

Policy of Micro Enterprise Development in Indonesia

Dr. H M Said Saggaf,

M.Si

Lecturer of STIA Puangrimagalatung Sengkang Regency,
South Sulawesi, Indonesia

ABSTRACT

The type of qualitative research through phenomenology approach, the results of research indicate that the growth of micro, small and medium enterprises (MSMEs) in Indonesia is quite good, but it does not mean UMKM out of problems and obstacles. This UMKM optimization becomes important when the market issues start to circulate, in which the existence of SMEs should be able to adjust to market needs, but this optimization must be done effectively and efficiently where no losses suffered by a particular party, this optimization to reduce the number of problems in MSMEs, therefore, this optimization must be done with a systematic step and simultaneously both by the government and by its own entrepreneur, so that no loss is in the responsibility by one party only. If we only develop micro, small and medium enterprises.

CHAPTER 1.

INTRODUCTION

A. Background

SME (Small and Medium Enterprises) plays a very big role in advancing the Indonesian economy. In addition to being one of the new employment alternatives, SMEs also play a role in boosting the economic growth rate after the 1997 monetary crisis when big companies have difficulty in developing their business. Currently, SMEs have contributed substantially to local revenues as well as to state revenues.

In the current era of globalization, every country must have problems, not least economic problems, Small and Medium Enterprises or commonly in short MSMEs have an important position in building the country's economy, not only in the absorption of labor and welfare of local communities, but also can stabilize the problem of social inequality. Examples of SMEs are street vendors, the existence of street vendors can contribute greatly to the economy of our country, because with the street vendors can help reduce poverty, the existence of street vendors itself is a form of independence of society where society want to rise from economic keterbelitan and try entrepreneurship, but in fact existence The street vendors are often used as the source of the problem, such as the culprits, or the symbols of the city, the government should provide the proper land for the street vendors so that the street vendors get their formal legal, therefore the government is expected not only to prioritize the development of MSMEs, but as well as optimization, so that no loss is borne by one party only.

The development of MSMEs needs to optimize because the existence of UMKM contributes greatly to the economic development of our country, MSMEs can also reduce the unemployment rate in Indonesia. Therefore, the government in the effort to develop MSMEs should be run properly, so that there is no imbalance or losses experienced by certain parties, the government should also consider the defense for small, micro and medium enterprises, the government should optimize SMEs not only provide the government credit business or common people in short KUR, but also consider the continuity and security of the business, so far the consideration and security of the work done by the government fairly weak, for example the difficulty street vendors get formal legality. Development of micro small and medium enterprises overall that is by giving positive and real support to the development of human resources such as entrepreneurship training, technology, information, access to finance and marketing, Expansion of export markets, these are all indicators of success to build a community-based business climate.

In Indonesia, Micro, Small and Medium Enterprises (MSMEs) known as microfinance. Microfinance is providing low-income financial services, including consumers and entrepreneurs, who traditionally have no access to banking and related services. Microfinance is now considered an effective way of alleviating poverty.

From the statistics and research undertaken, Small and Medium Enterprises represents the largest number of business groups. UMKM has been regulated legally through Law Number 20 Year 2008 regarding Micro, Small and Medium Enterprises. Micro, Small and Medium Enterprises are the biggest economic actors in the

Indonesian economy and are proven to be the national economic safety valve in times of crisis, and become the dynamics of economic growth after the economic crisis. In addition to being the largest business sector of its contribution to national development, Small and Medium Micro Enterprises also create significant employment opportunities for domestic workers, thus greatly assisting efforts to reduce unemployment.

B. Problem Formulation

1. The Role of Government in Empowerment UMKM In Indonesia

C. Purpose of Writing

2. To Know The Role Of Government In Empowerment UMKM In Indonesia

CHAPTER 2.

