


## How does the government reduce unemployment? Legal Policy Analysis of the Government's Role in Strengthening SMEs in Indonesia



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**ABSTRACT.** Micro, Small and Medium Enterprises (MSMEs) are proven to be the main movers in the real sector that have a direct effect on national economic growth, especially to reduce unemployment. This research is a normative research with a legal approach, historical approach, comparative and conceptual approach. There is a problem regarding the role of the government regarding MSMEs in reducing unemployment and increasing economic growth considering that the Indonesian State is currently only actively promoting the economic development sector. In Indonesia, a developing country that needs a lot of improvement in the economic sector, especially small and medium businesses. Through Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), the government hopes that through the role of MSMEs, the Indonesian economy will run well to increase job vacancies and reduce unemployment.

**KEYWORDS.** Government Policy, Micro, Small and Medium Enterprises (MSMEs), Unemployment

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## Introduction

The growing economy in Indonesia encourages the government to continue to create solutions so that the Indonesian economy can compete in the current era of globalization. One of them is the government to encourage the economy in Indonesia through Micro, Small and Medium Enterprises (MSMEs). When the crisis hit in 1998, small and medium scale businesses were able to survive compared to large companies that were affected by the crisis. Several previous studies have stated that the capital structure of SMEs, especially in Indonesia, is mostly based on private investment<sup>1</sup>. Shows that MSMEs have a very strategic position to improve the economy in Indonesia, especially the small to medium sector.

The development of Micro, Small and Medium Enterprises (MSMEs) has proven to be the main driver in the real sector which has a direct effect on national economic growth. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises, the number of MSMEs in

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<sup>1</sup> Ministry of trade, Analysis of the Role of Financing Institutions in the development of MSMEs, Center for Domestic Trade Policy, Agency for the Study and Development of Trade Policy, Ministry of Trade, 2013

2011 was 55.2 million units divided as follows: 54,559,969 Micro Business units, 602,195 Small Business units and 44,280 Medium Enterprises. The number of MSMEs in 2011 was around 99.99 percent of the total number of existing business units, and it is also estimated that these units are able to absorb as much as 97.24 percent of the workforce.<sup>2</sup>

Seeing the benefits of these MSMEs. In increasing employment, the government must encourage MSMEs to develop in the midst of this globalization, the government through these MSMEs must innovate to develop products and expand their marketing share in order to improve the standard of living of the community.

The issue of MSMEs in reducing unemployment and increasing economic growth is very interesting considering that the State of Indonesia is currently only active in increasing the economic development sector. Based on the description of the background above, the formulation of the problem in this study are: First, what is the role of the role of MSMEs in reducing unemployment and increasing economic growth in Indonesia? Second, how is the implementation of the government's role in Law Number 20 of 2008 concerning MSMEs in increasing employment opportunities and improving the economy in Indonesia

## Method

This paper focuses on normative research, because in this legal research, law is conceptualized as what is written in statutory regulations (law in books) or law is conceptualized as a rule or norm which is a benchmark for human behavior that is considered appropriate.<sup>3</sup> To obtain the information needed to analyze the problems being studied in this legal research, several approaches commonly used in legal research are used, including the statutory approach, the historical approach, and the comparative approach), and a conceptual approach.<sup>4</sup>

The approach to legislation is used to analyze the Government's Economic Policy on the role of Micro, Small and Medium Enterprises

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<sup>2</sup> *Ibid*

<sup>3</sup> Amirudin and Zainal Asikin, *Introduction to Legal Research Methods*, Raja Grafindo Persada, Jakarta, 2004, page 34

<sup>4</sup> Peter Mahmud Marzuki, *Legal Research*, Kencana, Jakarta, 2005, page 93

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(MSMEs) in positive legal provisions, as well as analyze Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs).

A conceptual approach to analyzing emerging views and doctrines<sup>5</sup>. By starting from an understanding of theory, hope, and doctrine, it can be said between existing practice and relevant theories, so that the author will be able to analyze and solve the problems studied. The historical approach is further used in order to explore the role of Micro, Small and Medium Enterprises (MSMEs) in creating jobs and improving the economy in Indonesia.

