

Role of Micro, Small, and Medium Enterprises (MSMEs) in Supporting National Defense from Economic Perspective

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Abstract

Indonesia is one of the Southeast Asian countries with the greatest economic activity. A great economic power supported by Indonesia's economic potential has the potential to become one of the great countries of the world. Although Indonesia's economic potential is huge, on the other hand, Indonesia still has serious social problems such as high unemployment and poverty. Economic issues are being addressed through various social assistance initiatives, such as empowering communities and improving the Micro, small, and medium enterprises (MSEMs). In light of this, scholars are interested in investigating, from an economic standpoint, the role of MSMEs in supporting national security. This study employs a qualitative descriptive-explanatory research methodology. This study employs tools for content analysis and library research. On the basis of the study's findings, it can be concluded that the MSME sector plays a critical role in the Indonesian economy, as it is one of the economic sectors that has considerably contributed to the formation of GDP. In addition, MSMEs are an alternative solution to social problems such as poverty and unemployment. However, there are several challenges for MSMEs.

Keywords: Defense, Enterprises, Economic, and National

I. INTRODUCTION

Indonesia is one of Southeast Asia's most dynamic economies. With the assistance of Indonesia's economic capacity, Indonesia has the potential to become one of the world's great nations. In addition to natural resources, Indonesia's economy is supported by macroeconomic stability, human capital, and a favorable investment climate (Permana, 2017). Despite Indonesia's considerable economic potential, the country has numerous social issues. This is evidenced by the relatively high rate of poverty in Indonesia, where the number of people at danger of falling into poverty remains very high (Adji, 2016), and the relatively high unemployment rate. The government seeks to overcome various social problems through various programs, one of which is social assistance and empowerment of

municipalities in addition to the expansion of micro, small, and medium-sized businesses (SMEs) (Permana, 2017).

The MSMEs play a crucial and essential role in national economic development. MSMEs are the largest group of economic actors in Indonesia and have proven to be key to supporting the national economy during the economic crisis as well as a determinant of post-crisis economic growth. The MSMEs seem to have been unaffected by the 1997–1998 crisis, with only MSMEs remaining strong. This proves that MSMEs are a potential market for financial growth. According to data from the Central Statistics Office, the number of small and medium-sized businesses did not decrease after the economic crisis of 1997–1998, but instead increased. In addition, MSMEs are also the most labor-absorbing business sector, so they can

reduce unemployment and improve people's welfare.

This experience has motivated numerous parties to play a larger role MSMEs. By passing MSMEs Act No. 20 of 2008, the government and legislature demonstrated their care for SME's. The activities of small and medium-sized businesses have become more flexible as rules have evolved into a legal framework. Initially, small and medium-sized businesses were viewed as the primary source of employment and the primary driver of rural economic growth. Nonetheless, in the present and future eras of globalization, the presence of MSMEs is a source of foreign exchange for Indonesia (Tambunan, 2002).

Strategically boosting MSMEs is critical for anticipating the future economy, but it is also crucial for maintaining a powerful national economic system and defending the state. Because of the economic crisis that has hit the country, the impact on huge corporations has reduced, while MSMEs cooperatives are able to continue their operations to some extent.

The MSMEs generally play an important role as a potential sector and maintain economic stability. Considering the dominant number of MSMEs in the composition of today's business entities and the involvement of a large number of people in such a way that it affects the state of defense, it is necessary to conduct and examine the role of MSMEs in supporting the defense of the state from an economic point of view in perspective.

II. LITERATURE REVIEW

Micro small and Medium Enterprises

The terms "micro small and medium businesses" (MSMEs) have varying connotations. MSME is defined in a variety of ways by various institutions and researchers. Understanding small enterprises as economic units that follow conventional methods and are manageable is provided by the Indonesian Cooperative Council (DEKOPIN) (Laena, 2010).

The Decree 316/KMK.016/1994 by the Minister of Finance MSMEs are firms or real estate with

a maximum yearly revenue of Rp 600,000,000 that engage out commercial activities. It also includes businesses (PT, CV, and cooperatives), as well as people (artisans/home industries, farmers, breeders, fisherman/women, forestry and mining workers/folk), with incomes up to IDR 600,000,000 (excluding land and residential buildings).

