

The Strategic Role of MSME Challenges in the Covid-19 Situation

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Abstract

The poverty and unemployment rates in Indonesia are still very large. The number of poor people was recorded at around 29.13 million people while the absolute number of unemployed, namely those who do not have a job, is no less than 12 million people. A synergistic and comprehensive program is needed to overcome this. Thus, the small and medium enterprises sector can be expected to overcome one of the main problems in this country, namely the problem of poverty and unemployment. Therefore, reducing unemployment requires a paradigm shift that cannot be implemented on a large scale business (capital market), but provides more opportunities for people's economic business units, including micro, small and medium enterprises. MSMEs have been able to prove themselves as one of the solutions for the very high growth of the new workforce in Indonesia. The intrinsic properties of their business spring or even non formal make SMEs are able to provide business opportunities among household scale industries that were encountered in each area. Its significant role in labor absorption makes MSMEs very effective as tools to strengthen national stability.

Keywords: strategic of MSME, poverty, capital market, national development,

1. Introduction

Company bases its efforts to achieve all of its ideals on Pancasila and Indonesian culture which is embodied in the basis of spirituality, national foundation, democratic foundation, social foundation, and family basis [1]. In the fourth the basis of determined that company continues to run its activities to 1) obtain a scientific understanding of Pancasila and Indonesian culture, make efforts appropriately and good application, useful for the development of science, culture, people, society and the state; and 2) obtain scientific results and make efforts to use them which are included in the duties for the development of the nation and the development of the people.

These two points are the implementation of the national basis. Included in the implementation of the above philosophy is company's unanimous commitment to participate with all elements of the nation in building an economic system that truly brings mutual prosperity to all Indonesian people [2]. As one of the references for building the Indonesian economic system, Article 33 of the 1945 Constitution mandates that the Indonesian economy be built on the basis of economic democracy which can ensure that the prosperity of the people is prioritized over the welfare of individuals. The development of economic democracy is directed to be guided by a populist economic system [3]. Furthermore, more fundamentally, moving the people's economy is an obligation that cannot be refused by a country. In accordance with Pancasila as the basis of the state, economic movement aims to create prosperity which is stated by the five principles of Pancasila as, " Social justice for all Indonesian people " . Meanwhile, the prosperity of the people will be realized if the main sources, namely earth, water, and all natural wealth contained therein are controlled and regulated by the state for the greatest prosperity of the people. This shows that the people's economic system has a fundamental legal and philosophical foundation.

The people's economic system is a participatory-style economic system that is able to guarantee the greatest possible access fairly and evenly for all levels of society, which is manifested in the entire process of national production, distribution and consumption. The people's economic system also requires capacity building and community empowerment. The system operates within the corridor of the implementation mechanism which is always based on the sustainable carrying capacity of all resources. The populist economic system leads to the creation of a just and sustainable prosperity for all Indonesian people. The nature of the people's economy which emphasizes the democratic nature of the Indonesian economic system. In Indonesia's economic democracy, production is not only carried out by some citizens, but by all members of society, under the leadership and supervision of members of the community, and the results are distributed to all members of society fairly and equally. The welfare of society takes precedence over the prosperity of an individual.

2. Definition of MSMEs

Many parties define MSMEs (Micro, Small, and Medium Enterprises). This is not surprising considering that many parties have an interest in MSMEs so that each of them provides a definition according to the criteria that he created himself. Although these differences can be understood in terms of the objectives of each institution, those involved with MSME groups such as policy makers, consultants, and decision makers will face difficulties in carrying out their duties, for example difficulties in obtaining accurate and consistent data, measuring progress MSMEs on a more macro scale, as well as when designing policies aimed at all MSMEs [4].

The Central Statistics Agency (BPS), for example, classifies it into four based on the number of workers it has. The first is home industry if it has a workforce of between 1 and 4

people. The second is a small industry with a workforce of between 5 and 9 people. The third is the medium sized sedan industry if it has a workforce of between 10 and 99 people. The last is a large industry if it has a workforce of more than 100 people.

