

# The Impact of Microbusinesses on Indonesia's Economic Development

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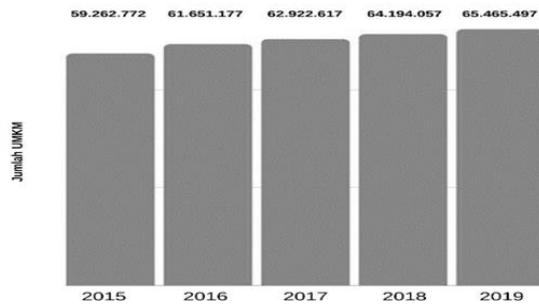
**Abstract.** A micro company is a type of business entity that is able to help its members get out of financial troubles by trading on the open market with the right instruments. This study falls under the umbrella of exploratory research. This study focuses on cooperative microenterprises as a way for microenterprise owners to overcome capital constraints. In Indonesia, cooperation amongst small and medium-sized enterprises is critical to economic progress since it supports the business community, spurs economic expansion, and safeguards non-bank assets. Capital is one of the most crucial resources for beginning a business activity, and companies with significant capital usage are able to utilize it to the most extent possible. Microbusinesses are prepared to receive funding.

**Keywords:** Cooperation, Small Businesses, Capital, Economic Development

## 1 Introduction

Because they function to stimulate the national economy and provide employment opportunities for the majority of Indonesians, micro-enterprises are an important part of the economy. Micro companies play an important role in the Indonesian economy, contributing more than 60% or around IDR 8,573 trillion annually. Additionally, micro-enterprises account for 97% of Indonesia's workforce, or 116 million people. Due to its important role in the Indonesian economy, knowing its numbers and growth is very important.[1]

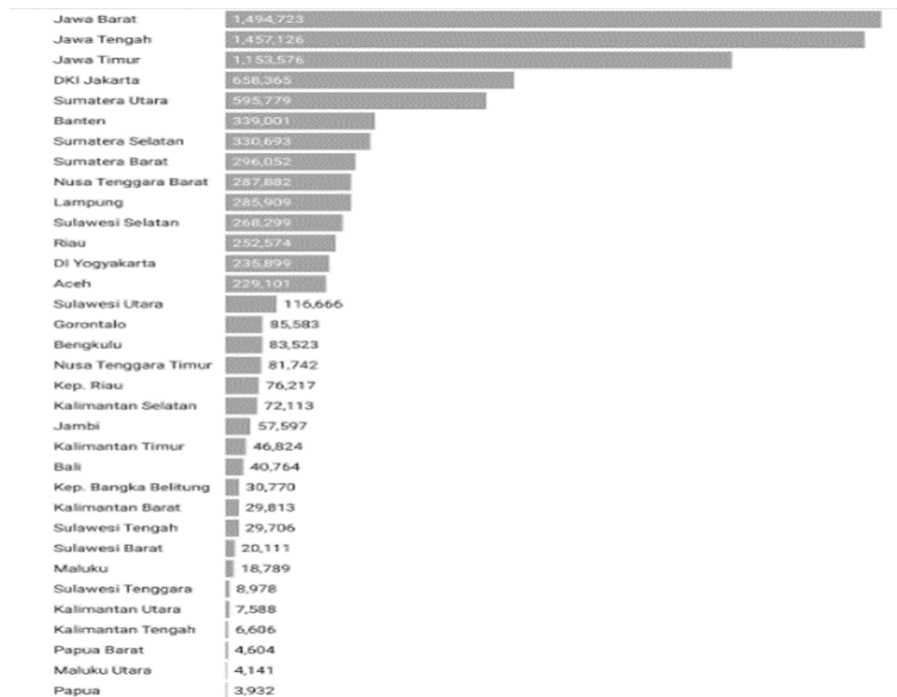
Data about micro companies is usually useful for knowing the following things: knowing how many micro companies there are and how big they are growing in Indonesia. National and regional economies are represented by micro enterprise data.[2] If the number of micro companies continues to increase, it indicates that economic conditions are improving; Conversely, if the number of micro-enterprises decreases or stagnates, it shows that the economy is weakening. Company micro data is very important for academics for quantitative and qualitative studies. Micro enterprise data is typically used to observe and evaluate economic and social trends. For governments, this data is more useful because it helps them make strategic decisions about public policy, especially those related to economic growth and empowerment at the national and regional levels.[3] The development of micro business in Banten from 2015 to 2019, micro companies Continue growing from year to year as a driving business component Indonesian economy, as shown by the Ministry of Cooperatives from the year 2015 to 2019.