LITERATURE REVIEW

A. Understanding of Micro Enterprises in Indonesia

In accordance with Law Number 20 Year 2008 regarding Micro, Small and Medium Enterprises (MSMEs):

Defenition of UMKM

- a) Micro Business is productive business owned by individual and / or individual business entity fulfilling the criteria of Micro Business as regulated in this Law. Micro Enterprises have a maximum asset criterion of 50 million and a turnover of 300 million.
- b) Small-scale business is a stand-alone productive economic enterprise, conducted by an individual or a business entity that is not a subsidiary or not a branch of a company owned, controlled, or becomes a part of the direct or indirect business of a medium-sized or large-scale business that meets the business criteria Small as defined in this Law. Small Business has an asset criterion of 50 million to 500 million and a turnover of 300 million to 2.5 billion.
- c) Medium Enterprise is a stand-alone productive economic enterprise, conducted by an individual or business entity that is not a subsidiary or a branch of a company owned, controlled, or becomes part directly or indirectly with a Small Business or a large business with a net worth or annual sales proceeds as provided in this Law. Medium Enterprises has an asset criterion of 500 million to 10 billion and a turnover of 2.5 billion to 50 billion.

B. The Role of Government in Indonesia

Many government experts are trying to expose the function and role of the government. One of them Kaufman (in Thoha, 1995: 101) mentions that the function of government is to serve and govern society. Then further explained that the task of service more emphasis on efforts to prioritize the public interest, simplify public affairs and provide satisfaction to the public, while the task set more emphasis power power inherent in the position of bureaucratic office. In addition, the thoughts of two figures, John Lock and Montesquie discussing Trias Politica, the functions of executive power are described as Chief of State, Head of Government, Party Chief, Commander in Chief, Chief Diplomat, and Chief Legislation. Another opinion expressed by Rashid (2000: 13) which describes the six general tasks of the government, among others, to ensure the security of the country from all possible attacks from outside, and to prevent there is no rebellion from within that can overthrow the legitimate government through the means of violence, and ensuring that any changes taking place in the community can proceed peacefully, ensure the fair treatment of all citizens, make efforts to improve social welfare, implement economic policies that benefit the wider community, and apply policies to conserve natural resources and the environment.

Based on the expert's opinion, the function and role of government can be classified as follows:

a) Regulatory Function

The central government will facilitate the region in the field of regulation through effective communication. The function of government in the field of regulation is especially engaged in health as a regulator of health services. A case in point is the Health Service Quality Board in Yogyakarta Province. The Agency optimizes the implementation of regulations in provincial and district health offices or municipalities, the means of accountability of regulatory agencies through partnership strategies and enhancing cross-sectoral engagement in the implementation of regulatory agency programs. In addition, another example of implementing government functions in regulation is the decentralized regulation of health. Government regulates health personnel and health institutions. At the beginning of decentralization, regions that have the authority to regulate the health system are less able to perform their functions properly because before decentralization only performs the duties of the central or provincial governmental regional office. Therefore, the government implements its regulatory function by supporting and regulating the role of local government and facilitating the region in regulation through effective communication.

b) Allocation Function

Allocation Function is a tax function as a source of income for state finances to be allocated for routine state expenditure. The state budget should be directed to reduce unemployment and waste of resources and improve economic efficiency and effectiveness.

c) Distribution Function

According to Musgrave the government is responsible for distributing income and welfare in the community. Only the State can "force" the rich people to set aside their income by requiring them to pay taxes according to their ability.

d) Stabilization Function

The government stabilization function is carried out by using budgetary policies as a tool to keep employment rates high, appropriate price stability, proper economic growth, and consider their impact on trade and payment balances. In addition, another example of the role and function of the government in stabilization is as a mediator when there is a conflict between Bangkalan and Pasuruan fishermen. Government as a facilitator in the process of resolving the conflict. The method used is persuasive institutionally.

CHAPTER 3.

RESEARCH METHODS

This type of qualitative research through phenomenology approach

CHAPTER 4.

DISCUSSION

A. The Role of Government In UMKM Empowerment in Indonesia

Since Indonesian independence, the government tried to print new entrepreneurs to break down the colonial economic system and be replaced by the populist economy. Several programs were developed by the government of the Old Order. During the liberal democracy period, the Benteng (Natsir Cabinet) program was known as an effort to cultivate indigenous entrepreneurs and encourage national importers to compete with foreign import companies by restricting the import of certain goods and granting them import licenses only to indigenous importers and to crediting indigenous companies so that later can participate in the national economic development. But this business failed, because the nature of indigenous businessmen who tend to consumptive and cannot compete with non-indigenous businessmen.