In this study, data processing was carried out by collecting library materials, then selection was carried out to obtain data specifically related to the object of research. In compiling and analyzing existing data, deductive reasoning is used, namely the thought process in which people start from general statements to specific statements by using acceptable logical rules. Reasoning is used to organize known facts in order to make a conclusion.<sup>6</sup>

### **Economic Growth in Indonesia**

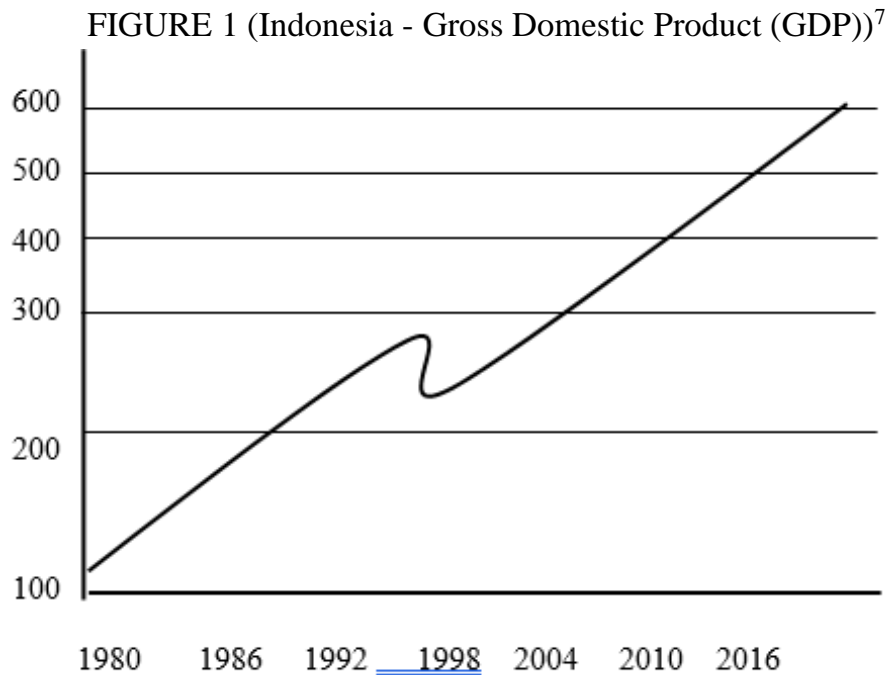
The Indonesian economy has recorded strong growth in recent decades. And in recent years, the strong pace of economic expansion has been accompanied by low output volatility and relatively stable inflation. Indonesia's economic performance has been shaped by government policies, the country's natural resources and a young workforce are starting to grow. Despite the industrialization of its economy, Indonesia's trade openness has increased over the last half century.

Economic Development Indonesia's economy has grown rapidly in recent decades, despite the sharp economic contraction that occurred during the 1997-1998 Asian financial crisis (Figure 1). This strong growth has made Indonesia an increasingly important part of the global economy.

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<sup>5</sup> *Ibid* page 94

<sup>6</sup> Sri Soemari Martosoewignjo, *Perceptions of the Procedure and System of Constitutional Changes in the Body of the 1945 Constitution*, Alumni, Bandung, 1987, pp. 8-9



Over time, the structure of the Indonesian economy has changed. Historically, the economy in the agricultural sector reflected the stage of economic development until it was able to promote agricultural self-sufficiency in the 1950s and 1960s. A gradual process of industrialization and urbanization began in the late 1960s, and accelerated in the 1980s as falling oil prices saw the Government of Indonesia focus on diversifying away from oil exports and manufacturing exports. From the mid-1980s, trade barriers reduced and the Indonesian economy became more globally integrated. Economic growth in Indonesia slowed only during the 2008-2009 global crisis, while there was a clear decline in output in most developed countries and other East Asian economies with the exception of China.