In the Organization for Economic Co-operation and Development's (OECD) perspective, the MSMEs used to be large, autonomous enterprises that employed a large number of people. As a general rule, MSMEs have fewer than 250 people and are employed by businesses. Micro-enterprises, on the other hand, are companies with fewer than ten employees, often as few as five (OECD, 2005).

The Law of the Republic of Indonesia No. 20 of 2008 on Small and Medium Enterprises defines MSMEs. As defined by the legislation, micro-enterprises are production businesses owned by people and/or small business entities, which are governed by law. Small businesses are productive economic businesses that are conducted by individuals or companies that are not subsidiaries or subsidiaries owned, controlled, or owned by medium or large companies (Tambunan, 2009).

Individuals and businesses in all areas of economy make up MSMEs, which are independent productive business units. This distinction is based on the original asset value, average annual turnover, or number of permanent employees for most Micro, Small, Medium, and Large Businesses in the UK, US, and Canada. Small and MSME varies from nation to country based on the use of these three metrics. Since the importance or role of MSMEs is difficult to compare between countries (Tambunan, 2009).

Based on the law, the Medium activity Unit has criteria which are explained in detail through Law no. 20 of 2008 concerning Small and Medium Enterprises, net worth as capital other than land and buildings for commercial purposes or annual income from sales. With the following criteria:

- a. Micro Business is a business unit with a maximum capacity of Rp. 50 million excluding land and buildings for commercial areas with a maximum yearly turnover of Rp.
- b. A Small Firm has assets ranging from Rp. 50 million to Rp. 500 million, excluding property and buildings where the company's annual income is greater than Rp. 300 million and up to Rp 2.5 billions.
- c. A Medium-Sized Firm is a business with a net income ranging from Rp 500 million to Rp 100 billion, and an annual revenue between Rp 2.5 billion and Rp 50 billion.

The Government Regulation No. 7 of 2021 on Cooperatives and Micro, Small and Medium-Sized Enterprises after the implementation of Law Number 11 of 2020 on Job Creation sets the criteria for SMEs as:

- a. Micro Business, is a business with a maximum capital of 1 billion rupiah, not counting the building and land where the business is located;
- b. Small business is a business entity with a capital of 1 billion rupiah up to a maximum of 5 billion rupiah, except for land and buildings for business premises;
- c. Medium-sized business is a business entity, with a working capital of more than 5 billion rupiahs up to a maximum of 10 billion rupiahs, excluding buildings for business premises and land.

Most government agencies currently still use the number of employees as a measure to identify MSMEs. According to the Central Statistics Agency, micro-enterprises have little more than four full-time employees, small firms have five to 19 employees, and medium-sized organizations have 20 to 99 employees. Large businesses are those with more than 99 employees. The majority of Indonesia's economic operations are conducted by small and medium-sized firms. The economy's future depends on the ability of micro, small, and medium-sized enterprises to expand independently.

Although the MSMEs have different meanings, according to Azis and Ruslan (2009), there are

generally specific indicators or criteria that are often used to define MSMEs, including large volume of business, total capital, asset value, net worth, and total labor.

The government has the Micro, Small and Medium Enterprises (MSME) Act No. 20 of 2008 dated 4 July 2008. This Act has become the legal basis and applies to the procurement of MSMEs in the country. This means that the ratification of the Act has broad implications for all stakeholders to become a common guide for a paradigm shift in MSME empowerment where the climate creation element is the essence of empowerment.

III. RESEARCH METHODOLOGY

The descriptive qualitative approach model was used as the primary writing approach in the research that led to the creation of this essay. Descriptive qualitative research is typically utilized to investigate natural objective situations in which the researcher serves as a major instrument (Sugiyono, 2008). Using a constructivist research paradigm, researchers are the most significant research tools. Research that employs natural settings to evaluate events that occur and are formed via participation is referred to as qualitative research by Moleong (2013).

The content analysis and library research are used in this study. Using content analysis, researchers can derive conclusions from the content. Meaning that the goal of content analysis is to uncover both the author's public and private views. While doing research in a library, you'll encounter secondary data in the form of journal articles, books, and other scholarly publications on a variety of relevant subjects. To conduct the study, researchers are only interested in literature published up until 2022. On the basis of this journal's research, it has been limited and taken as a reference material at the time of publishing this journal with regard to the role of MSMEs in supporting national defense. country in terms of its monetary value. The findings of the investigation are then minimized and used as reference material for this writing.

