

# Sustainability of Micro-Enterprises: Role of Indonesian Government

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## Abstract

This is a conceptual paper for study the Role of Indonesian Government on Sustainability of the Micro-enterprises. The study reviews the literature on the history of sustainability micro-enterprises in Indonesia. This paper explores previous research in Indonesia and international context about the role of government for micro-enterprises. All these information was collected from journal articles, conference proceedings, newspaper, books and internet search related to this issue. The findings of the paper show that the Indonesian government has an important role in sustainability of micro-enterprises. Conclusions from the literature are drawn that stated that government plays a key role in Sustainability of Micro-enterprises although there are still many problems that occur in its implementation. The paper ends with recommendations on future research on how the better role of government toward Sustainability of Micro-enterprises.

**Keywords:** Sustainability, Micro-Enterprises, The Role Of Government

## I. INTRODUCTION

The micro, small and medium enterprises (MSMEs) play a crucial roles in developing Indonesia economic. It was reported that more than 99% of the enterprises in Indonesia were categorized as MSMEs and they contributed more than half of the country's GDP. However, many MSMEs especially micro enterprises face many challenges or constraints to grow or even sustaining their businesses mainly due to their weak managerial and human resource capacity.

Previous studies highlighted problems faced by these micro entrepreneurs including:

1. Weakness in gaining market opportunities and increasing market share;
2. Weaknesses in the capital structure and limitations to obtaining a path to capital sources;
3. Weaknesses in the field of organization and management of human resources;
4. The limited network of cooperative business among small entrepreneurs (marketing information systems);
5. The business climate is not conducive, because the competition is mutually deadly;

6. The guidance that has been carried out is still not integrated and the lack of trust and concern of the community for small businesses.

To reduce these obstacles, efforts need to be made by various parties including government to ensure developing of MSMEs. One form of the role of government in empowering MSMEs in Indonesia has been stipulated in Law No. 20 of 2008 concerning MSMEs. This Law contains general provisions, principles, principles and objectives of empowerment, criteria, growth of the business climate, business development, financing, and guarantees, partnerships, and coordination of empowerment, administrative sanctions, and criminal provisions.

Development of Micro-Enterprises in Indonesia has been quite rapid and their contribution to gross domestic product according to Central Bureau of Statistic, contribution increase from 57.84 % to 60.34 % in the last five years. Labor absorption in this sector also increased from 96.99 % to 97.22 % during the same period.

The data collected from the ministries of cooperatives and MSMEs are as follows:

- a) In 2009 the number of MSMEs 52.76475 million units with a share of 99.9 %;
- b) In 2010, the number of MSMEs 54,114,821 units with a share of 99.9 %;
- c) In 2011, the number of MSMEs 55,206,444 units with a share of 99.9 %;
- d) In 2012 the number of MSMEs 56,534,592 units with a share of 99.9 %;
- e) In 2013 the number of MSMEs 57,895,721 units with a share of 99.9 % (Central Bureau of Statistic 2016)

In the year 2014-2016 the number of MSMEs more than 57.9 million units and 2017, the number of MSMEs is expected to grow to more than 59 million units. In Indonesia, MSMEs account for more than 99.9 percent of all firms and employ 96.2 percent of the workforce and the contribution of MSMEs to gross domestic product is 60.34% (Central Bureau of Statistic 2016), Based on Bank Indonesia's (2016) report, MSMEs financing is given around 37.71% or Rp58.10 trillion.

Therefore, the objective of this paper is to provide a conceptual study on the roles of Indonesian Government in the sustainability of micro enterprises in Indonesia.

## **II. SUSTAINABILITY, MICRO-ENTERPRISES AND ROLE OF GOVERNMENT**

### **II.I Sustainability**

The concept of sustainability was initially created from a forestry approach. This term means an attempt to never harvest more than the ability to harvest the forest under normal conditions. The word *nachhaltigkeit* (German for sustainability) means an effort to preserve natural resources for the future (Agricultural Economics Research Institute, 2004) in [15]. Further generally, based on the World Commission. Nasdian (2014) [21] divided the concept of sustainability and development into five connotations. The connotation of sustainability is divided into literal sustainability, ecological sustainability, and social sustainability. Business sustainability is the business's ability to survive, continuously in covering operational costs by using business income generated from business activities.

Whereas according to Wandenberg (2015), sustainability defined as a socio-ecological process characterized by the pursuit of a common ideal. Sustainability is a form of consistency of business conditions, where sustainability is a process of ongoing good business including growth, development, strategies to maintain business continuity and business development where all this leads to the sustainability and existence of the business.