Strong consumption growth also reflects rising incomes, with Indonesians moving out of poverty and into the middle class. The share of the population living on less than US\$2 per day fell from 91 per cent in 1987 to 51 per cent in 2009. As this process occurred, consumption of non-food items expanded at a relatively fast pace, growing on average by around 6 per cent in the 2000s, more than double the average growth in food consumption. This in household spending on non-food items rising to be half of total private consumption expenditure by 2009. Based on the experience of other

<sup>7</sup> Stephen Elias and clare Noone, *The Growth And Development Of The Indonesian Economy*, Bulletin, Reserve Bank Of Australia, december quarter 2011, p 33

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countries, further increases in non-food consumption (relative to total consumption) are likely to occur in Indonesia as incomes rise<sup>8</sup>. Explaining that a consumptive society reflects an increase in income, in other words, the Indonesian people increase their status from a country where the average population is poor to a middle class economy.

Increased economic growth is not only seen from the qualitative side, but also qualitatively. Economic growth is not just an increase in the nominal value of Products Gross Domestic Product (GDP) or an increase in the growth rate but how the quality of economic growth is achieved, because economic growth does not create many jobs and reduce poverty. In the end, social inequality is widening. This happened because growth was supported by the service sector, which on average grew above GDP growth itself, this led to a lack of labor absorption.

In the APBN law states that the government must strive for quality economic growth, which is reflected in reducing poverty levels, absorbing labor and reducing open unemployment rates.

### **Unemployment Problems in Indonesia**

The importance of the unemployment issue refers to the national development goals, as mandated by the 1945 Constitution of the Republic of Indonesia Article 27 paragraph 2 which states that "every citizen has the right to work and a decent living for humanity". The main employment problem is the high unemployment rate. Unemployment can occur in any country including Indonesia. There are various causes of unemployment, including:

- 1) Limited job opportunities, so it is not able to accommodate all job seekers
- 2) The limited ability of job seekers, so that job seekers are unable to fill job vacancies because they do not meet the requirements of the abilities and skills being treated.
- 3) Limited information, Limited information can be caused by the person concerned not having access to information, or lack of knowledge and understanding of job seekers.
- 4) Uneven employment. There are many jobs available in urban areas, while in rural areas there are very few. The result is urbanization.

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<sup>8</sup> Stephen Elias and Clare Noone, Op. cit,

However, it should be realized that employment in urban areas requires certain skills and abilities, so that workers from rural areas who do not have skills will become unemployed, thereby increasing the number of existing unemployed.

- 5) Improper government policies, namely the government is not able to encourage the expansion and growth of the modern sector.
- 6) The government's low effort to conduct job training in order to improve the skills of job seekers. Policies to improve the quality of human resources through education and training are very good at overcoming mismatches and mis links so that job seekers have skills that match the needs of the world of work.<sup>9</sup>

Unemployment which every year becomes the main problem that is very difficult to solve by the regional and central governments. Unemployment has an impact on the economy in Indonesia, including:

- 1) Unemployment causes poverty because if someone is unemployed then they have no income, while the necessities of life must get satisfaction.
- 2) Unemployment causes the economy to not develop, someone who is unemployed has no income so he does not have purchasing power. If part of the population is unemployed, then automatically the goods and services produced are not sold, as a result the company suffers losses, it will reduce investment so that there will be layoffs which will increase unemployment. This situation will continue so that the economy as a whole will experience a decline.

This is where the government's role is needed to overcome various unemployment problems that will have an impact on the economic sector. This problem will later affect economic growth in Indonesia, causing delays in government programs in other sectors.

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<sup>9</sup> Sukidjo, The Role of Entrepreneurship in Overcoming Unemployment in Indonesia, *Journal of Economics*. Volume 1 Number 1, August 2005, pp. 19-20. *See also* Gunartin, G. (2017). Penguatan Umkm Sebagai Pilar Membangun Ekonomi Bangsa. *Eduka: Jurnal Pendidikan, Hukum, Dan Bisnis*, 2(2); Sulchan, M., Maslihatin, M. Z., Sari, E. S., Yulikah, A., & Sujianto, A. E. (2021). Analisis Strategi dan Kebijakan Pemerintah Dalam Memberikan Stimulus Ekonomi Terhadap UMKM Terdampak Pandemi Covid-19. *JAE (JURNAL AKUNTANSI DAN EKONOMI)*, 6(1), 85-91; Sedyastuti, K. (2018). Analisis Pemberdayaan UMKM dan Peningkatan Daya Saing Dalam Kancah Pasar Global. *INOBISS: Jurnal Inovasi Bisnis dan Manajemen Indonesia*, 2(1), 117-127; Anggraeni, W. C., Ningtiyas, W. P., & Nurdiyah, N. (2021). Kebijakan Pemerintah Dalam Pemberdayaan UMKM Di Masa Pandemi Covid-19 Di Indonesia. *Journal of Government and Politics (JGOP)*, 3(1), 47-65.



