in rural areas and for low-income families, it could not be denied the importance of SME toward national economic development. The business groups also have a role as a crucial driving force for economic development and local communities. Now, SME have a new role, as one of the main factors driving the development and growth of non-oil export and as supporting industries which make components and spare parts for large industries through production linkages for example in the form of subcontracting. In NIC, evidence shows that not only large enterprises, but also SME could play an important role in the growth of exports and can compete in the domestic market against imported goods as well as in the global market.

According to data from Bank of Indonesia (BI) (2013) recorded until August 2012 only 17 percent of total SME in Indonesia to obtain financing from banks. Based on BI data, SME that have a bank account only 9,027,461 or only 17 percent, SME without bank accounts totaling 44,796,271 or as much as 83 percent. SME credit up to August 2012 reached Rp513.192,6 billion, with the share of SME credit toward total bank credit amounted to 19.9 percent of the new institute.

Baswir (1995) in Nurul Imamah (2008), states that there are four main causes of low performance of small and medium enterprises (SME) in Indonesia : (1) Almost 60% of small businesses still use traditional technologies; (2) The market share tends to decrease because of a lack of capital, technology and managerial weakness; (3) Most small businesses are not able to meet the administrative requirements to obtain assistance from the Bank; (4) The level of dependence on government facilities tends to be very large.

Patterns Of Government Assistance

Indonesian government realizes the role of SME for the economy so they arranged several aid schemes for this business sector. Sembiring (2008) suggests there are several assistance programs for SME are considered to be successful is P3KUM (Productive Financing Program for Cooperatives and Micro), Women and Family Welfare Program (PERKASSA) and the People's Business Credit (KUR). All three are considered successful examples of Indonesian government aid programs for SME. In many developing countries assistance programs for SME is part of industrial policy in that country. Hlaing (2014) in his paper on the study of SME in Myanmar mentioned that SME in the country also receive capital assistance and soft loans from the government. Liu (2008) describes the industrial policy of the Chinese government towards SME carried out by encouraging SME to build a cluster and provide incentives in the form of technical assistance and equipment.

SME in developed countries turned out to get government assistance in the form of direct aid, and not only in the form of industrial policy. Mills and McCarthy (2014) suggested that as part of the US economic recovery efforts, SME in the country have easy credit facility and rescheduling bad loans. SME that are expanding investments also get grants from the government. Matic et al., (2012) describes the pattern of soft loans from the government for SME in Australia used to stimulate an increase in their business performance.

The pattern of Surakarta government assistance toward SME, use a scheme that is almost the same as the practice in developed and developing countries that previously illustrated. The grant of government support SME in Surakarta charged to the local budget. Utilization of local budget in increasing SME's capital is in accordance with the Law No. 20 in 2008. The grant of assistance to SME in Surakarta is also supported by Major Regulation and Central Java Governor Decree. The common form of support for SME is a capital and production equipment.

III. RESEARCH METHODS

Research design

This study uses a quantitative approach and using research design survey method. Selection of design research with survey method is in accordance with the purpose of research. This purpose means a generalization of the pattern of relationships between constructs. Fink (1995, p 6) states survey research design is the best approach to analyze the empirical phenomenon as "interference" of researchers to conduct research and construct objects are very minimal.

Population and Sample

Population of this research is the SME that get beneficiaries and grant Surakarta local budget from the year 2008-2012 consist of capital assistance, production equipment and facilities. The total number of SME that get beneficiaries are 1200. Based on the amount, taken 500 samples derived from 3 groups of assistance. Sample size determination is based on a random table by calculating the sample size more than a third of the population.

The sampling method in this research is purposive sampling sampling based on certain criteria of respondents. The criteria used in this study is the SME that had received assistance of local budget more than a year.