Source: Indonesian Ministry of Cooperatives, 2020

**Fig. 1.** The development of micro business in Banten from 2015 to 2019

Due to the very large number of micro companies and most of them have not yet registered a business, the amount stated in the data is only estimates and does not really show the actual number of micro-enterprises. The government launched the Online Single Submission Risk Based Approach (OSS RBA) platform in 2021. [4] This platform can be found at [www.oss.go.id](http://www.oss.go.id). Business actors can register their business permits in Indonesia via this website. Until 2022, the number of micro companies that have registered on the OSS platform will reach 8.71 million units, with business locations as follows:



Source: Ministry of Cooperatives and SMEs (processed by CNBC, 2023)

**Fig. 2.** Business Locations in OSS RBA

## **2 Method**

Researchers use a qualitative research design with contextual research, which uses humans as instruments and is adapted to data collection situations which are generally qualitative. The aim of research in a qualitative approach is to understand symptoms that do not require quantification because symptoms cannot be measured quickly. This research aims to explain how the micro enterprise development program, capital assistance, and human resource improvement at the Banten City Department of Cooperatives and Micro, Small and Medium Enterprises is successful by using measures of effectiveness such as production, efficiency, satisfaction, adaptation, and development. The process of arranging data sequences by organizing them into patterns, categories, and basic sequential units begins with data and information collection. Fact field data is collected namely output, effectiveness, contentment, flexibility, and advancement. Gibson's (1984) success metrics—production, efficiency, satisfaction, adaptability, and development—are used in the analysis. What comes out of the laparoscope is done. The analysis uses success metrics proposed by Gibson (1984), namely production, efficiency, satisfaction, adaptation, and development.

## **3 Discussion**

### **3.1. Solving Micro Company Capital Problems**

#### **3.1.1 Contribution to Raising the Microbusiness**

Quality Micro firms are businesses that work together to achieve wealth. A primary obstacle impeding the Micro company's growth is its restricted capital and the challenges it has in obtaining further funding. Some microbusinesses struggle to raise capital, particularly from official financial institutions. As a result, they will rely on unofficial sources of funding, most of which still use interest rates, which will make their own terms more difficult to meet when it comes to repaying loans.[5]

Cooperatives appear to be the most convenient answer to the issue of small and micro enterprises' lack of access to capital due to the circumstances of micro firms that have trouble getting money in banks. Monetary. Microbusinesses may easily apply for any amount of finance, including those with collateral requirements or guarantees, thanks to social capital. Despite the fact that official financial entities like banks charge interest light, but cooperatives still hold a substantial market share in actuality.[6] This occurred as a result of the fact that many micro businesses struggle to meet the eligibility requirements of their clients, forcing them to use social capital to connect with cooperatives.

#### **3.1.2 Novel Digitalization Currents**

Micro businesses may benefit from the current wave of digitization as it will allow them to offer clients without physical locations, such as using online services. Banking has been expanding its services without an office for a very long time. Since it is possible to grow services without an office, membership may be served on a larger scale.[7]

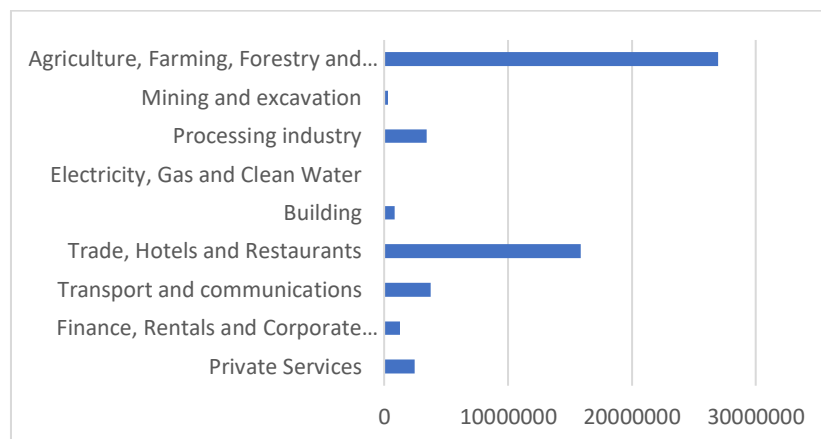
### 3.1.3 Structure of Demographics

The millennial generation makes up the majority of segmentations in today's demographic structure. Next, the traits of businesses and goods need to be adjusted to fit the current demographic structure in order for them to thrive. Since microbusinesses depend on more than just financial and capital, they also need social capital, which is provided by social divisions that in turn depend on social capital from society in the form of trust.[8]

All economic sectors add up to the overall amount that microbusinesses contribute to the National GDP. The International Standard Classification of All Economic Activities, or ISIC, was amended in 1968 and is the idea used to classify different forms of economic activity. To make it easier to compare the amounts of economic activity of different types of activities, this sector categorization was created.

The following sectors make up micro businesses in terms of effort, from largest to smallest, when viewed from the perspective of the economy:

1. Agriculture, Livestock, Forestry and Fisheries (48.85%);
2. Trade, Hotels and Restaurants (28.83%);
3. Transportation and Communication (6.88%);
4. Processing Industry (6.41%);
5. Services (4.52%);
6. Finance, Rental and Corporate Services (2.37%);
7. Buildings (1.57%);
8. Mining and Quarrying (0.53%);
9. Electricity, Gas and Clean Water (0.03%).