Failed with Benteng Program, the government introduced a new program of Ali-Baba economic system (Ali Sastroamijoyo's cabinet) initiated by Mr. Iskak Cokrohadisuryo, which is a cooperation between Chinese businessmen (Baba) and indigenous businessmen (Ali). Non-indigenous entrepreneurs are required to provide exercises to indigenous entrepreneurs, and the government provides credits and licenses to private national businesses. This program is not working well, because indigenous businessmen are less experienced, so only used as a tool to get credit assistance from the government.

In the New Order era, the development of MSMEs continued. The New Order Government made Law No. 9 of 1995 on Small Businesses to empower small businesses. This law contains XI chapters and 38 articles and regulates the implementation of the empowerment of MSMEs in Indonesia.

In relation to the development of an increasingly dynamic and global economic environment, Law No. 9 of 1995 concerning Small Business, which only regulates Small Business needs to be replaced, so that Micro, Small and Medium Enterprises in Indonesia can obtain business certainty and justice guarantee. The law is replaced by Law No.20 Year 2008 on MSMEs. In the law, mentioned the role of government to empower UMKM.

In relation to government affairs, every Minister in charge of certain affairs in government (Article 4 paragraph 1). The Ministry of Cooperatives and Small and Medium Enterprises is the Ministry in the third group of government affairs in the context of sharpening, coordinating and synchronizing government programs (Article 4 paragraph 2, letter C), related to government affairs in the field of Cooperatives, Small and Medium Enterprises (Article 5 paragraph 3) .

The law has mandated the government to develop MSMEs. In the Law No.20 of 2008 on MSME mentioned the role of government, among others:

- a) Together with Local Government exercises supervision and control of business opportunity (Article 13).

- b) Together with Local Government conducting trade promotion activities (Article 14, paragraphs 2).
- c) Together with Local Government to facilitate business development in the field of production and processing, marketing, human resources, and design and technology (Article 16 paragraph 1).
- d) Establish Government Regulation concerning development procedure, priority, intensity, and period of business development referred to (Article 16 paragraph 3).
- e) Together with Local Government provides financing for Micro and Small Business (Article 21). In this case the Government, the Regional Government, and the business world may grant, seek foreign assistance, and seek other legal and non-binding source of financing for Micro and Small Business (Article 21 paragraph 4).
- f) Providing incentives in the form of ease of licensing requirements, relief of tariffs for infrastructure facilities, and other incentives in accordance with the provisions of laws and regulations to businesses providing financing for Micro and Small Enterprises (Article 21, paragraph 5).
- g) Increasing the financing sources of Micro and Small Business (Article 22).
- h) Together with Local Government, increasing access of Micro and Small Enterprises to financing sources (Article 23 paragraph 1).
- i) Together with the Regional Government undertakes the empowerment of Medium Enterprises in the field of financing and guarantee (Article 24).
- j) Together with Local Government, businesses and communities facilitate, support, and stimulate partnership activities, which need each other, trust, strengthen and benefit (Article 25, paragraph 1). Partnerships between Micro, Small and Medium Enterprises and Partnerships between Micro, Small and Medium Enterprises with Large Enterprises cover the process of transfer of skills in production and processing, marketing, capital, human resources, and technology (Article 25, paragraph 2).
- k) The Minister of Cooperatives and SMEs and other technical ministries shall organize incentives for Large Enterprises undertaking partnerships with Micro, Small and Medium Enterprises through innovation and development of export oriented products, employment, use of appropriate technology and environmentally friendly, and organizing education and training (Article 25, paragraph 3).
- l) Minister of Cooperatives and SMEs can establish coordination agency of national and regional business partnership to monitor the implementation of partnership (Article 34).

- m) Banning Large Enterprises owns and / or controls Micro, Small and / or Medium Enterprises as partners in conducting partnerships (Art. 35).
- n) Banning Medium Enterprises has and / or controls Micro Business and / or Small Business Partners (Article 35).
- o) Minister of Cooperatives and SMEs coordinate and control the empowerment of Micro, Small and Medium Enterprises (Article 38 paragraph 1).
- p) Arranging and stipulating Government Regulation concerning procedure of giving administrative sanction of Act Number 20 of 2008 concerning Micro, Small and Medium Business (Article 39 paragraph 3).

The role of SMEs (Micro Small Medium Enterprises) in Improving the Indonesian Economy

The role of micro, small and medium enterprises (MSMEs) in the Indonesian economy is at least visible from:

- his position as a major player in economic activity in various sectors,
- the largest employer,
- an important player in the development of local economic activities and community empowerment,
- creators of new markets and sources of innovation, as well
- its contribution in maintaining balance of payments through export activities.