Variable Measurement and Operational Definitions

This study uses a simple regression multivariate model. There are 3 models of estimation in this study with different settings for capital, equipment and facilities. The dependent variable of the model is the estimation of assets, operating capital, income and labor. The independent variable is the type of assistance from the local budget of Surakarta, the capital, production equipment and facilities.
Operational definition of variables in this study are:
a. Asset is the amount of wealth that is used to support SME production, measured with rupiah.
b. Capital is the amount of operating capital in each production period, measured with rupiah.
c. Income is the number of sales in each period,measured by the value of the rupiah.
d. Local budget grant is the value of the grant budget in the form of capital, equipment and facilities received by SME as measured by the value of the rupiah.

Model Estimation and Analysis Tools

The analysis tool in this study are 2 simple regression multivariate models and different test with independent sample T-test. Simple regression analysis was performed to obtain the value of elasticity changes in the performance of SME due to the grant of Surakarta local budget. Simple regression estimation model of this study are:

(1) Asset = $\beta 11$ Grant Local Budgets + $\varepsilon 11$
(2) Capital = $\beta 12$ Grant Local Budgets + $\varepsilon 12$
(3) Income = $\beta 13$ Grant Local Budgets + $\varepsilon 13$
(4) Labor = $\beta 14$ Grant Local Budgets + $\varepsilon 14$

Different test analysis tool with independent sample T-test was used to test the development of the business before and after receiving grant from the local budget of Surakarta. Estimation model of the different test in this study.
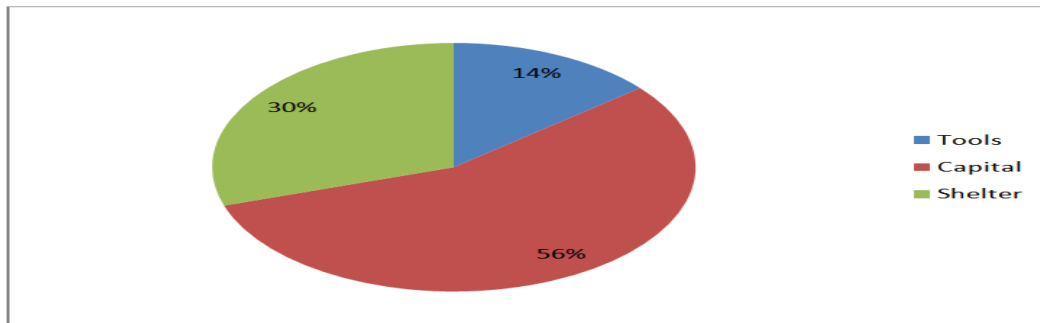
Description:

X1 = SME condition before receive grant.

X2 = SME condition after receive grant.

IV.   DATA ANALYSIS AND DISCUSSION

Type of Grant

Targeted respondents in this study were 500 people who had been registered as recipients of local budget grant from 2008 to 2012. After the survey respondents collected a total of 500 people.
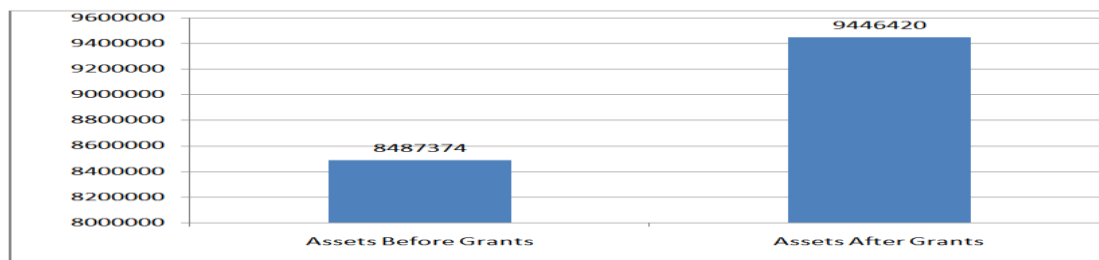

Picture 1
Total Respondents by Type of Grant

As seen in Figure 1 the majority of the allocation of grant for SME in Surakarta local budget is used to support capital as much as 56%. This is consistent with the Mayor of Surakarta Regulation No. 7 in 2005 which states that the grant of capital aims to strengthen the capital of Cooperatives and Small and Medium Enterprises that are not sufficiently financed from financial institutions. While the grant of equipment more focused on groups or cooperatives,so it is hard for invididual for to get such equipment grant if they does not join in a KUB or cooperative.