Based on the Law of the Republic of Indonesia Number 20 Year 2008 on Micro, Small and Medium Enterprises (MSME), SMEs are defined as follows.

1. A micro business is a productive business owned by an individual and / or an individual business entity that meets the following criteria.
 - a. Maximum net worth Rp 50,000,000.00 (fifty million rupiahs), excluding land and buildings; or
 - b. Having annual sales of Rp 300,000,000, 00 (three hundred million rupiah).
2. Small business is a productive economic business that stands alone, carried out by an individual or business entity, which is not a subsidiary or branch of a company, which is owned, controlled, or is part of either directly or indirectly from a medium or large business small business criteria as follows.
 - a. Having net worth of more than US \$ 50,000,000.00 (fifty million rupiah) up to at most Rp 500,000,000.00 (five hundred million rupiah) not including land and buildings; or
 - b. Having annual sales turnover of more than US \$ 300,000,000.00 (three hundred million rupiah) up to a maximum of Rp 2,500,000,000.00 (two billion, five hundred million rupiah).
3. Medium-sized enterprises are productive economic enterprises that are independent, carried out by individuals or business entities, which are not subsidiaries or branches of

companies that are owned, controlled, or are part of, either directly or indirectly, with small or large businesses with total net assets. or annual sales with the following criteria.

- a. Having net worth of more than USD 500.000000.00 (five hundred million rupiah) up to at most Rp 10,000,000,000.00 (ten billion rupiahs), excluding land and buildings; or
- b. Having annual sales turnover of more than US \$ 2,500,000,000.00 (two billion, five hundred million rupiah) up to a maximum of Rp 50,000,000. 000 , 00 (fifty billion rupiah).

3. The Strategic Role of MSMEs

In the context of people's economic development, the UMKM (Micro, Small, and Medium Enterprises) sector is the central point in it. Based on data from Statistics BPS and the Ministry of Cooperatives and Small and Medium Enterprises, of the total workforce of large and small businesses as many as 102.2 million people, around 99.4 million people (97.22%) were in the sector. Micro, Small, and Medium Enterprises [5]. This data shows that the MSME sector has a contribution to workforce absorption. The capital shortage (investment) problem facing Indonesia is solved by a labor-intensive investment pattern. Empirical data shows that with limited investment, people's economic business units can create more business units and also job opportunities [6].

Apart from contributing to employment, the MSME sector also has a role in the national economy. The contribution of MSMEs was around 57% of GDP. Then, the number of business units that can be created with limited investment in small businesses also reflects the many new job opportunities that can be created if the business unit is encouraged to grow and develop [7].

The data above shows that small and micro enterprises are one of the important elements in community economic development. This performance fact shows the role of MSMEs as the

largest part of all national business units which is a real manifestation of the economic life of the Indonesian people. Such a position places the role of MSMEs as one of the pillars of developing a populist economic system as a form of building the national economy [8].

The strategic position is not only reflected in the large number of MSMEs. However, MSMEs also never cause problems and burdens society in the national economy. MSMEs have proven themselves as dynamic, responsive, flexible, and adaptive forms of business in responding to the dynamic challenges of external problems. MSMEs have shown resilience, such as when they faced pressure during the financial crisis storms of 1997 - 1998.

The economic crisis that Indonesia cannot avoid is also marked by the instability of the currency value, increasing inflation, increasing interest rates, scarcity of production raw materials, multidimensional conflicts, and one of which leads to the collapse of large-scale businesses. On the other hand, during that period, MSMEs were a business group that continued to grow and even helped the national economy. The number of small and medium enterprises as a whole increased from around 1,411 million units in 1998 to 1,452 million units in 1999; an increase of about 2.92%. The number of workers employed in this type of business also increased by about 2.47% in the same period. Furthermore, in the midst of a multidimensional crisis that is still not fully resolved, MSMEs continue to make a significant contribution in supporting Indonesia's GDP.

Thus, during the economic crisis, micro and small enterprises were also able to act as *buffers* and safety valves in promoting economic growth and providing alternative employment opportunities for formal sector workers who were affected by the crisis. From statistical figures, it is also obtained data that the number of small businesses continues to increase even in 2007, which is 42 million outside agricultural businesses [9].