Small and Medium Enterprises (SMEs) Indonesia is quite superior among the countries of Southeast Asia (ASEAN). Minister of Cooperatives and sSmall and Medium Enterprises (SMEs) Syarifuddin Hasan said some SMEs are quite superior among others engaged in the field of furniture and handicraft.

MSMEs contribute greatly to the formation of GDP (Gross Domestic Product). In 2003 Small Enterprises contributed Rp 815.14 million and increased to Rp1,257.76 million in 2006. This contribution of GDP is able to drive and accelerate the growth of the domestic economy. The value of UMKM exports also continues to increase, because there are local characteristics of Indonesia and is a cultural product (culture product). The nature of UMKM is flexible and can be done by various layers of lower and middle society, and they can easily participate in it. The flexibility possessed by SMEs and small scale, has burst its spirits to start a business anytime and is easy to get started. Given the capital required to start a business on a small scale, it requires local technology that is simple and straightforward, which is dominant in the ability of the local community.

Small and Medium Enterprises (SMEs) have an important role in the Indonesian economy. Due to this SME, unemployment due to the unabsorbed labor force in the workforce is reduced. SME sector has been promoted and made as the main agenda of Indonesia's economic development. The SME sector has proven to be tough, when the Economic Crisis of 1998, only the SME sector survived the collapse of the economy, while the larger sector was actually hit by the crisis. Mudradjad Kuncoro in *Business Indonesia Daily* on October 21, 2008 suggested that SMEs proved resistant to the crisis and able to survive because, firstly, no foreign debt. Secondly, there is not much debt to the banks because they are considered unbankable. Third, use local input.

Fourth, export-oriented. During 1997-2006, the number of SME-scale companies reached 99% of the total business units in Indonesia. The contribution of SMEs to gross domestic product reached 54% -57%. The contribution of SMEs to employment is about 96%. As many as 91% of SMEs conduct export activities through third party exporters / intermediary traders. Only 8.8% are directly related to buyers / importers residing / having nationality abroad.

There are several reasons why SMEs can survive in the midst of the 1997 monetary crisis. First, most SMEs produce consumer goods and services with low demand elasticity of earnings, the average income level of the public does not significantly affect the demand for goods produced. On the contrary, the increase in income level also has no effect on demand. Second, most SMEs do not get capital from banks. The implications of the deterioration of the banking sector and the rising interest rates do not significantly affect the sector. Unlike the troubled banking sector, the SMEs participate disrupted business activities. While large business can survive. In Indonesia, SMEs use their own capital from savings and access to banking is very low.

There are ways to increase SMEs and entrepreneurship productivity, ie by clustering, especially for SMEs and small businesses engaged in fashion and textiles and their derivatives. The method undertaken by the Ministry of Cooperatives and SMEs is said to aim to facilitate the coaching so that productivity can increase. How to improve SMEs and small businesses with this cluster will hold a fashion designer association to entrepreneurs large entrepreneurs to provide training and assistance to SMEs and entrepreneurs engaged in the field of fashion. Fashion and textile SMEs have an important and significant role, of which about 10% of the 55.3 million SMEs in Indonesia are engaged in this field. If the fashion and textile SMEs will be united in one cluster, where the first phase will be mapping the business actors. If the data has been received, then the fashion cluster will be formed, then given training, assistance and guidance on standardization, design, IPR protection, to the promotion and marketing of products. Of course this is interesting info because SMEs and small businesses proved to be the foundation of the Indonesian economy that can survive in the midst of the current global crisis.

B. Government Efforts in Optimizing UMKM Development

The growth of micro, small and medium enterprises (MSMEs) in Indonesia is quite good, but it does not mean that MSMEs are free from problems and obstacles. This UMKM optimization becomes important when the market issues start to circulate, in which the existence of SMEs should be able to adjust to market needs, but this optimization must be done effectively and efficiently where no losses suffered by certain parties, this optimization to reduce the number of problems in MSMEs, therefore, this optimization must be done with a systematic step and simultaneously both by the government and by its own entrepreneur, so that no loss is in the responsibility by one party only. If we only develop micro, small and medium enterprises, then this becomes chaos when problems begin to emerge in the development process, call it the protection and defense aspects of the entrepreneur, or can be exemplified by street vendors, the protection of these street vendors the government has not provided adequate land for street vendors, so street vendors are often made into street congestion, or city plots, the government only lends money to its business capital, without taking into account the aspects of protection and defense for the entrepreneur. In fact, street vendors are a reflection of the self-sufficient society,

which tries to lift its economy in a better direction, but the determination of these street vendors must be contrary to their fears whenever they get government evictions.