IV. RESULTS AND DISCUSSION

An in-depth analysis of the ideological, political, economic, social, and cultural dictates needed to create defense policies, especially those related to national security efforts. These aspects require analysis at local, regional and international levels. The well-being of the people is the most important and natural indicator of the state's success in exercising its sovereignty. There are at least two main reasons for state participation in the national economy, ideologically and economically, both of which are closely related to Indonesia's values as a nation and a state. Indonesian political economy refers to a mixed economic system, which is a market economic system with permanent control in the hands of the government, better known as economic democracy. Micro, small, and medium-sized businesses (MSMBs) have made a significant contribution to the state's role in the economy (MSMEs).

MSME has a significant impact on Indonesia's economy, society, politics, culture, and security, among other areas.. Economic and socio-political roles and responsibilities include raising people's incomes, reducing unemployment and poverty, and urbanization (Prasetyo, 2008). In general, economic growth in developing countries is focused on economic growth, the consequences of which are felt by the community, for example, by creating jobs aimed at equal distribution of income and reducing unemployment. The MSMEs are an economic engine for emerging nations.

Generally, the objective of micro, small, and medium-sized enterprises (SMEs) is to create robust and independent SMEs that play a crucial role in the production and distribution of life's necessities, raw materials, and free competitive capital. Achieving a strong economy requires allowing small businesses to be independent and thrive from medium-sized businesses. Therefore, it is expected to be a strong, reputable and independent company. Thus, the role of stimulating the economic sector is growing.

The existence of MSMEs cannot be eliminated or prevented in today's society. Because their presence is very beneficial in terms of income

distribution between communities. In addition to creating creativity, SMEs can also analyze, maintain and develop elements of local tradition. The most visible role of SMEs is that of employment, helping to stimulate the community economy, as the employment characteristics of this sector are not as demanding as those of large companies. Finally, MSME products with competitive advantages can enter the global market.

Problems often associated with small business / industry are the source of capital, labor, raw materials and marketing. Capital used as a fund for the implementation of production activities is very important in the business development strategy. The strength of a company can come from the capital it has. Both developing and developed nations recognize the importance of the MSMEs.

The MSMEs play a crucial role in the economy, as they employ the majority of workers in industrialized countries compared to large corporations in developing nations. Micro, small, and medium-sized businesses are essential to Indonesia's economy. By 2020, according to the Ministry of Cooperatives and Small and Medium Enterprises, MSMEs will contribute significantly to the economy. Figure 1 depicts the contribution of SMEs to GDP, employment, and national exports from 2015 to 2019.

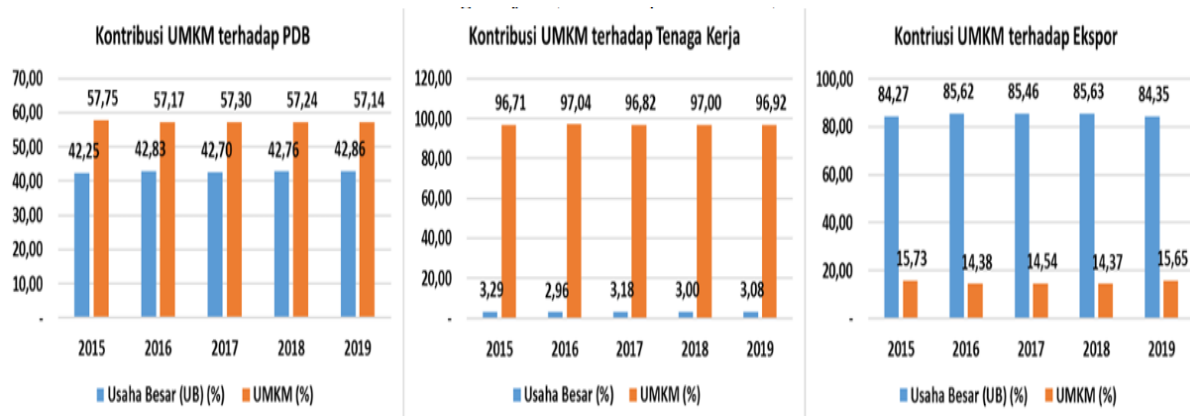


Figure 1. Contribution of MSMEs to GDP, Employment, and National Exports, 2015-2019

Source: Ministry of Cooperatives and SMEs (2021)

Between 2015-2019, the SME sector contributed an average of 57.32 percent to the gross domestic product (GDP). In terms of employment, SMEs can employ an average of 96.90 percent of workers per year (Figure 1). Far from the recording capacity of large companies (Kemenkop UKM, 2021). The significant contribution of SMEs shows that the Indonesian economy is strongly supported by the performance of SMEs.