Some of the reasons that make the small business sector survive during a crisis include the small business sector that is not too dependent on imported raw materials in its production process and the source of funds for small businesses generally comes from within the country so that it is not too affected by the depreciation of the rupiah. In addition, this condition is inseparable from the characteristics of MSME actors, namely as follows.

1. Flexible, meaning that if you face obstacles in running your business, you will easily move to other businesses.
2. In his capital, he does not always depend on outside capital, but he can develop with the strength of his own capital.
3. In the case of loans (especially small entrepreneurs in certain sectors such as traders) are able to repay loans with high interest rates.
4. MSMEs are spread throughout Indonesia with business activities in various sectors, are a means and distributor of goods and services in serving the needs of the community.

The ability of small businesses to survive is better than large businesses because of the nature of these small businesses. Small businesses in Indonesia is dominated by traditional business units that in one's contents can be built and operated only by working capital and investment capital is small and without the need to apply modern organizational systems and the complex and expensive as it is in modern businesses [10]. Small businesses in general also make consumer goods for the needs of low-income groups. Workers in the small business sector do not need to use certain work standards. Most of the small entrepreneurs and their workers in Indonesia are low-income groups and most of them use simple or self-engineered machines and production tools. This nature makes small businesses less dependent on government facilities, including cheap credit schemes. The dependence of small businesses on informal capital and

resources is much greater than on bank credit for various reasons. This is what also causes small businesses to be stronger in facing the shocks of the economic crisis [11].

From the above explanation, it appears that the MSE sector has a vital and increasingly important role in Indonesia. This role is highly visible in the aspects of increasing labor absorption, equal distribution of income, national economic growth with national added value, and increasing non-oil and gas exports as one of its major components. In the current era of global economy which is strongly characterized by the nature of a world without borders and all competition, MSMEs are required to make changes to increase their competitiveness [12].

This sizeable population of the MSME sector is basically a big potential for large-scale companies, both in the manufacturing and service industry sectors. In s other content, SMEs can also be considered as a provider of goods and services *input* for large companies through a variety of mechanisms including through partnership schemes or *subcontracting* . This reciprocal interaction is expected to improve the *collective welfare* of business actors regardless of the scale of their business [13]. From this interaction, SMEs are expected to increase productivity because the *subcontracting* mechanism obtained from large entrepreneurs is a training arena for SMEs to improve performance and productivity. On the other hand, partnering with SMEs with high productivity will certainly increase the competitiveness of large companies themselves [14]. The strategic role of MSMEs has also been proven by experiences in various countries, such as Japan, China, Korea, and Thailand. In these countries, MSMEs are dynamic economic actors, growing to become part of and supporting the industrialization process through harmonious synergy relations between MSMEs and large businesses. This coexistence breeds efficiency and competitiveness in the global market [15].

4. Conclusion

With this strategic role, it is only fitting that this sector become a priority in national development. The development of small and medium enterprises is relevant to be carried out in Indonesia due to several considerations. *First*, the business structure in Indonesia has so far relied on the existence of small and medium-sized industries but with appalling conditions, both in terms of value and benefits that can be achieved. By advancing the business class, automatically building the welfare of the majority of society. *Second*, some of the small and medium industrial sectors have so far been export-oriented, thus helping the government to earn foreign exchange. This is of course contrary to large industries which exploit the domestic market for sales. *Third*, the IKM sector has proven to be more flexible in various unfavorable economic conditions such as those currently experienced by Indonesia. *Fourth*, the IKM sector uses more domestic raw materials or intermediate materials so that it does not burden the import value as has been practiced by large businesses / large industries.

Based on this considerable potential, support and facilitation for the development of the MSME sector needs to be continued so that the existence of MSMEs is truly the foundation of the national economy. Failure to develop the people's economy will result in failure to develop the economy as a whole. If the government is able to encourage and develop small and medium enterprises, the national economy will also be able to rise and develop.

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