



THE ROLE OF SMALL AND MEDIUM ENTERPRISES (SME) ON THE ECONOMY

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ABSTRACT

SME is the productive economic activity widely occupied by the people to sustain their household economy, community, and nation's economy. The SME sector can stand firmly as one of the economic prime-movers for many circles within the community, providing and absorbing workforce to decrease unemployment in the society. The presence of SMEs can also provide added value on farming products so that the farming commodity may increase its usefulness value. This article aims to discuss the role of SMEs in the Indonesian economy. The research method implemented in arranging this study is a literature study by reviewing articles published by the previous writers and examining the abstract of those researches. Based on the literature study, this research concluded that SME presence, either internationally, nationally, or developing economic growth in various regions in Indonesia. The SME has the crucial meaning and roles for developing and increasing the income (PDB and PDRB), provider and employee/workforce, diminishing poverty rate, increasing investment rate, increasing foreign commerce through export, and contributing tax as the state income sources.

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1. INTRODUCTION

In society, business activity can be categorized into three groups, Microbusiness, Small business, and Medium business, often called SME. This business is an independent, productive activity in the economic sector in which its management and implementation can be managed individually and in a group. The difference in these three groups is the amount of initial capital in running the business, sales or annual sales rate, annual average income and the number of workers worked in the business (Tambunan, 2012)

Based on the Kemenkopumkm (2019) data, during the 2018-2019 period, the numbers of SME business units increased by 1.98% (from 64,194,057 units to 65,465,497 units), the number of workers is also increasing by 2.21% (from 116,978,631 employees to 119,562,843 employees). Additionally, the PDB value over the valid price increased as much as 5.72% (from 9,062,581.3 Billion to 9,580,762,7 Billion). The export value of Non-Oil and Gas SME increased by 15.43% (from 293,840.9 Billion to 339,190.5 Billion), and the investment value for the valid basic price increased by 2.14% (from 2,564,549.5 Billion to 2,619,382 Billion). The data shows that SME existence keeps on growing and expanding.

Some previous researchers mentioned that SME as the pillars in the national economic development (Gunartin, 2017; Sarfiah et al., 2019), as the driving motor for the economy (Wibawa & Yusnita, 2019), people's economic movement with the spirit of Pancasila economic democracy (Rakhmawati, 2019), SMEs presence is a solution in building a healthy economy during the Covid-19 Pandemic (Windusancono, 2021). Based on the definition and opinion, the writers want to observe the role of SMEs in the Indonesian economy.

Many methods have been used to explore and analyze the role of SMEs, including literature studies taken from online journals and journals, websites (Sarfiah et al., 2019), qualitative analysis using *Focus Group Discussion* (FGD) (Wibawa, 2019). In writing this article, the writers want to observe the role of SMEs in the Indonesian economy, that is, using literature studies from online published journals.

2. THEORETICAL FRAMEWORK

Definition of SME

The Ministry of Cooperatives and Small and Medium Enterprises categorizes businesses into two types, based on the SME's net worth. The total net wealth for micro-enterprises is at most 200 million, which does not include land and buildings; also, annual sales are a maximum of 1 billion, and for medium-sized businesses, the assets owned are around 200 million to 10 billion.

BPS (1999) classifies SMEs based on their absorption for labor or workforce, e.g., 1) household businesses is businesses that absorb 1 to 4 workers, 2) small businesses that absorb 5 to 19 workers, 3) medium-sized businesses are the enterprise absorbing 20 to 99 workers, 4) large businesses that can absorb 100 or more workers.

Law Number 20 of 2008 defines SMEs based on business people; micro-enterprises are individuals or personal, Small and medium-sized businesses are individuals and business entities established independently, not part of the operated and functional business branch.

According to (Gunartin 2017), based on its development, SME's activities are included into three categories, i.e.:

1. *Livelihood Activities* is a group of informal SMEs used as job opportunities to earn a living, for example, grocery merchants.
2. *Micro Enterprise* is a group of SMEs whose business line is in crafting or accessories, but their entrepreneurial spirit is still lacking.
3. *Small Dynamic Enterprise* is a group of SMEs whose entrepreneurial spirit has begun to rise and able to work as sub-contract workers and conduct export activities.
4. *Fast Moving Enterprise* is the SME group that has immediately transformed into a large business entity and already has an entrepreneurial character.

SMEs are productive activities in an independent economy, managed individually or in groups, in which SMEs are divided into three business groups, i.e., Micro, Small and Medium Enterprises. The differences between these three business groups are their initial wealth in managing a business, annual turnover or level of sales, average annual income, and utilization of permanent workers (Mahalizikri, 2019).