Research for sustainability of micro-enterprises can be seen from some researcher such as done by Prabawani (2013) [25] that stated the indicators to measure sustainability have been developed from several relevant studies

### **II.II Micro-enterprises**

The definition of micro-enterprises will vary from country to country. For example, Thailand, India, and China all have a different definition of the size and scope of microenterprises. Also, different sectors, government institutions or departments, such as Indonesia and Pakistan [30]. The definition of micro-enterprises can be defined from the definition of MSMEs itself, which in Indonesia is different. Some institutions or agencies even provide a definition of MSMEs that are not the same.

According to Law No. 20 the Year 2008, the so-called small business is an entity that has the following criteria: 1. net worth more than fifty million rupiahs up to a maximum of five hundred million rupiahs excluding land and building of business premises; and 2. have annual sales of more than three hundred million rupiahs up to a maximum of two billion five hundred million rupiahs.

The definition of MSMEs according to the Ministry of Cooperatives and MSMEs in Aufar (2014: 8) [6; 18]: Small Enterprises, including Micro-enterprises are business entities that have a maximum net worth of two hundred million rupiahs, not including land and building business premises and having annual sales of at most one billion rupiahs. Meanwhile, according to World Bank Micro-enterprises, with criteria: 1. The number of employees less than 10 people, 2. The income per year does not exceed \$

100 thousand and 3. The amount of assets does not exceed \$ 100 thousand.

Business and economic literature say that business units will develop naturally from the most micro to large businesses. In the case of MSMEs development will be a change from micro-enterprises to small businesses, from small businesses to medium-sized enterprises and so on. It turns out that theory is not as easy as practicing in the field, micro-businesses are not easy to go up to become small businesses and so on. The concept of MSMEs businesses to develop class can refer to the literature on what factors influence the growth of MSMEs.

Hill (2001) [14] describes the classic problem of MSMEs in Indonesia as a matter of marketing and finance. Financial problems faced by MSMEs are caused by MSMEs lacking or not having access to formal financial institutions or banks. Arianto (2009) explains the factors that explain this problem are: (1) seen as less credible by banks (2) some MSMEs are eligible for credit but not accessible by banks, (3) there is asymmetric information regarding banking services and other financial institutions that can help MSMEs and (4) limited banking services.

The move to higher levels of MSMEs was also hampered due to institutional problems that did not support them. Aidis (2005) [2] revealed formal constraints such as changes in taxes, tax rates, funding rules, location and ownership were obstacles to the development of MSMEs. Abonyi (2005) [1] also identified access to global markets and the low capacity to increase added value also hampered the development of MSMEs. Riyanto, Triyono, and Laksana (2006) [28] said that innovation is needed by MSMEs to enter markets that are potentially large because of the level of competition that is very tight. The ability of MSMEs to develop depends on the potential to invest, innovate and qualify. However, the ability of these MSMEs also depends on sufficient funding (Ganboold, 2008). In terms of riding class for MSMEs, [26, 33] describes the important role of MSMEs entrepreneurs and external factors such as the business climate.

## **III. THE ROLE OF GOVERNMENT FOR THE SUSTAINABILITY OF MICRO-ENTERPRISES IN INDONESIA**

In the beginning, Micro-Enterprises did not experience significant progress both in terms of quantity and quality, because at that time there was no serious attention from the authorities, attention was only directed as a form of formality. But since the monetary crisis in 1997/1998 where Micro-Enterprises have relatively good resilience compared to large businesses, the authorities have begun to pay close attention to the development of MSMEs both in terms of quantity and quality. The potential of MSMEs is very vital for the Indonesian economy and also its role in employing because that is the Government with various policies that are given to help MSMEs to grow and their businesses sustainable [35].

In recent years the Indonesian government has made various policies to encourage the development of MSMEs to become better. One of the problems faced by MSMEs to develop is the problem of capital, MSMEs do not have access to banking or financial institutions. The development potential of MSMEs in Indonesia can not be separated from the support of banks in lending to MSMEs. According to data from Bank Indonesia, annually credit to MSMEs growth, that's why the government through Bank Indonesia provides various policies in terms of capital to MSMEs.

The policies that have been carried out by the government in helping the sustainability of the MSMEs business in the last ten years are:

1. In lending, Bank Indonesia has issued a regulation requiring banks to allocate credit/ financing to MSMEs starting in 2015 at 5%, 2016 at 10%, 2017 at 15%, and at the end of 2018 by 20%.

2. Taxation policy for MSMEs since 2013 is subject to a final income tax of 1% of gross income. Then starting in July, 2018 the final income tax above was reduced to 0.5% of gross income.