The government should be able to optimize the development of micro, small and medium enterprises, so that the number of problems in the development process to be small and easy to overcome, and so as not to cause harm by either party, the realization of this optimization to answer the problems in MSME optimization steps that must be do the government are:

- Maximize the potential that exists in the community, so that the productivity can increase, this can be done by the government by providing training to entrepreneurs.
- Facilitate access to markets, so that SMEs can adjust to market needs, Therefore, from now on both the government and SMEs should begin to clean up to deal with market behavior that is more open in the future.
- Working with banks both public and private, this can be a way out when transaction costs start high. Increasing the contribution of bank financing to MSME requires a directed synergy by optimizing the resources of the community or entrepreneur
- The ease in obtaining formal legalities, the government is expected not only to provide just borrowing capital, regardless of the sustainability of the entrepreneurial defense, but also to provide legality to the business community, for example street vendors are given land for their business, because when the street vendors are in a decent place then the street vendors it can be said to obtain formal legalities.
- Guarantee for business protection and sustainability
- Utilizing technology for MSME development. In this era of technology is growing rapidly, development UMKM by using technology in expected to benefit UMKM because it can expand market.

The existence of economic liberalization becomes a serious challenge for the continuity of SMEs, where small and medium-sized micro enterprises must be able to compete with business actors from abroad. The role of government would be important especially to deliver them to be able to compete with other business actors. Some efforts that need to be done by the government to strengthen the competitiveness of MSMEs in facing the global market are:

- a) Improving the quality and standard of products, In order to take advantage of opportunities and market potential in Southeast Asia and global markets, the products produced by SMEs must meet the quality and standards in accordance with the agreement of Southeast Asia and destination countries.
- b) Improving access to finance; such as the aspect of formalities, because many MSMEs do not have legal status, business scale aspect, where often the credit scheme prepared by banking is not in line with the scale of SMEs business, and information aspect, where banks do not know which UMKM should be financed, meanwhile UMKM nor do they know what financing schemes are available in banking. Therefore, these three aspects must be addressed, such as by increasing the ability for human resources owned by SMEs, banking, and UMKM companion.
- c) To improve the quality of human resources and entrepreneurship spirit of UMKM; In general, the quality of human resources of SMEs in Indonesia is still low. Moreover, the spirit of entrepreneurship. The

government must take concrete steps, such as the preparation of grand strategy of entrepreneurship development and implementation of field done in relation and responsible. The important thing to note is the need for initial capital support, especially for beginner entrepreneurs.

- d) Facilitate SMEs related to information access and promotion abroad; The most important part of the production process is the market problem. Therefore, the provision of information and promotion of UMKM products, especially to introduce in the Southeast Asian market should be improved again. Promotion of products, can be done through cyberspace or participate in exhibition activities abroad.

CHAPTER 5.

CONCLUSION

Indeed, the development of MSMEs in Indonesia is quite good, if viewed in terms of the number of business units and the amount of labor absorbed by SMEs in order to reduce unemployment. BPS data (1994) shows that the number of small-scale entrepreneurs has reached 34.316 million people, covering 15.635 million independent small entrepreneurs (without the use of other labor), 18,227 million small entrepreneurs employing family members and 54 thousand small entrepreneurs work remains.

Although Micro, Small and Medium Enterprises have demonstrated their role in the national economy, it still faces many obstacles and constraints, both internal and external. As a business whose scope of business and its members are (generally) small people with limited capital and limited managerial capabilities, MSMEs are very vulnerable to economic problems.

It should be underlined that more and 51 million businesses, or more and 99.9% of business actors are Micro and Small Business, with a difficult business scale because they do not reach economies of scale. With individual entities, most businesses are managed in private, with inadequate business legality and institutional administration. Efforts to empower SMEs more complicated because the number and scope of MSMEs so much and wide, especially for disadvantaged areas, isolated and border

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