The MSMEs are defined in the General Declaration of Law No. 20 of 2008 on MSMEs as businesses that create jobs, provide a variety of economic services for the community, aid in income distribution, stimulate economic growth, and contribute to national stability. SMEs play an important role in these processes. Depending on the degree of expertise and capacities present in the community, MSMEs can effectively create employment because of their labor-intensive nature (Permana, 2015). MSMEs have also shown that they can withstand the shocks of the 1997 economic crisis and continue to prove their economic prosperity (Goeltom, 2005).

If you look closely, the existence of MSMEs is really a dilemma. On the one hand, its existence is considered beneficial because it is stronger in the economic crisis and has become the basis of people's hope. Because existence can create more jobs, reduce poverty, unemployment and urbanization rates and stimulate national and regional development. On the other hand, its existence also faces many internal and external barriers and limitations (Prasetyo, 2008).

The various problems of SMEs need to be addressed immediately. These problems include problems of capital, marketing, raw materials, employment, transport distribution and so on (Sulaeman, 2004). In the history, the government has attempted to devise policy initiatives that encourage the growth of small and medium-sized businesses, such as the KIK/KMKP program (1970) and the Small Business Credit Program (1980) (Sulaeman, 2004). Adoptive Father Program for Business Partner-Adoptive Father, Adopted Son (1992), Credit Program for People's Business (KUR) in 2000, (Harefa, 2015). APBN support for SMEs through the financial position of 2021 will be allocated through investment financing to BLU in the form of revolving funds up to 3 (three) BLU. The three BLUs are KUMKM Revolving Fund Management Agency (LPDB), Marine and Fisheries Business Capital Management Agency (LPMUKP) and Government Investment Center (PIP). To overcome the impact of the pandemic on MSMEs by 2020, the government has earmarked budgetary assistance for the MSME sector of Rp. 112.26 trillion. With details of the interest subsidy of Rp. 12.80 trillion, funds deposited in the bank amounted to Rp. 66.75 trillion, IJP UMKM according to Rp. 1.09 trillion, guaranteed working capital (stop loss) Rp. 1.00 trillion, MSME Final PPh Rp. 671.16 billion, investment financing for LPDB KUMKM Rp 1.29 trillion and BPUM Rp 28.65 trillion (Kemenkop UKM, 2021).

Economic growth and employment are both directly influenced by MSMEs, in addition to their strategic importance. Aside from distributing sustainable development benefits more fairly, MSMEs also play an important role. It is envisaged that the use of national resources, such as labor, will be in line with the interests of the general public, resulting in maximum economic growth in the future. In creating jobs and becoming the main source of growth for Gross Domestic Product (GDP), MSMEs have proven their role very rapidly. Apart from being a contributor to GDP growth, MSMEs also contribute to Indonesia's economic growth, trade and transportation very significantly (Susanto, 2014).

In the social sector, SMEs can provide social benefits, namely reducing income inequality, especially in developing countries. The role of small businesses is not only to provide goods and services to consumers with lower purchasing power, but also to other consumers in the city with higher purchasing power. Small entrepreneurs also provide raw materials for services for medium and large enterprises, including municipalities. The social goal of MSME is to achieve a minimum level of well-being, that is, to satisfy the basic needs of the community (Suharto, 2009).

V. CONCLUSION

The MSME sector makes a very significant contribution to GDP so it can be said that this sector is one of the economic sectors that plays a very important role. In addition, MSMEs are an alternative solution to social problems such as diseases and social problems. Even MSMEs are also one of the economic sectors that show that they are able to survive the crisis and continue the economy. The role of MSMEs both in the economic aspect or as a supporting aspect in national defense is very large. However, there are some problems with MSMEs when they go to class. This is a complete homework for the government, because various policies and budgetary support for SMEs are given in accordance with the position of state revenues (particularly taxes), government spending and funding.

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