In practice, equipment that has been obtained will be used by all member of the group. So it would be difficult to assess how much is the influence of the equipment grant from this local budget towards their business. 2.6% of beneficiaries have received training from the Department of Industry and Trade as well as private parties. While 1% of beneficiaries had attended the exhibition to introduce their products.

Comparison of Asset, Capital Operations, and Labor of SME

The next descriptive analysis is the comparison of assets, operating capital and income of SME before and after receiving grant from the government.

Picture 2
Average ratio between the assets before and after receiving grant

Picture 2 shows the changes in the assets of the respondent before getting grant from local government funds and after receiving the grant. The average assets received by the respondent before getting grant Rp. 8,487,374 then become IDR. 9.44642 million after getting grant. So there is a rise in assets owned by the respondent at 10,15%.
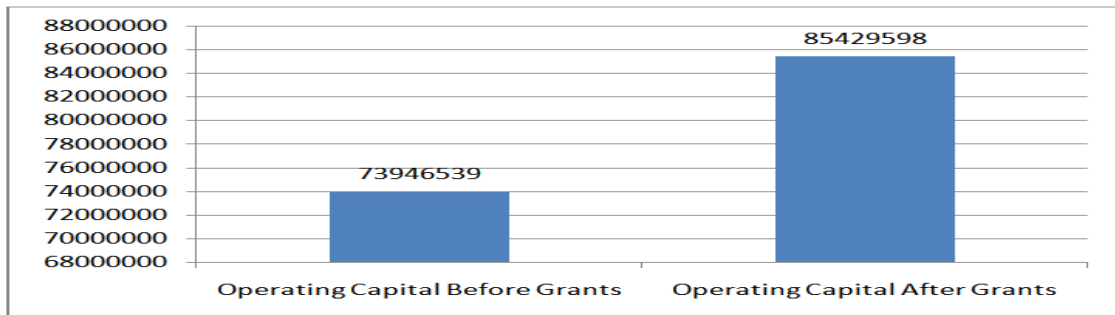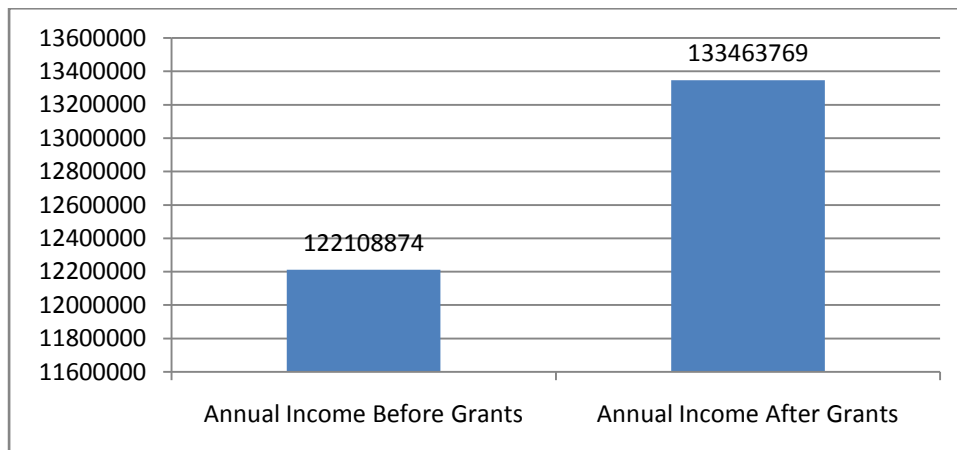

