

# Small And Medium Enterprises (SMEs); The Strength of The Indonesian Economy

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## ABSTRACT

Small and medium enterprises are one of the pillars of the nation's economy so innocent in Indonesia. Studies related to SMES are very important considering their function in the rotation of the Indonesian economy. This study is a conceptual paper, sourced from a literature review. Hopefully, this study will become a reference for the development of SMESs in the future

## Keywords

Small and Medium Enterprise (SMES), Business, Indonesia

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## Background

In terms of quantity, the development of SMEs in Indonesia is increasing, but it has not been matched by an increase in the quality of SMEs more evenly. The classic problem faced is a lack of productivity, this is caused by internal problems faced by SMEs, including the lack of quality of human resources as managers of SMEs, organizing their resources, mastery of technology that is not optimal, and marketing and networking systems that are still not optimal (Untari et al, 2017). While the external problems faced by SMEs include expensive and slow licensing fees, limited access to raw materials and dependence on climate (Untari, 2019). Meanwhile, a lack of understanding of cooperatives as business entities with institutional structures (organizational structure, power structure, and incentive structure) unique / unique compared to other business entities, as well as a lack of public information about correct cooperative practices (best practices). ) has resulted in the low quality of cooperative institutions and organizations. Along with these problems, the development of SMEs also faces challenges, especially those caused by the rapid development of economic globalization and trade liberalization in line with the rapid pace of technological advancement (Untari et al, 2020)

One of the problems in the development of SMESs related to the above problems is the problem of capital and this is where the role of the Bank is as a channeling institution for funds for the community which is expected to support the development of SMESs and entrepreneurship in Indonesia.

## Academic Study

### Definition and Criteria of SMESs

In accordance with Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (SMESs), the definition of MSMEs is,

1. Micro Business is a productive business owned by an individual and / or an individual business entity that meets the criteria of a Micro Business as regulated in this Law.

2. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not a subsidiary or branch of a company that is owned, controlled, or is a part, either directly or indirectly, of a medium or large business criteria for Small Business as referred to in this Law.

3. Medium Business is a productive economic business that stands alone, which is carried out by an individual or a business entity that is not a subsidiary or branch of a company that is owned, controlled, or is part of, either directly or indirectly, with a small or large business with total assets. net or annual sales proceeds as regulated in this Law.

SMESs criteria can be seen in the following table,

**Table 1.** Criteria for SMESs

Criteria	Asset	Omset
Micro Business	No more than IDR 50 million	No mote than IDR 300 million
Small Business	IDR 50 million – IDR 500 million	IDR 300 million – IDR 2,5 billion
Medium Business	IDR 500 million – IDR 10 billion	IDR 2,5 billion – IDR50 billion
Large Business	More than IDR 10 billion	More than IDR 50 billion

Resources : UU No.20/2008 about SMES

### Profile of Indonesian SMES

According to data on [www.bi.go.id](http://www.bi.go.id), it states that in achieving and maintaining the stability of the rupiah value, Bank Indonesia is tasked with achieving and maintaining a stable inflation rate. The source of inflationary pressure from the demand side could be influenced by Bank

Indonesia through monetary policy. Meanwhile, from the supply side, which is beyond the control of Bank Indonesia, an empowerment program for the real sector and.

Micro, Small and Medium Enterprises (SMESs) have an important role in the economy in Indonesia. SMESs have a proportion of 99.99% of the total business actors in Indonesia or as many as 56.54 million units (Bank Indonesia, 2014). The Ministry of Cooperatives and SMES RI reports that in terms of number of units, SMESs have a share of around 99.99% (62.9 million units) of the total business actors in Indonesia (2017), while large businesses are only 0.01% or around 5400 units. Micro Enterprises absorb around 107.2 million workers (89.2%), Small Enterprises 5.7 million (4.74%), and Medium Enterprises 3.73 million (3.11%); while Big Enterprises absorbs around 3.58 million people. This means that collectively SMESs absorb around 97% of the national workforce, while large enterprises only absorb about 3% of the total national workforce (Kementrian Koprasi and SMES, 2018)

### Direction of SMEs Development Policy

Policies related to the development of SMEs are generally directed at supporting efforts to reduce poverty and inequality, create job opportunities and increase exports, as well as revitalize agriculture and rural areas, which are national development priorities. The development of small and medium enterprises (SMES) is directed to make a significant contribution to the creation of job opportunities, increase exports and increase competitiveness, while the development of micro-scale businesses is directed at contributing to increasing the income of low-income people, especially in the agricultural and rural sectors.

In the context of supporting efforts to reduce poverty and inequality, provide support and facilities for the development of productive economic enterprises on a micro / informal scale, especially among poor families and / or in disadvantaged areas and pockets of poverty. The development of micro-scale businesses is aimed at increasing business capacity and business management skills, as well as increasing business certainty and protection, so that it becomes a business unit that is more independent, sustainable and ready to grow and compete.

The development of SMEs needs to be given facilities in formalization and business licensing, among others by developing a one-stop service pattern to streamline the process and reduce licensing costs. In addition, a business and entrepreneurial culture is developed, especially among the young workforce, through training, counseling and counseling, and business partnerships.

SMEs, which are the majority economic actors in the agricultural and rural sectors, are one of the components in the agricultural and rural development systems (Sri, 2002). Therefore, policies related to the development of SMEs in the agricultural and rural sectors must be in line with and support policies for agricultural and rural development. For this reason, SMEs in rural areas are given the widest possible business opportunity and guaranteed business certainty by paying attention to the principles of economic efficiency, as well as expanded access to productive resources in order to be able to take advantage of business opportunities and the potential of available local resources

to increase the productivity and efficiency of agribusiness businesses and develop various types. its superior product (Nursal et al, 2019). This effort is supported by increased institutional capacity and service quality of local financial institutions to become alternative sources of financing for the agricultural and rural sectors.

