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Empowering Indonesian MSMEs: An Examination of the Pivotal Role of Universities

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Abstract:- This manuscript endeavors to furnish a précis of the present circumstances of MSMEs in Indonesia and scrutinize if the Indonesian economy can profit from aid from universities. We employ a qualitative technique, encompassing perusing scholarly literature and other resources, carrying out concentrated group discussions, and utilizing a subjective methodology to examine extant data. The outcome discovery is that MSMEs' actors in Indonesia aspire to obtain capital aid from the government. We recommend additional investigation into the government's initiatives for MSMEs in Indonesia.

Keywords:- MSMEs, Indonesian economy, benefit, assistance, campuses.

I. INTRODUCTION

During the pandemic, Small and Medium Units in Indonesia showed that a significant decline in production and marketing activities. Turnover decreased drastically, from millions of Rupiah per day to hundreds of thousands. This was partly due to a lack of raw materials for production, which also affected marketing distribution. This affects their management and ability to adopt new technologies, hindering their development and competitiveness. Micro and Small businesses also have limited business networks and struggle with market penetration due to limited product innovation and less competitive quality. Empowerment is achieved through training, with capital and marketing being key factors for the sustainability of MSME prospects.

II. MSME THEORY AND RESEARCH PROPOSITIONS

MSMEs are crucial to examine because they have a substantial impact on both national and regional economic growth. They account for 90% of all businesses globally and are a major source of employment. In Indonesia, MSMEs play a vital role in the economy and industrial growth. The National Long-Term Development Plan (RPJPN) for 2005-2025 aims to enhance domestic competitiveness through the growth of MSMEs. Presidential Instruction Number 6 of 2007 further reinforces the importance of MSMEs in national development policies. The challenge lies in effectively implementing these policies to enable MSMEs to contribute to the strengthening of the domestic economy. A study conducted by HSBC in 2007 revealed that MSME entrepreneurs in Indonesia are optimistic about the continued growth of their businesses.

MSMEs in Indonesia are a barometer of the country's economic health, playing a significant role in job creation and GDP growth. In 2006, MSMEs contributed 53.3% of the national GDP, with a growth rate of 5.40% from 2005-2006.

Research shows that MSMEs in Indonesia are resilient and able to improve their performance during economic crises. This is due to their focus on consumer goods, reliance on non-banking financing, specialization in certain products, and the formation of new MSMEs as a result of layoffs in the formal sector. However, limited capital and access to finance remain major obstacles for MSME development.

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- MSMEs in Indonesia generally produce consumer goods, especially non-durable ones, and rely more on non-banking financing for business funding.
- They tend to specialize in certain products or services.
- The establishment of new MSMEs is often a consequence of layoffs in the formal sector.
- MSMEs are required to make changes to improve their competitiveness in the face of global economic crises and free trade agreements such as the WTO, AFTA, APEC, and the ASEAN Economic Community.

Most entrepreneurs use their own capital to run their businesses. MSMEs often face a lack of capital because they are private or closed enterprises that rely on limited own capital. Borrowing from banks or other financial institutions can be difficult due to administrative and technical requirements. Empowerment is achieved through training, with capital and marketing being key factors for the sustainability of SME prospects. SMEs are important to study because they play a significant role in national and regional economic growth, contributing 90% of the total business worldwide.

MSMEs contribute to the absorption of labor and play an important role in the economic and industrial growth of a country. Empirical studies show that MSMEs are a source of job creation on an international scale. The contribution of MSMEs to employment, both in developed and developing countries, including Indonesia, is significant in overcoming the problem of unemployment.

This article employs a qualitative research approach and it is a study of secondary data that examines literature on the support provided to MSMEs by universities in Indonesia. The article is constructed through in-depth literature studies and a through analysis methodology, which includes critical reflection on the issues raised. Critical reflection is also

utilized as a means of interpreting the problems and theories employed.

III. INTERNAL PROBLEMS (BASIC)

The inquiry in the Ministry of State UMKM and BPS (2003) disclosed that 72.47% of MSMEs encountered business impediments, while the residual 27.53% did not. The impediments identified were: capital (51.09%), marketing (34.72%), raw materials (8.59%), employment (1.09%), transportation distribution (0.22%), and others (3.93%).

Widiyanto's (2010) study aimed to examine the adoption of technology, working capital, marketing, innovation, entrepreneurship, and access to working capital in order to develop a strategy for MSME growth in Central

Java. The results showed that the potential for MSMEs in Central Java lies in the processing industry, agriculture, forestry, fisheries, and animal husbandry sectors.