Picture 3
Comparison of average operating capital per year before and after receiving grant

Picture 3 shows the average increase per year between the operating capital before receiving grant and after receiving grant. An increase of 13,44% from an average of IDR 73,946,539 per year to IDR 85,429,598 per year. Many respondents felt positive benefits from capital grant of these local budget for their businesses. To develop their business,the main problem they face is the lack of capital for their businesses is the difficulty to obtain loans from the Bank because of their status as Small Medium Enterprise. With the grant of the government, the operating capital they get could be used to grow their businesses. Most of the respondents believe that the grant that they get is in accordance with their business. The benefits they get are:
1.Obtain additional capital business
2. Speed up the production process for the tools recipient
3. Adding the purchase of raw materials

Many recipients who were respondents in this study complained about the capital grant is too small to increase their business capital. Because they get the grant through a group instead of apply individually. If they apply individually they will get IDR . 2,000,000.00 but if they apply in group each person is only going to get about IDR. 500,000.00.

Picture 4
Comparison of the average annual income before and after receiving grant

As seen in Picture 4, an increase in the average annual sales income before receiving grant and after receiving grant, from Rp. 122.108.874 to Rp.133.463.769 or increase 8.5%. So it can be concluded that the grant could increase their income. Equipment granted to KUB or cooperatives to speed up the making of their merchandise. Thus, the total amount of their daily production will increase in accordance with the increase of their income.
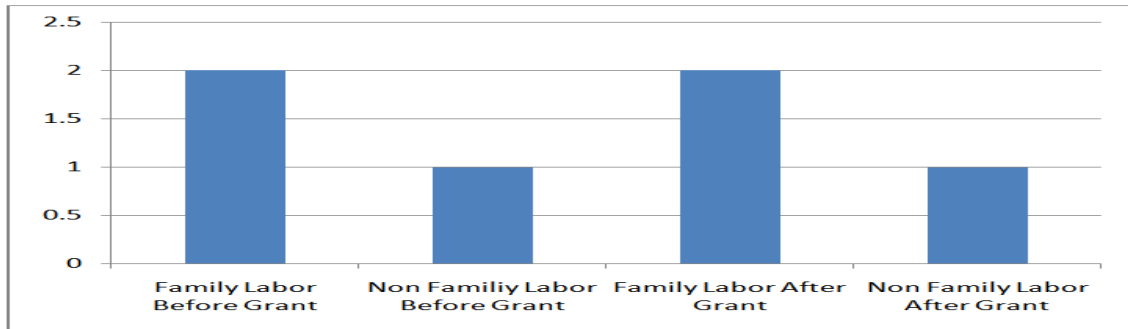
Picture 5
Average ratio of labor before and after receiving grant

As seen in picture 5, there are no significant changes to the amount of labor before receiving assistance and after receiving grant. Respondents were surveyed in this study are SME owner so that the average of their businesses are run using a little number of labor. Their labor are members of their family as this business is informal. The grant they get from the capital is not used to increase the number of labor but used for other things such as improving operating capital.

Next, we employ paired t test to see the difference of assets, income and capital before and after the budget grant. Table 1 shows the analysis results of stress tests with paired t test.

Table 1
Results of Paired t-test

Variables	t statistic	Significance
Assets before grants-Assets after grants	-3,010	0,003
Operational Capital Before Grants-Operational Capital After Grants	-3,003	0,003
Income before grants-Income after grants.	-3,197	0,001

Source: Data Analysis

Results of paired t test analysis showed that there are differences in the conditions before and after receiving grant in terms of assets, capital and income. This is indicated by the value t statistically significant from testing of assets, capital and income before and after the receiving of grant.