### SMEs Financial Support

Based on data from Bank Indonesia, it is stated that the development of the potential of Micro, Small and Medium Enterprises (SMEs) in Indonesia cannot be separated from the support of banks in lending to SMEs. Every year, credit to SMEs experienced growth and in general the growth was higher than total bank credit. SMEs credit is credit to micro, small and medium business debtors that meet the definition and criteria of micro, small and medium enterprises as stipulated in

Based on the legislation, SMEs are productive businesses that meet business criteria with certain limits on net assets and annual sales results. SMEs credit statistics are presented with various items, namely Net Expansion (NE), Debit Tray (BD), Non Performance Loan (NPL), and Withdrawal Allowance, supplemented by variations based on bank group, Economic Sector, Type of Use and Project Location in each Province and details of the scale of Micro, Small and Medium Enterprises.

Publication of SMEs credit statistics based on business definitions and criteria based on Law no. 20 of 2008 concerning SMEs began to be implemented for monthly bank report data since January 2011. Until the end of 2010, SMEs credit statistics were based on the definition of a ceiling, namely: (1) micro credit with a ceiling of up to IDR 50 million, (2) small credit with a ceiling of more than IDR 50 million to IDR 500 million, and (3) medium credit with a ceiling of more than IDR 500 million to IDR 5 billion. In this definition, all types of credit usage, including consumer credit, are included in the SMEs credit statistics.

### SMEs Institutions in Indonesia

Small and Medium Enterprises (SMEs) are currently facing a paradoxical phenomenon. On the one hand, SMEs looks very strategic because it is the main and foremost supporting pillar of economic development. SMEs is the field of business that is the most and most easily accessible to the grassroots community in Indonesia (Berry et al, 2001). SMEs is the largest and fastest way to provide employment opportunities and provide a source of income for most of our society. SMEs are most flexible and can easily adapt to the ebb and flow of the economy and they are also quite diversified and make important contributions to exports and trade. How extraordinary is the role of SMEs in our Indonesia. But on the other hand, we also find many complicated problems in the SMEs body, this can happen because institutionally the SMEs in Indonesia is weak. In fact, there has been a paradox for a long time in the body of SMEs in Indonesia (Brata, 2003). On the other hand, its role is charming, but on the other hand, SMEs contains many problems. This is due to the political economy, its existence has been characterized, especially during the Suharto regime was established. The dominance of the Suharto regime's

alignments with big economic actors has made SMEs in Indonesia weak institutionally. So that our SMEs become slow to be independent, slow to develop themselves and become weak in terms of access.

It is an open secret for SMEs in Indonesia, that from a long time ago, the classic problems that have always plagued SMEs include problems;

First, the complexity of the licensing process and the simplification of business records. Business licensing in Indonesia is very complicated and takes a very long time when compared to other countries even though for SMEs a business license is the most basic capital if it is to develop and have good access, especially access to capital. According to the World Bank (2005), it takes an average of about 151 days and 12 procedures to obtain a business license. In fact, this ease of licensing will create additional economic growth of 0.25% of GDP.

Second, difficulty in accessing additional capital through bank credit. Most SMEs do not succeed in obtaining credit from banks because they do not meet the requirements to be eligible for credit. This is partly because SMEs does not yet have the knowledge and readiness to meet credit requirements so that SMEs actors perceive credit procedures as difficult. According to Sulaeman (2004), in Indonesia the main reasons put forward by SMES why SMEs do not borrow from banks are: (1) difficult procedures (30.30%), (2) Not interested (25.34%), (3) No have collateral (19.28%), (4) do not know the procedure (14.33%), (5) high interest rates (8.82%), and (6) the proposal is rejected (1.93%).

Third, the weak ability of SMES in terms of management. The problem of most of the SMEs in Indonesia is the weak management capability (Sumodiningrat, 1999). Because most SMEs actors have a high school education level or equivalent, this mastery is very weak. And fourth, weak mastery of networking and market access. This occurs due to the weak ability of SMES to organize themselves and the weak marketing capabilities of SMEs, the weak mastery of market networks, and the weak mastery of technology and information (IT) facilities by SMES.

### Conclusion

Currently, when we are aware of the fate of SMEs and immediately rush to provide assistance to improve the fate of SMEs, we are faced with the fact that the conventional approach of providing capital assistance and business management alone is no longer the right solution for SMEs in the future. In the future, SMEs will face the challenges of an open free market in terms of competition with economic actors from abroad. Therefore, SMEs requires readiness to become independent and institutionally strong. Thus our SMEs can easily gain networking access, access to SMEs licensing and protection, control access to banking capital, control access to regional and global market networks, master access to technology and information.

Based on some of the descriptions above, thus currently what is needed to support the strengthening of the SMEs institution is; encourage SMEs to interact actively with the rules surrounding the management of SMEs in Indonesia. Helping to increase the knowledge of SMEs actors and the competition faced by SMEs must be utilized as well as

possible to encourage the birth of a strong SMEs institution, increasing the professionalism of personnel from SMEs managers, helping SMEs to build an entrepreneurial mentality and courage to fight for the fate of SMEs to become a strong and independent business organization in Indonesia and helping SMEs build more serious cooperation in the form of associations and networks that can accommodate SMEs interests in fighting for regulations that favor SMEs in the future.

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