3. The government policy in financing MSMEs with a guarantee pattern is the People's Business Credit (KUR) from November 2007 to 31 December 2014. While the new KUR policy is with an interest subsidy scheme starting August 14, 2015 to December 31, 2017. Since January 1, 2018, the People's Business Credit has changed with 12 new provisions, namely related to lower interest rates, groups business as KUR recipient, Special KUR scheme, setting minimum portion of KUR distribution to the production sector, multi-sector KUR schemes, payment mechanisms, term changes Retail KUR becomes Small KUR, the number of Micro KUR ceiling is for the production sector, KUR distribution together with other credits that are allowed, the fee structure for KUR Placement of TKI, KUR for border communities, and KUR for optimization.

4. Government policy regarding MSMEs licensing with Presidential Instruction number 3 of 2006 concerning investment climate improvement packages with One Stop Integrated Services (PTSP) licensing. Then licensing for Micro and Small Businesses was issued by Republic of Indonesia Presidential Regulation Number 98 of 2014, namely micro and small business permits (IUMK) in the form of only one sheet. In February 2015, the administration of IUMK was sufficient through the village head or sub-district head.

5. The sixteenth policy package issued by the government in 2018 in the form of an expansion of corporate income tax, review of export results and relaxation of the list of negative investments. Negative investment list policy will threaten the public sector because it allows foreigners to be able to invest 100% in 54 business sectors in Indonesia [34].

The role of government for the sustainability of micro-enterprises thus far has received limited attention in scholarly discourse. Some experts argued that, to a degree, governmental issues are captured mainly in the social dimension of the sustainability. Government's role is also mainly described in qualitative and normative terms through

concepts such as community participation, empowerment, equity, and transparency.

The role of the government in general has expanded dramatically over the past century. In comparison to pre-20th-century functions, governments have taken on new and vast roles that typically comprise a modern state [7; 9; 13].

For more details, previous research related to the role of government in developing of MSMEs can be seen in the following table.

**Table1.** Previous Studies on Role of Government and Sustainability

Authors	Title	Country	Findings
Satyamoorthy C.R. (2002)	Government Policy and entrepreneurship performance: The Case of SMEs in Botswana	Pakistan	Government has been quite active in promoting SMEs thru policies on industrial development. The new policy is a clear indication that the future of SMEs in Botswana is going to be bright
Krisna Sedyastuti (2018)	Analysts empowering MSMEs and increasing competitiveness in the global market arena	Indonesia	In developing MSMEs, it cannot be separated from banking support through lending. Anticipating an increasingly open and competitive market mechanism is market domination as a condition for increasing MSMEs competitiveness
Atsu, I.A. and Ojong, C.M., 2014 [5]	The Role of Government in the Development of MSMEs in Nigeria between 1991 and 2012	Nigeria	A significant relationship between the provision of government capacity building programmes and development of MSMEs, a significant relationship existed between financial support by government and the development of MSMEs
Subarsono, Yanuar Barlianto and Sulfiani (2016)	the role of the government in empowering the MSMEs in Cirebon	Indonesia	The government must create a conducive business climate and provide guidance and development to MSMEs
Dewi Wuryandani, Hilma Meilani (2013)	The role of local governments in development policy MSMEs in Province of Jogjakarta		Policies still are overlapping between regions, and between the central and local governments, so local governments needs to create conducive environment for MSMEs so they can become exporters
Reginald and Millicent, (2014)	Challenge and success factor of SMEs	South Africa	The results from the collected data show that entrepreneurial factors are valued the most followed by marketing and then managerial factors
Abrar-ul-haq, (2015);	success factor of SMEs	Pakistan	The regression results show that financial access, managerial skills, and government support are the most important factors contributing to SMEs development in Pakistan
Mariyudi (2017)	perspective of the macro environment and the micro environment on innovation and business development performance MSMEs	Indonesia	Micro environmental have a significance influence on firm's innovation and business growth performance, firm's innovation influence on business growth performance but Macro environmental have a non-significance influence on firm's innovation and business growth.
Umiat Hamzani and Dinarzad Achmad (2017)	Micro Small Medium Enterprises Coaching Program	Indonesia	Coaching program produce higher quality financial statement and increasing profit.

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#### IV. CONCLUSION

This article argues that in the context of conceptual papers researchers see the role of government in sustainable micro enterprises as very important. Conceptual papers give researchers an approach in terms of data collection, interpretation, and explanation.

One of the pillars of popular economy is the MSMEs which has a very vital role in the absorption of labor, also the role in the formation of domestic products is large enough that it must be helped to remain sustainable through various government policies

The government must facilitate the creation of a shared social vision for the sustainability of micro businesses. In other words, the role of the government, in this case, is as a facilitator, as well as a regulator, which is a driver of business activities carried out by the MSMEs can continue to be sustainable so they can move up the class. Government products that contain provisions governing microbusiness policies must not overlap between ministries, between regions, not allow foreigners to enter markets where MSMEs products are already available.

Thus MSMEs will grow, move up the class from micro businesses to small businesses, small businesses to medium-sized businesses and ultimately business sustainability can occur.

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