### **The role of MSMEs in increasing employment opportunities and improving the economy in Indonesia**

Seeing the great negative impact of unemployment, every country, especially Indonesia, is trying hard to suppress the unemployment rate as low as possible. In dealing with unemployment, the Indonesian government places a priority on short-term development, which emphasizes programs to accelerate poverty and unemployment, including through the Micro, Small and Medium Enterprises (MSME) program.

In the Indonesian economy, MSMEs are the business group that has the largest number and is proven to be resistant to various kinds of shocks from the economic crisis. The criteria for businesses that are included in Micro, Small and Medium Enterprises (MSMEs) have been regulated by law. Based on Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs). Empowerment and development of Micro, Small and Medium Enterprises (MSMEs) is an effort taken by the government to overcome the problems of unemployment and poverty.

In the context of empowering and developing MSMEs in Indonesia, the President of the Republic of Indonesia at the opening ceremony of The Asia Pacific Regional Microcredit Summit in his remarks explained that Bank Indonesia developed a five-finger philosophy, meaning that each finger has its own role and cannot stand alone and will stronger when used together.<sup>10</sup>

- 1) The thumb, representing the role of financial institutions that play a role in financial intermediation, especially to provide loans/financing to micro, small and medium customers as well as agents of development
- 2) The index finger, representing the regulator, namely the government and Bank Indonesia who play a role in the real and fiscal sector regulator, issues business permits, certifies land so that it can be used by MSMEs as collateral, creates a conducive climate and as a source of financing.
- 3) The middle finger represents a catalyst that plays a role in supporting banks and MSMEs, including Promoting Enterprise Access to Credit (PEAC) Units, a credit guarantee company.

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<sup>10</sup> Susilo Bambang Y, opening speech *The Asia Pacific Regional Microcredit summit*, Bali, July 28, 2008

- 4) The ring finger represents a facilitator who plays a role in assisting MSMEs, especially micro-enterprises, helping MSMEs to obtain bank financing, assisting banks in terms of credit monitoring and consulting on MSME development.
- 5) The little finger, representing MSMEs that play a role in tax payers and job creation

The togetherness of Micro, Small and Medium Enterprises (MSMEs) and conventional banks is one of the many forms of economic mutualism in improving the economy in Indonesia. Increased cooperation between Micro, Small and Medium Enterprises, UMKM and conventional banks is expected to open up job opportunities for the community and can improve the economy in the country.

The role of Micro, Small and Medium Enterprises (MSMEs), can be maximized if all parties, including the government, financing institutions and SMEs, are responsible for developing this sector. The roles of all these institutions to be responsible for empowering Micro, Small and Medium Enterprises (MSMEs) include:

First, the government is responsible for developing the economic sector carried out by Micro, Small and Medium Enterprises (MSMEs). Because through law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), the government should first show its commitment to taking sides with the Micro, Small and Medium Enterprises (MSME) sector so that this sector can develop and reduce the number of unemployed.

*Second*, In relation to business institutions, both Micro, Small and Medium Enterprises (UMKM) entrepreneurs and large entrepreneurs, they must strive independently and voluntarily to take strategic and realistic steps in doing business. For example, entrepreneurs of Micro, Small and Medium Enterprises (MSMEs) they must always strive to improve skills in the fields of production, management and marketing, in order to maximize their production results and increase or develop their business so that they are able to absorb more jobs. As for large entrepreneurs, it is advisable to try to include Micro, Small and Medium Enterprises (MSMEs) sector actors as partners, so that Micro, Small and Medium Enterprises (UMKM) business actors can develop their businesses.