SME Criteria

According to Law No.20 of 2008, the criteria are as follows:

1. **Micro Business Criteria**
 A micro business is a productive economic business with a net profit of Rp. 50.000.000 in 1 year, excluding buildings and business locations, and usually owned and managed by individuals or families. Their business sales results or maximum turnover of Rp. 300.000.000 annually. Their financial management in this micro-enterprise is still integrated with the owner's private finances.
2. **Small Business Criteria**
 Characteristics of small businesses are that they have assets or wealth between Rp. 50.000.000 up to Rp. 500.000.000, they have a turnover or sales value between Rp. 300.000.000 to 2.500.000.000
3. **Medium Business Criteria**
 Medium Enterprises have these characteristics; in terms of total assets, the amount ranges from Rp. 500.000.000 - Rp. 10.000.000.000 and in terms of turnover or sales value, the amount is around Rp. 2.500.000.000 – Rp.50.000.000.000.

SME's Characteristics

Based on the provision in **Law No. 20 of 2008**, characteristics of SME are:

1. Micro Business, the characteristics are:
 - 1) Variety of products are proposed to market from time to time
 - 2) Moving business locations
 - 3) The financial record administration system is not systematic, even though it is simple and the business' finances are still integrated with personal assets
 - 4) The business owners are have not yet had an entrepreneurial spirit or inadequate
 - 5) The educational qualifications are still low
 - 6) Most of them do not have access to banking; many of them get their finance other than banking
 - 7) Do not have the permit, legalities, and business Tax ID/NPWP.
2. Small businesses, the characteristics are:
 - 1) The product managed is fixed.
 - 2) The production house is no longer moving



- 3) The financial recording system is in order, the business assets are separated from their own assets, and the business financial statements have been prepared
 - 4) The owner already has the adequate entrepreneurial spirit
 - 5) Already have access to banking in terms of capital requirements.
 - 6) Already have a business permit, legality, and business Tax ID.
 - 7) Fund sources are still limited.
3. Medium business, the characteristics are:
- 1) Has good management and organization, is more organized, modern, and already has an organizational structure
 - 2) An excellent financial recording system corresponding to the accounting standards will ease the auditing, checking, assessing, and financial supervision process.
 - 3) The labor organization has been well managed, already has a health ID and health facilities.
 - 4) All requirements for business establishment are legitimate, such as business licenses, location permits, NPMP, and arrangement of the business environment.
 - 5) Already have access to banking funding sources.

(Budiyanto & Effendy, 2020) stated that the characteristics of SMEs are: 1) there is no standardization of product quality due to inadequate technology owned by SMEs, and the manufactured goods are made by hand, 2) limited ability to design products due to lack of courage to create new designs for manufactured products because they were generally manufacturing the products based on orders, 3) limitations in the product's diversification and quantity, 4) quality standards of raw materials are discontinued due to changing sources of raw materials supply, 4) lack of assurance and perfection in the continuity of goods.

3. RESEARCH METHOD

The writing of this research uses a descriptive analysis research approach. Descriptive Approach Analysis is an analytical technique intended to describe, explore, systematically illustrate various conditions, situations or variables under the study, and is only limited to disclosing problems according to facts and supported by the explanation of these facts (Purba et al., 2021). The research method used is a literature study, by reviewing literature collected from books, journals, and articles and references from the internet related to the role of SMEs, then inductively bringing up new concepts, comparing, and conducting contrasts to such data (Harini, 2020). The literature reviewed or examined in this study is the research result that has been published online on the internet. In this study, the literature reviewed is the research result that has been published online on the internet. The literature review includes conclusions from the previous research and provides an assessment of the weaknesses and gaps in research reviews that differ from the authors' had, adds comments, suggestions, and raises other themes for future research (Wekke, I.S, 2019).

4. RESULT AND DISCUSSION

Micro, Small and Medium Enterprises (MSMEs) have a significant share in the structure of the international economy, including Indonesia. The MSMEs existence can overcome the problems of unemployment and poverty, improve people's income, evenly distribute the income gaps, and increase people's welfare (Prasetyo, 2008 and Tambunan, 2012). During the economic crisis in 2018, Small and Medium Enterprises were still able to stand firmly in running their business compared to other business sectors: MSMEs emerged as a source of line of work and job opportunities that can absorb labor from various levels, able to increase people's income during the economic crisis. MSME also plays a significant role in distributing development results, increasing national economic growth, and reducing poverty, and MSMEs are recognized worldwide for their unique contribution to the economy (Rachmawati, 2020).

The MSME strategic role has made business activities an increasingly important role for the community's economy and becomes the primary sector, becoming the economy's backbone (Sulistiyowati & Lestari, 2016). Many MSME owners have proved the value of MSMEs' existence in the Indonesian economy. Based on data from the Ministry of Cooperatives and the SMEs Republic of Indonesia in 2019, the proportion of MSMEs was 99.99% or as many as 4,194,057 units from the total business people, and able to employ as many as 116,978,631 workers (97%), contributing to GDP by Rp. 5,721.1 trillion (61.07%) (Azhari, 2021), contributing for non-oil and gas exports by 293,840 billion (14.37%), and subscribing for national investment by 2,564,549 billion (60.42%) (Abdurrahman Firdaus Thaha, 2020)

Today, SMEs have become a lucrative market with huge potential for financial service providers, especially banks. (Setiawan, 2021) states that during the 2016-2020 period, the average funds' increment availability for the Micro Small and Medium Enterprise increases by 5.9% per year. The funds' distribution for SMEs were dedicated to the business capital, and investment rose by 4.85% and 8.15% annually. So that the investment values on SME contribute to the national income sector (GDP). (Darsono & Darwanto, 2019) SME as the economic sector can create a 97.02% employment rate, contribute up to 57/08% to the Gross Domestic Product and subscribe as much as 53.24% to establish an investment in Indonesia.