**Fig. 3.** Microbusinesses Contribution to the national GDP

Micro firms play the following significant roles:[9]

- a. Micro businesses contribute to the community's wide range of economic needs, the process of income equality and growth, the promotion of economic expansion, and the achievement of national stability.
- b. From the 1998 financial crisis to the 2008–2009 financial crisis, 96% of microbusinesses managed to weather the storm.
- c. Micro businesses also play a significant role in helping the state and government create jobs. Through them, numerous new work units employing new employees are established, which helps sustain household income.
- d. Compared to companies with a larger capacity, micro companies are more flexible, so they require special attention that is backed by reliable information. This helps to create business links between small and medium-sized business actors and elements of business competitiveness, such as market networks.
- e. Micro firms in Indonesia are frequently linked to local economic and social challenges, including but not limited to high rates of poverty, income inequality, uneven development between urban and rural regions, and urbanization issues. The growth of microbusinesses is anticipated to provide a major positive contribution to the endeavors to resolve the aforementioned issues. In addition, there are a number of beneficial contributions made by microbusinesses that should not be disregarded, including.
- f. The foundation of the country's economy due to its status as the majority business actor (99.9% of the population).
- g. At a growth rate of 6.4% year, generate a GDP of 59.08% (or Rp. 4,869.57 trillion).
- h. Helped to attain 14.06% (or Rp. 166.63 trillion) of the country's total export volume;
- i. The PMTB (national gross fixed capital formation) was 52.33% (or Rp. 830.9 trillion);
- j. Distributed geographically among all sectors of the economy. Delivering the community's essential services. A large multiplication effect is seen. It is a tool for achieving economic parity and lowering social welfare inequalities.
- k. A venue for the development of fresh business owners.
- l. Little dependence on foreign parts. Use readily accessible local resources and raw materials to reduce the need for foreign currency.

The following are a few of the challenges that micro firms frequently face:[10]

1) Internal

a) Capital

Between 60 and 70 percent of microbusinesses do not have access to banking finance.

b) Human Resources: Insufficient understanding of modern manufacturing technologies and how to do product quality control. We have not been able to precisely capture the intended needs market since our capacity to discern market demands is still lacking. Simple word-of-mouth (mouth marketing) techniques are still the foundation of product promotion. I haven't yet included social media

or internet networks into my marketing strategy. Because of the restricted capacity for pay, it is not feasible to include more employees in terms of quantity. Owners of microbusinesses don't commonly consider long-term objectives or strategic plans since they are still frequently preoccupied with technical problems.

- c) The Law  
Generally speaking, business actors in tiny companies are still considered legal entities.
- d) Responsibility  
Lacks a good framework for financial administration and management.

## 2) External

- a) The environment for doing business is still unfavorable.  
The organization that coordinates the activities of microbusiness stakeholders is still fragmented. The government, educational institutions, financial institutions, and associations that each business interacts with on a regular basis. The inadequacy with which the legal aspects of business entities are handled, as well as the lack of smooth licensing procedures, business location arrangements, high transaction costs, infrastructure, and funding policies for micro companies.[11]
- b) Infrastructure  
Restricted business spaces and infrastructure, particularly with relation to technology tools. Most microbusinesses still operate with outdated technologies. Access. Raw materials are difficult to obtain, which means that small businesses frequently use inferior raw materials. Technology availability, particularly when some businesses or corporations control the market. Small businesses that have managed to break into the export market frequently associate with larger, more financially stable enterprises since they are unable to keep up with the quickly shifting preferences of their clientele.[12]

## 4 Conclusion

Based on the analysis of this research, it can be concluded that one of the main obstacles to the development of micro companies is the limited capital available and the difficulty of accessing capital resources. Some micro companies have difficulty obtaining capital, especially from formal financial institutions, so that they can better develop through financing or capital products that can increase assets. An increase in micro company assets can occur due to capital. When micro companies manage capital as productive activities, such as working capital and investment, they can have more assets.

However, when capital is used as consumption, it doesn't increase assets. This is explained in the Republic of Indonesia Law No. 25 of 1992, which talks about how micro companies move and operate as a form of democratic economy

Micro companies play a significant role in the development of local economic activities and public empowerment in Indonesia. They also create new markets and serve as a source of innovation, aiding in the maintenance of the country's balance of payments through export activities. These are just a few of the important roles that micro companies play in the country's economy. However, players in smaller companies still have to overcome a number of internal and external challenges. Microbusiness owners are not deterred from growing their operations by these challenges. Possibility to increase company capacity Micro enterprises continue to have a lot of potential, particularly in certain economic areas. Small businesses that make a significant GDP contribution.

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