*Third*, financial institutions to be able to assist in terms of borrowing capital to develop businesses in the Micro, Small and Medium Enterprises (MSME) sector. With the programs and roles mentioned above, we hope to

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be able to develop the Indonesian economy through the Micro, Small and Medium Enterprises (MSME) sector.

## **Implementation of the government's role in Law Number 20 of 2008 concerning MSMEs in increasing employment opportunities and improving the economy in Indonesia**

In accordance with Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs). Micro-enterprises are productive businesses owned by individuals or individuals or individual entities that meet the criteria for micro-enterprises as regulated in this Law. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly of a medium or large business that meets the business criteria. small as referred to in this Law.

Medium-sized business is a productive economic business that stands alone carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, and become a part either directly or indirectly with small businesses or large businesses with total net assets or proceeds annual sales as regulated in this Law. The criteria are as follows:

No	Description	Criteria	
		Asset	Turnover
1	Micro business	Max. 50 million	Max. 300 million
2	Small business	>50 million-500 million	>300 million -2.5 Billion
3	Medium Enterprise	>500 Million-10 Billion	>2.5 Billion-50 Billion

The many problems faced by the government related to MSMEs include:

- 1) Internal factors
  - a. Limited capital and access to capital financing
  - b. The quality of Human Resources (HR) is still relatively low
- 2) External Factor
  - a. Business climate is not yet fully conducive

- b. Limited business facilities and infrastructure
- c. Illegal levies
- d. Implications of regional autonomy
- e. Free trade implications
- f. Product properties with short shelf life
- g. Limited market access
- h. Limited access to information

In its implementation, the government has issued many policies to empower Micro, Small and Medium Enterprises (MSMEs), including through the financing sector or related installations. In particular, through the government, the government has issued programs including MSME loan programs, small investment loans (KIK) and permanent working capital loans (KMKP) and all of them with low interest rates.

The government's inability to improve the economy in the MSME sector requires a review and improvements in all sectors. The efforts that need to be taken are:

- 1) Creating a conducive business climate, among others, by seeking peace and security, as well as simplifying business licensing procedures, tax breaks.
- 2) The government needs to expand a special credit scheme with conditions that are not burdensome for MSMEs.
- 3) Business protection, the government must protect both through laws and government regulations
- 4) It is necessary to develop partnerships that help each other between MSMEs, or MSMEs with large entrepreneurs, so that there is no monopoly in business. As well as expanding market share and managing it more efficiently.
- 5) The government needs to improve training for MSMEs in the aspects of entrepreneurship, management, administration and knowledge and skills in business development.
- 6) It is necessary to build a special institution that is responsible for coordinating all activities related to the development of MSMEs.
- 7) Strengthening associations to increase roles, especially business information between MSMEs
- 8) Develop promotions through talk shows between associations and business partners

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- 9) Establishing harmonious cooperation or coordination between the government and the world (MSMEs) to take an inventory of the latest issues related to business development
- 10) Develop facilities and infrastructure for MSMEs so that their potential to develop is easier.

## **Conclusion**

Problems that can hamper the pace of the economy in a country, including Indonesia, greatly affect the global economy, which relies on certain sectors to compete. In Indonesia, which is a developing country, many improvements are needed in the economic sector, especially small and medium enterprises. The role of the government in terms of improving the economy, one of which is with small and medium enterprises, is expected to help improve the welfare of the community. Through Law Number 20 of 2008 concerning Micro small and Medium Enterprises (MSMEs), the government hopes that through the role of MSMEs, the Indonesian economy will run well. Where the characteristics of MSMEs that develop flexible business processes at low costs and result in relatively low losses, are very suitable if applied and developed to improve the economic sector and increase the number of jobs that can absorb a lot of unemployment in the State of Indonesia.

## **Recommendation**

Efforts to improve the economy through the role of Micro small and Medium Enterprises (MSMEs), the government must have policy alignments for MSME actors, as well as create a conducive business climate so that MSME actors can be more comfortable in running their business. With real policies that will support the small and medium sector, business development will be easier to develop so as to create jobs and reduce unemployment.

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