In addition to national impact, SME presence also brings a contribution to the Gross Domestic Product and absorbing employment, such as in Batu City Malang, in which SME contribute to 86,7% on the Gross Regional Product and absorbing employment as much as 21.35% (Zonna Lia et al., 2021) (Zona el,2021). In West Kalimantan province, SMEs contribute 12.48% to the Gross Regional Domestic Product (GDP) and contribute 1 ± 97% to the provision of employment (Martati & Kusrihandayani, 2020). The Central Statistics Agency (BPS) (2018) in Kurniati et al. (2021), SMEs contribute 80.82% to the Kudus Regency GRDP.

Based on **Kemenkopumkm** (2019) data, from 2018-2019, the number of SME business units increased by 1.98% (from 64,194,057 units to 65,465,497 units), the workers quantity increased by 2.21% (from 116,978,631 people to 119,562,843 people), GDP over the prices in effect increased by 5.72% (from 9,062,581.3 billion to 9,580,762.7 billion), non-oil and gas exports of SMEs increased by 15.43% (from 293,840.9 billion to 339,190.5 billion), and Investment based on prevailing prices increased by 2.14% (from 2,564,549.5 billion to 2,619,382 billion). This data shows that the SMEs existence keeps on growing and providing an enormous contribution to the Indonesian economy.

(Putri Nasution, Diwayana; Faried Lubis, 2018) Investigates the role of SMEs on economic growth in Indonesia, in which the variables used are the number of SME units and SME exports as independent factors and economic growth as the dependent variable. The results showed that the number of SME units and SME exports positively affected economic growth. If the number of SMEs increases by 1 unit, then economic growth will increase by 1.038 points, and if the SMEs exports increase by 1 unit, economic growth will increase by 8.963 points,

(Supriyanto, 2012) investigates the role of Micro, Small and Medium Enterprises (MSMEs) in overcoming poverty and unemployment. The research results indicate that MSMEs managed by women positively influence the welfare of the community, especially for the families of female MSME owners. The impact felt by female MSME owners is to improve their children education; by running this business, the children of SME owners can get a better education. In addition, the MSMEs that these women work in also have an incredible impact on their life sustainability, such as increasing income, health and democratic life. (Maksimov et al., 2017) stated that Small and Medium Enterprises contribute to poverty reduction by providing employment opportunities and distributing decent wages to workers. (Ali, 2013) also stated that Small Business has a significant impact on economic development and poverty reduction in Pakistan, so it is hoped that economic policy makers in Pakistan will formulate strong SMEs by rectifying or simplifying their loan procedures and reducing costs in the credit process providing health services for the workforce. (Kwaku Amoah, 2018) mentions that in Ghana, MSMEs can generate more jobs than large companies, so that MSMEs are called a catalyst for generating job vacancies and increasing economic development in Ghana.

(Putri, 2020) stated that despite the Covid-19 Pandemic, MSMEs can still continue and can still absorb labor and still be able to provide income for Ponorogo people. This aspect is due to the ability of MSME owners to make adjustments swiftly by utilizing mass media technology as a means of promotion with their maximum potential, that MSMEs can contribute to Gojek and Grab service users to deliver goods to consumers. (Irawan, 2020) also stated that although the COVID-19 Pandemic faced threats and challenges, this condition was also an opportunity for MSMEs to remain in Eastern Indonesia while still holding on to consumer trust with factors such as product hygiene and business environment sanitation and implementing suitable health protocols.

(Hamza & Agustien, 2019) states that the development of MSMEs has a positive influence on national income. MSMEs are still labor-intensive, so that they can absorb many workers. Every increase in the number of workers will also increase production so that national income will also increase. The increasing investment in the MSME sector will increase productivity, added value, and national income because the increase of output and demand for inputs is driven by investment and ultimately affects income, increased job opportunities, and economic growth.

According to (Herman et al., 2013), in Indonesia, the MSME contribute to GDP growth to income tax and value-added tax, either national or provincial. (Sitinjak, 2018) stated that the increase in the number of workers and the quantity of MSMEs affected the total tax received by 89.4%.

(Wibawa & Yusnita, 2019) Mentioned that in the people-based economy in Pangkal Pinang City, Riau Islands, MSMEs contribute significantly in developing the regional/local economy, reducing unemployment, reducing poverty levels, and distributing economic activities for the poor.



5. CONCLUSION

From the literature review above, it can be concluded that Micro, Small, and Medium Enterprises, both nationally and in various regions in Indonesia, and also for economic growth in various countries, have an essential role in the development and growth of income (GDP and GRDP), providers and absorbing employment, reducing poverty, increasing the investment's total amount, increasing foreign trade through exports, and contributing taxes as a source of state revenue.

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