MSMEs face challenges in innovation and adaptation. The creative processing industry is a key sector due to its low rate of imitation by competitors and its potential to become an iconic product or brand. MSMEs encounter difficulties in expanding their market, accessing financial services from banks, and developing their human resources. In summary, the issues faced by MSMEs include marketing, capital, innovation, use of information technology, sourcing of raw materials, production tools, employment, and business development planning.

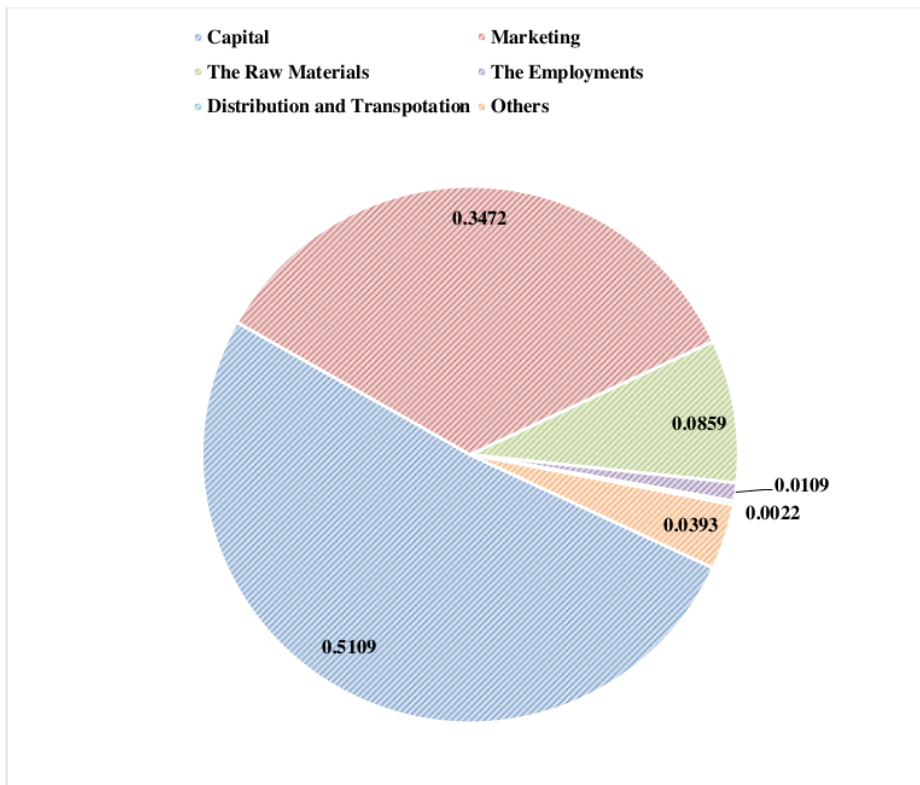


Fig. 1: Pursuant to inquiry conducted by Wahana Visi Indonesia (WVI) from May 12-18, 2020, a survey of 900 households and 943 children across nine provinces in Indonesia, including rural (88.1%), semi-urban (4.1%), and urban (7.8%) areas, demonstrated that MSMEs affected by the pandemic necessitate aid from external parties such as the government, private sector, and non-profit organizations. The most needed aid for MSME actors is capital aid (44%) and marketing support (16%) for their products and services