Testing the impact of local budget grant on Business Performance of SME

Testing the impact of budget aid on the business performance of SME using simple linear regression model that analyzes four different estimation models. Based on the data obtained, it was decided that the estimation regression model using logarithmic model, since data distribution does not meet the assumption of normality. Gujarati (2004, p 140) suggests, when the data does not meet the assumptions of normality, the solution is to transform the estimation model in the form of logarithmic equation. In the regression model estimation process, respondent data totaling 500 can not be used all, because some of the necessary data is not complete and there are some outliers respondents. Number of observations that are eligible to be analyzed is 398. Table 2 shows a summary of the estimated results of the regression model.

Table 2.
Result of Regression Analysis

	Model 1	Model 2	Model 3	Model 4
	Dependent Variable: Log Asset	Dependent Variable:Log Operational Capital	Dependent Variable:Log Income	Dependent Variable:Log Labor
Intercept	3,599*	4,593*	4,944*	0,421
Log Grants	0,483*	0,474*	0,453*	0,374
F ratio	4,240*	3,268*	3,590*	0,505
R^2	0,043	0,026	0,032	0,001

Notes: * = significance at $\alpha = 0,05$

Based on the results of the regression analysis it is concluded that the grant from local budget have positive effect on the addition of assets, capital and income. However, local budget grant has no significant

effect on the addition of labor. The grant elasticity value of assets, capital, and labor derived from regression coefficients of each regression equation.

1. The elasticity value budget grant toward the addition of assets is 0.483. When the local budget grant increased by 1 percent, then the asset of SME increased by an average of 4.83 percent.

2. The elasticity value of the local budget grant toward the increased capital is 0.474. When the local budget grant increased by 1 percent, then the capital of SME entrepreneurs increased by 4.74 percent.

3. The elasticity value of local budget grant toward the increased income or sales is 0.453. When the aid budget increased by 1 percent, then the income or sales of SME increased by 4.53 percent.

4. The elasticity value of local budget grant toward the increased amount of labor is none and is considered irrelevant, because the effect of local budget grant to increase the number of workers is not statistically significant.

V. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

1. Type of local budget aid granted to SME Surakarta are in the forms of capital, equipment and trading facility. The results showed that the aid in the form of capital more effectively impact on the performance of SME.

2. The results of this study indicate that the amount of aid from the local budget granted to SME tend to have increased from 2008 until 2012.

3. The results of this study indicate that the aid of local budget in the form of capital, equipment and trading facility positively impact on the increase in assets, capital and income of SME in Surakarta.

4. The results of this study indicate that the grant of local budget had no significant impact on the increase in the number of workers.

5. The results of this study showed different condition on the performance of SME in terms of assets, capital and sales revenue, before and after giving the grant.

6. The elasticity value of local budget grant toward SME assets is 0.483.

7. The elasticity value of local budget grant toward SME capital is 0.474.

8. The elasticity value of local budget grant toward SME income is 0.453.

Recommendation

1. Besides capital assistance, tools, and shelter, a lot of grantee who need training especially in the field of marketing. Most of the grantees in the convection business is very difficult to market their goods. Eventhough their production increased after given equipment, many of them still face difficulties to market their products. Most of them sell it to middlemen or to Klewer Market where payments are made in a frequent tempo that could hinder their capital turnover. Marketing training from the Department of Industry and other relevant Offices can help their business.

2. For shelter grantee of their main problems is the lack of facilities around their business area. Because the main purpose of the Local Government to provide shelter assistance is for environmental planning, it is not to increase SME.

3. The recipients of local budget funds also wants easier access to capital with a low interest rate because their biggest problem is the lack of capital. Local Government should explain that the grant they received must be shared on group and the amount of interest they have to pay on receipt of capital is already lower than the interest on bank loans.

4. The mechanism of assistance from the local government should be through the Regional Credit Guarantee Company (PPKD) so that the implementation and monitoring activities can be go well.

5. Assistance in the form of capital provide a more effective impact on the performance of SME as measured from the addition of assets, capital and income. Therefore, it is better if local budget grant is in the form of capital.

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