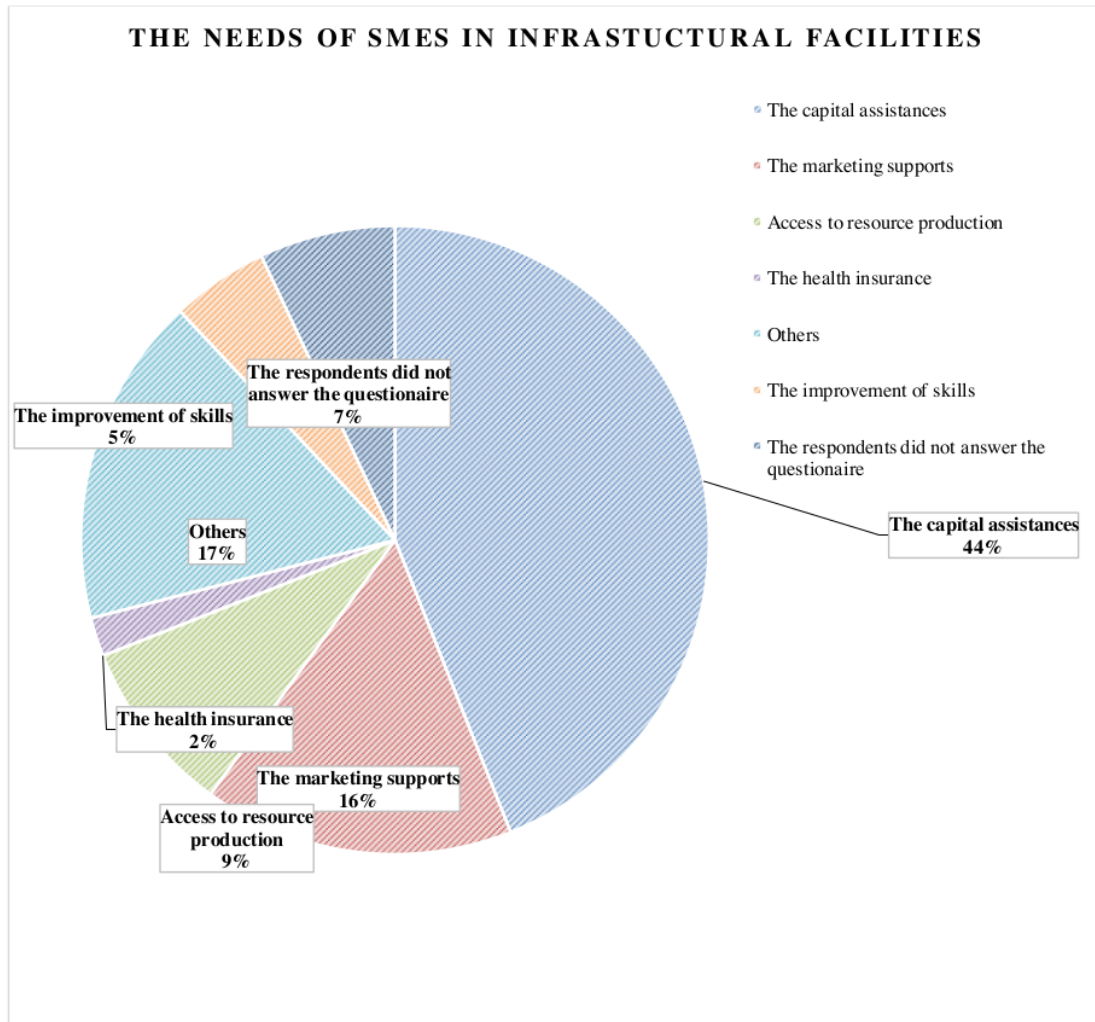


Fig. 2: MSME actors require various forms of assistance, including help with accessing production sources (9%) and improving their business knowledge and skills (5%). The types of assistance needed by MSME actors encompass capital assistance, marketing support, access to production sources, and support for enhancing their business knowledge and skills.

IV. RESEARCH METHODS

This article is based on observations of phenomena in the author’s environment and employs two research methods: a literature review and data interpretation from observations. The literature review aims to identify reliable reference sources to support the theory used in this writing, including articles, journals, books, and official websites such as government and educational web pages, both nationally and internationally. This method enables the author to locate material relevant to the topic under discussion.

In addition to the literature review, this article also engage data interpretation from observations, including both qualitative and quantitative research data. Qualitative data is derived from interviews with individuals who have experiences related to the topic under discussion, while

quantitative data is obtained from calculations involving objects and respondents in this study.

For instance, in an article that examines the contribution of universities to the growth of MSMEs, the number of interviewees is used to obtain quantitative data. Observational and research data is merged with data from a literature review, providing two benefits: confirming the accuracy of the library data and filling in gaps in the library data with empirical data collected in the field.

The research methods employ tracking academic literature and related reading materials, conducting a literature review, analyzing documents and data, writing research reports, and focusing on group discussions to obtain feedback on the study examine. A subjective approach is utilized by researchers to examine existing data and materials.

V. DISCUSSION

- Research Questions;

A. Is it essential for universities to offer support to Micro, Small, and Medium Enterprises?

The COVID-19 pandemic has had a significant impact on Micro, Small, and Medium Enterprises (MSMEs), with a revenue decline of 84.20%. Large Medium Enterprises also saw a decrease in revenue of 82.29%, causing MSMEs to reduce their workforce in order to sustain production. The rate of layoffs in Micro and Small Enterprises was 33.23%, while in Large Medium Enterprises it was 46.64%. In August 2020, the Central Statistics Agency (BPS) reported an increase in Indonesia's unemployment rate by 2.67 million people, leading to a decrease in Indonesia's economic growth to 3.49% in the third quarter.

This highlights the role of universities in supporting Small and Medium Enterprises (MSMEs) during the COVID-19 pandemic. MSMEs require a robust institutional framework, technological adaptation, and product diversification to recover from the pandemic's impact. Various stakeholders, including government agencies, local communities, financial institutions, and media outlets, can assist MSMEs in their recovery efforts. The government can provide aid, communities can oversee aid distribution, financial institutions can promote economic inclusion for MSMEs, and media outlets can disseminate information about MSMEs. Through collaborative efforts, MSMEs and the economy can achieve development and growth.

B. If an MSME agrees to receive assistance of external, what the type of assistance that is needed by MSMEs' actors?

This study can aid government initiatives aimed at empowering MSMEs as a cornerstone of the Indonesian economy.

The study revealed that MSMEs encounter ten primary challenges: barriers to competition, access to finance, costs, technology, inefficient production expenses, economic factors, managerial abilities, processes, market limitations, and raw materials. The majority of MSMEs state that the government should put more effort into removing these handicaps through measures such as enhancing security standards, implementing development programs, establishing sound financing policies, adopting sensible energy policies, conducting ongoing performance evaluations, committing to eradicating corruption, and providing other support programs required by MSMEs.

Development of skills: The MSME mentoring program is a development model for MSMEs that aims to enhance the institutional system and managerial aspects of MSMEs through continuous and intensive efforts, with the active involvement of professional MSME consultants.

Guidance and training: These consultants provide guidance and training, particularly in relation to the day-to-day operations of MSMEs.

Support and empowerment: Universities can arrange support and empowerment activities for MSMEs.

Encouragement: The goal of these activities is to provide encouragement and advice for the growth of MSMEs during challenging times.

C. If MSMEs do not agree with assistance, what are their obstacles to accepting external assistance from universities?

Micro, Small, and Medium Enterprises (MSMEs) anticipate solutions from the government and other stakeholders to enhance their competitive advantage in the global market. SME respondents agreed that the government should increase security standards for shipping goods from companies to markets, as crime poses a significant threat to MSMEs. The government should maintain the sustainability of MSMEs by creating more programs across regions and sending civil servants to assess the condition of MSMEs to develop effective programs. One solution is to establish a separate institution specifically for fostering the potential of SMEs, represented by special institutions in each region as a forum for MSMEs to consult and find solutions to their problems. It is also important for the government to conduct regular evaluations of the program to assess its performance and effectiveness in aiding MSMEs.

MSMEs in Indonesia face financial challenges and require more soft loans with simple application requirements for MSME credit schemes. The government should protect the price of primary goods, as it affects the prices of other materials. MSMEs agreed that the government should abolish the permit fee for opening a new business, as it is considered expensive. The government should revise this policy to support MSMEs. In order to eliminate financial obstacles, the government should stabilize the rupiah currency and regulate energy prices such as electricity and fuel. Additionally, the government should support technology through the provision of soft loans and provide land leases or strategic locations for MSMEs at affordable prices. The government must also make efforts to eradicate corruption and provide supporting policies to help MSMEs survive, including strict sanctions for bureaucrats who collect illegal levies from MSMEs.

MSMEs hope that the government will implement serious programs to help them grow in the global market without incurring significant costs. This may encompass training in international marketing, the development of skills and knowledge, and instruction in entrepreneurial motivation.

VI. CONCLUSION

The Indonesian MSMEs development program, entitled The Role of University Innovation for Processing, has produced significant outcomes in terms of economically empowering MSMEs in Indonesia. This empowerment has led to increased production, improved marketing, and enhanced knowledge and procedures in business ethics. Innovation and adaptation are crucial for the creative processing industry, which has a low replication rate among competitors and can establish product branding.

SMEs face Expansion of markets, accessibility to banking services, and the development of human resource capacity are all important factors. Data indicates that MSMEs have suffered a substantial decline in revenue as a result of the pandemic, leading to workforce reduction and unemployment. Universities can assist MSMEs by providing capital, building a robust institutional system, promoting technological adaptation, and diversifying products. Most MSMEs prefer capital assistance over other forms of aid.

Two major challenges for MSMEs in increasing their productivity are competition and obtaining access to financing. Universities can help by providing capital assistance, developing new products, offering free seminars or workshops, and assisting with offline and online marketing.

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- **Declaration of Interests:** The authors state that they have no financial or personal conflicts of interest that could have influenced the results of this research.

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